

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

FINANCIAL STATEMENTS
September 30, 2008 and 2007

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FINANCIAL STATEMENTS
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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Washington Square Health Foundation, Inc.
Chicago, Illinois

We have audited the accompanying balance sheets of Washington Square Health Foundation, Inc. (the Foundation) as of September 30, 2008 and 2007, and the related statements of activities and cash flow 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, 2008, and 2007, 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.



Crowe Horwath LLP

Chicago, Illinois
January 12, 2009

WASHINGTON SQUARE HEALTH FOUNDATION, INC.
BALANCE SHEETS
September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,906,847	\$ 966,318
Investments, at fair value (Note 3)		
Money market funds	38,865	168,453
Certificates of deposit	1,232,663	770,188
U.S. Government agency issues	2,251,494	5,311,633
Annuity contract	397,274	438,024
Bond Mutual funds	1,167,999	1,158,226
Alternative Investments	2,978,695	-
Equities	<u>9,733,719</u>	<u>16,709,245</u>
Total investments	17,800,709	24,555,769
Accrued interest and dividends receivable	39,687	52,564
Prepaid expenses and other assets	<u>12,534</u>	<u>21,883</u>
Total current assets	19,759,777	25,596,534
Program-related investments	567,838	676,082
Furniture and equipment, net	5,508	5,776
Other assets	<u>6,971</u>	<u>6,971</u>
Total assets	<u>\$ 20,340,094</u>	<u>\$ 26,285,363</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 31,158	\$ 62,574
Employee benefit plan (Note 6)	<u>397,274</u>	<u>438,024</u>
	428,432	500,598
Unrestricted net assets	<u>19,911,662</u>	<u>25,784,765</u>
Total liabilities and net assets	<u>\$ 20,340,094</u>	<u>\$ 26,285,363</u>

See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
Years ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating activities		
Revenue, gains, and losses		
Interest and dividends	\$ 824,992	\$ 850,785
Net realized gain on investments	423,091	728,523
Other	<u>5,337</u>	<u>6,444</u>
Total operating revenue and gains	1,253,420	1,585,752
 Expenses		
Grants	906,085	926,415
 Management and general		
Salaries	231,329	221,416
Employee benefit plans (Note 6)	93,970	93,224
Payroll taxes	13,398	12,401
Professional fees		
Investment management and custodial	38,030	80,147
Legal and accounting	38,144	37,663
Diabetes program meeting	611	803
Board fees and expenses	81,997	71,923
Occupancy	40,091	38,673
Office supplies	12,526	9,809
Insurance	34,121	38,846
Depreciation	2,267	2,435
Miscellaneous	<u>58,485</u>	<u>76,256</u>
Total management and general	644,969	683,596
 Provision for federal excise taxes	<u>25,000</u>	<u>31,350</u>
 Total operating expenses	<u>1,576,054</u>	<u>1,641,361</u>
 Expenses in excess of operating revenue, gains, and losses	(322,634)	(54,609)
 Nonoperating activities - net unrealized gain (loss) on investments	<u>(5,550,469)</u>	<u>1,193,381</u>
 Increase (decrease) in net assets	(5,873,103)	1,137,772
 Unrestricted net assets, beginning of year	<u>25,784,765</u>	<u>24,646,993</u>
 Unrestricted net assets, end of year	<u>\$ 19,911,662</u>	<u>\$ 25,784,765</u>

See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.
 STATEMENTS OF CASH FLOWS
 Years ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Increase (Decrease) in net assets	\$ (5,873,103)	\$ 1,137,772
Adjustments to reconcile increase in net assets to net cash used in operating activities		
Net (gain)/loss on investments	5,223,628	(1,976,446)
Depreciation	2,267	2,435
Changes in assets and liabilities		
Accrued interest and dividends receivable	12,877	(1,182)
Prepaid expenses and other assets	9,349	(9,212)
Accounts payable and accrued expenses	<u>(72,166)</u>	<u>109,704</u>
Net cash used in operating activities	(697,148)	(736,929)
 Cash flows from investing activities		
Proceeds from disposition of investments	25,423,328	3,457,645
Purchase of investments	(28,791,897)	(2,083,203)
Purchase of furniture and equipment	(1,999)	(659)
Repayment/forgiveness of program related investments	108,244	220,551
Issuance of program related investments	<u>-</u>	<u>(275,000)</u>
Net cash provided by investing activities	<u>1,637,677</u>	<u>1,319,334</u>
 Net increase in cash and cash equivalents	940,529	582,405
 Cash and cash equivalents, beginning of year	<u>966,318</u>	<u>383,913</u>
 Cash and cash equivalents, end of year	<u>\$ 1,906,847</u>	<u>\$ 966,318</u>

See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2008 and 2007

NOTE 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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. The net assets and related activity of the Foundation are classified as unrestricted, as they are not subject to donor-imposed restrictions.

Cash Equivalents: Cash equivalents consist of short-term money market accounts, except such instruments that are part of the long-term portfolio are classified as investments.

Investments: Publicly traded investments are carried at fair value based on quoted market prices. Alternative investments represent limited partnership interests held by the Foundation in funds which invest in public and private securities and whose terms and conditions, including liquidity provisions, vary by fund. Fair value of alternative investments is initially based on valuations determined by the investment manager using quoted prices, values for similar assets, generally recognized valuation methods, or cost when no other basis is appropriate. Foundation management has done considerable independent review of valuations reported by investment managers and does on occasion revalue investments downward. The Foundation believes the carrying amounts for alternative investments are reasonable and prudent estimates of fair value. Actual results, however, could differ from these estimates and such differences could be material.

The various investments in stocks, securities, mutual funds and other investments are exposed to a variety of uncertainties, including interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of these investments could occur in the near term. Such changes could materially affect the amounts reported in the financial statements of the Foundation.

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

WASHINGTON SQUARE HEALTH FOUNDATION, INC.
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

toward its distribution requirement related to its excise tax calculation (see Note 4). When the investment is recovered by the Foundation, it is required to recognize a negative distribution.

Furniture and Equipment: Office furniture and equipment are stated at cost. In general, the Foundation capitalizes assets with an original cost greater than \$100. 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.

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.

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.

Cash Balances: The Foundation's cash balances are insured under a tiered insurance program: Federal Deposit Insurance Corporation, Securities Investor Protection Corporation, or Lloyds of London.

NOTE 3 - INVESTMENTS

Investments as of September 30, 2008 and 2007, are summarized as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 38,865	\$ 38,865	\$ 168,453	\$ 168,453
Certificates of deposit	1,269,000	1,232,663	782,000	770,188
U.S. Government				
agency issues	2,192,983	2,251,494	5,263,039	5,311,633
Equities	11,120,354	9,733,719	12,936,856	16,709,245
Annuity contract	434,448	397,274	364,064	438,024
Bond Mutual funds	1,317,000	1,167,999	1,166,579	1,158,226
Alternative Investments	<u>3,200,000</u>	<u>2,978,695</u>	-	-
	<u>\$ 19,572,650</u>	<u>\$ 17,800,709</u>	<u>\$ 20,680,991</u>	<u>\$ 24,555,769</u>

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NOTE 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. Based on this formula, as of September 30, 2008, the Foundation is not required to make any distributions prior to September 30, 2009.

NOTE 5 - LEASE COMMITMENT

The Foundation has an office lease that expires in fiscal year 2010. During fiscal years 2008 and 2007, the Foundation incurred \$40,091 and \$38,673, respectively, in rent, parking, and related occupancy expenses under this lease. Minimum annual base rentals due under this office lease are as follows:

2009	\$ 16,000
2010	<u>16,000</u>
Total	<u>\$ 32,000</u>

NOTE 6 - EMPLOYEE BENEFIT PLANS

The Foundation provides a qualified defined contribution plan to its employees. Amounts contributed by the Foundation to this plans was \$38,470 and \$37,724, during fiscal years 2008 and 2007, respectively.

The Foundation also provides a non qualified deferred compensation plan to a key executive. Amounts contributed by the Foundation to this plans was \$55,500 and \$55,500, during fiscal years 2008 and 2007, respectively. As of September 30, 2008 and 2007, the total deferred compensation under the nonqualified deferred compensation plan was \$397,274 and \$438,024, respectively. The amounts for the non-qualified retirement benefit vest once the executive reaches the age of 66.