

MENORAH LEGACY FOUNDATION

YEAR ENDED DECEMBER 31, 2004

MENORAH LEGACY FOUNDATION

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Independent Auditors' Report

Board of Directors
Menorah Legacy Foundation
Kansas City, Missouri

We have audited the statement of financial position of Menorah Legacy Foundation (Foundation) as of December 31, 2004, and the related statements of activities and changes in net assets and cash flows 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.

We conducted our audit 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 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 Menorah Legacy Foundation as of December 31, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

House Park & Dobratz, P.C.

May 11, 2005

MENORAH LEGACY FOUNDATION

STATEMENT OF FINANCIAL POSITION - DECEMBER 31, 2004

ASSETS

Cash	\$ 79,010
Contributions receivable (Note 3)	31,688
Prepaid expenses	1,522
Investments (Note 2)	25,211,643
Cash surrender value of life insurance (Note 8)	538,894
Furniture, fixtures and equipment, less accumulated depreciation of \$2,124	<u>28,547</u>
	<u>\$ 25,891,304</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 940
Grants payable	<u>112,510</u>
Total liabilities	<u>113,450</u>
Commitments (Note 5)	
Net assets:	
Unrestricted:	
Available for general activities	4,252,712
Board designated	<u>2,803,740</u>
	<u>7,056,452</u>
Restricted:	
Temporarily restricted:	
Donor designated (Note 4)	9,183,808
Cy Pres pending court approval (Note 7)	<u>5,797,964</u>
	14,981,772
Permanently restricted	<u>3,739,630</u>
	<u>18,721,402</u>
Total net assets	<u>25,777,854</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, 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
Net realized and unrealized gains on investments (Note 2)	686,643	1,455,036	454,085	2,595,764
Interest and dividend income (net of expenses of \$161,277)	61,503	160,282	797	222,582
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

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2004

Cash flows from operating activities:	
Change in net assets	\$ 1,819,532
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	6,943
Realized gains on investments	(1,418,968)
Unrealized gains on investments	(1,176,796)
Changes in assets and liabilities:	
Contributions receivable	47,000
Prepaid expenses	926
Accounts payable	940
Grants payable	112,510
Liabilities to unaffiliated beneficiaries	(<u>148,007</u>)
Net cash used by operating activities	(<u>755,920</u>)
Cash flows from investing activities:	
Purchase of furniture, fixtures and equipment	(7,643)
Increase in cash surrender value of life insurance	(12,798)
Purchases of investments	(1,648,694)
Proceeds from sales of investments	<u>2,353,592</u>
Net cash provided by investing activities	<u>684,457</u>
Net decrease in cash	(71,463)
Cash, beginning of year	<u>150,473</u>
Cash, end of year	<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

YEAR ENDED DECEMBER 31, 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, have been classified as temporarily restricted *Cy Pres* net assets (Note 7). Management believes that the Missouri courts will ultimately grant the Foundation's petition and accept the proposed purpose revisions.

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)

YEAR ENDED DECEMBER 31, 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 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 \$50,000 expected to be paid in 2006 and 2007 are included in grants payable as of December 31, 2004, discounted to \$46,485.

MENORAH LEGACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 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>
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>

3. Contributions receivable:

Contributions receivable include \$17,688 in pledges scheduled to be paid in 2005 and \$14,000 expected to be paid over the next five years.

4. Temporarily restricted net assets:

Temporarily restricted net assets totaling \$9,183,808 as of December 31, 2004, 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.

MENORAH LEGACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2004

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. Minimum annual rental payments under operating leases as of December 31, 2004 are as follows:

<u>Year</u>	<u>Amount</u>
2005	\$ 15,948
2006	<u>7,772</u>
	<u>\$ 23,720</u>

6. Operating expenses:

Payroll and related expenses	\$ 140,325
Accounting fees	21,855
Legal fees	9,406
Marketing and development fees	15,458
Temporary labor	91
Computer and IT expense	16,194
Depreciation	6,943
Membership dues	4,695
Insurance, general	3,874
Meetings and conferences	4,290
Office expense	3,693
Postage and delivery	1,630
Printing and promotion	4,953
Rent and leases	14,446
Telephone	3,849
Awards and gifts	6,566
Other	<u>1,890</u>
	<u>\$ 260,158</u>

MENORAH LEGACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2004

7. Change in net asset purpose:

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. The Foundation has received the approval of the Missouri and Kansas Attorneys General for the recommended purposes for these funds; and management expects approval by the courts as well, after which time the Foundation will be able to use these net assets for intended purposes.

8. 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, 2004. Included in the accompanying financial statements is the total cash surrender value of these policies of \$538,894 as of December 31, 2004.

August 11, 2005

Ms. Gayla Brockman
Menorah Legacy Foundation
One Ward Parkway, Suite 232
Kansas City, Missouri 64112

Dear Gayla:

Enclosed are thirty-five copies of our audit report of Menorah Legacy Foundation for the year ended December 31, 2004. Also enclosed are thirty-five copies of our Business Advisory Letter.

If we can be of further assistance, please let us know.

Very truly yours,

HOUSE PARK & DOBRATZ, P.C.

by Stanley H. House, CPA

SHH/cc
Enclosures