

MITCHELL KAPOR FOUNDATION

DECEMBER 31, 2009 AND 2008

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Mitchell Kapor Foundation

Independent Auditors' Report and Financial Statements

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Independent Auditors' Report

THE BOARD OF DIRECTORS
MITCHELL KAPOR FOUNDATION
San Francisco, California

We have audited the accompanying statement of financial position of **MITCHELL KAPOR FOUNDATION (the Foundation)** as of December 31, 2009 and 2008, 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 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 Mitchell Kapor Foundation as of December 31, 2009 and 2008, 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.

Hood & Strong LLP

November 10, 2010

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Mitchell Kapur Foundation

Statement of Financial Position

<i>December 31,</i>	2009	2008
Assets		
Assets:		
Cash and cash equivalents	\$ 4,204,485	\$ 10,870,864
Interest receivable	36	2,158
Investments	40,169,530	35,144,324
Prepaid expenses	88,290	94,676
Furniture and equipment, net	6,051	9,193
Total assets	\$ 44,468,392	\$ 46,121,215
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 59,691	\$ 141,070
Accrued investment fees	410,963	395,294
Grants payable	801,620	1,219,900
Total liabilities	1,272,274	1,756,264
Net Assets:		
Unrestricted net assets	43,196,118	44,364,951
Total net assets	43,196,118	44,364,951
Total liabilities and net assets	\$ 44,468,392	\$ 46,121,215

Mitchell Kapur Foundation

Statement of Activities and Changes in Net Assets

<i>Years Ended December 31,</i>	2009	2008
Support and Revenue:		
Contributions	\$ 1,600	
Interest and dividends	20,575	\$ 353,034
Other income	21,883	
Unrealized gain(loss)	4,179,070	(8,510,293)
Realized (loss)gain on sale of investments	(46,175)	1,593,343
Total support and revenue	4,176,953	(6,563,916)
Expenses:		
Grants	3,966,922	5,251,460
General and administrative	1,378,864	1,010,248
Excise tax		(83,600)
Total expenses	5,345,786	6,178,108
Change in Net Assets	(1,168,833)	(12,742,024)
Unrestricted Net Assets, beginning of year	44,364,951	57,106,975
Unrestricted Net Assets, end of year	\$ 43,196,118	\$ 44,364,951

Mitchell Kapor Foundation

Statement of Cash Flows

<i>Years Ended December 31,</i>	2009	2008
Cash Flows from Operating Activities:		
Change in net assets	\$ (1,168,833)	\$ (12,742,024)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized loss(gain) on investments sold	46,175	(1,593,343)
Net unrealized (gain)loss on investments held	(4,179,070)	8,510,293
Investment expenses	246,067	(55,347)
Deferred taxes		(94,600)
Disposal of fixed assets		1,572
Depreciation and amortization	3,142	2,750
Changes in assets and liabilities:		
Interest receivable	2,122	132,157
Prepaid expenses	6,386	(84,676)
Accounts payable and accrued expenses	(81,379)	(155,637)
Accrued investment fees	15,668	395,294
Grants payable	(418,280)	(255,000)
Net cash used by operating activities	(5,528,002)	(5,938,561)
Cash Flows from Investing Activities:		
Proceeds from sale of investments	699,671	4,673,212
Purchase of investments	(1,838,049)	(23,369,474)
Purchase of furniture and equipment		(2,080)
Net cash used by investing activities	(1,138,377)	(18,698,342)
Net Decrease in Cash and Cash Equivalents	(6,666,379)	(24,636,903)
Cash and Cash Equivalents - beginning of year	10,870,864	35,507,767
Cash and Cash Equivalents - end of year	\$ 4,204,485	\$ 10,870,864
Supplemental Information		
Cash paid for excise taxes		\$ 85,000

Mitchell Kapor Foundation

Notes to Financial Statements

Note 1 - Nature of Organization and Summary of Significant Accounting Policies:

a. Nature of Organization

The Mitchell Kapor Foundation (the Foundation), was established in 1997 by entrepreneur and philanthropist Mitchell Kapor. The Foundation has primarily focused its grantmaking and convening activities on environmental, civic engagement, educational, and technological issues, primarily in the San Francisco Bay Area. The Foundation supports organizations which work to ensure fairness and equity for vulnerable communities, and never funds individuals for personal projects or needs.

b. Basis of Presentation

The Foundation's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for not-for-profit organizations which utilize unrestricted, temporarily restricted, and permanently restricted classifications for presentation. There are no temporarily or permanently restricted net assets.

c. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

d. Fair Value Measurements

The Foundation classifies its financial assets and liabilities measured at fair value on a recurring basis based on a fair value hierarchy with three levels of inputs. Level 1 values are based on unadjusted quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect the Foundation's determination of assumptions that market participants might reasonably use in valuing the securities. The valuation levels are not necessarily an indication of the risk or liquidity associated with the assets and liabilities measured at fair value.

The Foundation adopted various updates to fair value disclosures in 2009. The updates which resulted in additional disclosures, related to the definition of major categories and the use of net asset value as the measure of fair value.

Mitchell Kapor Foundation

Notes to Financial Statements

e. Investments

Investments are reported at fair value based on quoted market prices. Changes in fair values, as well as realized gains and losses are reflected in the statement of activities and changes in net assets.

The fair value of investments in the partnerships and venture capital are based upon the fair values as reported by the fund managers. Partnership funds are invested primarily in marketable securities. The ultimate liquidation of these investments is restricted to certain time periods and is generally limited to sale to the fund manager. The ultimate liquidation of venture capital investments are generally limited to distributions from the funds. The fair values of these investments have been estimated using the net asset value per share or ownership interest of the investment.

Investments in private equities include warrants, convertible notes, preferred and common stock of start-up companies and are based upon fair values as estimated by management. Generally these values are based upon the acquisition price or the value of the latest round of financing.

Due to the inherent uncertainty of valuation of nonmarketable and restricted investments, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed and the differences could be material.

The investment in real estate is recorded at estimated fair value based upon an appraisal from a professional third party.

f. Contributions

Contributions and pledges are recognized as revenue when they are received or unconditionally pledged. Contributions of assets other than cash are recorded at their estimated fair value. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

g. Grants

Grants awarded with an unconditional promise to give are accrued as a liability and expense when approved by the Board. Grant cancellations or unspent funds are recorded in the year cancelled or the funds are returned. The discount for present value of grants to be paid in the future was not material to the financial statements.

h. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents include operating cash, but exclude investment account money funds.

Mitchell Kapor Foundation

Notes to Financial Statements

i. Income Taxes

The Foundation qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code and related California statutes and is exempt from federal and state income taxes. The Foundation is classified as a private foundation and is subject to excise tax on its net investment income. The Foundation accrues for the excise tax on a current basis. Deferred taxes are recorded on the net unrealized gains. In addition, the Foundation could be subject to unrelated business income tax, if any, generated by its investments.

The Foundation adopted accounting for uncertain income tax positions on January 1, 2009. As of the date of adoption, the Foundation concluded it had maintained its tax exempt status and had no uncertain tax positions. With few exceptions, the Foundation is no longer subject to income tax examinations by federal or state tax authorities for the years before 2005.

j. Subsequent Events

The Foundation has reviewed the change in net assets for the period of time from its fiscal year ended December 31, 2009 through November 10, 2010, the date the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor subsequent events have occurred, except as disclosed in Note 9, the nature of which would require disclosure.

k. Recent Accounting Pronouncements

In January 2010, the FASB issued additional disclosure requirements for fair value measurements. Under this guidance, the fair value hierarchy disclosures are to be further disaggregated by classes (subsets of the line items in the financial statements) and additional disclosures made about transfers between levels 1 and 2. These disclosures are effective for 2010. Additional disclosures about level 3 measurements will be required for 2011. The impact of this guidance will be additional disclosures in the financial statements.

Mitchell Kapor Foundation

Notes to Financial Statements

Note 2 - Investments:

Investments at December 31, 2009 and 2008 are as follows:

	2009	2008
Partnerships:		
Capricorn Investment Group	\$ 17,710,941	\$ 16,553,244
Generation Global Equity Fund	12,280,887	8,729,439
Adelante Total Return Fund	842,389	657,958
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Total partnerships	30,834,217	25,940,641
Venture capital	6,038,442	4,602,029
Private equities	1,733,871	1,669,224
Real estate	1,563,000	2,932,430
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	\$ 40,169,530	\$ 35,144,324

The approximate cost of the investments as of December 31, 2009 and 2008 was \$40,558,730 and \$39,311,500, respectively.

The Foundation has commitments for future capital calls in the amount of \$5,644,987 as of December 31, 2009.

Note 3 - Fair Value Measurements:

The tables below summarize assets measured at fair value on a recurring basis:

<u>December 31, 2009</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Partnerships	\$ 842,389	\$ 29,991,828	\$ 30,834,217
Venture capital		6,038,442	6,038,442
Private equities	128,470	1,605,401	1,733,871
Real estate		1,563,000	1,563,000
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Total assets measured at fair value	\$ 970,859	\$ 39,198,671	\$ 40,169,530

Mitchell Kapor Foundation

Notes to Financial Statements

<u>December 31, 2008</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Partnerships		\$ 25,940,641	\$ 25,940,641
Venture capital		4,602,029	4,602,029
Private equities	\$ 254,725	1,414,499	1,669,224
Real estate		2,932,430	2,932,430
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Total assets measured at fair value	\$ 254,725	\$ 34,889,599	\$ 35,144,324

The following is a rollforward of the Level 3 assets:

Balance at December 31, 2007	\$ 23,062,107
Total net realized appreciation included in net income	1,593,343
Total net unrealized (loss) included in net income	(8,292,317)
Purchases and capital calls of investments	23,141,773
Proceeds from sales, redemptions, and distributions	(4,670,654)
Transfer in to Level 3	55,347
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Balance at December 31, 2008	\$ 34,889,599
Transfer to Level 2	(657,958)
Total net realized (loss) included in net income	(46,175)
Total net unrealized gain included in net income	3,874,827
Purchases and capital calls of investments	1,838,049
Proceeds from sales, redemptions, and distributions	(699,671)
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Balance at December 31, 2009	\$ 38,198,671

For 2008, approximately \$8 million of the unrealized loss related to assets held at year end. For 2009, all of the unrealized gain is related to assets held at year end. There was no change in valuation methods during either year.

Mitchell Kapor Foundation

Notes to Financial Statements

The Foundation uses the Net Asset Value (NAV) to determine the fair value of investments in partnerships and venture capital funds which do not have readily determinable fair value. The following table lists these investments by major strategy as of December 31, 2009:

	<u># of Funds</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption</u>	<u>Notice Period (days)</u>
Partnerships:					
International equity fund (a)	1	\$12,280,887		quarterly	30
Multi-strategy hedge fund (b)	1	17,710,941			
Real estate funds (c)	1	842,389		monthly	5
Total partnerships		30,834,217			
Venture capital:					
Private equity funds (d)	7	6,038,442	\$5,644,987	None	N/A
Total		\$ 36,872,659	\$5,644,987		

- a) This is a Dublin PLC and invests in common stock of public companies with 45% of the portfolio invested in the U.S. and Canadian companies and the remainder in international companies. Management of the fund has the ability to shift investments from value to growth strategies and from small to large cap stocks; however, the focus of the fund is on the very long term with sustainability at the heart of their strategy. The manager has the right to suspend any redemptions at any time.
- b) The underlying investments in this fund are a wide range of investment vehicles including private equity and venture capital, international and domestic market securities, real estate and various hedges. See Note 9 regarding redemption.
- c) The real estate funds invest in REITS and other real estate related marketable securities.
- d) Private equity funds invest in various companies, both domestic and international. These investments cannot be redeemed. Distributions are received from the fund when the underlying assets are liquidated. It is estimated that the underlying assets will be liquidated over the next 7 to 15 years.

Mitchell Kapor Foundation

Notes to Financial Statements

Note 4 - Grants Payable:

Grants payable expected to be paid in future years are as follows:

Less than one year	\$ 387,980
One to five years	413,640
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	\$ 801,620

Note 5 - Excise Taxes:

The Foundation is required to pay excise taxes on its net investment income. Excise taxes for 2009 and 2008 are based upon the 1% tax rate. There was no tax due for 2009.

The provision for excise tax for 2008 was comprised of the following:

	2008
Current	\$ 11,000
Deferred	(94,600)
	<hr/>
Total	\$ (83,600)

Regulations require the foundation to meet certain minimum distribution requirements. The Foundation is in full compliance with these regulations. The Foundation has an excess distribution carryover of approximately \$15 million.

Note 6 - Related Party Transactions:

From inception, the Foundation has received its support from contributions by Mitchell Kapor.

Administrative support is provided by a for-profit entity owned by Mitchell Kapor. The cost of the support was \$214,207 and \$306,300 for 2009 and 2008, respectively. The amounts paid are based upon what the Foundation would have to pay on the open market for the services provided.

Mitchell Kapor Foundation

Notes to Financial Statements

Note 7 - Concentrations of Risk:

Financial instruments that potentially subject the Foundation to concentration of risk are investments subject to market risk. In addition, certain of the investments have limited marketability.

Note 8 - Lease Commitments:

On May 1, 2009, the Foundation entered into a long term lease for their office space in San Francisco. The initial lease term is for 50 months with an option for one five year extension. The monthly rent for the initial lease term is \$2,542.

The future minimum lease payments are as follows:

Year Ending December 31,	
2010	\$ 30,500
2011	30,500
2012	30,500
2013	15,250
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	\$ 106,750

Note 9 - Subsequent Events:

On March 30, 2010, the Foundation entered into an agreement with Capricorn Investment Group for redemption of the Foundation's investment in Capricorn. Approximately \$11 million has been received in 2010. It is estimated that approximately \$2-3 million will be received in 2011. The remaining balance will be distributed as the related illiquid assets are sold.