

MAYER AND MORRIS KAPLAN FOUNDATION
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)

FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

MAYER AND MORRIS KAPLAN FOUNDATION

December 31, 2003 and 2002

C O N T E N T S

Accountant's Review Report

Financial Statements

Statements of Financial Position Exhibit A

Statements of Activities Exhibit B

Statements of Cash Flows Exhibit C

Notes to the Financial Statements

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ACCOUNTANT'S REVIEW REPORT

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, 2003 and 2002, and the related statements of activities 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 U.S. 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 U.S. generally accepted accounting principles.


FRIDUSS, LUKEE, SCHIFF & CO., P.C.
Certified Public Accountants

August 2, 2004

MAYER AND MORRIS KAPLAN FOUNDATION

Statements of Financial Position

December 31, 2003 and 2002

EXHIBIT A

<u>ASSETS</u>		
	<u>2003</u>	<u>2002</u>
Investments (Notes 3 and 4)		
Cash Management Funds	\$ 1,774,138	\$ 7,646,819
Mutual Funds	14,875,902	13,785,070
Common Stocks	10,176,764	3,280,906
Fixed Income Securities	100,000	100,000
Partnerships	6,979,011	5,560,542
Total Investments	<u>33,905,815</u>	<u>30,373,337</u>
Furniture and Equipment (Note 2)		
Office Equipment and Furnishings	108,574	108,574
Less: Accumulated Depreciation	<u>(99,458)</u>	<u>(88,294)</u>
Furniture and Equipment, Net	<u>9,116</u>	<u>20,280</u>
Other Assets		
Interest Receivable	32,000	32,000
Refundable Tax Deposits	-	13,063
Due from Investment Companies	<u>91,379</u>	<u>602,234</u>
Total Other Assets	<u>123,379</u>	<u>647,297</u>
Total Assets	<u>\$ 34,038,310</u>	<u>\$ 31,040,914</u>
 <u>LIABILITIES AND UNRESTRICTED NET ASSETS</u> 		
Current Liabilities		
Income and Excise Taxes Payable	<u>\$ 39,693</u>	<u>\$ -</u>
Total Current Liabilities	<u>39,693</u>	<u>-</u>
Unrestricted Net Assets (Exhibit B)	<u>33,998,617</u>	<u>31,040,914</u>
Total Liabilities and Unrestricted Net Assets	<u>\$ 34,038,310</u>	<u>\$ 31,040,914</u>

MAYER AND MORRIS KAPLAN FOUNDATION

Statements of Activities

Years Ended December 31, 2003 and 2002

EXHIBIT B

	2003	2002
Revenue and (Losses)		
Contributions (Notes 5 and 6)	\$ 395,761	\$ 927,044
Interest	167,320	401,241
Dividends	388,389	259,624
Realized Gains (Losses), Net	2,464,098	(2,037,586)
Other Income, Net	227,195	36,970
	<u>3,642,763</u>	<u>(412,707)</u>
Expenses		
Grant Contributions	2,439,673	2,659,186
Investment Expenses	175,329	212,721
Professional Fees	15,710	16,865
Advisor Fees	214,974	185,456
Office Expenses	69,491	58,836
Travel	32,968	37,597
Meals and Entertainment	4,134	4,399
Dues and Subscriptions	3,767	172
Salaries and Payroll Taxes	218,120	167,710
Rent Expense	3,910	4,133
Depreciation Expense	11,164	11,621
Interest Expense	9,401	16,841
	<u>3,198,641</u>	<u>3,375,537</u>
Change in Unrestricted Net Assets Before Unrealized Gains (Losses) on Investments and Income and Excise Taxes	444,122	(3,788,244)
Unrealized Gains (Losses) on Investments, Net	<u>2,556,029</u>	<u>(476,464)</u>
Change in Unrestricted Net Assets Before Income and Excise Taxes	3,000,151	(4,264,708)
Income and Excise Tax (Expense) (Note 2)	<u>(42,448)</u>	<u>(2,255)</u>
Change in Unrestricted Net Assets	2,957,703	(4,266,963)
Unrestricted Net Assets - Beginning of Year	<u>31,040,914</u>	<u>35,307,877</u>
Unrestricted Net Assets - End of Year (Exhibit A)	<u>\$ 33,998,617</u>	<u>\$ 31,040,914</u>

MAYER AND MORRIS KAPLAN FOUNDATION

Statements of Cash Flows

Years Ended December 31, 2003 and 2002

EXHIBIT C

	2003	2002
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets	\$ 2,957,703	\$ (4,266,963)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash (Used In) Operating Activities:		
Depreciation	11,164	11,621
Realized (Gains) Losses on Investments, Net	(2,464,098)	2,037,586
Unrealized (Gains) Losses on Investments, Net	(2,556,029)	476,464
Noncash Contribution Revenue	(395,711)	(19,290)
(Increase) Decrease in Operating Assets:		
Interest Receivable	-	38,000
Refundable Tax Deposits	13,063	65,599
Increase (Decrease) in Operating Liabilities:		
Income and Excise Taxes Payable	39,693	-
Net Cash (Used in) Operating Activities	<u>(2,394,215)</u>	<u>(1,656,983)</u>
Cash Flows from Investing Activities:		
Sales (Purchases and Reinvestments) of Investments, Net	<u>2,394,215</u>	<u>1,656,983</u>
Net Cash Provided by Investing Activities	<u>2,394,215</u>	<u>1,656,983</u>
Net Increase (Decrease) in Cash	-	-
Cash, Beginning of Year	-	-
Cash, End of Year	<u>\$ -</u>	<u>\$ -</u>
Supplemental Disclosure of Cash Flow Information		
Cash (Received) for Income and Excise Taxes, Net	\$ (10,308)	\$ (63,344)
Cash Paid for Interest	<u>\$ 9,401</u>	<u>\$ 16,841</u>
Supplemental Disclosure of Noncash Investing Activity		
Contribution Revenue	\$ 395,711	\$ 19,290
Purchases of Investments	<u>(395,711)</u>	<u>(19,290)</u>
Net	<u>\$ -</u>	<u>\$ -</u>

MAYER AND MORRIS KAPLAN FOUNDATION

Notes to the Financial Statements

December 31, 2003 and 2002

NOTE 1 - ORGANIZATION

The MAYER AND MORRIS KAPLAN FOUNDATION (the "Foundation") was organized as a private foundation for the purpose of supporting recognized charitable organizations within the United States of America.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis.

Investments

Investments are comprised of cash management funds, mutual funds, common stocks, fixed income securities, and partnerships, and are carried at fair value. Unrealized gains and losses are included in the Statements of Activities.

The determination of fair value of the investments, including mutual funds, common stocks, and fixed income securities, is based on the quoted fair value. The fair value of investments in partnerships is based on the cost of the initial investment, which is increased or decreased by any realized and unrealized gains (losses), additions and withdrawals.

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.

Due from Investment Companies

The balance due from investment companies represents proceeds from the sale or disposal of an investment, which was received in the following year.

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.

MAYER AND MORRIS KAPLAN FOUNDATION

Notes to the Financial Statements

December 31, 2003 and 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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, except for unrelated business income taxes. In 2003 and 2002, the Foundation incurred taxes on unrelated business income passed through from partnership investments.

In accordance with the applicable provisions of the Internal Revenue Code, the Foundation is subject to a 1% excise tax on net investment income, including realized gains, as defined in the Act.

In addition, the Code requires that certain minimum distributions be made in accordance with a specified formula. At December 31, 2003 and 2002, the Foundation had distributed more than the required minimum.

Estimates

The preparation of financial statements in conformity with U.S. 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 the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - CASH MANAGEMENT FUNDS

The Foundation maintains a portion of its cash management funds in a bank deposit account that, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such account. Management believes the Foundation is not exposed to any significant credit risk on its bank deposit account.

The Foundation maintains accounts with four brokerage firms. The accounts contain cash management funds and other securities. Balances are insured up to \$500,000 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 cash management funds.

MAYER AND MORRIS KAPLAN FOUNDATION

Notes to the Financial Statements

December 31, 2003 and 2002

NOTE 4 - INVESTMENTS

Investments as of December 31, 2003 are summarized as follows:

<u>UNRESTRICTED:</u>	<u>Cost Basis</u>	<u>Fair Value</u>
Cash Management Funds	\$ 1,774,138	\$ 1,774,138
Mutual Funds	12,231,917	14,875,902
Common Stocks	7,349,119	10,176,764
Fixed Income Securities	100,000	100,000
Partnerships	6,576,768	6,979,011
Total Investments (Exhibit A)	<u>\$ 28,031,942</u>	<u>\$ 33,905,815</u>

Investments as of December 31, 2002, are summarized as follows:

<u>UNRESTRICTED:</u>	<u>Cost Basis</u>	<u>Fair Value</u>
Cash Management Funds	\$ 7,646,819	\$ 7,646,819
Mutual Funds	11,413,253	13,785,070
Common Stocks	2,470,800	3,280,906
Fixed Income Securities	100,000	100,000
Partnerships	5,470,440	5,560,542
Total Investments (Exhibit A)	<u>\$ 27,101,312</u>	<u>\$ 30,373,337</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31, 2003 and 2002.

	<u>2003</u>	<u>2002</u>
Interest	\$ 167,320	\$ 401,241
Dividends	388,389	259,624
Realized Gains (Losses), Net	2,464,098	(2,037,586)
Unrealized Gains (Losses), Net	2,556,029	(476,464)
Other Income, Net	227,195	36,970
Investment Expenses	(175,329)	(212,721)
Interest Expense	(9,401)	(16,841)
Total Investment Return	<u>\$ 5,618,301</u>	<u>\$ (2,045,777)</u>

MAYER AND MORRIS KAPLAN FOUNDATION

Notes to the Financial Statements

December 31, 2003 and 2002

NOTE 5 - RELATED PARTY TRANSACTIONS

During 2003 and 2002, trustees of the Foundation contributed cash of \$-0- and \$900,000, and contributed stocks with a fair value of \$395,711 and \$19,290, respectively.

During 2003 and 2002, the Foundation paid Kaplan Family Investments (KFI), an affiliate of the trustees, \$84,040 and \$91,997, respectively, for investment advisor fees.

NOTE 6 - CONTRIBUTIONS

During 2003 and 2002, the Foundation received contributions of cash from the Joss Foundation, totaling \$-0- and \$4,208, respectively.