



**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Financial Statements

September 30, 2005 and 2004

(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, 2005 and 2004, 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 consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2005 and 2004, 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 3, 2005

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Balance Sheets

September 30, 2005 and 2004

Assets	2005	2004
Current assets:		
Cash and cash equivalents	\$ 758,109	482,185
Investments, at fair value (note 3):		
Money market funds	98,564	189,855
Certificates of deposit	957,699	—
U.S. Government agency issues	5,067,657	4,839,465
Corporate bonds	—	140,313
Common stocks	15,553,857	14,585,369
U.S. inflation bond	—	1,077,350
Annuity contract	246,599	197,474
Bond fund	1,149,874	1,161,011
Total investments	23,074,250	22,190,837
Accrued interest and dividends receivable	47,878	61,597
Prepaid expenses and other assets	33,870	35,179
Total current assets	23,914,107	22,769,798
Program-related investments (note 2(d))	500,657	657,427
Furniture and equipment, net	7,301	5,416
Other assets	6,971	6,971
Total assets	\$ 24,429,036	23,439,612
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses (note 6)	\$ 273,666	32,598
Unrestricted net assets	24,155,370	23,407,014
Total liabilities and net assets	\$ 24,429,036	23,439,612

See accompanying notes to financial statements.

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Statements of Activities

Years ended September 30, 2005 and 2004

	2005	2004
Operating activities:		
Revenue, gains, and losses:		
Interest and dividends	\$ 668,433	649,147
Net realized gain on investments	545,077	553,293
Other	6,305	6,447
Total operating revenue and gains	1,219,815	1,208,887
Expenses:		
Grants	1,017,258	792,674
Management and general:		
Salaries	190,793	191,011
Deferred compensation (note 6)	246,599	—
Payroll taxes	11,481	11,716
Professional fees:		
Investment management and custodial	71,033	132,403
Legal and accounting	47,413	35,365
Diabetes Program Meeting	18,589	—
Board fees and expenses	87,440	92,827
Occupancy	39,957	47,842
Office supplies	12,689	8,883
Insurance	27,825	28,389
Depreciation	2,398	1,871
Miscellaneous	34,720	36,712
Total management and general	790,937	587,019
Provision for federal excise taxes	23,883	24,127
Total operating expenses	1,832,078	1,403,820
Expenses in excess of operating revenue, gains, and losses	(612,263)	(194,933)
Nonoperating activities – net unrealized gain on investments	1,360,619	357,148
Increase in net assets	748,356	162,215
Unrestricted net assets, beginning of year	23,407,014	23,244,799
Unrestricted net assets, end of year	\$ 24,155,370	23,407,014

See accompanying notes to financial statements.

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Statements of Cash Flows

Years ended September 30, 2004 and 2003

	2005	2004
Cash flows from operating activities:		
Increase in net assets	\$ 748,356	162,215
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Net gain on investments	(1,905,695)	(910,441)
Depreciation	2,397	1,871
Forgiveness of program-related investments	—	70,982
Changes in assets and liabilities:		
Accrued interest and dividends receivable	13,719	35,606
Prepaid expenses and other assets	1,309	4,896
Accounts payable and accrued expenses	241,068	12,767
Net cash used in operating activities	(898,846)	(622,104)
Cash flows from investing activities:		
Proceeds from disposition of investments	23,228,420	29,537,547
Purchase of investments	(22,206,137)	(29,704,690)
Purchase of furniture and equipment	(4,283)	(322)
Repayment of program related investments	156,770	391,613
Issuance of program related investments	—	(255,460)
Net cash provided by (used in) investing activities	1,174,770	(31,312)
Net increase (decrease) in cash and cash equivalents	275,924	(653,416)
Cash and cash equivalents, beginning of year	482,185	1,135,601
Cash and cash equivalents, end of year	\$ 758,109	482,185

See accompanying notes to financial statements.

**WASHINGTON SQUARE HEALTH
FOUNDATION, INC.**

Notes to Financial Statements

September 30, 2005 and 2004

(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. Investment transactions are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date.

(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, 2005 and 2004

(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, 2005 and 2004 are summarized as follows:

	2005		2004	
	Cost	Fair value	Cost	Fair value
Money market funds	\$ 98,564	98,564	189,856	189,855
Certificates of deposit	976,000	957,699	—	—
U.S. Government agency issues	4,985,740	5,067,657	4,830,022	4,839,465
Corporate bonds	—	—	141,938	140,313
Common stocks	14,002,324	15,553,857	14,430,769	14,585,369
U.S. inflation bond	—	—	1,000,670	1,077,350
Annuity contract	235,561	246,599	182,140	197,474
Bond fund	1,166,579	1,149,874	1,166,579	1,161,011
	<u>\$ 21,464,768</u>	<u>23,074,250</u>	<u>21,941,974</u>	<u>22,190,837</u>

Included in U.S. Government agency issues are collateralized mortgage obligations and asset-backed securities with fair values of \$2,448,755 and \$1,175,424 in 2005 and 2004, 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. Based on this formula, as of September 30, 2005, the Foundation is not required to make any distributions prior to September 30, 2006.

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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 2005 and 2004, the Foundation incurred \$39,957 and \$47,842, respectively, in rent and related occupancy expenses under this lease. Minimum annual rentals due under this office lease are as follows:

2006	\$	15,000
2007		15,000
2008		16,000
2009		16,000
2010		10,000

(6) Employee Benefit Plans

The Foundation provides deferred compensation plan to a key executive. Amounts contributed by the Foundation to the plan were \$23,000 and \$21,000, during fiscal years 2005 and 2004, respectively. As of September 30, 2005 and 2004, the total deferred compensation was \$246,599 and \$197,475, respectively. The amounts for the non-qualified retirement benefit vest once the executive reaches the age of 66. During fiscal year 2005, the Foundation began accruing deferred compensation.