

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

FINANCIAL STATEMENTS
September 30, 2009 and 2008

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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, 2009 and 2008, 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, 2009 and 2008, 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.

As discussed in Note 2 to the financial statements, the Foundation adopted the *Fair Value Measurements and Disclosure* Guidance of the FASB Accounting Standards Codification during the year ended September 30, 2009.

A handwritten signature in black ink that reads "Crowe Horwath LLP".

Crowe Horwath LLP

Chicago, Illinois
January 15, 2010

WASHINGTON SQUARE HEALTH FOUNDATION, INC.
BALANCE SHEETS
September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 303,467	\$ 1,906,847
Investments, at fair value (Note 3)		
Money market funds	230,488	38,865
Certificates of deposit	2,774,333	1,232,663
U.S. Government agency issues	1,269,729	2,251,494
Equity and bond mutual funds	443,298	397,274
Bond mutual funds	1,202,733	1,167,999
Alternative investments	3,006,991	2,978,695
Equities	<u>9,409,591</u>	<u>9,733,719</u>
Total investments	18,337,163	17,800,709
Accrued interest and dividends receivable	42,448	39,687
Prepaid expenses and other assets	<u>22,111</u>	<u>12,534</u>
Total current assets	18,705,189	19,759,777
Program-related investments, net	707,528	567,838
Furniture and equipment, net	8,737	5,508
Other assets	<u>6,971</u>	<u>6,971</u>
Total assets	<u>\$ 19,428,425</u>	<u>\$ 20,340,094</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 45,119	\$ 31,158
Employee benefit plans (Note 6)	<u>443,298</u>	<u>397,274</u>
	488,417	428,432
Unrestricted net assets	<u>18,940,008</u>	<u>19,911,662</u>
Total liabilities and net assets	<u>\$ 19,428,425</u>	<u>\$ 20,340,094</u>

See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
Years ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating activities		
Revenue, gains, and losses		
Interest and dividends	\$ 335,540	\$ 824,992
Net realized gain on investments	5,166	423,091
Other	<u>14,957</u>	<u>5,337</u>
Total operating revenue and gains	355,663	1,253,420
Expenses		
Grants	445,817	906,085
Management and general		
Salaries	241,307	231,329
Employee benefit plans (Note 6)	97,732	93,970
Payroll taxes	14,030	13,398
Professional fees		
Investment management and custodial	45,076	38,030
Legal and accounting	35,182	38,144
Diabetes program meeting	112	611
Board fees and expenses	78,314	81,997
Occupancy	41,464	40,091
Office supplies	13,187	12,526
Insurance	37,675	34,121
Depreciation	2,713	2,267
Miscellaneous	<u>44,187</u>	<u>58,485</u>
Total management and general	650,979	644,969
Provision for federal excise taxes	<u>7,000</u>	<u>25,000</u>
Total operating expenses	<u>1,103,796</u>	<u>1,576,054</u>
Expenses in excess of operating revenue, gains, and losses	(748,133)	(322,634)
Nonoperating activities - net unrealized loss on investments	<u>(223,521)</u>	<u>(5,550,469)</u>
Decrease in net assets	(971,654)	(5,873,103)
Unrestricted net assets, beginning of year	<u>19,911,662</u>	<u>25,784,765</u>
Unrestricted net assets, end of year	<u>\$ 18,940,008</u>	<u>\$ 19,911,662</u>

See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
Years ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (971,654)	\$ (5,873,103)
Adjustments to reconcile decrease in net assets to net cash used in operating activities		
Net loss on investments	218,355	5,223,628
Depreciation	2,713	2,267
Changes in assets and liabilities		
Accrued interest and dividends receivable	(2,761)	12,877
Prepaid expenses and other assets	(9,577)	9,349
Accounts payable and accrued expenses	<u>59,985</u>	<u>(72,166)</u>
Net cash used in operating activities	<u>(702,939)</u>	<u>(697,148)</u>
 Cash flows from investing activities		
Proceeds from disposition of investments	494,144	25,423,328
Purchase of investments	(1,248,953)	(23,891,896)
Purchase of furniture and equipment	(5,942)	(1,999)
Repayment/forgiveness of program related investments	123,926	108,244
Issuance of program related investments	<u>(263,616)</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>(900,441)</u>	<u>1,637,677</u>
 Net increase (decrease) in cash and cash equivalents	 (1,603,380)	 940,529
 Cash and cash equivalents, beginning of year	 <u>1,906,847</u>	 <u>966,318</u>
 Cash and cash equivalents, end of year	 <u>\$ 303,467</u>	 <u>\$ 1,906,847</u>

See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2009 and 2008

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. The estimated fair value of investments that are not publicly traded is based on valuations determined by the investment managers using net asset values as of their most recent audited financial statements, adjusted for other changes in value from the audit date through September 30th, including investment earnings (losses) of the individual investment, and receipts from and disbursements to the Foundation. Management of the Foundation 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.

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

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 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.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to September 30, 2009, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended September 30, 2009. Management has performed their analysis through January 15, 2010.

Adoption of New Accounting Guidance: The Foundation adopted the *Fair Value Measurements and Disclosure* Guidance of the FASB Accounting Standards Codification during the year ended September 30, 2009. This Guidance defines fair value, provides enhanced guidance for using fair value to measure assets and liabilities under current U.S. GAAP standards, and expands the disclosure of the methods used and the effect of fair value measurements on earnings. See Note 3 for further disclosures.

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WASHINGTON SQUARE HEALTH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 3 - INVESTMENTS

The FASB Codification Guidance, *Fair Value Measurements and Disclosures*, defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Foundation's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

This Guidance establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

Investments measured at fair value as of September 30, 2009, are summarized below:

	2009			Total Fair Value
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Money market funds	\$ -	\$ 230,488	\$ -	\$ 230,488
Certificates of deposit	-	2,774,333	-	2,774,333
U.S. Government agency issues	1,269,729	-	-	1,269,729
Equity and bond mutual funds	443,298	-	-	443,298
Bond mutual funds	1,202,733	-	-	1,202,733
Alternative investments	-	-	3,006,991	3,006,991
Equities	<u>9,409,591</u>	<u>-</u>	<u>-</u>	<u>9,409,591</u>
Total investments	<u>\$ 12,325,351</u>	<u>\$ 3,004,821</u>	<u>\$ 3,006,991</u>	<u>\$ 18,337,163</u>

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NOTE 3 - INVESTMENTS (continued)

The table below rolls forward balances for Level 3 assets from October 1, 2008, through the year ended September 30, 2009:

	<u>Level 3</u>
Balance as of October 1, 2008	\$ 2,978,695
Change in value	<u>28,296</u>
Balance as of September 30, 2009	<u>\$ 3,006,991</u>

The following are descriptions of the valuation methods and assumptions used by the Foundation to estimate the fair values of investments:

Money Market Funds and Certificates of Deposit: Fair values are estimated to approximate deposit account balances, payable on demand, as no discounts for credit quality or liquidity were determined to be applicable (level 2 inputs).

U.S. Government Agency Issues: Foundation government agency holdings consist of an investment in a publicly traded mutual fund. The fair value of this investment is readily marketable and is determined by obtaining quoted prices on a nationally recognized securities exchange (level 1 inputs).

Equity and Bond and Mutual Funds: The fair value of investments in bond and equity mutual funds that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (level 1 inputs).

Bond Mutual Funds: The fair value of investments in bond mutual funds that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (level 1 inputs).

Alternative Investments: The estimated fair value of alternative investments that are not publicly traded is based on valuations determined by the investment managers using net asset values as of their most recent audited financial statements, adjusted for other changes in value from the audit date through September 30th, including investment earnings (losses), and receipts from and disbursements to the Fund (level 3 inputs).

Equities: The fair value of equity holdings that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (level 1 inputs).

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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, 2009, the Foundation is not required to make any distributions prior to September 30, 2010.

NOTE 5 - LEASE COMMITMENT

The Foundation has an office lease that expires in fiscal year 2010. The Foundation signed a new five year extension lease amendment effective May 2010. During fiscal years 2009 and 2008, the Foundation incurred \$41,464 and \$40,091, respectively, in rent, parking, and related occupancy expenses under this lease. Minimum annual base rentals due under this office lease are as follows:

2010	\$ 16,000
2011	17,750
2012	18,318
2013	18,886
2014	19,454
Thereafter	<u>4,899</u>
Total	<u>\$ 95,307</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 \$41,232 and \$38,470, during fiscal years 2009 and 2008, respectively.

The Foundation also provides a non qualified deferred compensation plan to a key executive. Amounts contributed by the Foundation to this plans was \$56,500 and \$55,500, during fiscal years 2009 and 2008, respectively. As of September 30, 2009 and 2008, the total deferred compensation under the nonqualified deferred compensation plan was \$443,298 and \$397,274, respectively. The amounts for the non-qualified retirement benefit vest once the executive reaches the age of 66.
