

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

FINANCIAL STATEMENTS
September 30, 2016 and 2015

WASHINGTON SQUARE HEALTH FOUNDATION, INC.
FINANCIAL STATEMENTS
September 30, 2016 and 2015

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES.....	4
STATEMENTS OF CASH FLOWS.....	5
NOTES TO FINANCIAL STATEMENTS	6

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Washington Square Health Foundation, Inc. (the Foundation), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

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, 2016 and 2015, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "CROWE HORWATH LLP". The letters are in all caps and have a cursive, flowing style.

Crowe Horwath LLP

Chicago, Illinois
January 5, 2016

WASHINGTON SQUARE HEALTH FOUNDATION, INC.
 STATEMENTS OF FINANCIAL POSITION
 September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 589,358	\$ 1,054,999
Investments, at fair value (Note 3)		
Federal money market funds	18,046	-
Domestic convertible securities funds	-	937,025
Domestic equity funds	125,609	108,854
International equity funds	4,124,281	4,396,808
Domestic small cap mutual funds	1,888,054	1,642,256
Domestic middle cap mutual funds	1,933,334	1,716,405
Domestic large cap mutual funds	5,967,177	5,192,076
Commingled equity funds	87,216	76,127
Long-term growth equity fund	14,463	12,599
Fixed income mutual funds	2,521,439	2,113,254
Certificates of deposit	<u>798,597</u>	<u>-</u>
Total investments	17,478,216	16,195,404
Other receivable	2,707	3,248
Prepaid expenses and other assets	101,338	28,235
Program-related investments, net (Note 7)	600,296	747,498
Furniture and equipment, net	23,703	20,154
Other assets	<u>6,971</u>	<u>6,971</u>
Total assets	<u>\$ 18,802,589</u>	<u>\$ 18,056,509</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 36,185	\$ 40,867
Employee benefit plans (Note 6)	<u>325,867</u>	<u>268,571</u>
	362,052	309,438
Unrestricted net assets	<u>18,440,537</u>	<u>17,747,071</u>
Total liabilities and net assets	<u>\$ 18,802,589</u>	<u>\$ 18,056,509</u>

See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
Years ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating activities		
Revenue		
Interest and dividends	\$ 446,172	\$ 458,037
Net realized gain (loss) on investments	(170,840)	2,144,447
Other	<u>6,269</u>	<u>7,265</u>
Total operating revenue	281,601	2,609,749
Expenses		
Grants	488,215	443,462
Management and general		
Salaries	325,704	309,596
Employee benefit plans (Note 6)	72,534	70,477
Payroll taxes	20,042	18,751
Professional fees		
Investment management and custodial	-	33,263
Legal and accounting	39,508	34,123
Diabetes program meeting	143	576
Board fees and expenses	67,190	84,883
Occupancy	42,364	45,126
Office supplies	16,371	15,133
Insurance	54,361	37,775
Depreciation	5,956	8,722
Miscellaneous	<u>70,984</u>	<u>68,850</u>
Total management and general	715,157	727,275
Provision for federal excise taxes	<u>9,200</u>	<u>54,163</u>
Total operating expenses	<u>1,212,572</u>	<u>1,224,900</u>
Change in operating revenue, gains, and losses	(930,971)	1,384,849
Non-operating activities – net unrealized gain (loss) on investments	<u>1,624,437</u>	<u>(3,459,041)</u>
Change in net assets	693,466	(2,074,192)
Unrestricted net assets, beginning of year	<u>17,747,071</u>	<u>19,821,263</u>
Unrestricted net assets, end of year	<u>\$ 18,440,537</u>	<u>\$ 17,747,071</u>

See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
Years ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 693,466	\$ (2,074,192)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net (gain) loss on investments	(1,453,597)	1,314,594
Depreciation	5,956	8,722
Changes in assets and liabilities:		
Other receivable	541	(3,248)
Prepaid expenses and other assets	(73,103)	(8,073)
Accounts payable and accrued expenses	(4,682)	(40,875)
Employee benefit plans	<u>57,296</u>	<u>12,230</u>
Net cash used in operating activities	<u>(774,123)</u>	<u>(790,842)</u>
Cash flows from investing activities:		
Proceeds from disposition of investments	370,785	14,677,204
Purchase of investments	(200,000)	(14,111,447)
Purchase of furniture and equipment	(9,505)	(8,104)
Repayment of program related investments	186,141	234,541
Issuance of program related investments	<u>(38,939)</u>	<u>(125,000)</u>
Net cash provided by investing activities	<u>308,482</u>	<u>667,194</u>
Net decrease in cash and cash equivalents	(465,641)	(123,648)
Cash and cash equivalents, beginning of year	<u>1,054,999</u>	<u>1,178,647</u>
Cash and cash equivalents, end of year	<u>\$ 589,358</u>	<u>\$ 1,054,999</u>

See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2016 and 2015

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 investment portfolio, which are classified as investments. Cash equivalents have a maturity of less than three months. The Foundation's cash balances are insured under a tiered insurance program: Federal Deposit Insurance Corporation, Securities Investor Protection Corporation, or Lloyds of London.

Investments: Publicly traded investments are carried at fair value based on quoted market prices. 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 generally in the form of notes receivable with a 5% interest rate. These investments 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 repaid to the Foundation, it is required to recognize a negative distribution. These investments have been considered for possible impairment and have been valued at the lower of cost or fair value.

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.

Grants: Grant awards are expensed when approved. Grants payable that are expected to be paid in future years are recorded at the present value of expected future payments.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Excise Tax: The Foundation is subject to a federal excise tax on net investment income. The Foundation records an asset or liability for deferred excise tax based on unrealized taxable investment income and the current enacted tax rates.

Recent Accounting Guidance: In February 2016, the FASB issued (ASU) 2016-02, *Leases*. This ASU affects any entity that enters into a lease, with some specified scope exemptions. The main difference between previous GAAP and this ASU is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019 (i.e., September 30 2020, for a fiscal year entity). Early application is permitted. The Foundation has not yet implemented this ASU and is in the process of assessing the effect on the Foundation's financial statements.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to September 30, 2016, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended September 30, 2016. Management has performed their analysis through January 5, 2017, the date the financial statements were available to be issued.

NOTE 3 - INVESTMENTS AND FAIR VALUE

The Financial Accounting Standards Board (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 FASB 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.

(Continued)

WASHINGTON SQUARE HEALTH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2016 and 2015

NOTE 3 - INVESTMENTS (Continued)

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. The Foundation's 457b plan account is included in the following fair value hierarchy table.

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

	2016			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Federal money market fund	\$ -	\$ 18,046	\$ -	\$ 18,046
Domestic equity funds	125,609	-	-	125,609
International equity funds	4,124,281	-	-	4,124,281
Domestic small cap mutual funds	1,888,054	-	-	1,888,054
Domestic middle cap mutual funds	1,933,334	-	-	1,933,334
Domestic large cap mutual funds	5,967,177	-	-	5,967,177
Commingled equity funds	87,216	-	-	87,216
Long-term growth equity funds	14,463	-	-	14,463
Fixed income mutual funds	2,521,439	-	-	2,521,439
Certificates of deposit	-	798,597	-	798,597
	<u>\$ 16,661,573</u>	<u>\$ 816,643</u>	<u>\$ -</u>	<u>\$ 17,478,216</u>
Total investments				
	2015			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Domestic convertible securities funds	\$ 937,025	\$ -	\$ -	\$ 937,025
Domestic equity funds	108,854	-	-	108,854
International equity funds	4,396,808	-	-	4,396,808
Domestic small cap mutual funds	1,642,256	-	-	1,642,256
Domestic middle cap mutual funds	1,716,405	-	-	1,716,405
Domestic large cap mutual funds	5,192,076	-	-	5,192,076
Commingled equity funds	76,127	-	-	76,127
Long-term growth equity funds	12,599	-	-	12,599
Fixed income mutual funds	2,113,254	-	-	2,113,254
	<u>\$ 16,195,404</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,195,404</u>
Total investments				

(Continued)

WASHINGTON SQUARE HEALTH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2016 and 2015

NOTE 3 - INVESTMENTS (Continued)

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

Federal 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)(Income approach).

Domestic Convertible Securities Funds, Domestic Equity Funds, International Equity Funds, Domestic Small Cap Mutual Funds, Domestic Middle Cap Mutual Funds, Domestic Large Cap Mutual Funds, Commingled Equity Funds, Long-term Growth Equity Funds, and Fixed Income Mutual Funds: The fair value of equity and mutual fund holdings that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs)(Market approach).

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 IRC section 4942 and Form 990-PF. The Foundation's prior years excess distributions are sufficiently large enough to ensure that the Foundation will meet the minimum distribution requirements of section 4942 for the tax year ending September 30, 2017, even if no distributions are made during the tax year. The amount of Federal excise tax paid was \$85,200 and \$80,270 for the years ended September 30, 2016 and 2015, respectively.

No provision has been made for income taxes in the accompanying financial statements, as the Foundation has had no significant unrelated business income. If the Foundation incurs interest and penalties, the Foundation recognizes interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. The Foundation has no amounts accrued for interest or penalties as of September 30, 2016 or 2015. The Foundation has not been examined by any tax jurisdiction.

U.S. GAAP prescribes recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Tax benefits will be recognized only if the tax position is more-likely-than-not to be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded. Management has concluded that they are unaware of any tax benefits or liabilities to be recognized at September 30, 2016 and 2015. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

(Continued)

WASHINGTON SQUARE HEALTH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2016 and 2015

NOTE 5 - LEASE COMMITMENT

During fiscal years 2016 and 2015, the Foundation incurred \$42,364 and \$45,126, respectively, in rent, parking, and related occupancy expenses under this lease. Minimum annual base rentals due under this office lease are as follows:

2017	\$ 27,030
2018	27,653
2019	28,277
2020	28,900
2021	29,523
Thereafter	<u>112,540</u>
Total	<u>\$ 253,923</u>

NOTE 6 - EMPLOYEE BENEFIT PLANS

The Foundation provides a qualified defined contribution plan to its employees. Amounts contributed by the Foundation to this plan were \$54,534 and \$52,477, during fiscal years 2016 and 2015, respectively.

NOTE 7 - PROGRAM-RELATED INVESTMENTS

The Foundation makes program-related investments to various not-for-profit organizations based on need that are related to its charitable, scientific, and educational activities. These investments, which are stated at cost, are generally in the form of notes receivable with a 5% interest rate. These investments have a less than fair market value return. At September 30, 2016 and 2015, investments represented 3.2% and 4.1% of total assets, respectively, with a total receivable balance of \$600,296 and \$747,498, respectively.

At September 30, 2016, investments consisted of the following principal payments due:

2017	\$ 260,775
2018	173,180
2019	100,765
2020	32,788
2021	<u>32,788</u>
Total program-related investments	<u>\$ 600,296</u>

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 repaid to the Foundation, it is required to recognize a negative distribution. These investments have been considered for possible impairment and have been valued at the lower of cost or fair value.

At September 30, 2016 and 2015, there were no amounts past due under these investments. All program-related investments are expected to be fully collected and, therefore, no reserves are placed on any investment balances under the program.