

MAYER AND MORRIS KAPLAN FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006



Lipschultz, Levin & Gray
L.L.C. Certified Public Accountants



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November 19, 2008

To The Board of Trustees
Mayer and Morris Kaplan Foundation

We have reviewed the accompanying statements of financial position of the Mayer and Morris Kaplan Foundation (an Illinois Not-for-Profit Corporation), as of December 31, 2007 and 2006, and the related statements of activities and changes in unrestricted net assets and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of the Mayer and Morris Kaplan Foundation.

A review consists principally of inquiries of organization personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

See *Risks and Uncertainties* note for information regarding the depreciation in the value of the Foundation's total assets through October 31, 2008.

Lipschultz, Levin & Gray, LLC

MAYER AND MORRIS KAPLAN FOUNDATIONSTATEMENTS OF FINANCIAL POSITIONDECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
INVESTMENTS:		
Cash Management Funds	\$ 76,541	\$ 343,642
Bond Mutual Funds	777,594	1,965,825
Common Stocks	14,542,813	14,317,034
Fixed Income Security	100,000	100,000
Limited Partnerships	10,163,957	10,367,143
Offshore Hedge Funds	8,714,200	9,112,996
TOTAL INVESTMENTS	<u>34,375,105</u>	<u>36,206,640</u>
FURNITURE AND EQUIPMENT:		
Office Equipment and Furnishings	105,425	105,425
Less: Accumulated Depreciation	(105,425)	(105,425)
FURNITURE AND EQUIPMENT, NET	<u>0</u>	<u>0</u>
OTHER ASSET -		
Distribution Receivable from a Limited Partnership	500,000	400,000
TOTAL ASSETS	<u>\$34,875,105</u>	<u>\$36,606,640</u>
<u>LIABILITIES AND UNRESTRICTED NET ASSETS</u>		
LIABILITIES:		
Current and Deferred Income and Excise Taxes Payable	\$ 82,500	\$ 102,142
Accrued Expense	750,000	
TOTAL LIABILITIES	<u>832,500</u>	<u>102,142</u>
UNRESTRICTED NET ASSETS	<u>34,042,605</u>	<u>36,504,498</u>
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	<u>\$34,875,105</u>	<u>\$36,606,640</u>

See Accountant's Review Report and Accompanying Notes to Financial Statements.



MAYER AND MORRIS KAPLAN FOUNDATIONSTATEMENTS OF ACTIVITIES AND CHANGES IN UNRESTRICTED NET ASSETSYEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
REVENUES:		
Contribution	\$ 300,019	
Interest	226,996	\$ 111,116
Dividends	748,582	713,287
Realized Gains, Net	3,257,770	2,584,338
Other Income (Loss), Net	(666,455)	71,682
TOTAL REVENUES	<u>3,866,912</u>	<u>3,480,423</u>
GRANTS AND EXPENSES:		
Grants Made	3,611,498	3,657,259
Investment Expenses	279,698	244,442
Investment Interest Expense	126,619	82,917
Professional Fees	56,025	13,555
Investment Advisor Fees	202,548	238,888
Office Expenses	70,473	69,978
Travel	36,743	38,562
Meals and Entertainment	5,173	13,890
Salaries and Payroll Taxes	279,960	264,590
Rent Expense	3,890	13,443
Depreciation Expense		5,729
TOTAL GRANTS AND EXPENSES	<u>4,672,627</u>	<u>4,643,253</u>
DECREASE IN UNRESTRICTED NET ASSETS BEFORE UNREALIZED GAINS ON INVESTMENTS, NET AND INCOME AND EXCISE TAXES	(805,715)	(1,162,830)
UNREALIZED GAINS (LOSSES) ON INVESTMENTS, NET	<u>(1,526,369)</u>	<u>2,184,086</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS BEFORE INCOME AND EXCISE TAXES	(2,332,084)	1,021,256
INCOME AND EXCISE TAXES	<u>(129,809)</u>	<u>(79,703)</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(2,461,893)	941,553
UNRESTRICTED NET ASSETS - BEGINNING OF YEAR	<u>36,504,498</u>	<u>35,562,945</u>
UNRESTRICTED NET ASSETS - END OF YEAR	<u>\$34,042,605</u>	<u>\$36,504,498</u>

See Accountant's Review Report and Accompanying Notes to Financial Statements.



MAYER AND MORRIS KAPLAN FOUNDATIONSTATEMENTS OF CASH FLOWSYEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES:		
Increase (Decrease) in Unrestricted Net Assets	\$ (2,461,893)	\$ 941,553
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Flows From (Used by) Operating Activities:		
Depreciation		5,729
Unrealized (Gains) Losses on Investments, Net	1,526,369	(2,184,086)
(Increase) Decrease in Operating Assets:		
Interest Receivable		30,800
Income and Excise Taxes Payable	(19,642)	79,142
Increase in Accrued Expenses	750,000	
	<u> </u>	<u> </u>
NET CASH FLOWS USED BY OPERATING ACTIVITIES	(205,166)	(1,126,862)
CASH FLOW FROM INVESTING ACTIVITY -		
Sales of Investments and Partnership Distributions, Net of Additional Investments	205,166	1,126,862
	<u> </u>	<u> </u>
NET CHANGE IN CASH	0	0
CASH - BEGINNING OF YEAR	<u>0</u>	<u>0</u>
CASH - END OF YEAR	<u>\$ 0</u>	<u>\$ 0</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash Paid During the Year for:		
Income and Excise Taxes, Net	\$ 137,309	\$ 564
Investment Interest Expense	<u>\$ 126,619</u>	<u>\$ 82,917</u>

See Accountant's Review Report and Accompanying Notes to Financial Statements.



MAYER AND MORRIS KAPLAN FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

ORGANIZATION AND NATURE OF ACTIVITIES

The Mayer and Morris Kaplan Foundation (the "Foundation") was established on August 11, 1959, as a private foundation for the purpose of supporting recognized charitable organizations within the United States of America.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting:

The financial statements of the Foundation are prepared on the accrual basis of accounting.

Investments:

Investments of cash management funds, mutual funds, common stocks, fixed income securities and offshore hedge funds, are carried at fair value based on quoted market prices and net asset values. Unrealized gains and losses are included in the Statement of Activities.

The Foundation accounts for its investment in limited partnerships using the equity method of accounting due to its lack of significant control over major operating decisions. Under the equity method, the investments are recorded at cost, and increased or decreased by the Foundation's share of the operating limited partnerships' income or losses, and decreased by the amount of any distributions received or receivable.

Furniture and Equipment:

Purchases of furniture and equipment are carried at cost. Depreciation is provided using an accelerated method over the estimated useful lives of the assets.

Distribution Receivable:

The distribution receivable represents distributions paid by a limited partnership investment prior to the end of the year but not received by the Foundation until the subsequent year.



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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions:

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. The Foundation has not received any contributions with donor-imposed restrictions that would result in temporarily or permanently restricted net assets. Any noncash distributions received are recorded at the fair market value of the asset at the time of the donation.

Federal Income and Excise Taxes:

The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"), except for unrelated business income taxes. In 2007 and 2006, the Foundation incurred taxes on unrelated business income passed through from partnership investments.

According to the applicable provisions of the Code, the Foundation is subject to a 1% excise tax on net investment income, including realized gains, as defined in the Code.

In addition, the Code requires that certain minimum distributions be made in accordance with a specified formula. At December 31, 2007 and 2006, the Foundation had distributed more than the required minimum.

Deferred Income Taxes:

Deferred income taxes are determined utilizing the liability approach. This method gives consideration to the future tax consequences associated with differences between financial and tax accounting. Such differences relate to the Foundation's unrealized gains or losses on its investments. This method gives immediate effect to changes in income tax laws upon enactment. The income effect is derived from changes in the deferred income tax account on the Statement of Financial Position.



MAYER AND MORRIS KAPLAN FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH MANAGEMENT FUNDS

The Foundation maintains its cash accounts in what it believes are high-quality financial institutions. Nevertheless, there is exposure where balances exceed federally insured limits.

The Foundation maintains accounts with brokerage firms. The accounts contain cash management funds and other securities. Balances are insured up to \$500,000 for each brokerage firm by the Security Investor Protection Corporation against potential losses, excluding decreases in market value. The Foundation has not experienced any losses in its cash management funds. Management believes the Foundation is not exposed to any significant credit risk on these accounts.

INVESTMENTS

Investments as of December 31, 2007 are summarized as follows:

	<u>Cost/Equity Basis</u>	<u>Fair Value</u>
Cash Management Funds	\$ 76,541	\$ 76,541
Bond Mutual Funds	2,226,838	777,594
Common Stocks	9,926,454	14,542,813
Fixed Income Security	100,000	100,000
Limited Partnerships	10,163,957	10,163,957
Offshore Hedge Funds	4,149,634	8,714,200
Total Investments	<u>\$ 26,643,424</u>	<u>\$ 34,375,105</u>



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NOTES TO FINANCIAL STATEMENTS

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INVESTMENTS (Continued)

Investments as of December 31, 2006 are summarized as follows:

	<u>Cost/Equity Basis</u>	<u>Fair Value</u>
Cash Management Funds	\$ 343,642	\$ 343,642
Bond Mutual Funds	1,982,561	1,965,825
Common Stocks	9,412,232	14,317,034
Fixed Income Security	100,000	100,000
Limited Partnerships	10,367,143	10,367,143
Offshore Hedge Funds	<u>5,226,208</u>	<u>9,112,996</u>
Total Investments	<u>\$ 27,431,786</u>	<u>\$ 36,206,640</u>

The following schedule summarizes the investment return and its classification in the Statement of Activities for the years ended December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Interest	\$ 226,996	\$ 111,116
Dividends	748,582	713,287
Realized Gains, Net	3,257,770	2,584,338
Unrealized Gains (Losses), Net	(1,526,369)	2,184,086
Other Income (Loss), Net	(666,455)	71,682
Investment Expenses	(279,698)	(244,442)
Investment Interest Expense	(126,619)	(82,917)
Investment Advisor Fees	<u>(202,548)</u>	<u>(238,888)</u>
Investment Return, Net	<u>\$ 1,431,659</u>	<u>\$ 5,098,262</u>

RELATED PARTY TRANSACTIONS

During 2007 and 2006, the Foundation received investment advisor, personnel and other services from, Kaplan Family Investments (KFI), an affiliate of the trustees, and paid KFI \$471,827 and \$414,092, respectively, for those services.



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ACCRUED EXPENSE

During 2006, the trustees of a hedge fund that failed in 2005 began seeking the return of funds from investors, including the Foundation, who had previously withdrawn amounts from the hedge fund. The amount sought from the Foundation, which the Foundation estimates as approximately \$750,000, has been accrued at December 31, 2007 and is included as a component of *Other Income (Loss), Net* in the accompanying 2007 Statement of Activities.

RISKS AND UNCERTAINTIES

The Foundation invests in various types of investments. Investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position

Management estimates, based on available information, that during the period since December 31, 2007 and through October 31, 2008, total investments of the Foundation have depreciated in value by approximately \$9,500,000 or approximately 30% of the fair value of Foundation investments at December 31, 2007.

RESTATEMENT OF UNRESTRICTED NET ASSETS

During 2006, the Foundation discovered an error in its recording of the equity value at December 31, 2005 of one of its limited partnership investments. As a result, the Foundation restated the beginning unrestricted net assets as follows:

Unrestricted Net Assets at Beginning of Year - as Previously Reported	\$ 34,777,823
Adjustment to Increase Investment in Limited Partnership	<u>785,122</u>
Unrestricted Net Assets at Beginning of Year - as Restated	<u>\$ 35,562,945</u>



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COMMITMENT

As of December 31, 2007 and 2006, the Foundation was committed to future capital calls on its investments amounting to approximately \$2,200,000 and \$4,200,000, respectively.



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