

MENORAH LEGACY FOUNDATION
YEARS ENDED DECEMBER 31, 2008 AND 2007



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

MENORAH LEGACY FOUNDATION
YEARS ENDED DECEMBER 31, 2008 AND 2007

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CERTIFIED PUBLIC ACCOUNTANTS

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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, 2008 and 2007, 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, 2008 and 2007, 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.

April 17, 2009

MENORAH LEGACY FOUNDATION

STATEMENTS OF FINANCIAL POSITION - DECEMBER 31, 2008 AND 2007

ASSETS

	<u>2008</u>	<u>2007</u>
Cash	\$ 53,073	\$ 70,954
Contributions receivable		4,031
Prepaid expenses	4,851	4,569
Investments (Note 2)	20,014,424	30,116,050
Cash surrender value of life insurance (Note 6)	556,915	553,504
Furniture, fixtures and equipment, less accumulated depreciation of \$34,849 and \$29,875 for 2008 and 2007, respectively	<u>8,842</u>	<u>13,816</u>
	<u>\$ 20,638,105</u>	<u>\$ 30,762,924</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 38,512	\$ 35,681
Grants payable	<u>22,996</u>	<u>55,000</u>
Total liabilities	<u>61,508</u>	<u>90,681</u>
Commitments (Notes 4)		
Net assets:		
Unrestricted:		
Available for general activities	<u>8,956,438</u>	<u>13,388,797</u>
Restricted:		
Temporarily restricted (Note 3)	10,260,034	13,383,601
Permanently restricted	<u>1,360,125</u>	<u>3,899,845</u>
	<u>11,620,159</u>	<u>17,283,446</u>
Total net assets	<u>20,576,597</u>	<u>30,672,243</u>
	<u>\$ 20,638,105</u>	<u>\$ 30,762,924</u>

See notes to financial statements.

MENORAH LEGACY FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2008

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Contributions	\$ 23,193	\$ 46,128		\$ 69,321
Investment income (Note 2)	240,631	286,227		526,858
Increase in cash surrender value of life insurance	3,411			3,411
Other income	1,144			1,144
Transfer to comply with new accounting pronouncement (Note 3)		2,403,153	(\$ 2,403,153)	
Change in fund classification (Note 7)		136,567	(136,567)	
Net assets released from donor restrictions	<u>1,459,974</u>	<u>(1,459,974)</u>	<u> </u>	<u> </u>
Total revenues, gains and other support	<u>1,728,353</u>	<u>1,412,101</u>	<u>(2,539,720)</u>	<u>600,734</u>
Grants and expenses:				
Grants (Note 8)	2,549,951			2,549,951
Operating expenses (Note 5)	<u>317,921</u>			<u>317,921</u>
Total grants and expenses	<u>2,867,872</u>			<u>2,867,872</u>
Change in net assets prior to net realized and unrealized losses	(1,139,519)	1,412,101	(2,539,720)	(2,267,138)
Net realized and unrealized losses (Note 2)	<u>(3,267,257)</u>	<u>(4,561,251)</u>	<u> </u>	<u>(7,828,508)</u>
Change in net assets	(4,406,776)	(3,149,150)	(2,539,720)	(10,095,646)
Transfers between asset categories	(25,583)	25,583		
Net assets, beginning of year	<u>13,388,797</u>	<u>13,383,601</u>	<u>3,899,845</u>	<u>30,672,243</u>
Net assets, end of year	<u>\$ 8,956,438</u>	<u>\$ 10,260,034</u>	<u>\$ 1,360,125</u>	<u>\$ 20,576,597</u>

See notes to financial statements.

MENORAH LEGACY FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2007

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Contributions, net of provision of \$1,668	\$ 27,787	\$ 67,333	(\$ 1,668)	\$ 93,452
Investment income (Note 2)	242,736	309,616	111	552,463
Increase in cash surrender value of life insurance	7,291			7,291
Other income	1,288			1,288
Change in fund classification (Note 7)		126,680	(126,680)	
Net assets released from donor restrictions	<u>1,037,615</u>	<u>(1,037,615)</u>		
Total revenues, gains and other support	<u>1,316,717</u>	<u>(533,986)</u>	<u>(128,237)</u>	<u>654,494</u>
Grants and expenses:				
Grants	1,382,671			1,382,671
Operating expenses (Note 5)	<u>303,739</u>			<u>303,739</u>
Total grants and expenses	<u>1,686,410</u>			<u>1,686,410</u>
Changes in net assets prior to net realized gains and unrealized gains	(369,693)	(533,986)	(128,237)	(1,031,916)
Net realized and unrealized gains (Note 2)	<u>700,679</u>	<u>710,538</u>	<u>209,957</u>	<u>1,621,174</u>
Change in net assets	330,986	176,552	81,720	589,258
Transfers between asset categories	(7,699)	7,699		
Net assets, beginning of year	<u>13,065,510</u>	<u>13,199,350</u>	<u>3,818,125</u>	<u>30,082,985</u>
Net assets, end of year	<u>\$ 13,388,797</u>	<u>\$ 13,383,601</u>	<u>\$ 3,899,845</u>	<u>\$ 30,672,243</u>

See notes to financial statements.

MENORAH LEGACY FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	(\$ 10,095,646)	\$ 589,258
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	4,974	5,759
Realized (gains) losses on investments	1,582,339	(1,548,491)
Unrealized (gains) losses on investments	6,246,169	(72,683)
Changes in assets and liabilities:		
Contributions receivable	4,031	4,807
Prepaid expenses	(282)	(731)
Accounts payable and accrued expenses	2,831	(774)
Grants payable	(32,004)	(59,479)
Net cash used by operating activities	(2,287,588)	(1,082,334)
Cash flows from investing activities:		
Increase in cash surrender value of life insurance	(3,411)	(7,290)
Net proceeds from sales of investments	<u>2,273,118</u>	<u>972,009</u>
Net cash provided by investing activities	<u>2,269,707</u>	<u>964,719</u>
Net decrease in cash	(17,881)	(117,615)
Cash, beginning of year	<u>70,954</u>	<u>188,569</u>
Cash, end of year	<u>\$ 53,073</u>	<u>\$ 70,954</u>

See notes to financial statements.

MENORAH LEGACY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

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.

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.

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 as specified by the donor (Note 3).

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.

MENORAH LEGACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2008 AND 2007

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

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. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to these risks, it is at least reasonably possible that changes in risk could occur in the near term and those changes could materially affect the amounts reported in the statements of financial position.

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.

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.

Reclassification of prior year balances:

Certain prior year balances have been reclassified to conform with the current year's presentation.

MENORAH LEGACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2008 AND 2007

2. Investments:

	<u>Cost</u>	<u>Market value</u>	<u>Excess of market (cost)</u>
December 31, 2008:			
Cash	\$ 408	\$ 408	
Money market funds	2,556,811	2,556,811	
Mutual bond funds	6,036,119	5,649,916	
Preferred stocks	98,258	98,078	
Common stocks, foreign and domestic	<u>13,850,824</u>	<u>11,709,211</u>	
Balance, end of year	<u>\$ 22,542,420</u>	<u>\$ 20,014,424</u>	(\$ 2,527,996)
Balance, beginning of year	<u>\$ 26,397,877</u>	<u>\$ 30,116,050</u>	<u>3,718,173</u>
Unrealized losses			(6,246,169)
Realized losses for the year			(<u>1,582,339</u>)
Net realized and unrealized losses on investments			<u>(\$ 7,828,508)</u>
December 31, 2007:			
Cash	\$ 2,225	\$ 2,225	
Money market funds	2,405,530	2,405,530	
Mutual bond funds	7,038,163	6,990,784	
Equity funds	69,058	68,302	
Preferred stocks	36,850	82,591	
Common stocks, foreign and domestic	<u>16,846,051</u>	<u>20,566,618</u>	
Balance, end of year	<u>\$ 26,397,877</u>	<u>\$ 30,116,050</u>	\$ 3,718,173
Balance, beginning of year	<u>\$ 25,821,395</u>	<u>\$ 29,466,885</u>	<u>3,645,490</u>
Unrealized gains on investments			72,683
Realized gains for the year			<u>1,548,491</u>
Net realized and unrealized gains on investments			<u>\$ 1,621,174</u>

For the years ended December 31, 2008 and 2007, investment income comprises the following:

	<u>2008</u>	<u>2007</u>
Interest and dividend income	\$ 700,479	\$ 749,612
Investment expenses	<u>(173,621)</u>	<u>(197,149)</u>
	<u>\$ 526,858</u>	<u>\$ 552,463</u>

MENORAH LEGACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2008 AND 2007

3. Net assets:

Permanently restricted net assets:

The Foundation's permanently restricted net assets consist of ten individual funds established for a variety of medical and health programs and other charitable purposes. The Foundation's policy requires the preservation of the fair value as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. Based on the Foundation's interpretation of Financial Accounting Standard Boards, Staff Position 117-1 which was effective for the years ending after December 15, 2008, the Foundation now classifies as permanently restricted net assets the original value of the gifts to the permanent endowment, the fair value of any subsequent gifts to the endowment fund, and any accumulations required to be made by donor stipulation. Amounts in excess of the stated values of permanently restricted funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation. In 2007 and prior years, the Foundation's policy was to record the fair value of permanently restricted gifts and to adjust the permanently restricted net assets by the net realized and unrealized gains or losses. Other investment income and grants approved were reported as temporarily restricted activities.

The Foundation has investment and expenditure policies that consider the purpose of the donor-restricted fund, general economic conditions, and expected investment returns. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor required the Foundation to retain as a fund of perpetual duration. In accordance with U.S. generally accepted accounting principles, deficiencies of this nature would be appropriated from unrestricted funds. There were no such deficiencies as of December 31, 2008.

A summary of activity in the endowment funds for the year ended December 31, 2008, is as follows:

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>
Balance, December 31, 2007	\$ 657,025	\$ 3,899,845
Transfer to comply with FAS 117-1	2,403,153	(2,403,153)
Change in fund classification	(35,796)	(136,567)
Interest and dividends	114,219	
Approved grants	(166,234)	
Realized losses	(290,439)	
Unrealized losses	(958,139)	
Investment expenses	(29,165)	_____
Balance, December 31, 2008	<u>\$ 1,694,624</u>	<u>\$ 1,360,125</u>

MENORAH LEGACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2008 AND 2007

3. Net assets (continued):

Temporarily restricted net assets:

Temporarily restricted net assets (including the endowment-related temporarily restricted net assets) totaling \$8,983,202 and \$13,383,601 as of December 31, 2008 and 2007, 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.

4. Leases:

The Foundation leases office space under a three-year noncancelable operating lease which requires the Foundation to pay applicable insurance, taxes and maintenance. Rent expense was \$16,159 and \$15,737 for the years ended December 31, 2008 and 2007, respectively. The lease term expires June 30, 2009.

5. Operating expenses:

	<u>2008</u>	<u>2007</u>
Payroll and related expenses (Note 9)	\$ 212,523	\$ 197,569
Accounting and audit fees	10,465	10,171
Awards and gifts	7,180	3,849
Computer and IT expense	7,856	8,863
Depreciation	4,974	5,759
Insurance, general	3,891	4,089
Legal fees	699	2,812
Marketing and development fees	13,733	19,575
Meetings and conferences	14,455	11,140
Membership dues	1,597	715
Office expense	3,628	3,803
Other professional fees	8,823	1,904
Other expenses	3,063	1,348
Postage and delivery	907	1,116
Printing and promotion	2,270	10,164
Rent and leases (Note 4)	16,159	15,737
Telephone	<u>5,698</u>	<u>5,125</u>
	<u>\$ 317,921</u>	<u>\$ 303,739</u>

6. Life insurance policies:

The Foundation is the owner and beneficiary of 65 life insurance policies, with a total face amount of \$3,400,000 as of December 31, 2008. Included in the accompanying financial statements is the total cash surrender value of these policies of \$556,915 and \$553,504 as of December 31, 2008 and 2007, respectively.

MENORAH LEGACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2008 AND 2007

7. Net assets reclassification:

During 2008 and 2007, in connection with two of the permanently restricted funds, the Foundation received consent from the donor to remove the restriction on spending fund corpus. These net assets were reclassified from permanently restricted to temporarily restricted.

8. 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 net assets in the financial statements. Members of the Boards of each foundation have formed 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.

During 2008, a grant of \$1,000,000 was provided to the Jewish Community Campus of Greater Kansas City, Inc. from the Jewish Collaborative Fund.

9. Retirement plan:

In 2007, the Foundation adopted a retirement plan (the Plan) designed to meet the requirements of Section 403(b) of the Internal Revenue Code. The Plan provides for employee deferrals of at least 1% of compensation, up to 75% of compensation, subject to statutory limits. Foundation contributions are at the discretion of the Board and may include contributions based on a percentage of each eligible employee's compensation as well as matching contributions. The Foundation contributed 5% of eligible employees' compensation for the years ended December 31, 2008 and 2007. Total contributions were \$7,810 and \$7,430 for the years ended December 31, 2008 and 2007, respectively.