



**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Financial Statements

September 30, 2002 and 2001

(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, 2002 and 2001, 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, 2002 and 2001, 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

December 6, 2002



**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Balance Sheets

September 30, 2002 and 2001

Assets	<u>2002</u>	<u>2001</u>
Current assets:		
Cash and cash equivalents	\$ 182,576	309,504
Investments, at fair value (note 3):		
Money market funds	1,771,564	1,270,336
Certificates of deposit	100,000	100,000
U.S. government agency issues	6,538,899	4,569,445
Mutual funds – equity	—	3,968,299
Corporate bonds	3,279,312	3,914,035
Common stocks	8,532,064	8,855,686
Annuity contract	111,677	116,056
Total investments	<u>20,333,516</u>	<u>22,793,857</u>
Accrued interest and dividends receivable	113,206	121,814
Prepaid expenses and other assets	48,589	25,823
Total current assets	<u>20,677,887</u>	<u>23,250,998</u>
Program-related investments (note 2(d))	1,179,641	1,024,231
Furniture and equipment, net	9,832	7,820
Other assets	6,971	6,971
Total assets	<u>\$ 21,874,331</u>	<u>24,290,020</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 41,751	43,612
Federal excise taxes payable (note 4)	—	77,303
Total current liabilities	<u>41,751</u>	<u>120,915</u>
Unrestricted net assets	<u>21,832,580</u>	<u>24,169,105</u>
Total liabilities and net assets	<u>\$ 21,874,331</u>	<u>24,290,020</u>

See accompanying notes to financial statements.

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Statements of Activities

Years ended September 30, 2002 and 2001

	2002	2001
Operating activities:		
Revenue, gains, and losses:		
Interest and dividends	\$ 755,405	782,368
Net realized loss on investments	(2,575,930)	(2,408,818)
Other	8,053	14,263
Total operating revenue, gains, and losses	(1,812,472)	(1,612,187)
Expenses:		
Grants	416,490	544,282
Management and general:		
Salaries	181,997	174,733
Payroll taxes	10,870	10,307
Professional fees:		
Investment management and custodial	139,603	144,980
Legal and accounting	33,780	39,563
Board fees and expenses	79,814	110,717
Occupancy	45,735	45,881
Office supplies	9,911	9,920
Insurance	19,162	18,329
Depreciation	3,272	3,063
Miscellaneous	31,533	35,735
Total management and general	555,677	593,228
Provision for federal excise taxes	(100,905)	(9,138)
Total operating expenses	871,262	1,128,372
Expenses in excess of operating revenue, gains, and losses	(2,683,734)	(2,740,559)
Nonoperating activities – net unrealized gain (loss) on investments	347,209	(4,520,508)
Decrease in net assets	(2,336,525)	(7,261,067)
Unrestricted net assets, beginning of year	24,169,105	31,430,172
Unrestricted net assets, end of year	\$ 21,832,580	24,169,105

See accompanying notes to financial statements.

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Statements of Cash Flows

Years ended September 30, 2002 and 2001

	2002	2001
Cash flows from operating activities:		
Decrease in net assets	\$ (2,336,525)	(7,261,067)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Net loss on investments	2,228,721	6,929,326
Depreciation	3,272	3,063
Changes in assets and liabilities:		
Accrued interest and dividends receivable	8,608	(22,696)
Prepaid expenses and other assets	(22,766)	(5,180)
Accounts payable and accrued expenses	(1,861)	9,515
Federal excise taxes payable	(77,303)	7,862
Net cash used in operating activities	(197,854)	(339,177)
Cash flows from investing activities:		
Proceeds from disposition of investments	38,521,412	22,764,910
Purchase of investments	(38,289,792)	(21,890,989)
Purchase of furniture and equipment	(5,284)	(2,681)
Net additions to program-related investments	(155,410)	(423,178)
Net cash provided by investing activities	70,926	448,062
Net increase (decrease) in cash and cash equivalents	(126,928)	108,885
Cash and cash equivalents, beginning of year	309,504	200,619
Cash and cash equivalents, end of year	\$ 182,576	309,504

See accompanying notes to financial statements.

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Notes to Financial Statements

September 30, 2002 and 2001

(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, except such instruments that are part of the long-term portfolio are classified as investments.

(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 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.

(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, 2002 and 2001

(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, 2002 and 2001, are summarized as follows:

	<u>2002</u>		<u>2001</u>	
	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>
Money market funds	\$ 1,771,564	1,771,564	1,270,336	1,270,336
Certificates of deposit	100,000	100,000	100,000	100,000
U.S. government agency issues	6,190,918	6,538,899	4,368,634	4,569,445
Mutual funds – equity	—	—	5,415,712	3,968,299
Corporate bonds	3,166,199	3,279,312	3,789,115	3,914,035
Common stocks	11,600,698	8,532,064	10,711,143	8,855,686
Annuity contract	134,067	111,677	116,056	116,056
	<u>\$ 22,963,446</u>	<u>20,333,516</u>	<u>25,770,996</u>	<u>22,793,857</u>

Included in U.S. government agency issues are collateralized mortgage obligations and asset-backed securities with fair values of \$466,101 and \$684,475 in 2002 and 2001, respectively. Additionally, corporate bonds include collateralized mortgage obligations and asset-backed securities with fair values of \$1,240,155 and \$631,470 in 2002 and 2001, 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 is not required to make any grant distributions during fiscal year 2003, computed as of September 30, 2002.

**WASHINGTON SQUARE HEALTH
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Notes to Financial Statements

September 30, 2002 and 2001

(5) Lease Commitment

The Foundation has an office lease that expires in fiscal year 2005. During fiscal years 2002 and 2001, the Foundation incurred \$45,735 and \$45,581, respectively, in rent and related occupancy expenses under this lease. Minimum annual rentals due under this office lease are as follows:

2003	\$	44,000
2004		46,000
2005		27,000

(6) Grant Expense

On August 15, 2002, the Foundation agreed to forgive \$9,500 of principal related to one of its program related investments. Additionally, on September 30, 2002, the Foundation wrote off an uncollectible program-related investment in the amount of \$32,275. 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 expenses of \$41,775 and \$30,000 as a grant expense for the years ended September 30, 2002 and 2001, respectively.

(7) Employee Benefit Plans

The Foundation provides a deferred compensation plan to a key executive. Amounts contributed by the Foundation to the plan were \$20,000 during fiscal years 2002 and 2001. As of September 30, 2002 and 2001, the total deferred compensation was \$111,677 and \$131,083, respectively. The amounts vest once the executive reaches the age of 60 and, as such, the Foundation has not recorded a compensation expense and a liability as of September 30, 2002.