

**WASHINGTON SQUARE HEALTH  
FOUNDATION, INC.**

**FINANCIAL STATEMENTS**  
September 30, 2017 and 2016

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
FINANCIAL STATEMENTS  
September 30, 2017 and 2016

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## INDEPENDENT AUDITOR'S REPORT

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

***Report on the Financial Statements***

We have audited the accompanying financial statements of Washington Square Health Foundation, Inc. (the Foundation), which comprise the statements of financial position as of September 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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## 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, 2017 and 2016, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "CROWE HORWATH LLP". The letters are in all caps and have a cursive, flowing style.

Crowe Horwath LLP

Chicago, Illinois  
January 10, 2018

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 403,914	\$ 589,358
Investments, at fair value (Note 3)		
Federal money market funds	36,236	18,046
Domestic equity funds	148,933	125,609
International equity funds	4,668,226	4,124,281
Domestic small cap mutual funds	1,795,747	1,888,054
Domestic middle cap mutual funds	1,804,235	1,933,334
Domestic large cap mutual funds	5,236,775	5,967,177
Commingled equity funds	93,529	87,216
Long-term growth equity fund	17,016	14,463
Fixed income mutual funds	2,932,788	2,521,439
Certificates of deposit	<u>2,233,328</u>	<u>798,597</u>
Total investments	18,966,813	17,478,216
Other receivable	8,871	2,707
Prepaid expenses and other assets	53,743	101,338
Program-related investments, net (Note 7)	403,164	600,296
Furniture and equipment, net	22,391	23,703
Other assets	<u>6,971</u>	<u>6,971</u>
Total assets	<u>\$ 19,865,867</u>	<u>\$ 18,802,589</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 52,059	\$ 36,185
Employee benefit plans (Note 6)	<u>391,708</u>	<u>325,867</u>
	443,767	362,052
Unrestricted net assets	<u>19,422,100</u>	<u>18,440,537</u>
Total liabilities and net assets	<u>\$ 19,865,867</u>	<u>\$ 18,802,589</u>

See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
 STATEMENTS OF ACTIVITIES  
 Years ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating activities		
Revenue		
Interest and dividends	\$ 466,192	\$ 446,172
Net realized gain (loss) on investments	211,608	(170,840)
Other	<u>5,061</u>	<u>6,269</u>
Total operating revenue	682,861	281,601
Expenses		
Grants	744,444	488,215
Management and general		
Salaries	331,481	325,704
Employee benefit plans (Note 6)	75,287	72,534
Payroll taxes	21,264	20,042
Professional fees - Legal and accounting	53,016	39,508
Diabetes program meeting	318	143
Board fees and expenses	81,782	67,190
Occupancy	53,069	42,364
Office supplies	15,506	16,371
Insurance	64,914	54,361
Depreciation	6,709	5,956
Telecommunications	10,586	11,606
Temporary employment	10,810	9,494
Travel	16,037	7,254
Miscellaneous	<u>42,853</u>	<u>42,630</u>
Total management and general	783,632	715,157
Provision for federal excise taxes	<u>13,700</u>	<u>9,200</u>
Total operating expenses	<u>1,541,776</u>	<u>1,212,572</u>
Change in operating revenue, gains, and losses	(858,915)	(930,971)
Non-operating activities – net unrealized gain on investments	<u>1,840,478</u>	<u>1,624,437</u>
Change in net assets	981,563	693,466
Unrestricted net assets, beginning of year	<u>18,440,537</u>	<u>17,747,071</u>
Unrestricted net assets, end of year	<u>\$ 19,422,100</u>	<u>\$ 18,440,537</u>

See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
STATEMENTS OF CASH FLOWS  
Years ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 981,563	\$ 693,466
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net gain on investments	(2,052,086)	(1,453,597)
Depreciation	6,709	5,956
Changes in assets and liabilities:		
Other receivable	(6,164)	541
Prepaid expenses and other assets	47,595	(73,103)
Accounts payable and accrued expenses	15,874	(4,682)
Employee benefit plans	<u>65,841</u>	<u>57,296</u>
Net cash used in operating activities	<u>(940,668)</u>	<u>(774,123)</u>
<b>Cash flows from investing activities:</b>		
Proceeds from disposition of investments	1,997,489	370,785
Purchase of investments	(1,434,000)	(200,000)
Purchase of furniture and equipment	(5,397)	(9,505)
Repayment and forgiveness of program related investments	232,132	186,141
Issuance of program related investments	<u>(35,000)</u>	<u>(38,939)</u>
Net cash provided by investing activities	<u>755,224</u>	<u>308,482</u>
<b>Net decrease in cash and cash equivalents</b>	<b>(185,444)</b>	<b>(465,641)</b>
Cash and cash equivalents, beginning of year	<u>589,358</u>	<u>1,054,999</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 403,914</u></b>	<b><u>\$ 589,358</u></b>

See accompanying notes to financial statements.

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2017 and 2016

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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 investment portfolio, which are classified as investments. Cash equivalents have a maturity of less than three months. The Foundation's cash balances are insured under a tiered insurance program: Federal Deposit Insurance Corporation, Securities Investor Protection Corporation, or Lloyds of London.

Investments: Publicly traded investments are carried at fair value based on quoted market prices. 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 repaid to 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.

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.

Grants: Grant awards are expensed when approved. Grants payable that are expected to be paid in future years are recorded at the present value of expected future payments.

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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WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2017 and 2016

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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.

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.

Recent Accounting Guidance: In February 2016, the FASB issued (ASU) 2016-02, *Leases*. This ASU affects any entity that enters into a lease, with some specified scope exemptions. The main difference between previous Generally Accepted Accounting Principles (GAAP) and this ASU is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019 (i.e., September 30 2020, for a fiscal year entity). The Foundation has not yet implemented this ASU and is in the process of assessing the effect on the Foundation's financial statements.

In August 2016, the FASB issued (ASU) 2016-14, *Not-for-Profit Entities: Topic 958*. The amendments in this Update affect not-for-profit entity's (NFP's) and the users of their general purpose financial statements. The amendments in this ASU make certain improvements to the current net asset classification requirements and the information presented in financial statements and notes about a NFP's liquidity, financial performance, and cash flows. The amendments in the ASU are effective for the Foundation in the fiscal year ending June 30, 2019. The Foundation has not yet implemented this ASU and is in the process of assessing the effect on the Foundation's financial statements.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to September 30, 2017, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended September 30, 2017. Management has performed their analysis through January 10, 2018, the date the financial statements were available to be issued.

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(Continued)

WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 3 - INVESTMENTS AND FAIR VALUE**

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. The Foundation's 457b plan account is included in the following fair value hierarchy table.

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

	2017			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Federal money market fund	\$ -	\$ 36,236	\$ -	\$ 36,236
Domestic equity funds	148,933	-	-	148,933
International equity funds	4,668,226	-	-	4,668,226
Domestic small cap mutual funds	1,795,747	-	-	1,795,747
Domestic middle cap mutual funds	1,804,235	-	-	1,804,235
Domestic large cap mutual funds	5,236,775	-	-	5,236,775
Commingled equity funds	93,529	-	-	93,529
Long-term growth equity funds	17,016	-	-	17,016
Fixed income mutual funds	2,932,788	-	-	2,932,788
Certificates of deposit	-	<u>2,233,328</u>	-	<u>2,233,328</u>
Total investments	<u>\$ 16,697,249</u>	<u>\$ 2,269,564</u>	<u>\$ -</u>	<u>\$ 18,966,813</u>

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WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 3 - INVESTMENTS** (Continued)

	2016			Total Fair Value
	Level 1	Level 2	Level 3	
Federal money market fund	\$ -	\$ 18,046	\$ -	\$ 18,046
Domestic equity funds	125,609	-	-	125,609
International equity funds	4,124,281	-	-	4,124,281
Domestic small cap mutual funds	1,888,054	-	-	1,888,054
Domestic middle cap mutual funds	1,933,334	-	-	1,933,334
Domestic large cap mutual funds	5,967,177	-	-	5,967,177
Commingled equity funds	87,216	-	-	87,216
Long-term growth equity funds	14,463	-	-	14,463
Fixed income mutual funds	2,521,439	-	-	2,521,439
Certificates of deposit	-	798,597	-	798,597
Total investments	\$ 16,661,573	\$ 816,643	\$ -	\$ 17,478,216

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

*Federal 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).

*Domestic Equity Funds, International Equity Funds, Domestic Small Cap Mutual Funds, Domestic Middle Cap Mutual Funds, Domestic Large Cap Mutual Funds, Commingled Equity Funds, Long-term Growth Equity Funds, and Fixed Income Mutual 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).

**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, 2017, even if no distributions are made during the tax year. The amount of Federal excise tax paid was \$85,200 for the year ended September 30, 2016. There was no excise tax paid in the year ended September 30, 2017.

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, 2017 or 2016. The Foundation has not been examined by any tax jurisdiction.

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WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2017 and 2016

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**NOTE 4 - INCOME TAXES** (Continued)

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, 2017 and 2016. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

**NOTE 5 - LEASE COMMITMENT**

During fiscal years 2017 and 2016, the Foundation incurred \$53,069 and \$42,364, respectively, in rent, parking, and related occupancy expenses under this lease. Minimum annual base rentals due under this office lease are as follows:

2018	\$ 27,653
2019	28,277
2020	28,900
2021	29,523
2022	30,147
Thereafter	<u>82,393</u>
Total	<u>\$ 226,893</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 \$57,287 and \$54,534, during fiscal years 2017 and 2016, respectively.

**NOTE 7 - PROGRAM-RELATED INVESTMENTS**

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, 2017 and 2016, investments represented 2.0% and 3.2% of total assets, respectively, with a total receivable balance of \$403,164 and \$600,296, respectively.

At September 30, 2017, investments consisted of the following principal payments due:

2018	\$ 144,471
2019	120,629
2020	72,924
2021	39,788
2022	<u>25,352</u>
Total program-related investments	<u>\$ 403,164</u>

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WASHINGTON SQUARE HEALTH FOUNDATION, INC.  
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**NOTE 7 - PROGRAM-RELATED INVESTMENTS** (Continued)

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 repaid to 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, 2017 and 2016, 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.