

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Financial Statements

September 30, 2004 and 2003

(With Independent Auditors' Report Thereon)



KPMG LLP
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, 2004 and 2003, 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, 2004 and 2003, 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 30, 2004

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Balance Sheets

September 30, 2004 and 2003

Assets	2004	2003
Current assets:		
Cash and cash equivalents	\$ 482,185	1,135,601
Investments, at fair value (note 3):		
Money market funds	189,855	911,175
U.S. Government agency issues	4,839,465	5,706,768
Corporate bonds	140,313	3,576,858
Common stocks	14,585,369	9,760,570
U.S. inflation bond	1,077,350	1,000,670
Annuity contract	197,474	157,212
Bond Fund	1,161,011	—
Total investments	<u>22,190,837</u>	<u>21,113,253</u>
Accrued interest and dividends receivable	61,597	97,203
Prepaid expenses and other assets	35,179	40,075
Total current assets	<u>22,769,798</u>	<u>22,386,132</u>
Program-related investments (note 2(d))	657,427	864,562
Furniture and equipment, net	5,416	6,965
Other assets	6,971	6,971
Total assets	<u>\$ 23,439,612</u>	<u>23,264,630</u>
Liabilities and Net Assets		
Current liabilities – accounts payable and accrued expenses	\$ 32,598	19,831
Total current liabilities	<u>32,598</u>	<u>19,831</u>
Unrestricted net assets	<u>23,407,014</u>	<u>23,244,799</u>
Total liabilities and net assets	<u>\$ 23,439,612</u>	<u>23,264,630</u>

See accompanying notes to financial statements.

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Statements of Activities

Years ended September 30, 2004 and 2003

	2004	2003
Operating activities:		
Revenue, gains, and losses:		
Interest and dividends	\$ 649,147	676,878
Net realized gain (loss) on investments	553,293	(570,544)
Other	6,447	5,451
Total operating revenue, gains, and losses	1,208,887	111,785
Expenses:		
Grants	792,674	715,740
Management and general:		
Salaries	191,011	171,148
Payroll taxes	11,716	9,641
Professional fees:		
Investment management and custodial	132,403	102,073
Legal and accounting	35,365	36,871
Board fees and expenses	92,827	66,115
Occupancy	47,842	47,181
Office supplies	8,883	12,086
Insurance	28,389	18,258
Depreciation	1,871	2,867
Miscellaneous	36,712	35,233
Total management and general	587,019	501,473
Provision for Federal excise taxes	24,127	4,000
Total operating expenses	1,403,820	1,221,213
Expenses in excess of operating revenue, gains, and losses	(194,933)	(1,109,428)
Nonoperating activities – net unrealized gain on investments	357,148	2,521,647
Increase in net assets	162,215	1,412,219
Unrestricted net assets, beginning of year	23,244,799	21,832,580
Unrestricted net assets, end of year	\$ 23,407,014	23,244,799

See accompanying notes to financial statements.

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Statements of Cash Flows

Years ended September 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Increase in net assets	\$ 162,215	1,412,219
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Net gain on investments	(910,441)	(1,951,103)
Depreciation	1,871	2,867
Forgiveness of program-related investments	70,982	—
Changes in assets and liabilities:		
Accrued interest and dividends receivable	35,606	16,003
Prepaid expenses and other assets	4,896	8,514
Accounts payable and accrued expenses	12,767	(21,920)
Net cash used in operating activities	(622,104)	(533,420)
Cash flows from investing activities:		
Proceeds from disposition of investments	29,537,547	44,283,894
Purchase of investments	(29,704,690)	(43,112,528)
Purchase of furniture and equipment	(322)	—
Repayment of program related investments	391,613	315,079
Issuance of program related investments	(255,460)	—
Net cash (used in) provided by investing activities	(31,312)	1,486,445
Net increase (decrease) in cash and cash equivalents	(653,416)	953,025
Cash and cash equivalents, beginning of year	1,135,601	182,576
Cash and cash equivalents, end of year	\$ 482,185	1,135,601

See accompanying notes to financial statements.

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Notes to Financial Statements

September 30, 2004 and 2003

(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 reported at fair value based on quoted market prices. 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.

Purchases and sales of investment securities are recorded on their trade date. Dividend income is recognized on the ex-dividend date. Interest income is recognized on an accrual basis.

(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.

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Notes to Financial Statements

September 30, 2004 and 2003

(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.

(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, 2004 and 2003 are summarized as follows:

	2004		2003	
	Cost	Fair value	Cost	Fair value
Money market funds	\$ 189,855	189,855	911,175	911,175
U.S. Government agency issues	4,830,022	4,839,465	5,627,230	5,706,768
Corporate bonds	141,937	140,313	3,467,392	3,576,858
Common stocks	14,430,769	14,585,369	10,057,908	9,760,570
U.S. inflation bond	1,000,670	1,077,350	1,000,670	1,000,670
Annuity contract	182,140	197,474	157,161	157,212
Bond Fund	1,166,579	1,161,011	—	—
	<u>\$ 21,941,972</u>	<u>22,190,837</u>	<u>21,221,536</u>	<u>21,113,253</u>

Included in U.S. Government agency issues are collateralized mortgage obligations and asset-backed securities with fair values of \$1,175,424 and \$2,541,918 in 2004 and 2003, 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. The Foundation is required to make grant distributions of \$337,000 during fiscal year 2005, computed as of September 30, 2004.

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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 2010. During fiscal years 2004 and 2003, the Foundation incurred \$47,842 and \$47,181, respectively, in rent and related occupancy expenses under this lease. Minimum annual rentals due under this office lease are as follows:

2005	\$	38,000
2006		15,000
2007		15,000
2008		16,000
2009		16,000
Thereafter		10,000

(6) Grant Expense

On August 18, 2004, the Foundation agreed to forgive \$70,982 of principal related to three of its program-related investments. On September 30, 2003, the Foundation agreed to forgive \$26,705 of principal related to one of its program-related investments. Accordingly, the Foundation has recorded the related expenses of \$70,982 and \$26,705 as a grant expense for the years ended September 30, 2004 and 2003, 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 \$21,000 and \$20,000 during fiscal years 2004 and 2003, respectively. As of September 30, 2004 and 2003, the total deferred compensation was \$197,475 and \$157,212, 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, 2004.