

**WASHINGTON SQUARE HEALTH  
FOUNDATION, INC.**

**FINANCIAL STATEMENTS**  
September 30, 2012 and 2011

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
FINANCIAL STATEMENTS  
September 30, 2012 and 2011

CONTENTS

REPORT OF INDEPENDENT AUDITORS.....	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION .....	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 statements of financial position of Washington Square Health Foundation, Inc. (the Foundation) as of September 30, 2012 and 2011, 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, 2012 and 2011, 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.

  
Crowe Horwath LLP

Chicago, Illinois  
December 6, 2012

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 426,044	\$ 1,701,749
Investments, at fair value (Note 3)		
Money market funds	280,851	198,583
Certificates of deposit	544,600	1,196,450
U.S. government agency issues	735,069	759,788
Domestic equity funds	185,403	607,053
Bond mutual funds	565,280	1,542,000
International and global mutual funds	5,453,537	4,573,298
Domestic small cap mutual funds	1,574,409	1,542,108
Domestic large cap mutual funds	1,725,180	1,527,708
Commingled equity funds	2,995,047	1,784,550
Long-term growth equity fund	1,332,108	-
Commodities and natural resources mutual funds	393,294	360,952
Fixed income	250,088	229,452
Fund of hedge funds	1,311,517	1,701,236
Redemption receivable	<u>438,266</u>	<u>-</u>
Total investments	17,784,649	16,023,178
Accrued interest and dividends receivable	11,411	25,050
Prepaid expenses and other assets	17,581	24,720
Program-related investments, net (Note 7)	917,877	773,641
Furniture and equipment, net	17,816	21,363
Other assets	<u>6,971</u>	<u>6,971</u>
Total assets	<u>\$ 19,182,349</u>	<u>\$ 18,576,672</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 32,726	\$ 33,362
Employee benefit plans (Note 6)	<u>185,403</u>	<u>607,053</u>
	218,129	640,415
Unrestricted net assets	<u>18,964,220</u>	<u>17,936,257</u>
Total liabilities and net assets	<u>\$ 19,182,349</u>	<u>\$ 18,576,672</u>

See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
STATEMENTS OF ACTIVITIES  
Years ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating activities		
Revenue		
Interest and dividends	\$ 268,363	\$ 309,006
Net realized gain (loss) on investments	95,536	(270,209)
Other	<u>5,669</u>	<u>6,808</u>
Total operating revenue	369,568	45,605
Expenses		
Grants	545,941	448,639
Management and general		
Salaries	271,091	262,937
Employee benefit plans (Note 6)	101,936	99,598
Payroll taxes	24,060	14,968
Professional fees		
Investment management and custodial	75,659	69,385
Legal and accounting	37,662	38,793
Diabetes program meeting	570	5,536
Board fees and expenses	95,475	77,790
Occupancy	42,598	39,708
Office supplies	14,558	15,809
Insurance	30,310	36,343
Depreciation	4,578	3,692
Miscellaneous	<u>59,112</u>	<u>52,136</u>
Total management and general	757,609	716,695
Provision for federal excise taxes	<u>10,000</u>	<u>805</u>
Total operating expenses	<u>1,313,550</u>	<u>1,166,139</u>
Expenses in excess of operating revenue, gains, and losses	(943,982)	(1,120,534)
Nonoperating activities – net unrealized gain (loss) on investments	<u>1,971,945</u>	<u>(91,422)</u>
Increase (decrease) in net assets	1,027,963	(1,211,956)
Unrestricted net assets, beginning of year	<u>17,936,257</u>	<u>19,148,213</u>
Unrestricted net assets, end of year	<u>\$ 18,964,220</u>	<u>\$ 17,936,257</u>

See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
 STATEMENTS OF CASH FLOWS  
 Years ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets	\$ 1,027,963	\$ (1,211,956)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities		
Net loss (gain) on investments	(2,067,481)	361,631
Depreciation	4,578	3,692
Changes in assets and liabilities		
Accrued interest and dividends receivable	13,639	(1,180)
Prepaid expenses and other assets	7,139	(7,966)
Accounts payable and accrued expenses	(636)	(6,559)
Employee benefit plans	(421,650)	54,939
Net cash used in operating activities	<u>(1,436,448)</u>	<u>(807,399)</u>
<b>Cash flows from investing activities</b>		
Proceeds from disposition of investments	3,161,036	4,091,655
Purchase of investments	(2,762,602)	(2,840,592)
Purchase of furniture and equipment	(1,031)	(14,823)
Repayment/forgiveness of program related investments	63,340	238,993
Issuance of program related investments	(300,000)	(353,921)
Net cash provided by investing activities	<u>160,743</u>	<u>1,121,312</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,275,705)</b>	<b>313,913</b>
Cash and cash equivalents, beginning of year	<u>1,701,749</u>	<u>1,387,836</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 426,044</u></b>	<b><u>\$ 1,701,749</u></b>

See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2012 and 2011

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**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 portfolio, which are classified as investments.

Investments: Publicly traded investments are carried at fair value based on quoted market prices. Alternative investments represent limited partnership interests held by the Foundation in funds which invest in public and private securities and whose terms and conditions, including liquidity provisions, vary by fund. The estimated fair value of investments that are not publicly traded is based on valuations determined by the investment managers using net asset values as of their most recent audited financial statements, adjusted for other changes in value from the audit date through September 30<sup>th</sup>, including investment earnings (losses) of the individual investment, and receipts from and disbursements to the Foundation. Management of the Foundation has done considerable independent review of valuations reported by investment managers and does on occasion revalue investments downward. The Foundation believes the carrying amounts for alternative investments are reasonable and prudent estimates of fair value. Actual results, however, could differ from these estimates and such differences could be material.

The various investments in stocks, securities, mutual funds and other investments are exposed to a variety of uncertainties, including interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of these investments could occur in the near term. Such changes could materially affect the amounts reported in the financial statements of the Foundation.

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 generally in the form of notes receivable with a 5% interest rate. These investments 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. These investment have been considered for possible impairment and have been valued at the lower of cost or fair value.

Furniture and Equipment: Office furniture and equipment are stated at cost. In general, the Foundation capitalizes assets with an original cost greater than \$100. 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.

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**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.

Excise Tax: The Foundation is subject to a federal excise tax on net investment income. The Foundation records an asset or liability for deferred excise tax based on unrealized taxable investment income and the current enacted tax rates.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to September 30, 2012, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended September 30, 2012. Management has performed their analysis through December 6, 2012, the date the financial statements were available to be issued.

**NOTE 3 - INVESTMENTS**

The Financial Accounting Standards Board (FASB) Codification Guidance, *Fair Value Measurements and Disclosures*, defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Foundation's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

This FASB establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

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WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2012 and 2011

**NOTE 3 - INVESTMENTS** (Continued)

Investments measured at fair value as of September 30, 2012 and 2011, are summarized below:

	2012			
	Level 1	Level 2	Level 3	Total Fair Value
Money market funds	\$ -	\$ 280,851	\$ -	\$ 280,851
Certificates of deposit	-	544,600	-	544,600
U.S. government agency issues	-	735,069	-	735,069
Domestic equity funds	185,403	-	-	185,403
Bond mutual funds	-	565,280	-	565,280
International and global mutual funds	5,453,537	-	-	5,453,537
Domestic large cap mutual funds	1,574,409	-	-	1,574,409
Domestic small cap mutual funds	1,725,180	-	-	1,725,180
Commingled equity funds	-	2,995,047	-	2,995,047
Long-term growth equity funds	1,332,108	-	-	1,332,108
Commodities and natural resources mutual funds	393,294	-	-	393,294
Fixed income	250,088	-	-	250,088
Fund of hedge funds	-	-	1,311,517	1,311,517
Redemption receivable	438,266	-	-	438,266
 Total investments	 <u>\$ 11,352,285</u>	 <u>\$ 5,120,847</u>	 <u>\$ 1,311,517</u>	 <u>\$17,784,649</u>
	2011			
	Level 1	Level 2	Level 3	Total Fair Value
Money market funds	\$ -	\$ 198,583	\$ -	\$ 198,583
Certificates of deposit	-	1,196,450	-	1,196,450
U.S. government agency issues	-	759,788	-	759,788
Domestic equity funds	607,053	-	-	607,053
Bond mutual funds	-	1,542,000	-	1,542,000
International and global mutual funds	4,573,298	-	-	4,573,298
Domestic small cap mutual funds	1,542,108	-	-	1,542,108
Domestic large cap mutual funds	1,527,708	-	-	1,527,708
Commingled equity funds	-	1,784,550	-	1,784,550
Commodities and natural resources mutual funds	360,952	-	-	360,952
Fixed income	229,452	-	-	229,452
Fund of hedge funds	-	-	1,701,236	1,701,236
 Total investments	 <u>\$ 8,840,571</u>	 <u>\$ 5,481,371</u>	 <u>\$ 1,701,236</u>	 <u>\$16,023,178</u>

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WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2012 and 2011

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**NOTE 3 - INVESTMENTS** (Continued)

The table below rolls forward balances for Level 3 assets from October 1, 2011, through the year ended September 30, 2012:

	<u>2012</u>	<u>2011</u>
Beginning balance	\$ 1,701,236	\$ 2,967,894
Redemptions	(438,266)	(1,316,680)
Total gains included in change in net assets	<u>48,547</u>	<u>50,022</u>
Ending balance	<u>\$ 1,311,517</u>	<u>\$ 1,701,236</u>
Total gains or losses included in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held as of September 30	<u>\$ 45,266</u>	<u>\$ 54,485</u>

The following are descriptions of the valuation methods and assumptions used by the Foundation to estimate the fair values of investments:

*Money Market Funds and Certificates of Deposit:* Fair values are estimated to approximate deposit account balances, payable on demand, as no discounts for credit quality or liquidity were determined to be applicable (Level 2 inputs)(Income approach).

*U.S. Government Agency Issues:* The fair value of U.S. Government Agency Issues, including federal agency and corporate bonds is determined by quoted prices for similar assets in active markets; quoted prices for identical or similar assets in markets that are not active; and inputs other than quoted prices e.g. underlying security interest rates and yields (Level 2 inputs)(Market approach).

*Bond Mutual Funds:* The fair value of bond mutual funds, including federal agency and corporate bonds as well as U.S. Treasury notes is determined by quoted prices for similar assets in active markets; quoted prices for identical or similar assets in markets that are not active; and inputs other than quoted prices e.g. underlying security interest rates and yields (Level 2 inputs)(Market approach).

*Domestic Equity Funds, International and Global Mutual Funds, Domestic Small Cap Mutual Funds, Domestic Large Cap Mutual Funds, and Commodities, Natural Resources Mutual Funds, and Long-term Growth Equity Funds:* The fair value of equity and mutual fund holdings that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs)(Market approach).

*Commingled equity funds:* The fair value of commingled equity funds is determined by quoted prices for similar assets in active markets; quoted prices for identical or similar assets in markets that are not active; and inputs other than quoted prices e.g. underlying security interest rates and yields (Level 2 inputs)(Market approach).

*Fixed Income:* The fair value of fixed income securities, which are readily marketable, are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs)(Market approach).

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WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2012 and 2011

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**NOTE 3 - INVESTMENTS (Continued)**

*Fund of Hedge Funds:* The estimated fair value of alternative investments that are not publicly traded is based on valuations determined by the investment managers using net asset values as of their most recent audited financial statements, adjusted for other changes in value from the audit date through September 30, including investment earnings (losses), and receipts from and disbursements to the Fund (Level 3 inputs)(Income approach).

The Foundation's alternative investments consist of investments in:

*Fund of Hedge Funds:* The investment objective of these funds is to seek above-average returns in all market environments. These funds invest in investment partnerships, managed accounts and other investment vehicles that employ diversified styles and strategies. The hedge funds are managed by separate investment managers and are primarily long/short equity strategies investing in investment partnerships, managed accounts, and other investment vehicles. These investments are subject to certain redemption restrictions. The redemption frequency for these investments range from monthly to annually. The remaining balance of the fund will liquidate in December 2050 unless dissolved. The notice period for redemptions is 100 days prior to the end of the calendar year for investments with periodic liquidity.

**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 IRC section 4942 and Form 990-PF. The Foundation's prior years excess distributions are sufficiently large enough to ensure that the Foundation will meet the minimum distribution requirements of section 4942 for the tax year ending September 30, 2013, even if no distributions are made during the tax year.

No provision has been made for income taxes in the accompanying financial statements, as the Foundation has had no significant unrelated business income. If the Foundation incurs interest and penalties, the Foundation recognizes interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. The Foundation has no amounts accrued for interest or penalties as of September 30, 2012 or 2011. The Foundation has not been examined by any tax jurisdiction. The Foundation has no on-going federal, state or local tax audits, however, the Foundation's tax returns for 2009 and subsequent years are open to examination.

U.S. GAAP prescribes recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Tax benefits will be recognized only if the tax position is more-likely-than-not to be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded. Management has concluded that they are unaware of any tax benefits or liabilities to be recognized at September 30, 2012 and 2011. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

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WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2012 and 2011

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**NOTE 5 - LEASE COMMITMENT**

During fiscal years 2012 and 2011, the Foundation incurred \$42,598 and \$39,708, respectively, in rent, parking, and related occupancy expenses under this lease. Minimum annual base rentals due under this office lease are as follows:

2013	\$ 18,696
2014	19,265
2015	<u>11,431</u>
Total	\$ <u>49,392</u>

**NOTE 6 - EMPLOYEE BENEFIT PLANS**

The Foundation provides a qualified defined contribution plan to its employees. Amounts contributed by the Foundation to this plan were \$44,936 and \$43,098, during fiscal years 2012 and 2011, respectively.

The Foundation also provides a non qualified deferred compensation plan to a key executive. Amounts contributed by the Foundation to this plan were \$57,000 and \$56,500, during fiscal years 2012 and 2011, respectively. As of September 30, 2012 and 2011, the total deferred compensation under the nonqualified deferred compensation plan was \$185,403 and \$607,053, respectively.

**NOTE 7 - FINANCING RECEIVABLES**

The Foundation makes program-related investments to various not-for-profit organizations based on need that are related to its charitable, scientific, and educational activities. These investments, which are stated at cost, are generally in the form of notes receivable with a 5% interest rate. These investments have a less than fair market value return. At September 30, 2012 and 2011, investments represented 4.8% and 4.2% of total assets, respectively.

At September 30, investments consisted of the following:

	<u>2012</u>	<u>2011</u>
Program-related investments	\$ <u>917,877</u>	\$ <u>773,641</u>

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. These investments have been considered for possible impairment and have been valued at the lower of cost or fair value.

At September 30, 2012 and 2011, there were no amounts past due under these investments. All program-related investments are expected to be fully collected and, therefore, no reserves are placed on any investment balances under the program.