

MITCHELL KAPOR FOUNDATION

DECEMBER 31, 2006 AND 2005

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Mitchell Kapor Foundation

Independent Auditors' Report and Financial Statements

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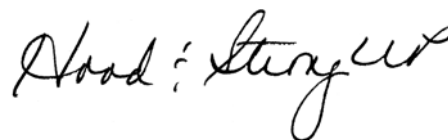
Independent Auditors' Report

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, 2006 and 2005, 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, 2006 and 2005, 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 27, 2007

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Mitchell Kapor Foundation

Statement of Financial Position

<i>December 31,</i>	2006	2005
Assets		
Assets:		
Cash	\$ 13,477,822	\$ 7,161,043
Interest receivable	133,046	91,861
Investments	44,476,330	37,535,166
Prepaid Excise Tax	65,582	
Total assets	\$ 58,152,780	\$ 44,788,070
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 53,284	\$ 93,839
Grants Payable	1,165,000	
Deferred taxes	150,000	140,000
Total liabilities	1,368,284	233,839
Net Assets:		
Unrestricted net assets	56,784,496	44,554,231
Total liabilities and net assets	\$ 58,152,780	\$ 44,788,070

Mitchell Kapur Foundation

Statement of Activities

<i>Years Ended December 31,</i>	2006	2005
Support and Revenue:		
Contributions	\$ 10,769,765	\$ 9,751,509
Interest and dividends	1,109,474	807,850
Unrealized gain on investments	224,123	643,117
Realized gain on sale of investments	3,056,000	1,174,730
Other income	47,343	65,164
Total support and revenue	15,206,705	12,442,370
Expenses:		
Grants	2,488,910	6,345,000
General and administrative	319,877	378,421
Excise tax	167,653	254,000
Total expenses	2,976,440	6,977,421
Increase in Net Assets	12,230,265	5,464,949
Unrestricted Net Assets, beginning of year	44,554,231	39,089,282
Unrestricted Net Assets, end of year	\$ 56,784,496	\$ 44,554,231

Mitchell Kapor Foundation

Statement of Cash Flows

<i>Years Ended December 31,</i>	2006	2005
Cash Flows from Operating Activities:		
Increase in net assets	\$ 12,230,265	\$ 5,464,949
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized gain on investments sold	(3,056,000)	(1,174,730)
Net unrealized gain on investments held	(224,123)	(643,117)
Deferred taxes	10,000	13,000
Changes in assets and liabilities:		
Prepaid excise tax	(65,582)	
Interest receivable	(41,185)	(82,962)
Accounts payable and accrued expenses	(40,555)	64,563
Grants Payable	1,165,000	
Net cash provided by operating activities	9,977,820	3,641,703
Cash Flows from Investing Activities:		
Proceeds from sale of investments	11,124,485	11,231,607
Purchase of investments	(14,785,526)	(15,564,096)
Net cash used by investing activities	(3,661,041)	(4,332,489)
Net Increase (Decrease) in Cash	6,316,779	(690,786)
Cash and Cash Equivalents - beginning of year	7,161,043	7,851,829
Cash and Cash Equivalents - end of year	\$ 13,477,822	\$ 7,161,043
Supplemental Information		
Cash paid for excise taxes	\$ 278,235	\$ 186,000

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 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 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 or distributions from the fund.

Investments in convertible notes and preferred and common 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.

Mitchell Kapor Foundation

Notes to Financial Statements

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 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

Note 2 - Investments:

Investments at December 31, 2006 and 2005 are as follows:

	2006	2005
Money market funds	\$ 2,490,021	\$ 538,647
Domestic equities	9,558,116	15,083,000
International equities	1,654,648	
Corporate, federal agency, and municipal bonds	11,446,092	12,489,713
Partnerships		
Global Equity Fund (marketable securities)	11,030,491	5,463,415
Total return fund (marketable securities)	1,481,573	1,083,602
Liberty Square Offshore (marketable securities)	1,096,319	
Omega Oversea Partners (marketable securities)	1,669,609	
Convertible notes, preferred stock and venture capital	1,530,674	358,002
Real estate - Hawaii	2,518,787	2,518,787
	<hr/>	<hr/>
	\$ 44,476,330	\$ 37,535,166

The Foundation has commitments for future capital calls in the amount of \$2,617,500 as of December 31, 2006.

Note 3 - Excise Taxes:

The Foundation is required to pay excise taxes on its net investment income. Excise taxes for 2006 and 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 \$5.6 million. This amount is available to meet the minimum distribution requirements and expires as follows:

2007	\$ 175,000
2008	662,000
2010	4,800,000
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	\$ 5,637,000

Mitchell Kapor Foundation

Notes to Financial Statements

The provision for excise tax is comprised of the following:

	2006	2005
Current	\$ 157,653	\$ 241,000
Deferred	10,000	13,000
<hr/>		
Total	\$ 167,653	\$ 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 \$28,000 and \$24,000 for 2006 and 2005, 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.