

**WASHINGTON SQUARE HEALTH  
FOUNDATION, INC.**

**FINANCIAL STATEMENTS**  
September 30, 2006 and 2005

WASHINGTON SQUARE HEALTH FOUNDATION, INC.

FINANCIAL STATEMENTS  
September 30, 2006 and 2005

CONTENTS

|                                      |   |
|--------------------------------------|---|
| REPORT OF INDEPENDENT AUDITORS ..... | 1 |
| FINANCIAL STATEMENTS                 |   |
| BALANCE SHEETS.....                  | 2 |
| STATEMENTS OF ACTIVITIES .....       | 3 |
| STATEMENTS OF CASH FLOWS .....       | 4 |
| NOTES TO FINANCIAL STATEMENTS.....   | 5 |

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors  
Washington Square Health Foundation, Inc.  
Chicago, Illinois

We have audited the accompanying balance sheet of Washington Square Health Foundation, Inc. (the Foundation) as of September 30, 2006 and the related statement of activities and cash flow for the year 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 audit. The financial statements as of September 30, 2005 were audited by other auditors who issued their report thereon dated November 3, 2005.

We conducted our audit 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 audit provides 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, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Crowe Chizek and Company LLC

Chicago, Illinois  
November 2, 2006

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
BALANCE SHEETS  
September 30, 2006 and 2005

---

|  | <u>2006</u>          | <u>2005</u>          |
|--|----------------------|----------------------|
| <b>ASSETS</b>                                  |                      |                      |
| Current assets                                 |                      |                      |
| Cash and cash equivalents                      | \$ 383,913           | \$ 758,109           |
| Investments, at fair value (Note 3)            |                      |                      |
| Money market funds                             | 203,455              | 98,564               |
| Certificates of deposit                        | 957,083              | 957,699              |
| U.S. Government agency issues                  | 5,032,948            | 5,067,657            |
| Common stocks                                  | 16,307,855           | 15,553,857           |
| Annuity contract                               | 296,982              | 246,599              |
| Bond fund                                      | <u>1,155,442</u>     | <u>1,149,874</u>     |
| Total investments                              | 23,953,765           | 23,074,250           |
| Accrued interest and dividends receivable      | 51,382               | 47,878               |
| Prepaid expenses and other assets              | <u>12,671</u>        | <u>33,870</u>        |
| Total current assets                           | 24,401,731           | 23,914,107           |
| Program-related investments                    | 621,633              | 500,657              |
| Furniture and equipment, net                   | 7,552                | 7,301                |
| Other assets                                   | <u>6,971</u>         | <u>6,971</u>         |
| Total assets                                   | <u>\$ 25,037,887</u> | <u>\$ 24,429,036</u> |
| <b>LIABILITIES AND NET ASSETS</b>              |                      |                      |
| Liabilities                                    |                      |                      |
| Accounts payable and accrued expenses (Note 6) | \$ 390,894           | \$ 273,666           |
| Unrestricted net assets                        | <u>24,646,993</u>    | <u>24,155,370</u>    |
| Total liabilities and net assets               | <u>\$ 25,037,887</u> | <u>\$ 24,429,036</u> |

---

See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
STATEMENTS OF ACTIVITIES  
Years ended September 30, 2006 and 2005

|   | <u>2006</u>          | <u>2005</u>          |
|---|----------------------|----------------------|
| Operating activities  |                      |                      |
| Revenue, gains, and losses  |                      |                      |
| Interest and dividends  | \$ 690,971           | \$ 668,433           |
| Net realized gain on investments                                    | 611,788              | 545,077              |
| Other   | <u>6,021</u>         | <u>6,305</u>         |
| Total operating revenue and gains                                   | 1,308,780            | 1,219,815            |
| <br>Expenses  |                      |                      |
| Grants  | 1,127,787            | 1,017,258            |
| <br>Management and general  |                      |                      |
| Salaries  | 207,806              | 190,793              |
| Deferred compensation (Note 6)                                      | 81,382               | 246,599              |
| Payroll taxes   | 13,292               | 11,481               |
| Professional fees   |                      |                      |
| Investment management and custodial                                 | 65,713               | 71,033               |
| Legal and accounting  | 72,254               | 47,413               |
| Diabetes program meeting  | 334                  | 18,589               |
| Board fees and expenses   | 91,693               | 87,440               |
| Occupancy   | 37,736               | 39,957               |
| Office supplies   | 7,611                | 12,689               |
| Insurance   | 34,092               | 27,825               |
| Depreciation  | 2,730                | 2,398                |
| Miscellaneous   | <u>85,493</u>        | <u>34,720</u>        |
| Total management and general  | 700,136              | 790,937              |
| <br>Provision for federal excise taxes                              | <u>6,605</u>         | <u>23,883</u>        |
| <br>Total operating expenses  | <u>1,834,528</u>     | <u>1,832,078</u>     |
| <br>Expenses in excess of operating revenue, gains,<br>and losses   | (525,748)            | (612,263)            |
| <br>Nonoperating activities - net unrealized gain on<br>investments | <u>1,017,371</u>     | <u>1,360,619</u>     |
| <br>Increase in net assets  | 491,623              | 748,356              |
| <br>Unrestricted net assets, beginning of year                      | <u>24,155,370</u>    | <u>23,407,014</u>    |
| <br>Unrestricted net assets, end of year                            | <u>\$ 24,646,993</u> | <u>\$ 24,155,370</u> |

See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
 STATEMENTS OF CASH FLOWS  
 Years ended September 30, 2006 and 2005

---

|   | <u>2006</u>       | <u>2005</u>       |
|---|-------------------|-------------------|
| <b>Cash flows from operating activities:</b>  |                   |                   |
| Increase in net assets  | \$ 491,623        | \$ 748,356        |
| Adjustments to reconcile increase in net assets<br>to net cash provided by (used in) operating activities |                   |                   |
| Net gain on investments   | (1,629,159)       | (1,905,695)       |
| Depreciation  | 2,730             | 2,397             |
| Changes in assets and liabilities   |                   |                   |
| Accrued interest and dividends receivable   | (3,504)           | 13,719            |
| Prepaid expenses and other assets   | 21,199            | 1,309             |
| Accounts payable and accrued expenses   | <u>117,228</u>    | <u>241,068</u>    |
| Net cash provided by (used in)<br>operating activities  | (998,883)         | (898,846)         |
| <br><b>Cash flows from investing activities</b>   |                   |                   |
| Proceeds from disposition of investments  | 5,955,976         | 23,228,420        |
| Purchase of investments   | (5,206,332)       | (22,206,137)      |
| Purchase of furniture and equipment   | (2,981)           | (4,283)           |
| Repayment of program related investments  | 179,024           | 156,770           |
| Issuance of program related investments   | <u>(300,000)</u>  | <u>-</u>          |
| Net cash provided by investing activities   | <u>625,687</u>    | <u>1,174,770</u>  |
| <br>Net increase (decrease) in cash and cash equivalents  | (374,196)         | 275,924           |
| <br>Cash and cash equivalents, beginning of year  | <u>758,109</u>    | <u>482,185</u>    |
| <br>Cash and cash equivalents, end of year  | <u>\$ 383,913</u> | <u>\$ 758,109</u> |

---

See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2006 and 2005

---

**NOTE 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.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

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.

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.

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.

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.

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.

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.

---

(Continued)

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 September 30, 2006 and 2005

---

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

Cash Balances: The Foundation's cash balances are insured under a tiered insurance program: Federal Deposit Insurance Corporation, Securities Investor Protection Corporation, or Lloyds of London.

**NOTE 3 - INVESTMENTS**

Investments as of September 30, 2006 and 2005 are summarized as follows:

|                         | -----2006-----       |                      | -----2005-----       |                      |
|-------------------------|----------------------|----------------------|----------------------|----------------------|
|                         | <u>Cost</u>          | <u>Fair Value</u>    | <u>Cost</u>          | <u>Fair Value</u>    |
| Money market funds      | \$ 203,455           | \$ 203,455           | \$ 98,564            | \$ 98,564            |
| Certificates of deposit | 978,000              | 957,083              | 976,000              | 957,699              |
| U.S. Government         |                      |                      |                      |                      |
| agency issues           | 4,984,781            | 5,032,948            | 4,985,740            | 5,067,657            |
| Common stocks           | 13,726,811           | 16,307,855           | 14,002,324           | 15,553,857           |
| Annuity contract        | 267,284              | 296,982              | 235,561              | 246,599              |
| Bond fund               | <u>1,166,579</u>     | <u>1,155,442</u>     | <u>1,166,579</u>     | <u>1,149,874</u>     |
|                         | <u>\$ 21,326,910</u> | <u>\$ 23,953,765</u> | <u>\$ 21,464,768</u> | <u>\$ 23,074,250</u> |

**NOTE 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, 2006, the Foundation is not required to make any distributions prior to September 30, 2007.

---

(Continued)

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2006 and 2005

---

**NOTE 5 - LEASE COMMITMENT**

The Foundation has an office lease that expires in fiscal year 2010. During fiscal years 2006 and 2005, the Foundation incurred \$37,368 and \$39,957, respectively, in rent and related occupancy expenses under this lease. Minimum annual rentals due under this office lease are as follows:

|      |           |
|------|-----------|
| 2007 | \$ 15,000 |
| 2008 | 16,000    |
| 2009 | 16,000    |
| 2010 | 16,000    |

**NOTE 6 - EMPLOYEE BENEFIT PLANS**

The Foundation provides both qualified and non qualified deferred compensation plans to a key executive. Amounts contributed by the Foundation to these plans were \$81,382 and \$23,000, during fiscal years 2006 and 2005, respectively. As of September 30, 2006 and 2005, the total deferred compensation was \$327,981 and \$246,599, 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.