

MENORAH LEGACY FOUNDATION
YEARS ENDED DECEMBER 31, 2005 AND 2004

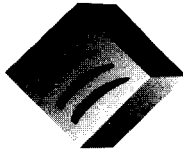


HOUSE PARK & DOBRATZ, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

MENORAH LEGACY FOUNDATION
YEARS ENDED DECEMBER 31, 2005 AND 2004

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Independent Auditors' Report

Board of Directors
Menorah Legacy Foundation
Kansas City, Missouri

We have audited the statements of financial position of Menorah Legacy Foundation (Foundation) as of December 31, 2005 and 2004, and the related statements of activities and changes in net assets 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 U.S. generally accepted auditing standards. 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 Menorah Legacy Foundation as of December 31, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

House Park & Dobratz, P.C.

March 14, 2006

MENORAH LEGACY FOUNDATION

STATEMENTS OF FINANCIAL POSITION - DECEMBER 31, 2005 AND 2004

ASSETS

| | <u>2005</u> | <u>2004</u> |
|--|----------------------|----------------------|
| Cash | \$ 116,280 | \$ 79,010 |
| Contributions receivable (Note 3) | 26,488 | 31,688 |
| Prepaid expenses | 4,880 | 1,522 |
| Investments (Note 2) | 28,281,813 | 25,211,643 |
| Cash surrender value of life insurance (Note 8) | 538,451 | 538,894 |
| Furniture, fixtures and equipment, less accumulated depreciation of \$16,956 and \$9,067 for 2005 and 2004, respectively | <u>26,735</u> | <u>28,547</u> |
| | <u>\$ 28,994,647</u> | <u>\$ 25,891,304</u> |

LIABILITIES AND NET ASSETS

| | | |
|---|----------------------|----------------------|
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 29,351 | \$ 940 |
| Grants payable | <u>134,975</u> | <u>112,510</u> |
| Total liabilities | <u>164,326</u> | <u>113,450</u> |
| Commitments (Note 5) | | |
| Net assets: | | |
| Unrestricted: | | |
| Available for general activities | 4,058,416 | 4,252,712 |
| Board designated (Note 9) | <u>5,755,446</u> | <u>2,803,740</u> |
| | <u>9,813,862</u> | <u>7,056,452</u> |
| Restricted: | | |
| Temporarily restricted: | | |
| Donor designated (Note 4) | 15,536,563 | 9,183,808 |
| Cy Pres pending court approval (Note 7) | <u>5,797,964</u> | <u>5,797,964</u> |
| | <u>15,536,563</u> | <u>14,981,772</u> |
| Permanently restricted | <u>3,479,896</u> | <u>3,739,630</u> |
| | <u>19,016,459</u> | <u>18,721,402</u> |
| Total net assets | <u>28,830,321</u> | <u>25,777,854</u> |
| | <u>\$ 28,994,647</u> | <u>\$ 25,891,304</u> |

See notes to financial statements.

MENORAH LEGACY FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2005

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|-----------------------------|
| Revenues, gains and other support: | | | | |
| Contributions, net of provision of \$4,020 | \$ 2,925,744 | \$ 11,612 | (\$ 1,382) | \$ 2,935,974 |
| Investment income (Note 2) | 502,733 | 945,814 | 200,809 | 1,649,356 |
| Increase in cash surrender value of life insurance | 10,596 | | | 10,596 |
| Net proceeds from life insurance (Note 8) | 44,536 | 46,210 | | 90,746 |
| Other income | 290 | | | 290 |
| Transfers between asset categories | (29,425) | 3,482 | 25,943 | |
| Change in fund classification | | 485,104 | (485,104) | |
| Net assets released from donor restrictions | <u>937,431</u> | <u>(937,431)</u> | <u> </u> | <u> </u> |
| Total revenues, gains and other support | <u>4,391,905</u> | <u>554,791</u> | <u>(259,734)</u> | <u>4,686,962</u> |
| Grants and expenses: | | | | |
| Grants | 1,368,195 | | | 1,368,195 |
| Operating expenses (Note 6) | <u>266,300</u> | | | <u>266,300</u> |
| Total grants and expenses | <u>1,634,495</u> | | | <u>1,634,495</u> |
| Change in net assets | 2,757,410 | 554,791 | (259,734) | 3,052,467 |
| Net assets, beginning of year | <u>7,056,452</u> | <u>14,981,772</u> | <u>3,739,630</u> | <u>25,777,854</u> |
| Net assets, end of year | <u>\$ 9,813,862</u> | <u>\$ 15,536,563</u> | <u>\$ 3,479,896</u> | <u>\$ 28,830,321</u> |

See notes to financial statements.

MENORAH LEGACY FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2004

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Revenues, gains and other support: | | | | |
| Contributions | \$ 94,685 | \$ 27,228 | \$ 5,234 | \$ 127,147 |
| Investment income (Note 2) | 748,146 | 1,615,318 | 454,882 | 2,818,346 |
| Increase in cash surrender value of life insurance | 12,798 | | | 12,798 |
| Transfers between asset categories | (10,368) | 10,368 | | |
| Change in fund classification | (95,617) | (1,035,129) | 1,130,746 | |
| Recharacterization of liabilities to net assets | | 148,007 | | 148,007 |
| Net assets released from donor restrictions | <u>777,961</u> | <u>(777,751)</u> | <u>(210)</u> | <u> </u> |
| Total revenues, gains and other support | <u>1,527,605</u> | <u>(11,959)</u> | <u>1,590,652</u> | <u>3,106,298</u> |
| Grants and expenses: | | | | |
| Grants | 1,026,608 | | | 1,026,608 |
| Operating expenses (Note 6) | <u>260,158</u> | | | <u>260,158</u> |
| Total grants and expenses | <u>1,286,766</u> | | | <u>1,286,766</u> |
| Change in net assets | 240,839 | (11,959) | 1,590,652 | 1,819,532 |
| Net assets, beginning of year | <u>6,815,613</u> | <u>14,993,731</u> | <u>2,148,978</u> | <u>23,958,322</u> |
| Net assets, end of year | <u>\$ 7,056,452</u> | <u>\$ 14,981,772</u> | <u>\$ 3,739,630</u> | <u>\$ 25,777,854</u> |

See notes to financial statements.

MENORAH LEGACY FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2005 AND 2004

| | <u>2005</u> | <u>2004</u> |
|--|-----------------------------|-------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 3,052,467 | \$ 1,819,532 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 7,889 | 6,943 |
| Realized gains on investments | (1,220,971) | (1,418,968) |
| Unrealized gains on investments | (157,220) | (1,176,796) |
| Changes in assets and liabilities: | | |
| Contributions receivable | 5,200 | 47,000 |
| Prepaid expenses | (3,358) | 926 |
| Accounts payable and accrued expenses | 28,411 | 940 |
| Grants payable | 22,465 | 112,510 |
| Liabilities to unaffiliated beneficiaries | <u> </u> | <u>(148,007)</u> |
| Net cash provided (used) by operating activities | <u>1,734,883</u> | <u>(755,920)</u> |
| Cash flows from investing activities: | | |
| Purchase of furniture, fixtures and equipment | (6,077) | (7,643) |
| Increase in cash surrender value of life insurance | (10,596) | (12,798) |
| Cash surrender value received with life insurance proceeds | 11,039 | |
| Purchases of investments | (21,830,445) | (1,648,694) |
| Proceeds from sales of investments | <u>20,138,466</u> | <u>2,353,592</u> |
| Net cash provided (used) by investing activities | <u>(1,697,613)</u> | <u>684,457</u> |
| Net increase (decrease) in cash | 37,270 | (71,463) |
| Cash, beginning of year | <u>79,010</u> | <u>150,473</u> |
| Cash, end of year | <u>\$ 116,280</u> | <u>\$ 79,010</u> |
| <i>Supplemental disclosure of non-cash activities:</i> | | |
| Liabilities to unaffiliated beneficiaries recharacterized as temporarily restricted net assets | | <u>\$ 148,007</u> |

See notes to financial statements.

MENORAH LEGACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

1. Organization and summary of significant accounting policies:

Organization:

The Menorah Legacy Foundation (Foundation) became an independent charitable foundation with the purchase in 2003 of Menorah Medical Center by HCA, a for-profit health care company. Its mission is impacting healthcare and healthcare-related service within the Greater Kansas City area.

Basis of accounting:

Unrestricted net assets:

The unrestricted net assets represent resources over which the Foundation Directors have discretionary control and are used to carry out operations of the Foundation in accordance with its by-laws.

Board-designated funds are funds whose purpose is determined by the Directors. As the Trustees have the ability to change the purpose of these funds, they are considered unrestricted.

Temporarily restricted net assets:

Temporarily restricted net assets represent resources available for use currently or in the future, but expendable only for purposes specified by the donor or within a donor-designated time period.

Certain net assets whose original purpose was to support Menorah, and for which a donor's written consent could not be obtained authorizing restatement of purpose, were classified as temporarily restricted *Cy Pres* net assets (Note 7). In 2005, the Missouri courts granted the Foundation's petition and accepted the proposed purpose revisions. These net assets are now available for use for the purposes stipulated and are classified as temporarily restricted.

Permanently restricted net assets:

Permanently restricted net assets are those contributions whose use by the Foundation is limited by donor-imposed stipulations that the corpus be held in perpetuity. The earnings from these net assets are available for use for either unrestricted or temporarily restricted purposes as specified by the donor.

The Board has defined earnings as investment income net of investment expenses, less administrative expenses and grants. Realized and unrealized gains/(losses) on investments are added to/(deducted from) corpus.

MENORAH LEGACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2005 AND 2004

1. Organization and summary of significant accounting policies (continued):

Income taxes:

The Foundation received a determination letter from the Internal Revenue Service (IRS) dated August 28, 2003 which states that the Foundation continues to qualify as a publicly supported Foundation and is exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code. In the event that the Foundation does not meet certain requirements for continued treatment as a publicly supported organization, it will be classified as a private foundation and be subject to excise taxes of one to two percent on investment income, and to mandatory annual distribution requirements.

Furniture, fixtures and equipment and depreciation:

Furniture, fixtures and equipment are stated at cost if purchased or fair value at the time of donation if donated. Depreciation is provided by the straight-line method over the estimated useful lives of the assets.

Investments and concentrations of credit risk:

Investments consist of mutual funds and corporate debt and equity securities. Investments are stated at market value as determined by investment custodians. Cost is determined by purchase price or fair value at the time of donation if donated.

Financial instruments which potentially subject the Foundation to significant concentrations of credit risk consist principally of cash and investments. The Foundation maintains cash and investments with various major financial institutions. Balances in these accounts frequently exceed federally insured limits.

Certain assets are pooled for investment purposes. Related investment income, net of investment expenses, and net realized and unrealized gains and losses are allocated to each component fund based on a ratio of the individual weighted average fund balance to total weighted average fund balance.

Substantially all of the Foundation's revenue and support is generated from within the Greater Kansas City community. The Foundation believes that no provision for uncollectible contributions receivable is required.

Multiple-year grants:

Grants which are scheduled for payment over more than one year are discounted at 5%, and annual amortization is included in grants expense. Grants of \$25,000 expected to be paid in 2007 are included in grants payable as of December 31, 2005, discounted to \$24,975.

MENORAH LEGACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2005 AND 2004

1. Organization and summary of significant accounting policies (continued):

Use of estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

2. Investments:

| | <u>Cost</u> | <u>Market value</u> | <u>Excess of market</u> |
|---|----------------------|----------------------|-------------------------|
| December 31, 2005: | | | |
| Money market funds | \$ 1,773,278 | \$ 1,773,278 | |
| Mutual bond funds | 6,195,329 | 6,026,368 | |
| Preferred stocks | 84,521 | 92,800 | |
| Common stocks, foreign and domestic | 16,921,457 | 20,384,367 | |
| Foreign bonds | <u>5,000</u> | <u>5,000</u> | |
| Balance, end of year | <u>\$ 24,979,585</u> | <u>\$ 28,281,813</u> | 3,302,228 |
| Balance, beginning of year | <u>\$ 22,066,635</u> | <u>\$ 25,211,643</u> | <u>3,145,008</u> |
| Unrealized gains | | | 157,220 |
| Realized gains for the year | | | <u>1,220,971</u> |
| Net realized and unrealized gains on investments | | | <u>\$ 1,378,191</u> |
| December 31, 2004: | | | |
| Money market funds | \$ 1,849,367 | \$ 1,849,367 | |
| Mutual bond funds | 4,520,856 | 4,465,921 | |
| Preferred stocks | 215,832 | 232,639 | |
| Common stocks, foreign and domestic | 15,475,580 | 18,658,716 | |
| Foreign bonds | <u>5,000</u> | <u>5,000</u> | |
| Balance, end of year | <u>\$ 22,066,635</u> | <u>\$ 25,211,643</u> | 3,145,008 |
| Balance, beginning of year | <u>\$ 21,352,565</u> | <u>\$ 23,320,777</u> | <u>1,968,212</u> |
| Unrealized gains | | | 1,176,796 |
| Realized gains for the year | | | <u>1,418,968</u> |
| Net realized and unrealized gains on investments | | | <u>\$ 2,595,764</u> |

MENORAH LEGACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2005 AND 2004

2. Investments (continued):

| | <u>2005</u> | <u>2004</u> |
|------------------------------|---------------------|---------------------|
| Interest and dividend income | \$ 492,253 | \$ 383,859 |
| Realized gains | 1,220,971 | 1,418,968 |
| Unrealized gains | 157,220 | 1,176,796 |
| Investment expenses | (221,088) | (161,277) |
| | <u>\$ 1,649,356</u> | <u>\$ 2,818,346</u> |

3. Contributions receivable:

Contributions receivable include \$16,488 in pledges scheduled to be paid in 2006 and \$10,000 expected to be paid in 2007 and 2008.

4. Temporarily restricted net assets:

Temporarily restricted net assets totaling \$15,536,563 and \$9,183,808 as of December 31, 2005 and 2004, respectively, are available for grants to various qualified charitable organizations for use principally for medical and research needs, general health and welfare programs and other charitable purposes.

5. Leases:

The Foundation leases office space and computer equipment under three-year noncancellable operating leases which require the Foundation to pay applicable insurance, taxes and maintenance. Rent expense under these leases was \$18,499 and \$15,790 for the years ended December 31, 2005 and 2004, respectively. The current office lease expires June 30, 2006 and the Foundation is negotiating a three-year renewal. Based on the expected terms of the renewal, minimum annual rental payments under operating leases as of December 31, 2005 are as follows:

| <u>Year ended December 31,</u> | <u>Amount</u> |
|------------------------------------|------------------|
| 2006 | \$ 14,612 |
| 2007 | 13,838 |
| 2008 | 14,152 |
| 2009 | <u>7,155</u> |
| | <u>\$ 49,757</u> |

MENORAH LEGACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2005 AND 2004

6. Operating expenses:

| | <u>2005</u> | <u>2004</u> |
|--------------------------------|-------------------|-------------------|
| Payroll and related expenses | \$ 165,590 | \$ 140,325 |
| Accounting and audit fees | 10,099 | 21,855 |
| Awards and gifts | 4,183 | 6,566 |
| Computer and IT expense | 17,048 | 16,194 |
| Depreciation | 7,889 | 6,943 |
| Insurance, general | 3,176 | 3,874 |
| Legal fees | 8,910 | 9,406 |
| Marketing and development fees | 5,934 | 15,458 |
| Meetings and conferences | 8,296 | 4,290 |
| Membership dues | 2,943 | 4,695 |
| Office expense | 3,516 | 3,693 |
| Other | 2,734 | 1,890 |
| Postage and delivery | 939 | 1,630 |
| Printing and promotion | 3,806 | 4,953 |
| Rent and leases | 16,075 | 14,446 |
| Telephone | 5,162 | 3,849 |
| Temporary labor | _____ | 91 |
| | <u>\$ 266,300</u> | <u>\$ 260,158</u> |

7. Change in net asset restrictions:

In 2003, Menorah Medical Center (MMC), the sole member and supported organization of the Foundation, was purchased by a for-profit company and thus became ineligible to receive grants from the Foundation. Many of the net assets held by the Foundation were designated for uses for the benefit of MMC. The Board and management of the Foundation evaluated each net asset to determine the appropriate action required to restate the purpose to comply with the requirements for a not-for-profit entity. For net assets that were unrestricted and had been designated by the Board for the benefit of MMC, the purpose was changed to remove the specific reference to MMC. In the case of other net assets that were donor restricted, the Foundation contacted the original donor or other authorized party and obtained documentation of the purpose restatement.

For net assets for which a donor could not be identified or located or was otherwise incapacitated, the Foundation submitted an application for *Cy Pres* in the Circuit Court of Jackson County, Missouri Probate Division. The term *Cy Pres* refers to a legal principle whereby the court will review recommendations to apply funds in a charitable trust to some other purpose, as close to the original purpose as possible, and approve or disapprove of the recommended purpose revisions. In 2004 the Foundation received the approval of the Missouri and Kansas Attorneys General for the recommended purposes for these funds. In 2005, the Foundation also received approval by the courts. The Foundation will now be able to use these net assets for intended purposes.

MENORAH LEGACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2005 AND 2004

8. Life insurance policies:

The Foundation is the owner and beneficiary of 63 life insurance policies, with a total face amount of \$3,300,000 as of December 31, 2005. Included in the accompanying financial statements is the total cash surrender value of these policies of \$538,451 and \$538,894 as of December 31, 2005 and 2004, respectively. In 2005, the Foundation received \$101,785 in proceeds as a result of the deaths of two of the individuals insured under these policies, which included \$11,039 of cash surrender value. The net amount of \$90,746 is included in the statement of activities.

9. Jewish Collaborative Fund:

In 2005 the Foundation received a contribution totaling \$2,882,877 from a trust which designated the Jewish Memorial Hospital (predecessor to Menorah Medical Center) as partial beneficiary. The Jewish Heritage Foundation (JHF) was formed from the sale of Menorah Medical Center (MMC) to Health Midwest in 1993. Because the Foundation and JHF have a shared history through their relationship to MMC and because of their common interest in health care and the Greater Kansas City Jewish community, the Boards of Directors of the respective foundations have agreed to collaborate, via a "Statement of Principles" (Statement), with respect to the use of these assets. A separate "Jewish Collaborative Fund" has been established by the Foundation to hold these assets and is included in unrestricted Board designated net assets in the financial statements. Beginning in 2006, members of the Boards of each foundation will form a committee to make grant recommendations, and all grants must be approved by the Boards of both entities. If the collaboration and certain other attempts to reach an agreement fail, as defined in the Statement, the Jewish Collaborative Fund as it then exists will be split equally between the two organizations.