

Harris and Eliza Kempner Fund
Statement of Assets, Liabilities, and Fund Balances
Modified Cash Basis
December 31, 2010
(with comparative totals as of December 31, 2009)

	2010							2009		
	Main Fund	KCM Fixed Income Fund	Fayez Sarofim Fund	J.B. Kempner Fund	Kempner Paik Fund	Jemifer Ezel Fund	Student Loan Fund	Plant Fund	Totals	Totals
ASSETS										
Current assets:										
Cash	\$ 457,397	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 457,397	\$ 279,954
Short term investments	1,372,145	1,139,257	220,318	640,805	52,725	26,636	38,003	-	3,489,889	3,344,897
Investments, at cost										
Stocks	16,030,392	-	1,094,370	4,849,836	223,033	118,708	-	-	22,316,339	22,268,201
Bonds	-	3,458,909	-	931,533	-	-	-	-	4,390,442	4,832,722
Unlisted securities	6,186,285	-	-	-	-	17,233	-	-	6,203,518	6,171,828
Adjustment to FMV	3,594,272	347,623	371,397	345,430	(857)	8,621	-	-	4,666,486	1,548,301
Program-related investments	236,583	-	-	-	-	-	-	-	236,583	303,500
Accounts receivable	344,174	-	-	94,794	7,068	3,554	-	-	449,590	-
Prepaid tax expense	15,632	-	-	-	-	-	-	-	15,632	58,067
Student loans, current	-	-	-	-	-	-	65,786	-	65,786	91,839
Total current assets	28,236,880	4,945,789	1,686,085	6,862,398	281,969	174,752	103,789	-	42,291,662	38,889,309
Property and equipment:										
Land	-	-	-	-	-	-	-	14,780	14,780	14,780
Office equipment	-	-	-	-	-	-	-	46,538	46,538	46,538
Leasehold equipment	-	-	-	-	-	-	-	19,941	19,941	19,941
	-	-	-	-	-	-	-	81,259	81,259	81,259
Less: accumulated depreciation	-	-	-	-	-	-	-	65,087	65,087	65,087
Net property and equipment	-	-	-	-	-	-	-	16,172	16,172	16,172
Notes receivable										
Student loans, net of current	-	-	-	-	-	-	71,159	-	71,159	122,930
Total Assets	\$ 28,236,880	\$ 4,945,789	\$ 1,686,085	\$ 6,862,398	\$ 281,969	\$ 174,752	\$ 174,948	\$ 16,172	\$ 42,378,993	\$ 39,028,411
LIABILITIES AND FUND BALANCES										
Current liabilities:										
Excise tax payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,298
Total current liabilities	-	-	-	-	-	-	-	-	-	10,298
Fund balances	28,236,880	4,945,789	1,686,085	6,862,398	281,969	174,752	174,948	16,172	42,378,993	39,018,113
Total Liabilities and Fund Balances	\$ 28,236,880	\$ 4,945,789	\$ 1,686,085	\$ 6,862,398	\$ 281,969	\$ 174,752	\$ 174,948	\$ 16,172	\$ 42,378,993	\$ 39,028,411

See accompanying notes.

Harris and Eliza Kempner Fund
Statement of Revenues, Expenses, and Changes in Fund Balances
Modified Cash Basis
For the year ended December 31, 2010
(with comparative totals for the year ended December 31, 2009)

	2010								2009	
	Main Fund	KCM Fixed Income Fund	Fayez Sarofim Fund	J.B. Kempner Fund	Kempner Park Fund	Jennifer Ezell Fund	Student Loan Fund	Plant Fund	Totals	Totals
Revenues and Gains:										
Dividends	\$ 535,649	\$ 58	\$ 62,044	\$ 121,351	\$ 6,030	\$ 3,661	\$ 15	\$ -	\$ 728,808	\$ 622,227
Interest	9,669	149,541	-	37,609	-	6	-	-	196,825	154,261
Realized gains (losses)	676,431	83,776	139,168	277,498	(2,582)	(1,387)	-	-	1,172,904	(948,078)
Miscellaneous	110,746	-	-	1,359	92	24	-	-	112,221	99,881
Contributions	475	-	-	-	-	-	-	-	475	10,000
Unrealized gains	2,517,139	29,532	33,121	481,115	35,814	21,464	-	-	3,118,185	6,398,463
Total Revenues and Gains	3,850,109	262,907	234,333	918,932	39,354	23,768	15	-	5,329,418	6,336,754
Expenses:										
Program expenses	1,191,486	19,642	17,664	289,180	10,621	6,689	1,120	-	1,536,402	1,755,373
General and administrative expenses	286,038	52,042	17,742	71,212	2,893	1,799	410	-	432,136	352,924
Total Expenses	1,477,524	71,684	35,406	360,392	13,514	8,488	1,530	-	1,968,538	2,108,297
Excess (deficit) of revenues over expenses	2,372,585	191,223	198,927	558,540	25,840	15,280	(1,515)	-	3,360,880	4,228,457
Fund Balances, beginning of year	23,900,356	4,868,105	3,239,957	6,312,541	243,819	151,807	285,356	16,172	39,018,113	34,789,656
Transfers in (out)	1,963,939	(113,539)	(1,752,799)	(8,683)	12,310	7,665	(108,893)	-	-	-
Funds Balances, end of year	\$ 28,236,880	\$ 4,945,789	\$ 1,686,085	\$ 6,862,398	\$ 281,969	\$ 174,752	\$ 174,948	\$ 16,172	\$ 42,378,993	\$ 39,018,113

See accompanying notes.

Harris and Eliza Kempner Fund
Statement of Cash Flows – Combined Funds
Modified Cash Basis
For the year ended December 31, 2010
(with comparative totals for the year ended December 31, 2009)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Excess of revenues over expenses	\$ 3,360,880	\$ 4,228,457
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Realized (gains) losses	(1,172,904)	948,078
Unrealized gains	(3,118,185)	(6,398,463)
(Increase) decrease in program-related investments	66,917	(303,500)
(Increase) decrease in accounts receivable	(449,590)	11,183
Decrease in student loans receivable	77,824	135,710
(Increase) decrease in prepaid tax expense	42,434	(25,000)
Decrease in overdraft	-	(31,577)
Decrease in excise tax payable	(10,298)	(28,788)
Net cash used by operating activities	<u>(1,202,922)</u>	<u>(1,463,900)</u>
Cash flows from investing activities:		
Proceeds (purchases) of short term investments, net	(144,992)	941,200
Proceeds from sales of stocks, bonds, and partnership interests	13,727,352	8,108,868
Purchases of stocks, bonds, and partnership interests	<u>(12,201,995)</u>	<u>(7,306,264)</u>
Net cash provided by investing activities	<u>1,380,365</u>	<u>1,743,804</u>
Net increase in cash	177,443	279,904
Cash, beginning of year	<u>279,954</u>	<u>50</u>
Cash, end of year	<u>\$ 457,397</u>	<u>\$ 279,954</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ -	\$ -
Excise taxes paid	\$ -	\$ -

See accompanying notes.

**Harris and Eliza Kempner Fund
Notes to Financial Statements
Modified Cash Basis
December 31, 2010**

NOTE B – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis at December 31 are as follows:

	2010				
	Cost	Fair Value	In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market investments	\$ 2,334,247	\$ 2,334,247	\$ 2,334,247	\$ -	\$ -
Treasury investments	1,155,642	1,155,642	1,155,642	-	-
Total short-term investments	<u>3,489,889</u>	<u>3,489,889</u>	<u>3,489,889</u>	<u>-</u>	<u>-</u>
Corporate stocks	22,316,339	23,459,463	23,459,463	-	-
Corporate bonds and Government obligations	4,390,442	4,825,972	-	4,825,972	-
Unlisted securities	6,203,518	9,291,350	-	-	9,291,350
Total other investments	<u>32,910,299</u>	<u>37,576,785</u>	<u>23,459,463</u>	<u>4,825,972</u>	<u>9,291,350</u>
Total Investments	<u>\$ 36,400,188</u>	<u>\$ 41,066,674</u>	<u>\$ 26,949,352</u>	<u>\$ 4,825,972</u>	<u>\$ 9,291,350</u>

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3) Partnership Interests
January 1, 2010	\$ 8,389,772
Total unrealized gain	901,578
December 31, 2010	<u>\$ 9,291,350</u>

The other investments by fund are as follows:

	Cost	Fair Value
Main Fund	22,216,677	25,810,949
KCM Fixed Income Fund	3,458,909	3,806,532
Fayez Sarofim Fund	1,094,370	1,465,767
J. B. Kempner Fund	5,781,369	6,126,799
Kempner Park Fund	223,033	222,176
Jennifer Ezell Fund	135,941	144,562
	<u>\$ 32,910,299</u>	<u>\$ 37,576,785</u>

**Harris and Eliza Kempner Fund
Notes to Financial Statements
Modified Cash Basis
December 31, 2010**

NOTE B – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The relationship between carrying values and fair values of investments is as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Excess of Fair Value over Cost</u>
Balance, end of year	\$ 36,400,188	\$ 41,066,674	\$ 4,666,486
Balance, beginning of year	36,607,648	38,155,949	1,548,301
Increase in unrealized gain			3,118,185
Realized net gain			1,172,904
Total net gain			<u>\$ 4,291,089</u>

NOTE C – PROGRAM-RELATED INVESTMENTS

During 2009, the Fund approved the disbursement of monies in the form of program-related investments to three local organizations: Galveston Opera House, Galveston Art Center, and Galveston Historical Foundation. Since that time, the Fund has approved several program-related investments within and surrounding the local community. The investments are carried at the face value of the investment less repayments made. The carrying values of the investments approximate the fair market values of the investments as a result of their short investment periods. The investments at December 31, 2010 are as follows:

<u>Organization</u>	<u>Carrying Value</u>	<u>Period</u>	<u>Interest Rate</u>
Galveston Opera House	\$ 120,351	5 years	1.0%
Galveston Art Center	50,374	3 years	1.0%
Galveston Historical Foundation	60,000	3 years	1.5%
Other	5,858		
	<u>\$ 236,583</u>		

NOTE D – GRANTS PAYABLE

The Fund, as a result of adopting the modified cash basis of accounting, does not record grants payable in its financial statements. Grants are expensed when paid. However, the following is a summary of grant activity for the year ended December 31, 2010.

Grants payable at January 1, 2010	\$ 1,175,175
Grants approved in 2010	817,533
Grants paid in 2010	(1,275,387)
Grants payable at December 31, 2010	<u>\$ 717,321</u>