

THE J.M. KAPLAN FUND, INC.

**Financial Statements
for year ended
December 31, 2011**

**CONDON
O'MEARA
MCGINTY &
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Independent Auditors' Report

To the Board of Trustees of
The J.M. Kaplan Fund, Inc.

We have audited the statement of financial position of The J.M. Kaplan Fund, Inc. (the "Fund") as of December 31, 2011 and December 31, 2010 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Fund'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 audits 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 The J.M. Kaplan Fund, Inc. at December 31, 2011 and December 31, 2010 and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Condon O'Meara McGinty & Donnelly LLP

October 26, 2012

THE J.M. KAPLAN FUND, INC.

Statement of Financial Position

Assets

	December 31	
	2011	2010
Cash and cash equivalents	\$ 12,323,629	\$ 3,919,764
Investments, at fair value	76,625,291	90,699,267
Private equity investments, at fair value	32,395,117	43,692,851
Distribution receivable	7,220,779	-
Other receivables	111,877	-
Prepaid federal excise tax	319,750	194,707
Prepaid expenses	11,814	39,084
Program related investments	260,000	260,000
Promissory notes receivable	303,571	302,942
Arts and antiques	<u>61,003</u>	<u>61,003</u>
Total assets	<u>\$ 129,632,831</u>	<u>\$ 139,169,618</u>

Liabilities and Net Assets

Liabilities

Grants authorized but not paid	\$ 2,982,349	\$ 1,918,518
Accounts payable and accrued expenses	300,444	184,171
Deferred tax liability	<u>163,000</u>	<u>208,000</u>
Total liabilities	3,445,793	2,310,689
Unrestricted net assets	<u>126,187,038</u>	<u>136,858,929</u>
Total liabilities and net assets	<u>\$ 129,632,831</u>	<u>\$ 139,169,618</u>

See notes to financial statements.

THE J.M. KAPLAN FUND, INC.

Statement of Activities

	Year Ended	
	December 31	
	<u>2011</u>	<u>2010</u>
Revenue		
Interest	\$ 96,307	\$ 295,513
Partnerships, net	11,799,757	3,163,215
Net gain on sale of investments	<u>16,708,410</u>	<u>809,649</u>
Total revenue	<u>28,604,474</u>	<u>4,268,377</u>
Less expenses directly related to investments		
Investment management fees	496,658	506,935
Custodial fees	736	534
Current tax (credit) provision	<u>(89,419)</u>	<u>284,282</u>
Total expenses directly related to investments	<u>407,975</u>	<u>791,751</u>
Revenue available for grants and administrative and general expenses	<u>28,196,499</u>	<u>3,476,626</u>
Grants and administrative and general expenses		
Grants authorized, net	9,317,658	6,058,070
Administrative and general	<u>2,003,911</u>	<u>1,785,194</u>
Total grants and administrative and general expenses	<u>11,321,569</u>	<u>7,843,264</u>
Excess (deficiency) of revenue over expenses before other additions (deductions)	16,874,930	(4,366,638)
Other additions (deductions)		
Other revenue	2,409	5,659
Unrealized gain (loss) on investments	(27,594,230)	14,198,977
Deferred tax credit (provision)	<u>45,000</u>	<u>(37,000)</u>
Increase (decrease) in unrestricted net assets	<u>(10,671,891)</u>	<u>9,800,998</u>
Unrestricted net assets, beginning of year	<u>136,858,929</u>	<u>127,057,931</u>
Unrestricted net assets, end of year	<u>\$126,187,038</u>	<u>\$136,858,929</u>

See notes to financial statements.

THE J.M. KAPLAN FUND, INC.

Statement of Cash Flows

	Year Ended	
	December 31	
	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Increase (decrease) in unrestricted net assets	\$ (10,671,891)	\$ 9,800,998
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash (used in) operating activities		
Partnerships, net	(11,799,757)	(3,163,215)
Net (gain) on sale of investments	(16,708,410)	(809,649)
Unrealized (gain) loss on investments	27,594,230	(14,198,977)
(Increase) decrease in assets		
Distribution receivable	(7,220,779)	4,562,390
Other receivables	(111,877)	211,897
Prepaid federal excise tax	(125,043)	43,450
Prepaid expenses	27,270	349
Promissory notes receivable	(629)	(3,094)
Increase (decrease) in liabilities		
Grants authorized but not paid	1,063,831	(998,879)
Accounts payable and accrued expenses	116,273	50,957
Deferred tax liability	(45,000)	37,000
Net cash (used in) operating activities	<u>(17,881,782)</u>	<u>(4,466,773)</u>
Cash flows from investing activities		
Proceeds from sale of investments	36,411,051	17,231,771
Purchase of investments	(1,579,633)	(15,934,828)
Proceeds from sale of private equity investments	14,722,619	9,480,198
Purchase of private equity investments	<u>(23,268,390)</u>	<u>(4,549,413)</u>
Net cash provided by investing activities	<u>26,285,647</u>	<u>6,227,728</u>
Net increase in cash and cash equivalents	8,403,865	1,760,955
Cash and cash equivalents, beginning of year	<u>3,919,764</u>	<u>2,158,809</u>
Cash and cash equivalents, end of year	<u>\$ 12,323,629</u>	<u>\$ 3,919,764</u>
Supplemental disclosure of cash flow information		
Cash paid for excise and unrelated business income taxes	<u>\$ 363,335</u>	<u>\$ 291,855</u>

See notes to financial statements.

THE J.M. KAPLAN FUND, INC.**Notes to Financial Statements
December 31, 2011 and December 31, 2010****Note 1 – Organization and summary of significant accounting policies****Organization**

The J.M. Kaplan Fund, Inc. (the "Fund") was founded in 1945 by Jacob M. Kaplan. The Fund is committed to the conservation of natural and historical resources in New York City and throughout the world, and to the well-being of people in need.

Cash and cash equivalents

Cash and cash equivalents consists of highly liquid investments with original maturities of ninety days or less at the date of acquisition. Included in cash and cash equivalents are money market funds.

Investments

Investments are recorded in the financial statements at fair value. Realized gains or losses on investment transactions are determined on the specific identification method.

Fair values of financial instruments

The Fund's financial instruments consist of cash and cash equivalents, investments, private equity investments and program related investments. The Fund estimates that the fair value of all financial instruments as of December 31, 2011 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position. The carrying amounts of cash and cash equivalents reported in the statement of financial position approximate fair values because of the short maturities of those instruments. The fair value of investment securities is based on quoted market prices.

The fair value of private equity investments are generally determined by each private equity's managing partner. In determination of such estimated values, the managing partner values such investments initially at cost and, thereafter, at fair value based on developments since acquisition, including prices paid in recent substantial purchases in arm's length transactions, changes in financial conditions and operating results, and the current status of the issuer. The Fund's program related investments are recorded at the original loan amount. The Fund reviews the status of its investments and collectibility of the program related investments on an ongoing basis.

Property and equipment

Prior to January 1, 1999, property and equipment were recorded at cost and depreciated or amortized using the straight-line method over their estimated useful lives. Effective with the year ending December 31, 1999, property and equipment expenditures are charged to expense because the Fund does not deem such amounts to be sufficiently material to warrant capitalization and depreciation.

THE J.M. KAPLAN FUND, INC.**Notes to Financial Statements (continued)
December 31, 2011 and December 31, 2010****Note 1 – Organization and summary of significant accounting policies (continued)****Grants**

Grants, which are subject to routine performance requirements by the grantee, are treated as expenses at the time each individual grant is authorized by the Trustees. These grants are payable to the grantee according to the terms established by the Trustees.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates.

Concentrations of credit risk

The Fund's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash, cash equivalents and investments. The Fund places its cash and cash equivalents with what it believes to be quality financial institutions. At times, cash balances exceeded the FDIC insurance limit. However, the Fund has not experienced any losses in these accounts to date. The Fund's investments, which consist of a certificate of deposit, an annuity, mutual funds and similar type investments, liquid private equity investments and private equity investments are exposed to various risks such as market volatility, liquidity, interest rate and credit. Due to the level of uncertainty related to the foregoing risks, it is reasonably possible that changes in these risks could materially affect the fair value of the investments reported in the statement of financial position at December 31, 2011. In addition, the Fund has various program related investments. The Fund through its investment committee and outside financial advisors, routinely assesses the financial strength of its cash and investment portfolio. As a consequence, concentrations of credit risk are limited.

Subsequent events

The Fund has evaluated events and transactions for potential recognition or disclosure through October 26, 2012, which is the date the financial statements were available to be issued.

THE J.M. KAPLAN FUND, INC.

**Notes to Financial Statements (continued)
December 31, 2011 and December 31, 2010**

Note 2 – Investments

A summary of the investments held by the Fund as of December 31, 2011 and December 31, 2010 is as follows:

	December 31			
	2011		2010	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Certificate of deposit	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Annuity	1,059,357	888,417	931,571	872,799
Mutual funds and similar type investments				
Institutional bond fund	359,775	360,803	3,902,496	3,799,657
Absolute Return	2,455,638	15,027,820	2,673,043	16,010,853
Commodities	4,500,000	4,046,625	4,500,000	5,576,198
Diversified	8,032,219	7,871,734	8,337,561	8,696,073
Emerging markets	-	-	7,857,703	8,323,037
Hedged equities	12,664,037	17,122,694	12,664,037	18,350,509
Liquid private equity				
Global equities	21,002,877	21,002,877	18,915,459	18,915,459
Global fixed income and absolute return	7,251,071	7,251,071	6,755,476	6,755,476
Real estate and real assets	2,713,879	2,713,879	3,000,000	3,000,000
Liquidating assets	<u>239,371</u>	<u>239,371</u>	<u>299,206</u>	<u>299,206</u>
Total	<u>\$ 60,378,224</u>	<u>\$ 76,625,291</u>	<u>\$ 69,936,552</u>	<u>\$ 90,699,267</u>

Private equity investments consist of limited partnerships, some of which are invested in other limited partnerships and real estate ventures. These investments had a total cost basis of \$39,285,685 and \$35,515,138 at December 31, 2011 and 2010, respectively.

Liquid private equities and private equities can, from time-to-time make capital calls requiring the Fund to make additional deposits in such investments. The potential future capital calls as of December 31, 2011 totaled \$11,357,532. In addition, certain of these investments require that the Fund remain invested for a certain agreed upon period of time ("lock-up periods"). Such lock-up periods expire at various times through 2012.

During 2011, the Fund requested a full distribution from one of its hedged equities and global fixed income and absolute return investments. As of December 31, 2011, this distribution had not been received and \$7,220,779 was reflected as a distribution receivable on the statement of financial position at that date. This distribution was received by the Fund during January 2012.

THE J.M. KAPLAN FUND, INC.

**Notes to Financial Statements (continued)
December 31, 2011 and December 31, 2010**

Note 2 – Investments (continued)

Fair value measurements

Fair value refers to the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value hierarchy gives the highest priority to quoted market prices in active markets and the lowest priority to unobservable data. Fair value measurements are required to be separately disclosed by level within the fair value hierarchy. The three levels of inputs that may be used to measure fair value are as follows:

- Level 1 – Quoted prices in active markets for identical assets.
- Level 2 – Observable inputs other than Level 1 prices, such as quoted prices of similar assets, quoted prices in markets with insufficient volume or infrequent transactions (less active markets).
- Level 3 – Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets.

The following table presents the Fund's investments that are measured at fair value on a recurring basis as of December 31, 2011:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 12,323,629	\$ 12,323,629	\$ -	\$ -
Certificate of deposit	100,000	100,000	-	-
Annuity	888,417	-	-	888,417
Mutual funds and similar type investments				
Institutional bond fund	360,803	360,803	-	-
Absolute return	15,027,820	-	15,027,820	-
Commodities	4,046,625	4,046,625	-	-
Diversified	7,871,734	409,343	1,102,497	6,359,894
Hedged equities	17,122,694	5,108,087	12,014,607	-
Liquid private equity				
Global equities	21,002,877	-	-	21,002,877
Global fixed income and absolute return	7,251,071	-	-	7,251,071
Real estate and real assets	2,713,879	-	-	2,713,879
Liquidating assets	239,371	-	-	239,371
Illiquid private equities				
Hedged equities	7,130,968	-	-	7,130,968
Global fixed income and absolute return	7,631,466	-	-	7,631,466
Real estate and real assets	3,666,659	-	-	3,666,659
Liquidating assets	689,179	-	-	689,179
Private equity	13,276,845	-	-	13,276,845
Total	\$ 121,344,037	\$ 22,348,487	\$ 28,144,924	\$ 70,850,626

THE J.M. KAPLAN FUND, INC.

Notes to Financial Statements (continued)
December 31, 2011 and December 31, 2010

Note 2 – Investments (continued)

Fair value measurements (continued)

The following table presents the Fund's investments that are measured at fair value on a recurring basis as of December 31, 2010:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 3,919,764	\$ 3,919,764	\$ -	\$ -
Certificate of deposit	100,000	100,000	-	-
Annuity	872,799	-	-	872,799
Mutual funds and similar type investments				
Institutional bond fund	3,799,657	3,799,657	-	-
Absolute return	16,010,853	-	16,010,853	-
Commodities	5,576,198	5,576,198	-	-
Diversified	8,696,073	1,389,863	1,246,909	6,059,301
Emerging markets	8,323,037	8,323,037	-	-
Hedged equities	18,350,509	4,772,930	13,577,579	-
Liquid private equity				
Global equities	18,915,459	-	-	18,915,459
Global fixed income and absolute return	6,755,476	-	-	6,755,476
Real estate and real assets	3,000,000	-	-	3,000,000
Liquidating assets	299,206	-	-	299,206
Illiquid private equities				
Hedged equities	10,602,551	-	-	10,602,551
Global fixed income and absolute return	11,500,479	-	-	11,500,479
Real estate and real assets	6,357,226	-	-	6,357,226
Liquidating assets	906,565	-	-	906,565
Private equity	14,326,030	-	-	14,326,030
Total	<u>\$ 138,311,882</u>	<u>\$ 27,881,449</u>	<u>\$ 30,835,341</u>	<u>\$ 79,595,092</u>

THE J.M. KAPLAN FUND, INC.

Notes to Financial Statements (continued)
December 31, 2011 and December 31, 2010

Note 2 – Investments (continued)

Fair value measurements (continued)

The following is a summary of changes in the fair value of the Fund's Level 3 investments for the year ended December 31, 2010 and 2011:

	Illiquid Private Equities										Total	
	Liquid Private Equities					Illiquid Private Equities						
	Diversified Mutual Fund	Annuity	Global Equities	Global Fixed Income and Absolute Return	Real Estate and Real Assets	Liquidating Assets	Hedged Equities	Global Fixed Income and Absolute Return	Real Estate and Real Assets	Liquidating Assets		Private Equity
Balance, January 1, 2010	\$ 5,011,218	\$ 556,216	\$ 16,341,710	\$ 7,783,830	\$ 3,048,807	\$ 297,074	\$ 8,980,426	\$ 10,494,060	\$ 3,970,992	\$ 4,067,556	\$ 13,809,110	\$ 74,362,999
Net realized gains (losses)	-	-	(35,068)	178,484	(321,298)	(4,379)	652,573	443,441	275,782	61,946	888,046	2,139,527
Net unrealized gains (losses)	1,084,783	(35,377)	2,831,646	(49,687)	-	42,513	119,527	606,071	112,549	1,306,715	741,659	6,760,399
Net investment income	-	-	483,575	388,853	300,262	7,204	176,082	209,349	83,575	275,427	785,697	2,712,024
Management and other fees	-	-	(208,404)	(90)	(27,771)	(1,929)	(326,058)	(252,442)	(249,723)	(81,671)	(540,248)	(1,688,336)
Capital contributions	374,560	351,960	-	-	-	-	1,000,001	-	2,182,300	-	1,367,112	5,275,933
Withdrawals/distributions	(411,260)	-	(500,000)	(1,547,914)	-	(41,277)	-	-	(18,249)	(4,723,408)	(2,725,346)	(9,967,454)
Balance, December 31, 2010	6,059,301	872,799	18,915,459	6,755,476	3,000,000	299,206	10,602,551	11,500,479	6,357,226	906,565	14,326,030	79,595,092
Net realized gains (losses)	-	-	6,942,283	136,376	(290,646)	(3,811)	931,334	493,241	347,803	9,947	1,053,370	9,619,897
Net unrealized gains (losses)	348,634	(111,759)	(6,668,737)	(533,894)	-	(23,116)	(740,375)	(520,410)	(182,466)	(21,628)	(461,043)	(8,916,794)
Net investment income	-	-	1,482,462	938,460	38,737	5,841	192,636	237,301	101,868	191,346	644,660	3,833,311
Management and other fees	-	-	(243,451)	(808)	(34,212)	(1,710)	(400,966)	(314,599)	(199,800)	(35,475)	(422,430)	(1,653,451)
Capital contributions	439,615	135,757	20,400,000	-	-	-	(3,454,212)	-	1,065,005	-	1,803,385	23,843,762
Withdrawals/distributions	(487,656)	(8,380)	(19,825,139)	(42,539)	-	(37,039)	(3,454,212)	(3,764,546)	(3,822,977)	(361,576)	(3,667,127)	(35,471,191)
Balance, December 31, 2011	\$ 6,359,894	\$ 888,417	\$ 21,002,877	\$ 7,251,071	\$ 2,713,879	\$ 239,371	\$ 7,130,988	\$ 7,631,466	\$ 3,666,659	\$ 689,179	\$ 13,276,845	\$ 70,850,626

THE J.M. KAPLAN FUND, INC.

**Notes to Financial Statements (continued)
December 31, 2011 and December 31, 2010**

Note 3 – Promissory notes receivable

The Fund has entered into agreements with Avanti Strategic Land Investors III and IV Limited Partnerships (the “Partnerships”), whereby the Partnerships can borrow up to a maximum amount of \$375,000 and \$525,000, respectively, from the Fund. Interest accrues on the unpaid principal balance at the greater of 11% per annum or the bank’s prime rate plus 3-1/2%. The unpaid principal and interest are due and payable on December 19, 2015 and June 30, 2017, respectively. The due dates may be extended by the Partnerships for up to 3 years. As of December 31, 2011, the balance that the Partnerships owed on the notes totaled \$303,571.

Note 4 – Program-related investments

Program-related investments as of December 31, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
<u>Open Space Institute, Inc.</u>		
<p>During October 1996, the Fund loaned \$300,000 to Open Space Institute, Inc. to be utilized in acquiring environmentally sensitive land in New York State to protect the environment and/or scenic views. During 1998, the Fund wrote off \$40,000 against the loan plus accrued interest. Thereafter, the loan bore interest at a rate of 3% per annum with the principal due on October 1, 2002. During December 2002, the agreement was extended for an additional 3 years to October 1, 2005, with interest at the rate of 2%. During September 2005, the agreement was extended to July 2007. During June 2007, the agreement was extended to October 2010. During September 2010, the agreement was extended to May 2013, with interest at the rate of 1%.</p>	\$ 260,000	\$ 260,000

THE J.M. KAPLAN FUND, INC.

Notes to Financial Statements (continued)
December 31, 2011 and December 31, 2010

Note 5 – Lease agreement

The Fund occupies office space under the terms of a 15-year lease agreement expiring February 28, 2015. The lease requires an annual base rent plus a proportionate share of increases in certain operating expenses. In connection with the new lease, the Fund obtained a \$51,844 irrevocable standby letter of credit, which renews each year. Rent expense for the years ended December 31, 2011 and December 31, 2010 totaled \$276,212 and \$272,322, respectively. A summary of the future minimum annual lease payments as of December 31, 2011 is as follows:

Year	Amount
2012	\$ 217,875
2013	217,875
2014	217,875
Total	\$ 653,625

Note 6 – Grants authorized

The following is a summary of the Fund's authorized grants:

Grants authorized but not paid at December 31, 2008	\$ 1,774,874
Grants authorized during 2009	11,244,886
Grants paid during 2009	(10,102,363)
Grants authorized but not paid at December 31, 2009	2,917,397
Grants authorized during 2010	6,058,070
Grants paid during 2010	(7,056,949)
Grants authorized but not paid at December 31, 2010	1,918,518
Grants authorized during 2011	9,317,658
Grants paid during 2011	(8,253,827)
Grants authorized but not paid at December 31, 2011	\$ 2,982,349

THE J.M. KAPLAN FUND, INC.

**Notes to Financial Statements (continued)
December 31, 2011 and December 31, 2010**

Note 7 – Administrative and general expenses

The summary of the administrative and general expenses for the years ended December 31, 2011 and December 31, 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Payroll and related expenses	\$ 824,468	\$ 734,579
Trustees' meeting fees	81,000	77,000
Professional fees	268,034	45,190
Consulting fees and stipends	316,633	344,871
Insurance	21,195	20,382
Travel and meeting expenses	161,366	229,356
Telephone	16,503	14,085
Rent	276,212	272,322
Supplies	6,397	8,057
Repairs and maintenance	13,977	21,825
Printing, postage and stationery	3,581	6,065
Miscellaneous	<u>14,545</u>	<u>11,462</u>
Total	<u>\$2,003,911</u>	<u>\$1,785,194</u>

Note 8 – Payroll and related expenses – pension plan

The Fund maintains a defined contribution pension plan (the "Plan") for all eligible employees. The Fund's contributions are determined based on a percentage (8% in 2011 and 2010) of the annual compensation of the participants up to a maximum of such annual compensation as defined in the plan document. These contributions are 100 percent vested immediately for the benefit of the participants upon entrance to the Plan. The cost of this Plan during the years ended December 31, 2011 and December 31, 2010 amounted to \$47,025 and \$45,498, respectively. In addition, the participants may voluntarily contribute up to 15% of their salary to the Plan.

Note 9 – Investment management fees – related parties

A Trustee of the Fund is a Board Member of a company in which the company or its affiliates provide investment management and certain other investment related services to the Fund. During the years ended December 31, 2011 and December 31, 2010, payments to this company for such services totaled \$452,556 and \$459,021, respectively.

THE J.M. KAPLAN FUND, INC.**Notes to Financial Statements (continued)
December 31, 2011 and December 31, 2010****Note 10 – Tax status**

The Fund is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code") and is classified as a private foundation under Section 509(a) of the Code. The Fund is subject to Federal excise tax equal to 2% of its net investment income, which includes interest, dividends, net income from limited partnerships and net gain on sale of investments. If the Fund meets certain criteria, this tax is reduced to 1%. For 2011 and 2010, the Fund met the criteria and, therefore, paid a 1% excise tax. In addition, the Fund is subject to Federal and State unrelated business income taxes on its unrelated business income earned by certain private equity investments. The provision for tax consists of a current provision on net investment income and unrelated business income and a deferred provision based on net appreciation on investments.

As of December 31, 2011, no amounts have been recognized for uncertain tax positions. The Fund's tax returns for 2008 and forward are subject to the usual review by the appropriate taxing authorities.