



**WASHINGTON SQUARE HEALTH  
FOUNDATION, INC.**

Financial Statements

September 30, 2001 and 2000

(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, 2001 and 2000, 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, 2001 and 2000, 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**

November 2, 2001



**WASHINGTON SQUARE HEALTH  
FOUNDATION, INC.**

Balance Sheets

September 30, 2001 and 2000

Assets	<u>2001</u>	<u>2000</u>
Current assets:		
Cash and cash equivalents	\$ 309,504	200,619
Investments, at fair value (note 3):		
Money market funds	1,270,336	760,786
Certificates of deposit	100,000	100,000
U.S. government agency issues	4,569,445	4,008,218
Mutual funds – equity	3,968,299	8,125,312
Corporate bonds	3,914,035	2,929,256
Common stocks	8,855,686	14,539,820
Annuity contract	116,056	133,712
Total investments	<u>22,793,857</u>	<u>30,597,104</u>
Accrued interest and dividends receivable	121,814	99,118
Prepaid expenses and other assets	25,823	20,643
Total current assets	23,250,998	30,917,484
Program-related investments (note 2(d))	1,024,231	601,053
Furniture and equipment, net	7,820	8,202
Other assets	6,971	6,971
Total assets	<u>\$ 24,290,020</u>	<u>31,533,710</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 43,612	34,097
Federal excise taxes payable (note 4)	77,303	69,441
Total current liabilities	120,915	103,538
Unrestricted net assets	<u>24,169,105</u>	<u>31,430,172</u>
Total liabilities and net assets	<u>\$ 24,290,020</u>	<u>31,533,710</u>

See accompanying notes to financial statements.

**WASHINGTON SQUARE HEALTH  
FOUNDATION, INC.**

Statements of Activities

Years ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Operating activities:		
Revenue, gains and losses:		
Interest and dividends	\$ 782,368	912,396
Net realized gain (loss) on investments	(2,408,818)	3,429,789
Other	14,263	6,398
Total operating revenue, gains and losses	<u>(1,612,187)</u>	<u>4,348,583</u>
Expenses:		
Grants	<u>544,282</u>	<u>969,595</u>
Management and general:		
Salaries	174,733	167,065
Payroll taxes	10,307	9,858
Professional fees:		
Investment management and custodial	144,980	155,211
Legal and accounting	39,563	32,508
Board fees and expenses	110,717	71,735
Occupancy	45,881	37,736
Office supplies	9,920	11,026
Insurance	18,329	16,343
Depreciation	3,063	3,713
Miscellaneous	35,735	39,782
Total management and general	593,228	544,977
Provision for federal excise taxes	<u>(9,138)</u>	<u>86,922</u>
Total operating expenses	<u>1,128,372</u>	<u>1,601,494</u>
Excess (deficiency) of operating revenue, gains and losses over expenses	(2,740,559)	2,747,089
Nonoperating activities – net unrealized loss on investments	<u>(4,520,508)</u>	<u>(3,281,427)</u>
Decrease in net assets	(7,261,067)	(534,338)
Unrestricted net assets, beginning of year	<u>31,430,172</u>	<u>31,964,510</u>
Unrestricted net assets, end of year	<u>\$ 24,169,105</u>	<u>31,430,172</u>

See accompanying notes to financial statements.

**WASHINGTON SQUARE HEALTH  
FOUNDATION, INC.**

Statements of Cash Flows

Years ended September 30, 2001 and 2000

	2001	2000
Cash flows from operating activities:		
Decrease in net assets	\$ (7,261,067)	(534,338)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Net loss (gain) on investments	6,929,326	(148,362)
Depreciation	3,063	3,713
Changes in assets and liabilities:		
Accrued interest and dividends receivable	(22,696)	28,184
Prepaid expenses and other assets	(5,180)	3,426
Accounts payable and accrued expenses	9,515	(23,527)
Federal excise taxes payable	7,862	(9,078)
Net cash used in operating activities	(339,177)	(679,982)
Cash flows from investing activities:		
Proceeds from disposition of investments	22,764,910	29,965,731
Purchase of investments	(21,890,989)	(29,332,427)
Purchase of furniture and equipment	(2,681)	(2,775)
Net additions to program-related investments	(423,178)	(128,514)
Net cash provided by investing activities	448,062	502,015
Net increase (decrease) in cash and cash equivalents	108,885	(177,967)
Cash and cash equivalents, beginning of year	200,619	378,586
Cash and cash equivalents, end of year	\$ 309,504	200,619

See accompanying notes to financial statements.

**WASHINGTON SQUARE HEALTH  
FOUNDATION, INC.**

Notes to Financial Statements

September 30, 2001 and 2000

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

**(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.

**(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.

**WASHINGTON SQUARE HEALTH  
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Notes to Financial Statements

September 30, 2001 and 2000

**(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, 2001 and 2000, are summarized as follows:

	2001		2000	
	Cost	Fair value	Cost	Fair value
Money market funds	\$ 1,270,336	1,270,336	760,786	760,786
Certificates of deposit	100,000	100,000	100,000	100,000
U.S. government agency issues	4,368,634	4,569,445	4,086,817	4,008,218
Mutual funds – equity	5,415,712	3,968,299	8,125,312	8,125,312
Corporate bonds	3,789,115	3,914,035	2,991,428	2,929,256
Common stocks	10,711,143	8,855,686	12,855,680	14,539,820
Annuity contract	116,056	116,056	133,712	133,712
	\$ 25,770,996	22,793,857	29,053,735	30,597,104

Included in U.S. government agency issues are collateralized mortgage obligations and asset-backed securities with fair values of \$684,475 and \$170,745 in 2001 and 2000, respectively. Additionally, corporate bonds include collateralized mortgage obligations and asset-backed securities with fair values of \$631,470 and \$1,571,529 in 2001 and 2000, respectively.

**(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. As a result of a previous year grant distributions and carryover, the Foundation was not required to make any grant distributions during fiscal year 2001, computed as of September 30, 2000. Based on the specified computation performed as of September 30, 2001, the Foundation is not required to distribute any grants during fiscal year 2002.

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Notes to Financial Statements

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**(5) Lease Commitment**

The Foundation has an office lease that expires in fiscal year 2005. During fiscal years 2001 and 2000, the Foundation incurred \$45,581 and \$37,736, respectively, in rent and related occupancy expenses under this lease. Minimum annual rentals due under this office lease are as follows:

2002	43,000
2003	44,000
2004	46,000
2005	<u>27,000</u>

**(6) Grant Expense**

On September 30, 2001, the Foundation agreed to forgive \$30,000 of principal related to one of its program related investments. Accordingly, the Foundation has recorded the related expense as a grant for the year ended September 30, 2001.