

**HARRIS AND ELIZA KEMPNER FUND**

**COMBINING FINANCIAL STATEMENTS-MODIFIED CASH BASIS**

**Years Ended December 31, 2018 and 2017  
with Report of Independent Auditors**

**HARRIS AND ELIZA KEMPNER FUND**  
**Combining Financial Statements-Modified Cash Basis**  
**Years Ended December 31, 2018 and 2017**

**Table of Contents**

Report of Independent Auditors .....	1
Combining Financial Statements - Modified Cash Basis:	
Combining Statements of Assets, Liabilities, and Net Assets - Modified Cash Basis .....	3
Combining Statements of Revenues, Expenses, and Changes in Net Assets - Modified Cash Basis .....	4
Statement of Functional Expenses.....	5
Statements of Cash Flows - Combined Funds - Modified Cash Basis .....	6
Notes to Combining Financial Statements - Modified Cash Basis.....	7
Supplemental Information:	
Schedule of Program Expenses - Modified Cash Basis .....	16
Schedule of General and Administrative Expenses - Modified Cash Basis .....	17

## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors  
Harris and Eliza Kempner Fund

We have audited the accompanying combining financial statements of the Harris and Eliza Kempner Fund (a non-profit organization), which comprise the combining statements of assets, liabilities, and net assets-modified cash basis as of December 31, 2018, the related combining statements of revenues, expenses and changes in net assets-modified cash basis, the statement of functional expenses, and the statement of cash flows-combined funds-modified cash basis for the year then ended, and the related notes to the combining financial statements-modified cash basis.

### Management's Responsibility for the Combining Financial Statements

Management is responsible for the preparation and fair presentation of these combining financial statements in accordance with the modified cash basis of accounting as described in Note B; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the combining financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combining financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these combining financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combining financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combining financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combining financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the combining financial statements referred to above present fairly, in all material respects, the financial position of the Harris and Eliza Kempner Fund as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with the modified cash basis of accounting as described in Note B.

## **Basis of Accounting**

We draw attention to Note B of the combining financial statements, which describes the basis of accounting. The combining financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

## **Report on Summarized Comparative Information**

We have previously audited the Harris and Eliza Kempner Fund's combining financial statements as of and for the year ended December 31, 2017; we expressed an unmodified audit opinion on those audited financial statements in our report dated October 30, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited combining financial statements from which it has been derived.

## **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the combining financial statements as a whole. The schedule of program expenses-modified cash basis on page 16 and the schedule of general and administrative expenses-modified cash basis on page 17 are presented for purposes of additional analysis and are not a required part of the combining financial statements-modified cash basis. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combining financial statements-modified cash basis. The information has been subjected to the auditing procedures applied in the audit of the combining financial statements-modified cash basis and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combining financial statements-modified cash basis or to the combining financial statements-modified cash basis themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combining financial statements-modified cash basis as a whole.

*Whitley Penn LLP*

Houston, Texas  
October 31, 2019

HARRIS AND ELIZA KEMPNER FUND

COMBINING STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS

December 31, 2018

(with comparative totals for December 31, 2017)

	Main Fund	KCM Fixed Income Fund	J.B. Kempner Fund	Kempner Park Fund	Jennifer Ezell Fund	Student Loan Fund	2018	2017
<b>Assets</b>								
Cash	\$ 118,776	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 118,776	\$ 201,370
Short-term investments	2,051,688	50,728	242,095	100,857	54,629	-	2,499,997	5,214,297
Investments, at cost								
Stocks	23,245,216	-	5,747,405	262,388	140,365	-	29,395,374	26,814,764
Bonds	4,968,510	675,163	860,441	-	-	-	6,504,114	6,050,571
Unlisted securities	6,071,202	-	-	-	19,427	-	6,090,629	6,499,316
Adjustment to fair market value	1,634,405	(21,485)	(75,646)	(1,874)	(691)	-	1,534,709	6,673,921
Program-related receivables	-	-	-	-	60,000	-	60,000	22,753
Accounts receivable	44,458	-	-	-	-	-	44,458	8,461
Student loans	-	-	-	-	-	1,727	1,727	5,927
Other current assets	15,292	-	-	-	-	-	15,292	17,854
Total assets	\$ 38,149,547	\$ 704,406	\$ 6,774,295	\$ 361,371	\$ 273,730	\$ 1,727	\$ 46,265,076	\$ 51,509,234
<b>Liabilities</b>								
Pension plan payable	\$ 301	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 301	\$ -
Total liabilities	\$ 301	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 301	\$ -
Commitments and contingencies								
<b>Net Assets</b>								
Without donor restrictions:								
Net assets	38,149,246	704,406	6,774,295	361,371	273,730	1,727	46,264,775	51,509,234
Total net assets	\$ 38,149,246	\$ 704,406	\$ 6,774,295	\$ 361,371	\$ 273,730	\$ 1,727	\$ 46,265,076	\$ 51,509,234

See accompanying notes to combining financial statements-modified cash basis.

HARRIS AND ELIZA KEMPNER FUND

COMBINING STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS

For the Year Ended December 31, 2018

(with comparative totals for the Year Ended December 31, 2017)

	Main Fund	KCM Fixed Income Fund	J.B. Kempner Fund	Kempner Park Fund	Jennifer Ezell Fund	Student Loan Fund	2018	2017
<b>Revenue, gains, and other support without restriction</b>								
Dividends	\$ 1,234,576	\$ 9,731	\$ 249,403	\$ 7,503	\$ 5,430	\$ -	\$ 1,506,643	\$ 1,080,936
Interest	98,201	13,288	5,230	759	423	-	117,901	85,383
Investment expenses	(121,715)	-	(329)	(25)	(349)	-	(122,418)	(168,313)
Net unrealized and realized gains (losses)	(3,214,494)	(34,450)	(708,972)	(26,102)	(14,530)	-	(3,998,548)	5,192,168
Net investment revenue (losses)	(2,003,432)	(11,431)	(454,668)	(17,865)	(9,026)	-	(2,496,422)	6,190,174
Other revenue (losses)	158,210	-	6,222	694	(1,005)	-	164,121	404,042
Total revenue, gains (losses), and other support	(1,843,222)	(11,431)	(448,446)	(17,171)	(10,031)	-	(2,332,301)	6,594,216
<b>Expenses</b>								
Program expenses	2,122,555	3,036	327,135	32,250	10,034	-	2,495,010	2,306,975
General and administrative expenses	330,480	8,033	72,687	3,868	2,080	-	417,148	426,684
Total expenses	2,453,035	11,069	399,822	36,118	12,114	-	2,912,158	2,733,659
(Deficit) excess of revenue over expenses	(4,298,257)	(22,500)	(848,268)	(53,289)	(22,145)	-	(5,244,459)	3,860,557
Interfund transfers	(114,461)	(1,765)	28,536	26,412	65,478	(4,200)	-	-
Changes in net assets	(4,412,718)	(24,265)	(819,732)	(26,877)	43,333	(4,200)	(5,244,459)	3,860,557
Net assets at beginning of year	42,561,964	728,671	7,594,027	388,248	230,397	5,927	51,509,234	47,648,677
Net assets at end of year	\$ 38,149,246	\$ 704,406	\$ 6,774,295	\$ 361,371	\$ 273,730	\$ 1,727	\$ 46,264,775	\$ 51,509,234

See accompanying notes to combining financial statements-modified cash basis.

HARRIS AND ELIZA KEMPNER FUND

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018  
(with comparative totals for the Year Ended December 31, 2017)

	Main Fund	Programs				Total	2017
		KCM Fixed Income Fund	J.B. Kempner Fund	Kempner Park Fund	Jennifer Ezell Fund		
<b>Program expenses</b>							
Foreign taxes	\$ 10,213	\$ -	\$ 2,393	\$ 180	\$ 87	\$ 13,353	
Grants	1,698,245	-	296,167	30,282	8,986	1,781,108	
Management	172,034	3,036	28,575	1,788	961	197,611	
Matching gift program	242,063	-	-	-	-	314,903	
Total salaries and related expenses	2,122,555	3,036	327,135	32,250	10,034	2,495,010	
<b>Supporting expenses:</b>							
Accounting and audit	\$ 31,067	\$ 755	\$ 6,830	\$ 364	\$ 196	\$ 42,890	
Entertainment	3,953	96	869	46	25	843	
Excise and other tax	27,388	666	6,021	321	172	34,568	
Insurance	31,458	764	6,916	368	198	39,704	
Memberships	4,053	99	891	47	26	5,116	
Miscellaneous	1,572	38	376	18	10	2,014	
Office equipment	4,796	117	1,055	56	30	6,054	
Office rent	10,745	261	2,363	126	68	13,563	
Office supplies	1,256	31	276	15	8	1,586	
Payroll expenses	153,360	3,727	33,716	1,795	965	193,563	
Payroll taxes	11,884	289	2,613	139	75	15,000	
Parking	1,739	42	382	20	11	2,194	
Retirement plan and profit sharing	18,029	438	3,964	211	113	22,755	
Registration	6,721	163	1,478	79	42	8,483	
Computer software and services	9,413	229	2,069	110	59	11,880	
Printed material	153	4	34	2	1	194	
Kempner paper preservation	4,351	106	956	51	27	5,491	
Travel	8,542	208	1,878	100	54	10,782	
Total other expenses	330,480	8,033	72,687	3,868	2,080	417,148	
Total expenses	\$ 2,453,035	\$ 11,069	\$ 399,822	\$ 36,118	\$ 12,114	\$ 2,912,158	

See accompanying notes to the combining consolidated financial statements - modified cash basis.

**HARRIS AND ELIZA KEMPNER FUND**

**STATEMENTS OF CASH FLOWS - COMBINED FUNDS - MODIFIED CASH BASIS**

	<u>Year Ended December 31,</u> <u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (5,244,459)	\$ 3,860,557
Adjustments to reconcile changes in fund balances to net cash used in operating activities:		
Realized gain on investments	(1,140,664)	(1,864,255)
Unrealized (gain) loss on investments	5,139,212	(3,327,913)
Changes in net assets and liabilities:		
Program related receivables	(37,247)	54,215
Accounts receivable	(35,997)	(8,461)
Student loans	4,200	2,455
Other current assets	2,562	27,139
Pension plan payable	301	-
Net cash used in operating activities	<u>(1,312,092)</u>	<u>(1,256,263)</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sales of stocks, bonds, and unlisted securities interests	7,524,202	8,871,165
Purchases of stocks, bonds, and unlisted securities	(6,294,704)	(4,647,449)
Net purchases of short-term investments	-	(3,021,603)
Net cash provided by investing activities	<u>1,229,498</u>	<u>1,202,113</u>
Net decrease in cash and cash equivalents	(82,594)	(54,150)
Cash at beginning of year	<u>201,370</u>	<u>255,520</u>
Cash equivalents at end of year	<u>\$ 118,776</u>	<u>\$ 201,370</u>
<b>Supplemental disclosure of cash flow information:</b>		
Excise taxes paid	<u>\$ 44,120</u>	<u>\$ 49,090</u>

See accompanying notes to combining financial statements-modified cash basis.



**HARRIS AND ELIZA KEMPNER FUND**  
**NOTES TO COMBINING FINANCIAL STATEMENTS - MODIFIED CASH BASIS**  
**DECEMBER 31, 2018 AND 2017**

**A. Nature of the Fund**

The Harris and Eliza Kempner Fund (the "Fund") is a non-profit corporation classified as a private foundation within the meaning of section 509(a) of the Internal Revenue Code. The Fund was originally known as the "Galveston Fund" when it was established on December 18, 1946. The Fund awards grants to qualifying organizations functioning in the broad areas of the arts, community development, education, health and human services. Revenues are derived primarily from dividends, interest, and other gains from investment activity.

**B. Summary of Significant Accounting Policies**

**Basis of Accounting**

The accompanying combining financial statements have been prepared on the modified cash basis of accounting. This basis differs from accounting principles generally accepted in the United States of America primarily due to the Fund's recognizing grants and other expenditures when paid rather than when incurred, and recording investment revenues when received rather than when earned. Modifications to the cash basis of accounting include accruing student loan receivables, accounting for unrealized gains and losses on trading investments, and recording trading investments at fair market value.

In order to ensure observance of limitations and restrictions placed on the use of resources available to the Fund, its accounts are maintained in accordance with the principles of fund accounting. Resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund.

The Fund reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Accordingly, net assets of the Fund and changes therein are classified and reported as follows:

- Net assets without donor restrictions – net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors.
- Net assets with donor restrictions – net assets subject to donor-imposed stipulations that specify a use for a contributed asset. When a donor stipulation has been satisfied the net assets are reclassified to net assets without donor restrictions and reported in the combining statements of revenues, expenses, and changes in net assets as net assets released from restrictions.

There were no net assets with donor restrictions as of December 31, 2018 and 2017.

**HARRIS AND ELIZA KEMPNER FUND**  
**NOTES TO COMBINING FINANCIAL STATEMENTS –**  
**MODIFIED CASH BASIS (continued)**

**B. Summary of Significant Accounting Policies (continued)**

**Cash**

The Fund considers only monies maintained in its checking account as cash. The Fund does not have cash equivalents, because in a departure from accounting principles generally accepted in the United States of America, cash does not include highly liquid short-term investments maintained in money market funds managed by investment managers as part of the investment portfolio.

**Investments and Fair Value Measurements**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined using a three-tier hierarchy that identifies assets and liabilities measured at fair value. The hierarchy focuses on the inputs used to measure fair value and requires that the lowest level input be used. The three levels defined are as follows:

- Level 1 — observable inputs that are based upon quoted market prices for identical assets or liabilities within active markets.
- Level 2 — observable inputs other than Level 1 that are based upon quoted market prices for similar assets or liabilities, based upon quoted prices within inactive markets, or inputs other than quoted market prices that are observable through market data for substantially the full term of the asset or liability.
- Level 3 — inputs that are unobservable for the particular asset or liability due to little or no market activity and are significant to the fair value of the asset or liability. These inputs reflect assumptions that market participants would use when valuing the particular asset or liability. Level 3 assets are valued at fair market value as determined by the manager. Such valuations are based on appropriate multiples of earnings or cash flow. Value markdowns will be made when the underlying property is experiencing operating difficulties, or when a decrease in value, for any reason, is apparent.

The fair values of investments in marketable equity securities are based on Level 1 inputs, while the fair values of nonmarketable equity securities are based on Level 3 inputs provided by management of the partnerships. The fair values of investments in debt securities are measured based on Level 2 inputs. Unrealized gains and losses are included in the excess (deficit) of revenues over expenses in the accompanying statements of revenues, expenses, and changes in net assets – modified cash basis.

**Income Tax Status**

The Internal Revenue Service has determined that the Fund is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code"). The Code imposes an excise tax of 2% (reduced to 1% if certain requirements are met) on net investment income of private foundations. Excise tax expense for the years ended December 31, 2018 and 2017 was \$19,276 and \$27,139, respectively.

**HARRIS AND ELIZA KEMPNER FUND**  
**NOTES TO COMBINING FINANCIAL STATEMENTS –**  
**MODIFIED CASH BASIS *(continued)***

**B. Summary of Significant Accounting Policies (continued)**

**Expense Allocation**

The costs of providing various programs and other activities have been reflected on a functional basis in the combining financial statements. Program expenses are those that are directly attributable to a specific program. Supporting expenses are certain categories of expenses that are attributable to one or more program or supporting functions of the Fund. These expenses are indirect costs that are allocated to various programs on the basis of the fair market value of the program's investments.

**Use of Estimates**

The preparation of combining financial statements requires management to make estimates and assumptions that affect the reported amounts and accompanying disclosures in the combining financial statements. Actual results could differ from those estimates.

**Prior Year Totals**

The combining financial statements include certain prior year summarized comparative information in total but not by fund. Such information does not include sufficient detail of activities by fund. Accordingly, such information should be used in conjunction with the Fund's combining financial statements for the year ended December 31, 2017, from which the summarized information was derived.

**New Accounting Pronouncement**

During the year ended June 30, 2019, the Fund adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Fund has adjusted the presentation of these statements accordingly.

**HARRIS AND ELIZA KEMPNER FUND**  
**NOTES TO COMBINING FINANCIAL STATEMENTS –**  
**MODIFIED CASH BASIS (continued)**

**C. Investments and Fair Value Measurements**

Fair values of assets measured on a recurring basis at December 31, 2018 are as follows:

	<u>Cost</u>	<u>Fair Values</u>			
		Level 1	Level 2	Level 3	Total
Money market investments	<u>\$ 2,499,997</u>	<u>\$ 2,499,997</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,499,997</u>
Total short-term investments	2,499,997	2,499,997	-	-	2,499,997
Corporate stocks	29,395,374	29,938,832	-	-	29,938,832
Corporate bonds and government obligations	6,504,114	-	6,440,546	-	6,440,546
Unlisted securities	<u>6,090,629</u>	<u>-</u>	<u>-</u>	<u>7,145,448</u>	<u>7,145,448</u>
Total other investments	<u>41,990,117</u>	<u>29,938,832</u>	<u>6,440,546</u>	<u>7,145,448</u>	<u>43,524,826</u>
Total investments	<u>\$ 44,490,114</u>	<u>\$ 32,438,829</u>	<u>\$ 6,440,546</u>	<u>\$ 7,145,448</u>	<u>\$ 46,024,823</u>

The following table presents the changes in Level 3 instruments measured on a recurring basis for the year ended December 31, 2018:

January 1, 2018	\$ 7,466,795
Unrealized loss included in earnings	<u>(321,347)</u>
December 31, 2018	<u>\$ 7,145,448</u>

**HARRIS AND ELIZA KEMPNER FUND**  
**NOTES TO COMBINING FINANCIAL STATEMENTS –**  
**MODIFIED CASH BASIS (continued)**

**C. Investments and Fair Value Measurements (continued)**

The following table presents additional information about valuation methodologies and unobservable inputs used for investments that are measured at fair value and categorized within Level 3 as of December 31, 2018.

<u>Investment</u>	<u>Fair value at December 31, 2018</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Inputs</u>	<u>Range</u>
Kempner Securities	\$ 5,779,437	Net asset value	N/A	N/A
Blackstone Minerals	\$ 652,819	Net asset value	N/A	N/A
Galveston Finale	\$ 704,448	Net asset value	N/A	N/A
Foster Farms	\$ 8,744	Net asset value	N/A	N/A

Investments in corporate stocks by fund are as follows:

	<u>Cost</u>	<u>Fair Value</u>
Main Fund	\$ 23,245,216	\$ 23,848,028
J.B. Kempner Fund	5,747,405	5,690,616
Kempner Park Fund	262,388	260,514
Jennifer Ezell Fund	140,365	139,674
	<u>\$ 29,395,374</u>	<u>\$ 29,938,832</u>

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	\$44,490,114	\$46,024,823	\$ 1,534,709
Balance, beginning of year	44,578,948	51,252,869	6,673,921
Decrease in unrealized gain			(5,139,212)
Net realized gain			1,140,664
Total net unrealized and realized gains(losses)			<u>\$ (3,998,548)</u>

**HARRIS AND ELIZA KEMPNER FUND**  
**NOTES TO COMBINING FINANCIAL STATEMENTS –**  
**MODIFIED CASH BASIS (continued)**

**D. Program-Related Receivables**

The Fund has disbursed monies in the form program-related receivables to local community organizations. The receivables are carried at the face value of the receivable less repayments made. The carrying value of the receivables approximates the fair market value of the receivable as a result of their short maturity periods. The receivable at December 31, 2018 had a balance as follows:

<u>Organization</u>	<u>Carrying Value</u>	<u>Period</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
OTR Fund I, LLC	\$ 60,000	5 years	2%	12/31/2022

The receivable at December 31, 2017 had a balance as follows:

<u>Organization</u>	<u>Carrying Value</u>	<u>Period</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
The Grand 1894 Opera House	\$ 22,753	2 years	1.5%	8/31/2018

**E. Grant Commitments**

The Fund, as a result of adopting the modified cash basis of accounting, does not record grant commitments in its combining financial statements. Grants are expensed when paid. However, the following is a summary of grant activity for the year ended December 31, 2018:

Grants payable at January 1, 2018	\$ 935,500
Grants approved in 2018	1,595,695
Grants paid in 2018	<u>(2,033,680)</u>
Grants payable at December 31, 2018	<u>\$ 497,515</u>

**F. Related Party Transactions**

Investment and management fees of approximately \$46,000 and \$59,000 were paid to Kempner Capital Management for the management of a substantial portion of the Fund's investment portfolio during the year ended December 31, 2018 and 2017, respectively. Mr. Harris L. Kempner, Jr., President of Kempner Capital Management, is a Kempner family member.

Approximately 16% and 14% of the Fund's holdings are managed by the Directors rather than by the investment managers during the year ended December 31, 2018 and 2017, respectively. These assets are in Kempner family related investments and include Black Stone Minerals LP, Kempner Securities LP, and Galveston Finale LP.

**HARRIS AND ELIZA KEMPNER FUND**  
**NOTES TO COMBINING FINANCIAL STATEMENTS –**  
**MODIFIED CASH BASIS *(continued)***

**G. Money Purchase Pension Plan**

On April 1, 1994, the Fund initiated a noncontributory money purchase pension plan covering all employees (excluding non-resident aliens) whose employment is not governed by a collective bargaining agreement and who have completed one year of service. Employer contributions are discretionary and are allocated to all participants eligible to share in the allocations in the same proportion that each participant's compensation bears to the total compensation of all participants for such year. Amounts paid totaled \$22,755 and \$22,595 during the year ended December 31, 2018 and 2017, respectively.

**H. Concentration of Market Risk**

The Fund has significant investments in mutual funds and in equity and debt securities and is therefore subject to market risk. Investments are managed by investment advisors who are supervised by the Board of Directors. Though the market value of investments is subject to fluctuations on a year to year basis, the Board of Directors believe that the investment policy is prudent for the long-term welfare of the Fund.

The Fund's cash and investment accounts held in financial institutions and brokerage firms are insured by the Securities Investor Protection Corporation ("SIPC"). The SIPC provides coverage for customers of failed brokerage firms. This coverage does not apply to losses due to market rate risk.

**I. Concentration of Credit Risk**

The Fund maintains deposits in one financial institution, which may at times exceed amounts covered by insurance provided by the U.S. Federal Depository Insurance Corporation ("FDIC"). The Fund has not experienced any losses related to amounts in excess of FDIC limits.

**J. Other Revenue**

Other revenue primarily consists of royalties and other miscellaneous income. Non-deductible expenses are netted against miscellaneous income in the accompanying statement of revenues, expenses, and changes in net assets – modified cash basis.

**K. Commitments and Contingencies**

The Fund is a party to a Memorandum of Understanding ("MOU") with the Galveston County Recovery Fund. The Fund committed to provide \$50,000 in the event of a federally declared disaster in Galveston or Galveston County. The funds are pledged, but not paid until a disaster has been declared and the Fund has resumed operations. The MOU and commitment of funds renews annually.

**HARRIS AND ELIZA KEMPNER FUND**  
**NOTES TO COMBINING FINANCIAL STATEMENTS –**  
**MODIFIED CASH BASIS *(continued)***

**L. Liquidity and Availability of Resources**

The Organization has \$2,663,231 of financial assets available within one year of the combining statement of assets, liabilities, and net assets date to meet cash needs for general expenditure consisting of cash and cash equivalents of \$118,776, short-term investments of \$2,499,997, and accounts receivable of \$44,458. The Fund has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the combining statements of assets, liabilities, and net assets date.

**M. Subsequent Events**

In preparing the Fund's combining financial statements, management has evaluated all subsequent events and transactions for potential recognition or disclosure through October 31, 2019, the date the combining financial statements were available for issuance.



**SUPPLEMENTAL INFORMATION**

**HARRIS AND ELIZA KEMPNER FUND**  
**SCHEDULE OF PROGRAM EXPENSES - MODIFIED CASH BASIS**

**For the Year Ended December 31, 2018**  
*(with comparative totals for the Year Ended December 31, 2017)*

	<b>Main Fund</b>	<b>KCM Fixed Income Fund</b>	<b>J.B. Kempner Fund</b>	<b>Kempner Park Fund</b>	<b>Jennifer Ezell Fund</b>	<b>2018</b>	<b>2017</b>
<b>Program Expenses</b>							
Foreign taxes	\$ 10,213	\$ -	\$ 2,393	\$ 180	\$ 87	\$ 12,873	\$ 13,353
Grants	1,698,245	-	296,167	30,282	8,986	2,033,680	1,781,108
Management fees	172,034	3,036	28,575	1,788	961	206,394	197,611
Matching gift program	242,063	-	-	-	-	242,063	314,903
<b>Total Program Expenses</b>	<u>\$ 2,122,555</u>	<u>\$ 3,036</u>	<u>\$ 327,135</u>	<u>\$ 32,250</u>	<u>\$ 10,034</u>	<u>\$ 2,495,010</u>	<u>\$ 2,306,975</u>

HARRIS AND ELIZA KEMPNER FUND

SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES - MODIFIED CASH BASIS

For the Year Ended December 31, 2018  
 (with comparative totals for the Year Ended December 31, 2017)

	Main Fund	KCM Fixed Income Fund	J.B. Kempner Fund	Kempner Park Fund	Jennifer Ezell Fund	2018	2017
<b>General and Administrative Expenses:</b>							
Accounting and audit	\$ 31,067	\$ 755	\$ 6,830	\$ 364	\$ 196	\$ 39,212	\$ 42,890
Entertainment	3,953	96	869	46	25	4,989	843
Excise and other tax	27,388	666	6,021	321	172	34,568	52,048
Insurance	31,458	764	6,916	368	198	39,704	46,245
Memberships	4,053	99	891	47	26	5,116	3,800
Miscellaneous	1,572	38	376	18	10	2,014	1,066
Office equipment	4,796	117	1,055	56	30	6,054	3,354
Office rent	10,745	261	2,363	126	68	13,563	13,788
Office supplies	1,256	31	276	15	8	1,586	721
Payroll expenses	153,360	3,727	33,716	1,795	965	193,563	194,758
Payroll taxes	11,884	289	2,613	139	75	15,000	15,031
Parking	1,739	42	382	20	11	2,194	1,890
Retirement plan and profit sharing	18,029	438	3,964	211	113	22,755	22,595
Registration	6,721	163	1,478	79	42	8,483	3,066
Computer software and services	9,413	229	2,069	110	59	11,880	12,722
Printed material	153	4	34	2	1	194	85
Kempner paper preservation	4,351	106	956	51	27	5,491	917
Travel	8,542	208	1,878	100	54	10,782	10,865
<b>Total General and Administrative Expenses</b>	<b>\$ 330,480</b>	<b>\$ 8,033</b>	<b>\$ 72,687</b>	<b>\$ 3,868</b>	<b>\$ 2,080</b>	<b>\$ 417,148</b>	<b>\$ 426,684</b>

