

# MITCHELL KAPOR FOUNDATION

DECEMBER 31, 2007 AND 2006

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INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

# Mitchell Kapor Foundation

## Independent Auditors' Report and Financial Statements

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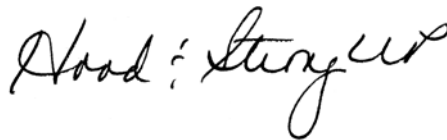
## Independent Auditors' Report

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, 2007 and 2006, and the related statements of activities, 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, 2007 and 2006, 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.



September 18, 2008

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# Mitchell Kapor Foundation

## Statement of Financial Position

<i>December 31,</i>	2007	2006
<b>Assets</b>		
<b>Assets:</b>		
Cash	\$ 35,507,767	\$ 13,477,822
Interest receivable	134,315	133,046
Investments	23,309,665	44,476,330
Prepaid excise tax	10,000	65,582
Furniture and equipment	11,435	
<b>Total assets</b>	<b>\$ 58,973,182</b>	<b>\$ 58,152,780</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 296,707	\$ 53,284
Grants payable	1,474,900	1,165,000
Deferred taxes	94,600	150,000
<b>Total liabilities</b>	<b>1,866,207</b>	<b>1,368,284</b>
<b>Net Assets:</b>		
Unrestricted net assets	57,106,975	56,784,496
<b>Total liabilities and net assets</b>	<b>\$ 58,973,182</b>	<b>\$ 58,152,780</b>

# Mitchell Kapur Foundation

## Statement of Activities

<i>Years Ended December 31,</i>	2007	2006
<b>Support and Revenue:</b>		
Contributions	\$ 5,000,000	\$ 10,769,765
Interest and dividends	1,537,802	1,109,474
Unrealized (loss) gain on investments	(2,772,020)	224,123
Realized gain on sale of investments	5,478,598	3,056,000
Other income		47,343
<b>Total support and revenue</b>	<b>9,244,380</b>	<b>15,206,705</b>
<b>Expenses:</b>		
Grants	8,167,866	2,488,910
General and administrative	678,835	319,877
Excise tax	75,200	167,653
<b>Total expenses</b>	<b>8,921,901</b>	<b>2,976,440</b>
<b>Increase in Net Assets</b>	<b>322,479</b>	<b>12,230,265</b>
<b>Unrestricted Net Assets, beginning of year</b>	<b>56,784,496</b>	<b>44,554,231</b>
<b>Unrestricted Net Assets, end of year</b>	<b>\$ 57,106,975</b>	<b>\$ 56,784,496</b>

# Mitchell Kapor Foundation

## Statement of Cash Flows

<i>Years Ended December 31,</i>	2007	2006
<b>Cash Flows from Operating Activities:</b>		
Increase in net assets	\$ 322,479	\$ 12,230,265
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized gain on investments sold	(5,478,598)	(3,056,000)
Net unrealized loss (gain) on investments held	2,772,020	(224,123)
Deferred taxes	(55,400)	10,000
Depreciation and amortization	1,797	
Changes in assets and liabilities:		
Interest receivable	(1,269)	(41,185)
Prepaid excise tax	55,582	(65,582)
Accounts payable and accrued expenses	243,423	(40,555)
Grants payable	309,900	1,165,000
Net cash (used) provided by operating activities	(1,830,066)	9,977,820
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sale of investments	27,012,987	11,124,485
Purchase of investments	(3,139,744)	(14,785,526)
Purchase of furniture and equipment	(13,232)	
Net cash provided (used) by investing activities	23,860,011	(3,661,041)
<b>Net Increase in Cash</b>	<b>22,029,945</b>	<b>6,316,779</b>
<b>Cash and Cash Equivalents - beginning of year</b>	<b>13,477,822</b>	<b>7,161,043</b>
<b>Cash and Cash Equivalents - end of year</b>	<b>\$ 35,507,767</b>	<b>\$ 13,477,822</b>
<b>Supplemental Information</b>		
Cash paid for excise taxes	\$ 75,000	\$ 278,235

# 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 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 generally accepted accounting principles 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 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 and international equities and bonds are based on their quoted market prices.

The fair value of investments in the partnerships is 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.

The fair value of the venture capital investments is based upon fair values reported by the fund managers. The ultimate liquidation of these investments is generally limited to distributions from the funds.

# Mitchell Kapor Foundation

## Notes to Financial Statements

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Investments in convertible notes and preferred and common stock of start-up companies 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 the purchase price in 2005.

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 exclude 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 are recorded on the net unrealized gains.

# Mitchell Kapor Foundation

## Notes to Financial Statements

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### i. Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Where applicable, this Statement simplifies and codifies related guidance within generally accepted accounting principles (GAAP). This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and provides guidance on the recognition, de-recognition and measurement of benefits related to an entity's uncertain income tax position. This guidance will apply to fiscal years beginning after December 15, 2007.

The Foundation believes that the adoption of these Statements on the effective dates will not have a material effect on the Foundation's results of activities, financial position, changes in net assets and liquidity.

# Mitchell Kapor Foundation

## Notes to Financial Statements

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### Note 2 - Investments:

Investments at December 31, 2007 and 2006 are as follows:

	2007	2006
Money market funds	\$ 2,558	\$ 2,490,021
Domestic equities		9,558,116
International equities		1,654,648
Corporate, federal agency, and municipal bonds		11,446,092
Partnerships:		
Global Equity Fund	12,588,030	11,030,491
Total return fund	1,220,979	1,481,573
Liberty Square Offshore	1,640,882	1,096,319
Omega Oversea Partners	1,756,867	1,669,609
Venture capital	1,983,651	282,288
Start-up companies - convertible notes, preferred and common stock	1,597,911	1,248,386
Real estate - Hawaii	2,518,787	2,518,787
	<hr/>	<hr/>
	\$ 23,309,665	\$ 44,476,330

The approximate cost of the investments as of December 31, 2007 and 2006 was approximately \$18,765,000 and \$37,124,000, respectively.

As of December 31, 2007 the Foundation had liquidated certain investments and the related proceeds were deposited to the Foundation's operating (interest bearing) cash account. In addition, the investments in Liberty and Omega were liquidated in early 2008. The proceeds of the liquidated investments were used to fund a \$20 million investment in the Capricorn Investment Group partnership in January 2008.

The Foundation has commitments for future capital calls in the amount of \$3,904,000 as of December 31, 2007.

# Mitchell Kapor Foundation

## Notes to Financial Statements

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### Note 3 - Excise Taxes:

The Foundation is required to pay excise taxes on its net investment income. Excise taxes for 2007 and 2006 are based upon the 1% and 2% tax rate, respectively. Deferred taxes have been calculated based upon the 2% rate.

The provision for excise tax is comprised of the following:

	2007	2006
Current	\$ 130,600	\$ 157,653
Deferred	(55,400)	10,000
<b>Total</b>	<b>\$ 75,200</b>	<b>\$ 167,653</b>

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 \$10 million.

### 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 \$140,574 and \$28,000 for 2007 and 2006, respectively. 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.