

HARRIS AND ELIZA KEMPNER FUND

COMBINING FINANCIAL STATEMENTS - MODIFIED CASH BASIS

**Years Ended December 31, 2019 and 2018
with Report of Independent Auditors**

HARRIS AND ELIZA KEMPNER FUND
Combining Financial Statements - Modified Cash Basis
Years Ended December 31, 2019 and 2018

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, 2019, 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, 2019, 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, 2018; we expressed an unmodified audit opinion on those audited financial statements in our report dated October 31, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, 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.

The image shows a handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas
November 9, 2020

HARRIS AND ELIZA KEMPNER FUND

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

December 31, 2019

(with comparative totals for December 31, 2018)

	<u>Main Fund</u>	<u>KCM Fixed Income Fund</u>	<u>J.B. Kempner Fund</u>	<u>Kempner Park Fund</u>	<u>Jennifer Ezell Fund</u>	<u>Student Loan Fund</u>	<u>2019</u>	<u>2018</u>
Assets								
Cash	\$ 100,036	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100,036	\$ 118,776
Short-term investments	4,614,405	35,164	977,134	148,280	80,147	-	5,855,130	2,499,997
Investments, at cost								
Stocks	23,105,439	-	5,406,723	240,346	128,883	-	28,881,391	29,395,374
Bonds	4,901,217	675,163	855,844	-	-	-	6,432,224	6,504,114
Unlisted securities	7,180,355	-	-	-	22,515	-	7,202,870	6,090,629
Adjustment to fair market value	3,989,003	26,187	728,164	35,668	19,172	-	4,798,194	1,534,709
Program-related receivables	20,600	-	-	-	60,000	-	80,600	60,000
Accounts receivable	-	-	-	-	-	-	-	44,458
Student loans	-	-	-	-	-	527	527	1,727
Other current assets	-	-	-	-	-	-	-	15,292
Total assets	<u>\$ 43,911,055</u>	<u>\$ 736,514</u>	<u>\$ 7,967,865</u>	<u>\$ 424,294</u>	<u>\$ 310,717</u>	<u>\$ 527</u>	<u>\$ 53,350,972</u>	<u>\$ 46,265,076</u>
Liabilities								
Excise tax payable	\$ 73,591	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 73,591	\$ -
Pension plan payable	183	-	-	-	-	-	183	301
Total liabilities	<u>\$ 73,774</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 73,774</u>	<u>\$ 301</u>
Commitments and contingencies								
Net Assets								
Without donor restrictions:								
Net assets	43,837,281	736,514	7,967,865	424,294	310,717	527	53,277,198	46,264,775
Total net assets	<u>43,837,281</u>	<u>736,514</u>	<u>7,967,865</u>	<u>424,294</u>	<u>310,717</u>	<u>527</u>	<u>53,277,198</u>	<u>46,264,775</u>
Total liabilities and net assets	<u>\$ 43,911,055</u>	<u>\$ 736,514</u>	<u>\$ 7,967,865</u>	<u>\$ 424,294</u>	<u>\$ 310,717</u>	<u>\$ 527</u>	<u>\$ 53,350,972</u>	<u>\$ 46,265,076</u>

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, 2019

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

	<u>Main Fund</u>	<u>KCM Fixed Income Fund</u>	<u>J.B. Kempner Fund</u>	<u>Kempner Park Fund</u>	<u>Jennifer Ezell Fund</u>	<u>Student Loan Fund</u>	<u>2019</u>	<u>2018</u>
Revenue, gains, and other support without restriction								
Dividends	\$ 964,805	\$ 384	\$ 254,714	\$ 8,472	\$ 5,296	\$ -	\$ 1,233,671	\$ 1,506,643
Interest	276,350	13,955	5,513	723	883	-	297,424	117,901
Investment expenses	(82,085)	-	(383)	(27)	(239)	-	(82,734)	(122,418)
Net unrealized and realized gains (losses)	6,333,340	47,672	1,239,280	61,200	34,029	-	7,715,521	(3,998,548)
Net investment revenue (losses)	7,492,410	62,011	1,499,124	70,368	39,969	-	9,163,882	(2,496,422)
Other revenue	767,462	-	731	118	2,920	-	771,231	164,121
Total revenue, gains (losses), and other support	8,259,872	62,011	1,499,855	70,486	42,889	-	9,935,113	(2,332,301)
Expenses								
Program expenses	2,035,593	3,079	293,540	30,574	9,767	-	2,372,553	2,495,010
General and administrative expenses	436,374	9,470	96,411	5,127	2,755	-	550,137	417,148
Total expenses	2,471,967	12,549	389,951	35,701	12,522	-	2,922,690	2,912,158
Excess (deficit) of revenue over expenses	5,787,905	49,462	1,109,904	34,785	30,367	-	7,012,423	(5,244,459)
Interfund transfers	(99,870)	(17,354)	83,666	28,138	6,620	(1,200)	-	-
Changes in net assets	5,688,035	32,108	1,193,570	62,923	36,987	(1,200)	7,012,423	(5,244,459)
Net assets at beginning of year	38,149,246	704,406	6,774,295	361,371	273,730	1,727	46,264,775	51,509,234
Net assets at end of year	<u>\$ 43,837,281</u>	<u>\$ 736,514</u>	<u>\$ 7,967,865</u>	<u>\$ 424,294</u>	<u>\$ 310,717</u>	<u>\$ 527</u>	<u>\$ 53,277,198</u>	<u>\$ 46,264,775</u>

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, 2019
(with comparative totals for the Year Ended December 31, 2018)

	Programs					Total	2018
	Main Fund	KCM Fixed Income Fund	J.B. Kempner Fund	Kempner Park Fund	Jennifer Ezell Fund		
Program expenses							
Foreign taxes	\$ 13,220	\$ -	\$ 2,789	\$ 589	\$ 125	\$ 16,723	\$ 12,873
Grants	1,605,622	-	264,197	28,186	8,675	1,906,680	2,033,680
Management	224,115	3,079	26,554	1,799	967	256,514	206,394
Matching gift program	192,636	-	-	-	-	192,636	242,063
Total salaries and related expenses	<u>2,035,593</u>	<u>3,079</u>	<u>293,540</u>	<u>30,574</u>	<u>9,767</u>	<u>2,372,553</u>	<u>2,495,010</u>
Supporting expenses:							
Accounting and audit	\$ 44,479	\$ 965	\$ 9,827	\$ 523	\$ 281	\$ 56,075	\$ 39,212
Entertainment	1,416	31	313	17	9	1,786	4,989
Excise and other tax	93,599	2,031	20,680	1,100	591	118,001	34,568
Insurance	20,639	448	4,560	242	130	26,019	39,704
Legal	1,871	41	414	22	12	2,360	-
Memberships	2,558	56	565	30	16	3,225	5,116
Miscellaneous	1,070	23	237	13	7	1,350	2,014
Office equipment	5,057	110	1,117	59	32	6,375	6,054
Office rent	13,154	285	2,906	155	83	16,583	13,563
Office supplies	1,306	28	288	15	8	1,645	1,586
Payroll expenses	198,173	4,300	43,784	2,328	1,252	249,837	193,563
Payroll taxes	15,351	333	3,392	180	97	19,353	15,000
Parking	2,119	46	468	25	13	2,671	2,194
Retirement plan and profit sharing	6,491	141	1,434	76	41	8,183	22,755
Registration	3,711	81	820	44	23	4,679	8,483
Computer software and services	11,132	242	2,459	131	70	14,034	11,880
Printed material	355	8	78	4	2	447	194
Kempner paper preservation	-	-	-	-	-	-	5,491
Travel	13,893	301	3,069	163	88	17,514	10,782
Total other expenses	<u>436,374</u>	<u>9,470</u>	<u>96,411</u>	<u>5,127</u>	<u>2,755</u>	<u>550,137</u>	<u>417,148</u>
Total expenses	<u>\$ 2,471,967</u>	<u>\$ 12,549</u>	<u>\$ 389,951</u>	<u>\$ 35,701</u>	<u>\$ 12,522</u>	<u>\$ 2,922,690</u>	<u>\$ 2,912,158</u>

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

	Year Ended December 31, 2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 7,012,423	\$ (5,244,459)
Adjustments to reconcile changes in fund balances to net cash used in operating activities:		
Realized gain on investments	(4,452,035)	(1,140,664)
Unrealized (gain) loss on investments	(3,263,485)	5,139,212
Changes in net assets and liabilities:		
Program related receivables	(20,600)	(37,247)
Accounts receivable	44,458	(35,997)
Student loans	1,200	4,200
Other current assets	15,292	2,562
Pension plan payable	73,473	301
Net cash used in operating activities	(589,274)	(1,312,092)
Cash flows from investing activities:		
Proceeds from sales of stocks, bonds, and unlisted securities interests	9,416,039	7,524,202
Purchases of stocks, bonds, and unlisted securities	(8,845,505)	(6,294,704)
Net cash provided by investing activities	570,534	1,229,498
Net decrease in cash and cash equivalents	(18,740)	(82,594)
Cash at beginning of year	118,776	201,370
Cash equivalents at end of year	\$ 100,036	\$ 118,776
Supplemental disclosure of cash flow information:		
Excise taxes paid	\$ 101,230	\$ 44,120

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, 2019 AND 2018

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, 2019 and 2018.

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. The investments in unlisted securities are private investment vehicles valued using the NAV provided by the administrator of the fund. The NAV is based on the underlying assets owned by the fund, minus its liabilities and then divided by the number of shares outstanding. The NAV is a calculated price based upon inputs other than quoted prices that are directly or indirectly observable. The NAV is used as a practical expedient to estimate fair value. This practical expedient would not be used if it is determined to be probable that the fund will sell the investment for an amount different from the reported net asset value. There are no unfunded commitments and the redemption frequency along with redemption notice period are undetermined. 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.

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

B. Summary of Significant Accounting Policies (continued)

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, 2019 and 2018 was \$118,001 and \$19,276, respectively.

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 programs’ 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, 2018, from which the summarized information was derived.

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, 2019 are as follows:

	<u>Cost</u>	<u>Fair Values</u>			
		Level 1	Level 2	Level 3	Total
Money market investments	\$ 5,855,130	\$ 5,855,130	\$ -	\$ -	\$ 5,855,130
Total short-term investments	5,855,130	5,855,130	-	-	5,855,130
Corporate stocks	28,881,391	33,028,951	-	-	33,028,951
Corporate bonds and government obligations	6,432,224	-	6,570,640	-	6,570,640
Unlisted securities	287,623	-	-	819,095	819,095
Total other investments	<u>35,601,238</u>	<u>33,028,951</u>	<u>6,570,640</u>	<u>819,095</u>	<u>40,418,686</u>
Total investments in the fair value hierarchy	\$ 41,456,368	\$ 38,884,081	\$ 6,570,640	\$ 819,095	\$ 46,273,816
Investments measured at net asset value (a)					\$ 6,895,993
Total investments at fair value					<u>\$ 53,169,809</u>

(a) In accordance with Subtopic 820-10, certain investment that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the combining statements of assets, liabilities, and net assets – modified cash basis.

The following table presents the changes in Level 3 instruments measured on a recurring basis for the year ended December 31, 2019:

January 1, 2019	\$ 1,125,251
Unrealized loss included in earnings	<u>(306,156)</u>
December 31, 2019	<u>\$ 819,095</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, 2019.

Investment	Fair value at December 31, 2019	Valuation Technique	Significant Unobservable Inputs	Range
Galveston Finale	\$ 810,351	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:

	Cost	Fair Value
Main Fund	\$ 23,105,439	\$ 26,475,677
J.B. Kempner Fund	5,406,723	6,129,206
Kempner Park Fund	240,346	276,014
Jennifer Ezell Fund	128,883	148,055
	<u>\$ 28,881,391</u>	<u>\$ 33,028,952</u>

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

	Cost	Fair Value	Excess of Fair Value over Cost
Balance, end of year	\$48,371,615	\$53,169,810	\$ 4,798,195
Balance, beginning of year	44,490,114	46,024,823	1,534,709
Increase in unrealized gain			3,263,486
Net realized gain			4,452,035
Total net unrealized and realized gains			<u>\$ 7,715,521</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 of 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, 2019 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
Samaritan Women at the Well	\$ 20,600	1.5 years	1%	6/12/2021

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

E. Related Party Transactions

Investment and management fees of approximately \$41,000 and \$46,000 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, 2019 and 2018, respectively. Mr. Harris L. Kempner, Jr., President of Kempner Capital Management, is a Kempner family member.

Approximately 15% and 16% of the Fund's holdings are managed by the Directors rather than by the investment managers during the year ended December 31, 2019 and 2018, respectively. These assets are in Kempner-family-related investments and include Black Stone Minerals LP, Kempner Securities LP, and Galveston Finale LP.

F. 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 \$8,183 and \$22,755 during the year ended December 31, 2019 and 2018, respectively.

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

G. 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 believes 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.

H. 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.

I. 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.

J. 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.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. The U.S. government has implemented enhanced, screenings, quarantine requirements, and travel restrictions in connection with the COVID-19 outbreak. The extent of the impact of the COVID-19 on the Fund's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related travel advisories and restrictions and the impact of the COVID-19 on financial markets, all of which are highly uncertain and cannot be predicted. The Fund's results through the date of this report have not been significantly impacted but the situation will be monitored closely.

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

K. Liquidity and Availability of Resources

The Fund has \$5,955,166 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 \$100,036 and short-term investments of \$5,855,130. 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.

L. Subsequent Events

In preparing the Fund's combining financial statements, management has evaluated all subsequent events and transactions for potential recognition or disclosure through November 9, 2020, 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, 2019

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

	<u>Main Fund</u>	<u>KCM Fixed Income Fund</u>	<u>J.B. Kempner Fund</u>	<u>Kempner Park Fund</u>	<u>Jennifer Ezell Fund</u>	<u>2019</u>	<u>2018</u>
Program Expenses							
Foreign taxes	\$ 13,220	\$ -	\$ 2,789	\$ 589	\$ 125	\$ 16,723	\$ 12,873
Grants	1,605,622	-	264,197	28,186	8,675	1,906,680	2,033,680
Management fees	224,115	3,079	26,554	1,799	967	256,514	206,394
Matching gift program	192,636	-	-	-	-	192,636	242,063
Total Program Expenses	<u>\$ 2,035,593</u>	<u>\$ 3,079</u>	<u>\$ 293,540</u>	<u>\$ 30,574</u>	<u>\$ 9,767</u>	<u>\$ 2,372,553</u>	<u>\$ 2,495,010</u>

HARRIS AND ELIZA KEMPNER FUND

SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES - MODIFIED CASH BASIS

For the Year Ended December 31, 2019

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

	<u>Main Fund</u>	<u>KCM Fixed Income Fund</u>	<u>J.B. Kempner Fund</u>	<u>Kempner Park Fund</u>	<u>Jennifer Ezell Fund</u>	<u>2019</u>	<u>2018</u>
General and Administrative Expenses:							
Accounting and audit	\$ 44,479	\$ 965	\$ 9,827	\$ 523	\$ 281	\$ 56,075	\$ 39,212
Entertainment	1,416	31	313	17	9	1,786	4,989
Excise and other tax	93,599	2,031	20,680	1,100	591	118,001	34,568
Insurance	20,639	448	4,560	242	130	26,019	39,704
Legal	1,871	41	414	22	12	2,360	-
Memberships	2,558	56	565	30	16	3,225	5,116
Miscellaneous	1,070	23	237	13	7	1,350	2,014
Office equipment	5,057	110	1,117	59	32	6,375	6,054
Office rent	13,154	285	2,906	155	83	16,583	13,563
Office supplies	1,306	28	288	15	8	1,645	1,586
Payroll expenses	198,173	4,300	43,784	2,328	1,252	249,837	193,563
Payroll taxes	15,351	333	3,392	180	97	19,353	15,000
Parking	2,119	46	468	25	13	2,671	2,194
Retirement plan and profit sharing	6,491	141	1,434	76	41	8,183	22,755
Registration	3,711	81	820	44	23	4,679	8,483
Computer software and services	11,132	242	2,459	131	70	14,034	11,880
Printed material	355	8	78	4	2	447	194
Kempner paper preservation	0	-	-	-	-	-	5,491
Travel	13,893	301	3,069	163	88	17,514	10,782
Total General and Administrative Expenses	<u>\$ 436,374</u>	<u>\$ 9,470</u>	<u>\$ 96,411</u>	<u>\$ 5,127</u>	<u>\$ 2,755</u>	<u>\$ 550,137</u>	<u>\$ 417,148</u>