

MITCHELL KAPOR FOUNDATION

DECEMBER 31, 2005

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INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

# Mitchell Kapor Foundation

## Independent Auditors' Report and Financial Statements

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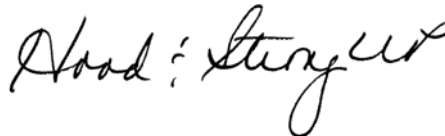
## Independent Auditors' Report

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, 2005, and the related statements of activities, 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 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 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 Mitchell Kapor Foundation as of December 31, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



June 30, 2006

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# Mitchell Kapor Foundation

## Statement of Financial Position

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*December 31, 2005*

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### Assets

#### Current Assets:

Cash	\$ 7,161,043
Investments	37,535,166
Interest receivable	91,861

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Total assets	\$ 44,788,070
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### Liabilities and Net Assets

#### Current Liabilities:

Accounts payable and accrued expenses	\$ 93,839
Deferred taxes	140,000

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Total liabilities	233,839
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#### Net Assets:

Unrestricted net assets	44,554,231
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Total liabilities and net assets	\$ 44,788,070
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# Mitchell Kapor Foundation

## Statement of Activities

*Year Ended December 31, 2005*

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**Support and Revenue:**

Contributions	\$ 9,751,509
Interest and dividends	807,850
Unrealized gain on investments	643,117
Realized gain on sale of investments	1,174,730
Other income	65,164

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Total support and revenue	12,442,370
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**Expenses:**

Grants	6,345,000
General and administrative	378,421
Excise tax	254,000

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Total expenses	6,977,421
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<b>Increase in Net Assets</b>	5,464,949
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<b>Unrestricted Net Assets, beginning of year</b>	39,089,282
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<b>Unrestricted Net Assets, end of year</b>	\$ 44,554,231
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# Mitchell Kapor Foundation

## Statement of Cash Flows

*Year Ended December 31, 2005*

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**Cash Flows from Operating Activities:**

Increase in net assets	\$ 5,464,949
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Net realized gain on investments sold	(1,174,730)
Net unrealized gain on investments held	(643,117)
Deferred taxes	13,000
Changes in operating assets and liabilities:	
Interest receivable	(82,962)
Accounts payable and accrued expenses	64,563

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Net cash provided by operating activities	3,641,703
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**Cash Flows from Investing Activities:**

Proceeds from sale of investments	11,231,607
Purchase of investments	(15,564,096)

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Net cash used by investing activities	(4,332,489)
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<b>Net Decrease in Cash</b>	(690,786)
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<b>Cash and Cash Equivalents - Beginning of Year</b>	7,851,829
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<b>Cash and Cash Equivalents - End of Year</b>	\$ 7,161,043
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**Supplemental information**

Cash paid for excise taxes	\$ 186,000
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# Mitchell Kapor Foundation

## Notes to Financial Statements

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### 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 founder, Mitchell Kapor. The Foundation has primarily focused its activities in the following areas: Environmental Health, Level Playing Field Program focused on promoting inclusion and fairness in the workplace, and Program on the Impact of Information Technology. The Foundation 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 generally accepted accounting principles for not-for-profit organizations which utilize unrestricted, temporarily restricted, and permanently restricted classifications for presentation. There were no temporarily or permanently restricted net assets for the year ended December 31, 2005.

#### c. Use of Estimates

The preparation of financial statements 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. Investments

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

The fair values of domestic equities and bonds are based on their quoted market prices.

The fair value of investments in the Global Equity and Total Return Funds are based upon the fair values as reported by the fund managers. These 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 or distributions from the fund.

# Mitchell Kapur Foundation

## Notes to Financial Statements

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Investments in convertible notes and preferred stock of start-up companies are based upon fair values as estimated by management. The venture capital investment value is reported by the venture capital fund. 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 fair value.

e. 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.

f. Grants

Grants awarded with an unconditional promise to give are accrued as a liability and expense when approved. Grant cancellations or unspent funds are recorded in the year cancelled or the funds are returned.

g. 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 excludes investment account money funds.

h. Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and related California statutes. 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 on net unrealized gains are recorded.

# Mitchell Kapor Foundation

## Notes to Financial Statements

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### Note 2 - Investments:

Investments at December 31, 2005 are as follows:

Money market funds	\$ 538,647
Domestic equities	15,083,000
Corporate, federal agency, and municipal bonds	12,489,713
Partnerships	
Global Equity Fund (marketable securities)	5,463,415
Total return fund (marketable securities)	1,083,602
Convertible notes, preferred stock and venture capital	358,002
Real estate - Hawaii	2,518,787
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	\$ 37,535,166

The Foundation has commitments for future capital calls in the amount of \$2.9 million as of December 31, 2005.

### Note 3 - Excise Taxes:

The Foundation is required to pay excise taxes on its net investment income. Excise taxes for fiscal 2005 are based upon the 2% tax rate.

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 \$981,000. This amount is available to meet the minimum distribution requirements in future years and expires as follows:

2007	\$ 175,000
2008	662,000
2010	144,000
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Total	\$ 981,000

# Mitchell Kapor Foundation

## Notes to Financial Statements

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The provision for excise tax for 2005 is comprised of the following:

Current	\$ 241,000
Deferred	13,000
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Total	\$ 254,000

**Note 4 - 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 was approximately \$24,000 for 2005. The amounts paid are based upon cost to the for-profit entity and allocated based upon estimates of time. There is no charge for the use of the facilities provided.

**Note 5 - Concentrations of Risk:**

Investments are subject to market risk. In addition, certain of the investments have limited marketability.