

MITCHELL KAPOR FOUNDATION

DECEMBER 31, 2008 AND 2007



INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Mitchell Kapor Foundation

Independent Auditors' Report and Financial Statements

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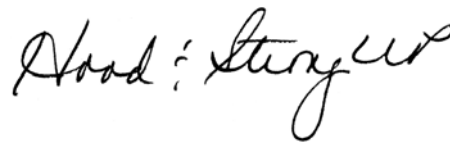
Independent Auditors' Report

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, 2008 and 2007, 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, 2008 and 2007, 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 25, 2009

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Mitchell Kapor Foundation

Statement of Financial Position

<i>December 31,</i>	2008	2007
Assets		
Assets:		
Cash	\$ 10,870,864	\$ 35,507,767
Interest receivable	2,158	134,315
Investments	35,144,324	23,309,665
Prepaid expenses and other assets	94,676	10,000
Furniture and equipment, net	9,193	11,435
Total assets	\$ 46,121,215	\$ 58,973,182
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 141,070	\$ 296,707
Accrued investment fees	395,294	
Grants payable	1,219,900	1,474,900
Deferred taxes		94,600
Total liabilities	1,756,264	1,866,207
Net Assets:		
Unrestricted net assets	44,364,951	57,106,975
Total liabilities and net assets	\$ 46,121,215	\$ 58,973,182

Mitchell Kapor Foundation

Statement of Activities

<i>Years Ended December 31,</i>	2008	2007
Support and Revenue:		
Contributions		\$ 5,000,000
Interest and dividends	\$ 353,034	1,537,802
Unrealized loss	(8,510,293)	(2,772,020)
Realized gain on sale of investments	1,593,343	5,478,598
Total support and revenue	(6,563,916)	9,244,380
Expenses:		
Grants	5,251,460	8,167,866
General and administrative	1,010,248	678,835
Excise tax	(83,600)	75,200
Total expenses	6,178,108	8,921,901
Change in Net Assets	(12,742,024)	322,479
Unrestricted Net Assets, beginning of year	57,106,975	56,784,496
Unrestricted Net Assets, end of year	\$ 44,364,951	\$ 57,106,975

Mitchell Kapor Foundation

Statement of Cash Flows

<i>Years Ended December 31,</i>	2008	2007
Cash Flows from Operating Activities:		
Change in net assets	\$ (12,742,024)	\$ 322,479
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized gain on investments sold	(1,593,343)	(5,478,598)
Net unrealized loss on investments held	8,510,293	2,772,020
Investment expenses	(55,347)	
Deferred taxes	(94,600)	(55,400)
Disposal of fixed assets	1,572	
Depreciation and amortization	2,750	1,797
Changes in assets and liabilities:		
Interest receivable	132,157	(1,269)
Prepaid expenses and other assets	(84,676)	55,582
Accounts payable and accrued expenses	(155,637)	243,423
Accrued investment fees	395,294	
Grants payable	(255,000)	309,900
Net cash used by operating activities	(5,938,561)	(1,830,066)
Cash Flows from Investing Activities:		
Proceeds from sale of investments	4,673,212	27,012,987
Purchase of investments	(23,369,474)	(3,139,744)
Purchase of furniture and equipment	(2,080)	(13,232)
Net cash (used) provided by investing activities	(18,698,342)	23,860,011
Net (decrease) increase in Cash	(24,636,903)	22,029,945
Cash and Cash Equivalents - beginning of year	35,507,767	13,477,822
Cash and Cash Equivalents - end of year	\$ 10,870,864	\$ 35,507,767
Supplemental Information		
Cash paid for excise taxes	\$ 85,000	\$ 75,000

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 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 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.

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.

Mitchell Kapor Foundation

Notes to Financial Statements

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.

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.

i. Recent Accounting Pronouncements

In June 2006, the FASB issued FASB 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.

Mitchell Kapor Foundation

Notes to Financial Statements

In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Foundation has elected this deferral and accordingly will be required to adopt FIN 48 in its 2009 annual financial statements. Prior to adoption of FIN 48, the Foundation will continue to evaluate its uncertain tax positions and related income tax contingencies under Statement No. 5, Accounting for Contingencies. SFAS No. 5 requires the Foundation to accrue for losses it believes are probable and can be reasonably estimated. Management does not anticipate that the adoption of FIN 48 will have a material impact on its financial position or results of operations.

Note 2 - Investments:

Investments at December 31, 2008 and 2007 are as follows:

	2008	2007
Money market funds		\$ 2,558
Partnerships:		
Capricorn Investment Group	\$ 16,553,244	
Global Equity Fund	8,729,439	12,588,030
Total return fund	657,958	1,220,979
Liberty Square Offshore		1,640,882
Omega Oversea Partners		1,756,867
Venture capital	4,602,029	1,983,651
Start-up companies - convertible notes, preferred and common stock	1,669,224	1,597,911
Real estate - Hawaii	2,932,430	2,518,787
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	\$ 35,144,324	\$ 23,309,665

The approximate cost of the investments as of December 31, 2008 and 2007 was approximately \$39,311,500 and \$18,765,000, respectively.

The Foundation has commitments for future capital calls in the amount of \$7,098,600 as of December 31, 2008.

Mitchell Kapor Foundation

Notes to Financial Statements

Note 3 - Fair Value Measurements:

The Foundation adopted the Statement of Financial Accounting Standards No. 157 (“SFAS 157”), *Fair Value Measurements*, on January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The new standard provides a consistent definition of fair value which focuses on an exit price between market participants in an orderly transaction as prescribed by SFAS 157. The standard also prioritizes, within the measurement of fair value, the use of market based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.

Investments measured and reported at fair value are classified in one of the following categories:

Level I – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments in Level I include listed equities held in the name of the Foundation, and exclude listed equities and other securities held indirectly through commingled funds.

Level II – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of other valuation methodologies.

Level III – Pricing inputs are unobservable for the investments and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include privately held investments and partnership interests.

The following table summarizes the valuation of the Foundation’s investments by the SFAS 157 value hierarchy levels as of December 31, 2008:

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

Mitchell Kapor Foundation

Notes to Financial Statements

The following table summarizes the Foundation's level III reconciliation by the SFAS 157 standards as of December 31, 2008:

	Level III
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 III	55,347
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Balance at December 31, 2008	\$ 34,889,599

Of the unrealized loss, \$8,072,525 related to assets held at year end. There was no change in valuation methods during the year.

Note 4 - Grants Payable:

At December 31, 2008 and 2007, the outstanding balance amounted to \$1,219,900 and \$1,474,900, respectively.

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

Year Ending December 31,	
2009	\$ 455,200
2010	416,700
2011	127,600
2012	51,700
2013	20,100
Thereafter	98,600
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	\$ 1,219,900

Note 3 - Excise Taxes:

The Foundation is required to pay excise taxes on its net investment income. Excise taxes for 2008 and 2007 are based upon the 1% tax rate. Deferred taxes have been calculated based upon the 1% and 2% tax rate for 2008 and 2007 respectively.

Mitchell Kapor Foundation

Notes to Financial Statements

The provision for excise tax is comprised of the following:

	2008	2007
Current	\$ 11,000	\$ 130,600
Deferred	(94,600)	(55,400)
Total	\$ (83,600)	\$ 75,200

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 \$306,300 and \$140,574 for 2008 and 2007, 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.