



**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Financial Statements

September 30, 2000 and 1999

(With Independent Auditors' Report Thereon)



303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report

The Board of Directors
Washington Square Health Foundation, Inc.:

We have audited the accompanying balance sheets of Washington Square Health Foundation, Inc. (the Foundation) as of September 30, 2000 and 1999, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Washington Square Health Foundation, Inc. as of September 30, 2000 and 1999, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

October 20, 2000



**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Balance Sheets

September 30, 2000 and 1999

Assets	2000	1999
Current assets:		
Cash and cash equivalents	\$ 200,619	378,586
Investments, at market value (note 3):		
Money market funds	760,786	839,654
Certificates of deposit	100,000	100,000
U.S. government agency issues	4,008,218	3,886,259
Mutual funds – equity	8,125,312	—
Corporate bonds	2,929,256	3,306,502
Common stocks	14,539,820	22,850,587
Annuity contract	133,712	99,044
Total investments	30,597,104	31,082,046
Accrued interest and dividends receivable	99,118	127,302
Prepaid expenses and other current assets	20,643	24,069
Total current assets	30,917,484	31,612,003
Program-related investments (note 2(d))	601,053	472,539
Furniture and equipment, net	8,202	9,140
Other assets	6,971	6,971
Total assets	\$ 31,533,710	32,100,653
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 34,097	57,624
Federal excise taxes payable (note 4)	69,441	78,519
Total current liabilities	103,538	136,143
Unrestricted net assets	31,430,172	31,964,510
Total liabilities and net assets	\$ 31,533,710	32,100,653

See accompanying notes to financial statements.

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Statements of Activities

Years ended September 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Operating activities:		
Revenue:		
Interest and dividends	\$ 912,396	1,082,725
Net realized gain on investments	3,429,789	3,083,244
Other	6,398	4,854
Total operating revenue	<u>4,348,583</u>	<u>4,170,823</u>
Expenses:		
Grants	<u>969,595</u>	<u>1,787,968</u>
Management and general:		
Salaries	167,065	159,073
Payroll taxes	9,858	9,444
Professional fees:		
Investment management and custodial	155,211	178,915
Legal and accounting	32,508	35,985
Board fees and expenses	71,735	92,846
Occupancy	37,736	32,289
Office supplies	11,026	12,151
Insurance	16,343	16,456
Depreciation	3,713	4,161
Miscellaneous	39,782	27,708
Total management and general	544,977	569,028
Provision for federal excise taxes	<u>86,922</u>	<u>72,828</u>
Total operating expenses	<u>1,601,494</u>	<u>2,429,824</u>
Excess of operating revenue over expenses	2,747,089	1,740,999
Nonoperating activities – net unrealized loss on investments	<u>(3,281,427)</u>	<u>(2,105,984)</u>
Decrease in net assets	(534,338)	(364,985)
Unrestricted net assets, beginning of year	<u>31,964,510</u>	<u>32,329,495</u>
Unrestricted net assets, end of year	<u>\$ 31,430,172</u>	<u>31,964,510</u>

See accompanying notes to financial statements.

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Statements of Cash Flows

Years ended September 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (534,338)	(364,985)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Net gain on investments	(148,362)	(977,260)
Depreciation	3,713	4,161
Changes in assets and liabilities:		
Accrued interest and dividends receivable	28,184	(29,842)
Prepaid expenses and other assets	3,426	(10,642)
Accounts payable and accrued expenses	(23,527)	5,405
Federal excise taxes payable	(9,078)	38,414
Net cash used in operating activities	<u>(679,982)</u>	<u>(1,334,749)</u>
Cash flows from investing activities:		
Proceeds from disposition of investments	29,965,731	15,004,989
Purchase of investments	(29,332,427)	(13,667,402)
Purchase of fixed assets	(2,775)	(324)
Repayments on (additions to) program-related investments	(128,514)	83,118
Net cash provided by investing activities	<u>502,015</u>	<u>1,420,381</u>
Net increase (decrease) in cash and cash equivalents	(177,967)	85,632
Cash and cash equivalents, beginning of year	<u>378,586</u>	<u>292,954</u>
Cash and cash equivalents, end of year	<u>\$ 200,619</u>	<u>378,586</u>

See accompanying notes to financial statements.

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Notes to Financial Statements

September 30, 2000 and 1999

(1) Description of Foundation

The Washington Square Health Foundation, Inc. (the Foundation) was established from the proceeds of the sale of Henrotin Hospital (the Hospital) in 1985. The Foundation supports various charitable, scientific, and educational activities and does not solicit donations.

(2) Summary of Significant Accounting Policies

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

(a) Basis of Presentation

The Foundation's financial statements have been prepared to focus on the organization as a whole and to present balances and transactions in accordance with the existence or absence of donor-imposed restrictions. Net assets and related activity are classified as unrestricted, temporarily restricted, and permanently restricted as follows:

Unrestricted – Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category include investment income and related expenses associated with the core activities of the Foundation.

Temporarily Restricted – Net assets that are subject to donor-imposed restrictions that may or will be met either by actions of the Foundation or the passage of time. The Foundation does not have any temporarily restricted net assets.

Permanently Restricted – Net assets that are subject to donor-imposed restrictions to be maintained permanently by the Foundation. The Foundation does not have any permanently restricted net assets.

(b) Cash Equivalents

Cash equivalents consist of short-term money market accounts.

(c) Investments

Investment securities are presented in the financial statements at fair value. The Foundation's investment portfolio consists of money market funds, certificates of deposit, U.S. government agency issues, corporate bonds, and common stocks. Therefore, the Foundation is subject to the risk of market volatility. Fair value of investments is determined based on quoted market prices.

(d) Program-related Investments

In accordance with Section 4944 of the Internal Revenue Code, the Foundation is permitted to make investments that are related to its charitable, scientific, and educational activities. These investments, which are stated at cost, are anticipated to have a less than fair market value return. In the year of the investment, the Foundation receives a credit toward its distribution requirement. When the investment is recovered by the Foundation, it is required to recognize a negative distribution.

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Notes to Financial Statements

September 30, 2000 and 1999

(e) Furniture and Equipment

Office furniture and equipment are stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range from five to seven years. Maintenance, repairs, and minor renewals are charged to expense as incurred.

(f) Operations

Operating results in the statement of activities reflect all transactions increasing or decreasing unrestricted net assets except for the net unrealized gain or loss on investments.

(g) Use of Estimates

In order to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America, management of the Foundation has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reporting of revenue, expenses, gains, and losses during the period. Actual results could differ from these estimates.

(3) Investments

Investments as of September 30, 2000 and 1999, are summarized as follows:

	<u>2000</u>		<u>1999</u>	
	<u>Cost</u>	<u>Fair market value</u>	<u>Cost</u>	<u>Fair market value</u>
Money market funds	\$ 760,786	760,786	839,654	839,654
Certificates of deposit	100,000	100,000	100,000	100,000
U.S. government agency issues	4,086,817	4,008,218	4,020,386	3,886,259
Mutual funds – equity	8,125,312	8,125,312	—	—
Corporate bonds	2,991,428	2,929,256	3,393,275	3,306,502
Common stocks	12,855,680	14,539,820	17,804,891	22,850,587
Annuity contract	133,712	133,712	99,044	99,044
	<u>\$ 29,053,735</u>	<u>30,597,104</u>	<u>26,257,250</u>	<u>31,082,046</u>

Included in U.S. government agency issues are collateralized mortgage obligations and asset-backed securities with fair values of \$170,745 and \$763,151 in 2000 and 1999, respectively. Additionally, corporate bonds include collateralized mortgage obligations and asset-backed securities with fair values of \$1,571,529 and \$1,273,222 in 2000 and 1999, respectively.

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Notes to Financial Statements

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(4) Income Taxes

The Foundation has received a determination letter from the Internal Revenue Service indicating it is a private foundation under Section 509(a) of the Internal Revenue Code. In accordance with the Tax Reform Act of 1969 (the Act), the Foundation is subject to an excise tax on net investment income, including realized gains, as defined by the Act.

The Act requires that certain minimum distributions be made each year. The amount of these distributions is determined in accordance with a specified formula. The required distributions must be made within 12 months of year end in order to avoid additional tax. The Foundation was not required to distribute any grants during fiscal year 2000 as computed as of September 30, 1999. Before September 30, 2001, the Foundation intends to grant approximately \$350,000, the required distribution as computed as of September 30, 2000.

(5) Lease Commitment

The Foundation has an office lease that expires in fiscal year 2005. During fiscal years 2000 and 1999, the Foundation incurred \$37,428 and \$32,289, respectively, in rent and related occupancy expenses under this lease. Minimum annual rentals due under this office lease are as follows:

2001	\$ 42,000
2002	43,000
2003	44,000
2004	46,000
2005	<u>27,000</u>