

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Financial Statements

September 30, 2003 and 2002

(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, 2003 and 2002, 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, 2003 and 2002, 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

October 31, 2003



**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Balance Sheets

September 30, 2003 and 2002

Assets	2003	2002
Current assets:		
Cash and cash equivalents	\$ 1,135,601	182,576
Investments, at fair value (note 3):		
Money market funds	911,175	1,771,564
Certificates of deposit	—	100,000
U.S. government agency issues	5,706,768	6,538,899
Corporate bonds	3,576,858	3,279,312
Common stocks	9,760,570	8,532,064
US inflation bond	1,000,670	—
Annuity contract	157,212	111,677
Total investments	21,113,253	20,333,516
Accrued interest and dividends receivable	97,203	113,206
Prepaid expenses and other assets	40,075	48,589
Total current assets	22,386,132	20,677,887
Program-related investments (note 2(d))	864,562	1,179,641
Furniture and equipment, net	6,965	9,832
Other assets	6,971	6,971
Total assets	\$ 23,264,630	21,874,331
Liabilities and Net Assets		
Current liabilities – accounts payable and accrued expenses	\$ 19,831	41,751
Total current liabilities	19,831	41,751
Unrestricted net assets	23,244,799	21,832,580
Total liabilities and net assets	\$ 23,264,630	21,874,331

See accompanying notes to financial statements.

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Statements of Activities

Years ended September 30, 2003 and 2002

	2003	2002
Operating activities:		
Revenue, gains, and losses:		
Interest and dividends	\$ 676,878	755,405
Net realized loss on investments	(570,544)	(2,575,930)
Other	5,451	8,053
Total operating revenue, gains, and losses	111,785	(1,812,472)
Expenses:		
Grants	715,740	416,490
Management and general:		
Salaries	171,148	181,997
Payroll taxes	9,641	10,870
Professional fees:		
Investment management and custodial	102,073	139,603
Legal and accounting	36,871	33,780
Board fees and expenses	66,115	79,814
Occupancy	47,181	45,735
Office supplies	12,086	9,911
Insurance	18,258	19,162
Depreciation	2,867	3,272
Miscellaneous	35,233	31,533
Total management and general	501,473	555,677
Provision for federal excise taxes	4,000	(100,905)
Total operating expenses	1,221,213	871,262
Expenses in excess of operating revenue, gains, and losses	(1,109,428)	(2,683,734)
Nonoperating activities – net unrealized gain on investments	2,521,647	347,209
Increase (decrease) in net assets	1,412,219	(2,336,525)
Unrestricted net assets, beginning of year	21,832,580	24,169,105
Unrestricted net assets, end of year	\$ 23,244,799	21,832,580

See accompanying notes to financial statements.

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Statements of Cash Flows

Years ended September 30, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 1,412,219	(2,336,525)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Net gain (loss) on investments	(1,951,103)	2,228,721
Depreciation	2,867	3,272
Changes in assets and liabilities:		
Accrued interest and dividends receivable	16,003	8,608
Prepaid expenses and other assets	8,514	(22,766)
Accounts payable and accrued expenses	(21,920)	(1,861)
Federal excise taxes payable	—	(77,303)
Net cash used in operating activities	(533,420)	(197,854)
Cash flows from investing activities:		
Proceeds from disposition of investments	44,283,894	38,521,412
Purchase of investments	(43,112,528)	(38,289,792)
Purchase of furniture and equipment	—	(5,284)
Net changes to program-related investments	315,079	(155,410)
Net cash provided by investing activities	1,486,445	70,926
Net increase (decrease) in cash and cash equivalents	953,025	(126,928)
Cash and cash equivalents, beginning of year	182,576	309,504
Cash and cash equivalents, end of year	\$ 1,135,601	182,576

See accompanying notes to financial statements.

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Notes to Financial Statements

September 30, 2003 and 2002

(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, 2003 and 2002

(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, 2003 and 2002 are summarized as follows:

	2003		2002	
	Cost	Fair value	Cost	Fair value
Money market funds	\$ 911,175	911,175	1,771,564	1,771,564
Certificates of deposit	—	—	100,000	100,000
U.S. government agency issues	5,627,230	5,706,768	6,190,918	6,538,899
Corporate bonds	3,467,392	3,576,858	3,166,199	3,279,312
Common stocks	10,057,908	9,760,570	11,600,698	8,532,064
US inflation bond	1,000,670	1,000,670	—	—
Annuity contract	157,161	157,212	134,067	111,677
	<u>\$ 21,221,536</u>	<u>21,113,253</u>	<u>22,963,446</u>	<u>20,333,516</u>

Included in U.S. government agency issues are collateralized mortgage obligations and asset-backed securities with fair values of \$2,541,918 and \$1,240,155 in 2003 and 2002, 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 2004, computed as of September 30, 2003.

**WASHINGTON SQUARE HEALTH
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Notes to Financial Statements

September 30, 2003 and 2002

(5) Lease Commitment

The Foundation has an office lease that expires in fiscal year 2005. During fiscal years 2003 and 2002, the Foundation incurred \$47,181 and \$45,735, respectively, in rent and related occupancy expenses under this lease. Minimum annual rentals due under this office lease are as follows:

2004	\$	46,000
2005		27,000

(6) Grant Expense

On August 16, 2003, the Foundation agreed to forgive \$26,705 of principal related to one of its program-related investments. On September 30, 2002, the Foundation wrote off an uncollectible program-related investment in the amount of \$32,275, and forgave \$9,500 on a on a program-related investment. Accordingly, the Foundation has recorded the related expenses of \$26,705 and \$41,775 as a grant expense for the years ended September 30, 2003 and 2002, 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 \$26,000 during fiscal years 2003 and 2002. As of September 30, 2003 and 2002, the total deferred compensation was \$157,212 and \$111,677, 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, 2003.