

MITCHELL KAPOR FOUNDATION

DECEMBER 31, 2010 AND 2009

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, 2010 and 2009, 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, 2010 and 2009, 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.

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San Francisco, California
November 28, 2011

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Mitchell Kapor Foundation

Statement of Financial Position

<i>December 31,</i>	2010	2009
Assets		
Assets:		
Cash and cash equivalents	\$ 8,139,420	\$ 4,204,485
Investments	33,701,090	40,169,530
Prepaid expenses and other assets	98,035	88,326
Furniture and equipment, net	17,742	6,051
Total assets	\$ 41,956,287	\$ 44,468,392
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 91,356	\$ 59,691
Accrued investment fees	342,944	410,963
Deferred Taxes	77,000	
Grants payable	355,460	801,620
Total liabilities	866,760	1,272,274
Net Assets:		
Unrestricted net assets	41,089,527	43,196,118
Total net assets	41,089,527	43,196,118
Total liabilities and net assets	\$ 41,956,287	\$ 44,468,392

The accompanying notes are an integral part of this statement.

Mitchell Kapor Foundation

Statement of Activities and Changes in Net Assets

<i>Years Ended December 31,</i>	2010	2009
Support and Revenue:		
Contributions	\$ 15,000	\$ 1,600
Interest and dividends	3,171	20,575
Other income	2,071	21,883
Unrealized gain	4,313,489	4,179,070
Realized loss on sale of investments	(1,026,752)	(46,175)
Total support and revenue	3,306,979	4,176,953
Expenses:		
Grants	4,304,349	3,966,922
General and administrative	1,032,221	1,378,864
Excise tax	77,000	
Total expenses	5,413,570	5,345,786
Change in Net Assets	(2,106,591)	(1,168,833)
Unrestricted Net Assets, beginning of year	43,196,118	44,364,951
Unrestricted Net Assets, end of year	\$ 41,089,527	\$ 43,196,118

The accompanying notes are an integral part of this statement.

Mitchell Kapor Foundation

Statement of Cash Flows

<i>Years Ended December 31,</i>	2010	2009
Cash Flows from Operating Activities:		
Change in net assets	\$ (2,106,591)	\$ (1,168,833)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized loss on investments sold	1,026,752	46,175
Net unrealized gain on investments held	(4,313,489)	(4,179,070)
Investment expenses	55,480	246,067
Depreciation and amortization	4,120	3,142
Changes in assets and liabilities:		
Interest receivable	(166)	2,122
Prepaid expenses	(9,543)	6,386
Accounts payable and accrued expenses	108,665	(81,379)
Accrued investment fees	(68,019)	15,668
Grants payable	(446,160)	(418,280)
Net cash used by operating activities	(5,748,951)	(5,528,002)
Cash Flows from Investing Activities:		
Proceeds from sale of investments	11,525,967	699,671
Purchase of investments	(1,826,270)	(1,838,049)
Purchase of furniture and equipment	(15,811)	
Net cash provided (used) by investing activities	9,683,886	(1,138,378)
Net Change in Cash and Cash Equivalents	3,934,935	(6,666,379)
Cash and Cash Equivalents - beginning of year	4,204,485	10,870,864
Cash and Cash Equivalents - end of year	\$ 8,139,420	\$ 4,204,485

The accompanying notes are an integral part of this statement.

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.

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.

Mitchell Kapor Foundation

Notes to Financial Statements

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 management's estimate.

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 expensed when approved by the Board. Grant cancellations or unspent funds are recorded in the year cancelled or when 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 follows Financial Accounting Standards Board (FASB) Accounting Standards Codification 740 (ASC 740), Income Taxes, to account for uncertain tax positions. Management has concluded that the Foundation has taken no uncertain tax positions that would require adjustment to the financial statements to comply with provisions of this guidance. Should the Foundation incur interest and penalties relating to tax uncertainties, such amounts would be classified as a component of interest expense and operating expense, respectively. The Foundation is generally no longer subject to tax examinations by federal or state tax authorities for the years prior to 2006.

j. Recent Accounting Pronouncements

Adopted

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.

New Pronouncement

In May 2011, the Financial Accounting Standards Board (FASB) issued an update with amendments that change the wording used to describe the requirements in U. S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include clarification of the Board's intent about the application of existing fair value measurement and disclosure requirements and some changes of a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. Some of the disclosures required by the amendments in this update are not required for nonpublic entities. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011 for nonpublic entities. The Foundation is assessing the impact of the adoption of this update on its financial statements.

Mitchell Kapor Foundation

Notes to Financial Statements

k. Subsequent Events

The Foundation evaluated subsequent events through November 28, 2011, the date the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

Note 2 - Investments:

Investments at December 31, 2010 and 2009 are as follows:

	2010	2009
Partnerships:		
Capricorn Investment Group	\$ 6,818,849	\$ 17,710,941
Generation Global Equity Fund	13,783,863	12,280,887
Adelante Total Return Fund	1,091,193	842,389
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Total partnerships	21,693,905	30,834,217
Venture capital	7,457,046	6,038,442
Private equities	2,050,139	1,733,871
Real estate	2,500,000	1,563,000
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	\$ 33,701,090	\$ 40,169,530

The cost of the investments at December 31, 2010 and 2009 was \$29,832,033 and \$40,558,730, respectively.

The Foundation has commitments for future capital calls in the amount of \$4,085,246 at December 31, 2010.

Mitchell Kapor Foundation

Notes to Financial Statements

Note 3 - Fair Value Measurements:

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

<u>December 31, 2010</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Partnerships	\$ 1,091,193	\$ 20,602,712	\$ 21,693,905
Venture capital		7,457,046	7,457,046
Private equity	121,825	1,928,314	2,050,139
Real estate		2,500,000	2,500,000
Total assets measured at fair value	\$ 1,213,018	\$ 32,488,072	\$ 33,701,090

<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
Total assets measured at fair value	\$ 970,859	\$ 39,198,671	\$ 40,169,530

The following is a rollforward of the Level 3 assets:

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)
Balance at December 31, 2009	\$ 39,198,671
Total net realized loss included in net income	(1,026,752)
Total net unrealized gain included in net income	4,016,099
Purchases and capital calls of investments	1,826,021
Proceeds from sales, redemptions, and distributions	(11,525,967)
Balance at December 31, 2010	\$ 32,488,072

Mitchell Kapor Foundation

Notes to Financial Statements

For 2010 and 2009, all of the unrealized gain is related to assets held at year end. There was no change in valuation methods during either year.

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, 2010:

	# of Funds	Fair Value	Unfunded Commitments	Redemption	Notice Period (days)
Partnerships:					
International equity fund (a)	1	\$ 13,783,863		quarterly	30
Multi-strategy hedge fund (b)	1	6,818,849			
Real estate funds (c)	1	1,091,193		monthly	5
Total partnerships		21,693,905			
Venture capital:					
Early stage private equity funds (d)	3	3,533,791	\$ 1,570,000	None	N/A
Technology based private equity funds (e)	2	974,657	1,260,000	None	N/A
California based social impact fund (f)	1	75,616	31,246	None	N/A
Environmental impact fund (g)	1	2,872,982	1,224,000	None	N/A
Total venture capital		7,457,046	4,085,246		
Total		\$ 29,150,951	\$ 4,085,246		

Mitchell Kapor Foundation

Notes to Financial Statements

The following table lists these investments by major strategy as of December 31, 2009:

	# of Funds	Fair Value	Unfunded Commitments	Redemption	Notice Period (days)
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:					
Early stage private equity funds (d)	3	2,813,599	\$ 2,010,000	None	N/A
Technology based private equity funds (e)	2	1,145,160	1,642,500	None	N/A
California based social impact fund (f)	1	52,082	54,487	None	N/A
Environmental impact fund (g)	1	2,027,601	1,938,000	None	N/A
Total venture capital		6,038,442	5,644,987		
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.

Mitchell Kapor Foundation

Notes to Financial Statements

- 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. 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 \$4 million will be received in 2011. The remaining balance will be distributed as the related illiquid assets are sold.
- c) The real estate funds invest in REITS and other real estate related marketable securities.
- d) Early stage private equity funds invest in domestic companies at the Seed and Series A stage of their financing. 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 10 to 15 years.
- e) Technology based private equity funds invest in domestic early stage technology companies. 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 10 to 15 years.
- f) The California based social impact fund invests in private companies that will provide economic opportunities, jobs, role models and on the job training in low income and disadvantaged communities in California. This investment 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 10 to 15 years.
- g) The environmental impact fund invests in both domestic and international companies that are part of the solution to global warming and climate change. This investment 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 10 to 15 years.

Note 4 - Grants Payable:

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

Less than one year	\$ 177,480
One to five years	177,980
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	\$ 355,460

Mitchell Kapor Foundation

Notes to Financial Statements

Note 5 - Excise Taxes:

In accordance with applicable Treasury regulations, the Foundation is classified as a private foundation subject to an excise tax of two percent on net investment income, including realized gains. The Foundation is eligible to reduce its tax liability from two percent to one percent of net investment income if a certain level of distributions, calculated as defined in the Treasury regulations, is attained. The tax rate for 2010 was one percent (1%).

Tax regulations require that certain minimum distributions be made in accordance with a specified formula. The Foundation is in full compliance with the regulations. The Foundation has an excess distribution carryover of approximately \$18 million.

There was no tax due for 2009. The provision for current and deferred excise taxes for the year ended December 31, 2010 was as follows:

Current	\$	-
Deferred		77,000
		77,000
Total	\$	77,000

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 \$214,648 and \$214,207 for 2010 and 2009, respectively. The amounts paid are based upon what the Foundation would have to pay on the open market for the services provided.

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.

Mitchell Kapor Foundation

Notes to Financial Statements

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 a 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,		
2011	\$	30,500
2012		30,500
2013		15,250
		<hr/>
	\$	76,250
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