

**HARRIS AND ELIZA KEMPNER FUND**

**FINANCIAL STATEMENTS**

**Years Ended December 31, 2013 and 2012  
with Report of Independent Auditors**

# **HARRIS AND ELIZA KEMPNER FUND**

## **FINANCIAL STATEMENTS**

**Years Ended December 31, 2013 and 2012**

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors  
Harris and Eliza Kempner Fund  
Galveston, Texas

We have audited the accompanying financial statements of the Harris and Eliza Kempner Fund (a nonprofit organization), which comprise the statement of assets, liabilities, and fund balances-modified cash basis as of December 31, 2013, the related statement of revenues, expenses and changes in fund balances-modified cash basis, and the statement of cash flows-combined funds modified cash basis for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 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, 2013, and the changes in its fund balances 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 financial statements, which describes the basis of accounting. The 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**

Other auditors previously audited the Harris and Eliza Kempner Fund's 2012 financial statements, and the report dated October 15, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the 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 18 are presented for purposes of additional analysis and are not a required part of the financial statements. 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements 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 financial statements 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.

Texas City, Texas  
December 17, 2014

## HARRIS AND ELIZA KEMPNER FUND

### STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES - MODIFIED CASH BASIS

For the Year Ended December 31, 2013

(with Comparative Totals for the Year Ended December 31, 2012)

	<u>Main Fund</u>	<u>KCM Fixed Income Fund</u>	<u>Parkland Apartments Fund</u>	<u>J.B. Kempner Fund</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 618,808	\$ -	\$ -	\$ -
Short term investments	3,533,961	401,590	-	1,023,893
Investments, at cost				
Stocks	19,363,449	-	-	4,927,018
Bonds	-	2,136,419	-	547,742
Unlisted securities	7,493,957	-	-	-
Adjustment to FMV	8,042,076	246,946	-	1,236,711
Program-related investments	56,865	-	-	-
Accounts receivable	290,118	-	-	70,180
Student loans, current	-	-	-	-
Total current assets	<u>39,399,234</u>	<u>2,784,955</u>	<u>-</u>	<u>7,805,544</u>
Property and equipment	-	-	-	-
Land	-	-	-	-
Office equipment	-	-	-	-
Leasehold equipment	-	-	-	-
	-	-	-	-
Less accumulated depreciation	-	-	-	-
Net property and equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Student loans, net of current	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 39,399,234</u>	<u>\$ 2,784,955</u>	<u>\$ -</u>	<u>\$ 7,805,544</u>
<b>Liabilities and Fund Balances</b>				
Current liabilities:				
Accounts payable	152	-	-	-
Excise tax payable	8,443	-	-	-
Total current liabilities	<u>8,595</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances	<u>39,390,639</u>	<u>2,784,955</u>	<u>-</u>	<u>7,805,544</u>
Total liabilities and fund balances	<u>\$ 39,399,234</u>	<u>\$ 2,784,955</u>	<u>\$ -</u>	<u>\$ 7,805,544</u>

See accompanying Notes to Financial Statements.

<b>Kempner Park Fund</b>	<b>Jennifer Ezell Fund</b>	<b>Student Loan Fund</b>	<b>Plant Fund</b>	<b>2013</b>	<b>2012</b>
\$ -	\$ -	\$ -	\$ -	\$ 618,808	\$ 802,294
112,176	55,132	17,444	-	5,144,196	4,121,770
220,324	119,036	-	-	24,629,827	24,498,774
-	-	-	-	2,684,161	2,802,423
-	18,922	-	-	7,512,879	7,122,011
39,256	30,438	-	-	9,595,427	3,309,909
-	-	-	-	56,865	76,003
5,875	2,393	-	-	368,566	33,547
-	-	40,671	-	40,671	31,029
<u>377,631</u>	<u>225,921</u>	<u>58,115</u>	-	<u>50,651,400</u>	<u>42,797,760</u>
-	-	-	-	-	-
-	-	-	14,780	14,780	14,780
-	-	-	46,538	46,538	46,538
-	-	-	19,941	19,941	19,941
-	-	-	81,259	81,259	81,259
-	-	-	(65,087)	(65,087)	(65,087)
-	-	-	16,172	16,172	16,172
-	-	-	-	-	27,062
<u>\$ 377,631</u>	<u>\$ 225,921</u>	<u>\$ 58,115</u>	<u>\$ 16,172</u>	<u>\$ 50,667,572</u>	<u>\$ 42,840,994</u>
-	-	-	-	152	4,641
-	-	-	-	8,443	22,260
-	-	-	-	8,595	26,901
<u>377,631</u>	<u>225,921</u>	<u>58,115</u>	<u>16,172</u>	<u>50,658,977</u>	<u>42,814,093</u>
<u>\$ 377,631</u>	<u>\$ 225,921</u>	<u>\$ 58,115</u>	<u>\$ 16,172</u>	<u>\$ 50,667,572</u>	<u>\$ 42,840,994</u>

**HARRIS AND ELIZA KEMPNER FUND**

**STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND BALANCES - MODIFIED CASH BASIS**

*For the Year Ended December 31, 2013*

*(with Comparative Totals for the Year Ended December 31, 2012)*

	<u>Main Fund</u>	<u>KCM Fixed Income Fund</u>	<u>Parkland Apartments Fund</u>	<u>J.B. Kempner Fund</u>
<b>Revenue, gains, and other support</b>				
Dividends	\$ 773,668	\$ 34	\$ 11,789	\$ 138,168
Interest	4,999	75,830	-	19,063
Net unrealized and realized gains (losses)	7,970,244	(331,368)	27,608	1,446,975
Other revenue	224,018	-	-	(4,802)
Contributions	-	-	-	-
Total revenue, gains, and other support	<u>8,972,929</u>	<u>(255,504)</u>	<u>39,397</u>	<u>1,599,404</u>
<b>Expenses</b>				
Program expenses	2,141,290	12,205	-	43,468
General and administrative expenses	343,956	25,109	-	70,707
Total expenses	<u>2,485,246</u>	<u>37,314</u>	<u>-</u>	<u>114,175</u>
(Deficit) excess of revenue over expenses	6,487,683	(292,818)	39,397	1,485,229
Interfund transfers	1,395,866	(98,491)	(1,024,678)	(260,609)
Changes in fund balances	<u>7,883,549</u>	<u>(391,309)</u>	<u>(985,281)</u>	<u>1,224,620</u>
Fund balances at beginning of year	<u>31,507,090</u>	<u>3,176,264</u>	<u>985,281</u>	<u>6,580,924</u>
Fund balances at end of year	<u>\$ 39,390,639</u>	<u>\$ 2,784,955</u>	<u>\$ -</u>	<u>\$ 7,805,544</u>

See accompanying Notes to Financial Statements.

<b>Kempner Park Fund</b>	<b>Jennifer Ezell Fund</b>	<b>Student Loan Fund</b>	<b>Plant Fund</b>	<b>2013</b>	<b>2012</b>
\$ 6,621	\$ 4,284	\$ 3	\$ -	\$ 934,567	\$ 900,941
8	6	-	-	99,906	153,695
79,589	41,529	45	-	9,234,622	2,035,497
-	579	-	-	219,795	1,298,815
-	-	-	-	-	366,304
<u>86,218</u>	<u>46,398</u>	<u>48</u>	<u>-</u>	<u>10,488,890</u>	<u>4,755,252</u>
1,398	1,221	-	-	2,199,582	1,808,535
2,735	1,767	150	-	444,424	494,958
<u>4,133</u>	<u>2,988</u>	<u>150</u>	<u>-</u>	<u>2,644,006</u>	<u>2,303,493</u>
82,085	43,410	(102)	-	7,844,884	2,451,759
2,735	1,080	(15,903)	-	-	-
<u>84,820</u>	<u>44,490</u>	<u>(16,005)</u>	<u>-</u>	<u>7,844,884</u>	<u>2,451,759</u>
<u>292,811</u>	<u>181,431</u>	<u>74,120</u>	<u>16,172</u>	<u>42,814,093</u>	<u>40,362,334</u>
<u>\$ 377,631</u>	<u>\$ 225,921</u>	<u>\$ 58,115</u>	<u>\$ 16,172</u>	<u>\$ 50,658,977</u>	<u>\$ 42,814,093</u>



**HARRIS AND ELIZA KEMPNER FUND**  
**STATEMENT OF CASH FLOWS - COMBINED FUNDS -**  
**MODIFIED CASH BASIS**

	<b>Year Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>		
Increase in fund balances	\$ 7,844,884	\$ 2,451,759
Adjustments to reconcile changes in fund balances to net cash provided by operating activities:		
Realized (gains) on investments	(2,949,105)	(1,335,898)
Unrealized (gains) on investments	(6,285,517)	(699,599)
Changes in net assets and liabilities:		
Decrease in program related investments	19,138	72,281
(Increase) decrease in accounts receivable	(335,019)	(30,795)
(Increase) decrease in student loans receivable	17,420	30,474
Increase (decrease) in accounts payable	(4,489)	4,641
Increase (decrease) in excise tax payable	(13,817)	12,198
Net cash provided by operating activities	(1,706,505)	505,061
<b>Cash flows from investing activities:</b>		
Proceeds from stocks, bonds, and partnership interests	12,295,265	10,146,027
Purchases of stocks, bonds, and partnership interests	(9,749,820)	(10,263,359)
Purchases of short term investments	(1,022,426)	(104,479)
Net cash provided by (used in) investing activities	1,523,019	(221,811)
Net increase (decrease) in cash and cash equivalents	(183,486)	283,250
Cash and cash equivalents at beginning of year	802,294	519,044
Cash and cash equivalents at end year	\$ 618,808	\$ 802,294
<b>Supplemental disclosure of cash flow information</b>		
Excise taxes paid	\$ 55,000	\$ 57,500

See accompanying Notes to Financial Statements.

**HARRIS AND ELIZA KEMPNER FUND**  
**NOTES TO FINANCIAL STATEMENTS - MODIFIED CASH BASIS**  
**December 31, 2013 and 2012**

**A. Nature of the Fund**

The Harris and Eliza Kempner Fund (the "Fund") is a non-profit Fund established on December 18, 1946, originally known as the "Galveston Fund". The Harris and Eliza Kempner 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 investment activity.

**Change in Structure of Entity**

Effective April 30, 2001, the Fund's structure was changed from a charitable trust to a non-profit corporation. This change terminated the charitable trust known as the Harris and Eliza Kempner Fund, and resulted in a transfer of all assets and liabilities of the charitable trust to the non-profit corporation known as the Harris and Eliza Kempner Fund. There was no effect on the financial statements of the Fund. The Harris and Eliza Kempner Fund (a non-profit corporation) is classified as a private foundation within the meaning of section 509(a) of the Internal Revenue Code.

**B. Summary of Significant Accounting Policies**

**Basis of Accounting**

The accompanying 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 recording depreciation on equipment, accruing student loan receivables, accounting for unrealized gains and losses on trading investments, and recording trading investments at fair market value.

The Financial Accounting Standards Board issued FASB ASC 958-605 (formerly SFAS No. 116), *Accounting for Contributions Received and Contributions Made*. This statement is a requirement for accrual basis financial statements prepared in conformity with accounting principles generally accepted in the United States of America. The Kempner Fund has opted to record grants on a cash basis, thereby foregoing the adoption of FASB ASC 958-605.

**Fund Accounting**

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.

In June 1993, the Financial Accounting Standards Board issued FASB ASC 958-205 (formerly SFAS No. 117), *Financial Statements of Not-for-Profit Funds*, effective for years beginning after December 31, 1994.

## HARRIS AND ELIZA KEMPNER FUND

### NOTES TO FINANCIAL STATEMENTS - MODIFIED CASH BASIS (continued)

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

##### Fund Accounting (continued)

This statement relates to the method of financial statement presentation which replaces fund accounting and is a requirement for financial statements prepared in conformity with accounting principles generally accepted in the United States of America. The Fund has opted to maintain its financial statements on a fund basis, rather than adopting FASB ASC 958-205.

##### Cash

For purposes of the statement of cash flows, the Fund considers its checking account as cash. 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

The Fund classifies all investments as trading securities and carries its investments at their estimated fair market values. The estimated fair market values of investments in marketable equity securities are based on quoted prices of identical assets in active markets (level 1 measurements) and the estimated fair market values of nonmarketable equity securities are estimated by management based on the underlying values of the partnership interests and are provided to the Fund by the management of the partnerships (level 3 measurements). The estimated fair market values of investments in debt securities are measured based on similar assets in active markets (level 2 measurements). Unrealized gains and losses are included in the excess (deficit) of revenues over expenses in the accompanying statement of revenues, expenses, and changes in fund balances.

##### 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 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 year ended December 31, 2013 was \$79,497.

##### Expense Allocation

The costs of providing various programs and other activities have been reflected on a functional basis in the financial statements. Program expenses are those that are directly attributable to a specific program. General and administrative expenses are indirect costs which are allocated to various programs on the basis of the fair market value of the program's investments.

##### Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities to the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**HARRIS AND ELIZA KEMPNER FUND**

**NOTES TO FINANCIAL STATEMENTS - MODIFIED CASH BASIS (continued)**

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

Prior Year Totals

The 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 financial statements for the year ended December 31, 2012, from which the summarized information was derived.

**C. Investments and Fair Value Measurements**

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

	<b>2013</b>				
	<u>Cost</u>	<u>Fair Value</u>	In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market investments	\$ 1,495,496	\$ 1,495,496	\$ 1,495,496	\$ -	\$ -
Treasury investments	3,648,700	3,648,700	3,648,700	-	-
Total short-term investments	5,144,196	5,144,196	5,144,196	-	-
Corporate stocks	24,629,827	30,014,198	30,014,198	-	-
Corporate bonds and Government obligations	2,684,161	2,998,056	-	2,998,056	-
Unlisted securities	7,512,879	11,410,040	-	-	11,410,040
Total other investments	34,826,867	44,422,294	30,014,198	2,998,056	11,410,040
Total investments	<u>\$ 39,971,063</u>	<u>\$ 49,566,490</u>	<u>\$35,158,394</u>	<u>\$ 2,998,056</u>	<u>\$ 11,410,040</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 01, 2013	\$ 9,360,842
Total unrealized gain	2,049,198
December 31, 2013	<u>\$ 11,410,040</u>

**HARRIS AND ELIZA KEMPNER FUND**

**NOTES TO FINANCIAL STATEMENTS - MODIFIED CASH BASIS (continued)**

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

Investments in corporate stocks by fund are as follows:

	<u>Cost</u>	<u>Fair Value</u>
Main Fund	\$ 19,363,449	\$ 23,515,572
J.B. Kempner Fund	4,927,018	6,096,780
Kempner Park Fund	220,324	259,580
Jennifer Ezell Fund	119,036	142,266
	<u>\$ 24,629,827</u>	<u>\$ 30,014,198</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	\$ 39,971,063	\$ 49,566,490	\$ 9,595,427
Balance, beginning of year	38,544,977	41,854,887	<u>3,309,910</u>
Increase in unrealized gain			6,285,517
Realized net gain			<u>2,949,105</u>
Total net gain			<u>\$ 9,234,622</u>

**D. 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. During 2012, the Galveston Art Center program-related investment balance was paid in full. The investments at December 31, 2013 are as follows:

<u>Organization</u>	<u>Carrying Value</u>	<u>Period</u>	<u>Interest Rate</u>
Artist Boat	\$ 50,000	1.5 years	1.5%
Galveston Historical Foundation	6,865	3 years	1.5%
	<u>\$ 56,865</u>		

## HARRIS AND ELIZA KEMPNER FUND

### NOTES TO FINANCIAL STATEMENTS - MODIFIED CASH BASIS (continued)

#### E. 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, 2013:

Grants payable at January 1, 2013	\$ 1,496,804
Grants approved in 2013	1,293,899
Grants paid in 2013	<u>(1,540,900)</u>
Grants payable at December 31, 2013	<u>\$ 1,249,803</u>

The Fund has a scheduled grant payment in the amount of \$50,000 to be paid during the year ending December 31, 2015.

#### F. Related Party Transactions

Investment and management fees of approximately \$79,000 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, 2013. Mr. Harris L. Kempner, Jr., President of Kempner Capital Management is a Kempner family member.

Approximately 23% of the Fund's holdings are managed by the Directors rather than by the investment managers. These assets are in Kempner family related investments and include H. Kempner CBI, Black Stone Minerals LP, Black Stone Natural Resources LLC, Kempner Securities LP, and Galveston Finale LP.

#### 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 during the year ended December 31, 2013 totaled \$17,358.

#### 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.

## HARRIS AND ELIZA KEMPNER FUND

### NOTES TO FINANCIAL STATEMENTS - MODIFIED CASH BASIS (continued)

#### I. Concentration of Credit Risk

The Fund's non-interest bearing cash and deposit accounts are insured up to \$250,000 by the Federal Depository Insurance Corporation ("FDIC") at each financial institution. While the Fund's cash on hand at December 31, 2013 exceeded the FDIC limit in the amount of \$696,467, the Fund did not experience any losses related to amounts in excess of the FDIC limit.

#### J. Other Revenue

In 1969, Parkland Apartments of Galveston, a nonprofit charitable trust was created by Harris L. Kempner, Leonora Thompson and J.H. Phipps, who also served as trustees. The purpose of the Trust was to manage the Parkland Apartments so as to provide subsidized housing for Galveston residents. The Harris and Eliza Kempner Fund was designated as the sole beneficiary of the Parkland Trust.

In 1986, day to day management of the Parkland Apartments was assumed by National Non-Profit Housing Company. The owners of National Non-Profit Housing Company became the controlling trustees of the Parkland Trust and the trust agreement was amended to remove the ability of the Kempner Fund to direct the trustees.

In 1990, the Parkland Apartments were sold by the new trustees to a newly organized entity, Sandpiper Cove Apartments LP. In consideration of the sale of the property, Sandpiper Cove, LP executed its promissory note in the principal amount of \$861,137. From that day forward, the sole asset of the Parkland Trust was the promissory note. Negligible amounts were paid toward the note during its term. In 2010, the Fund negotiated the settlement of the promissory note and agreed to a settlement amount of \$1,000,000 plus attorney fees, if the amount was paid by January 1, 2011. The settlement date was extended to December 2011, with interest payments of \$2,500 payable monthly and a one-time extension fee of \$20,000. On August 29, 2012, the promissory note was paid in full with a payment of \$1,007,500.

In 2013, other revenue primarily consisted of royalties and other miscellaneous income in the Main Fund.

#### K. Commitments and Contingencies

In August 2013, the Fund entered into a Memorandum of Understanding ("MOU") with the Galveston County Recovery Fund, to commit \$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 is to be renewed annually.

#### L. Subsequent Events

In October 2013, the Trustees of the H. Kempner Trust Association voted to distribute approximately 90% of the net assets of the Trust to the holders of H. Kempner certificates of beneficial interest (CBI) on or before January 10, 2014, with the remaining 10% to be retained until December 31, 2018 to cover any unknown debts, liabilities, or obligations of the Trust. At December 31, 2013, the Fund's partnership interest in H. Kempner CBI accounted for approximately 14.7% of the Fund's total investments in unlisted securities. Additionally, in January 2014, Kempner Securities distributed 520 units to the Fund. This represents approximately 14% of the Kempner Securities units owned by the Fund as of December 31, 2013.

**HARRIS AND ELIZA KEMPNER FUND**

**SCHEDULE OF PROGRAM EXPENSES - MODIFIED CASH BASIS**

**For the Year Ended December 31, 2013**

**(with comparative totals for the year ended December 31, 2012)**

	<b>2013</b>			
	<b>Main Fund</b>	<b>KCM Fixed Income Fund</b>	<b>Parkland Apartments Fund</b>	<b>J.B. Kempner Fund</b>
<b>Program Expenses</b>				
Collection	\$ 3,094	\$ -	\$ -	\$ -
Foreign taxes	12,274	-	-	2,653
Grant	1,540,900	-	-	-
Investment and management	288,190	12,205	-	40,815
Matching gift program	296,832	-	-	-
Total Program Expenses	<u>\$ 2,141,290</u>	<u>\$ 12,205</u>	<u>\$ -</u>	<u>\$ 43,468</u>



<b>2013</b>					<b>2012</b>
<b>Kempner Park Fund</b>	<b>Jennifer Ezell Fund</b>	<b>Student Loan Fund</b>	<b>Plant Fund</b>	<b>Totals</b>	<b>Totals</b>
\$ -	\$ -	\$ -	\$ -	\$ 3,094	\$ 2,823
88	54	-	-	15,069	15,350
-	-	-	-	1,540,900	1,308,561
1,310	1,167	-	-	343,687	173,221
-	-	-	-	296,832	308,580
<u>\$ 1,398</u>	<u>\$ 1,221</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,199,582</u>	<u>\$ 1,808,535</u>

**HARRIS AND ELIZA KEMPNER FUND**

**SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES -  
MODIFIED CASH BASIS**

**For the Year Ended December 31, 2013**

**(with comparative totals for the year ended December 31, 2012)**

	<b>2013</b>			
	<b>Main Fund</b>	<b>KCM Fixed Income Fund</b>	<b>Parkland Apartments Fund</b>	<b>J.B. Kempner Fund</b>
<b>General and Administrative Expenses:</b>				
Accounting	\$ 33,247	\$ 2,437	\$ -	\$ 6,862
Audit	11,614	847	-	2,386
Entertainment	749	55	-	154
Excise and other tax	61,552	4,491	-	12,648
Insurance	35,966	2,624	-	7,390
Legal	2,141	156	-	440
Memberships	1,839	134	-	378
Miscellaneous	808	59	-	166
Office equipment	14,050	1,025	-	2,887
Office rent	8,778	641	-	1,804
Office supplies	680	50	-	140
Payroll expenses	138,029	10,072	-	28,362
Payroll taxes	10,635	776	-	2,185
Repairs and maintenance	-	-	-	-
Parking	1,019	74	-	209
Retirement plan and profit sharing	13,440	981	-	2,762
Registration	2,372	173	-	487
Printed material	158	12	-	32
Telephone and utilities	-	-	-	-
Travel	6,880	502	-	1,414
Total General and Administrative Expenses	<u>\$ 343,956</u>	<u>\$ 25,109</u>	<u>\$ -</u>	<u>\$ 70,707</u>

2013					2012	
<b>Kempner Park Fund</b>	<b>Jennifer Ezell Fund</b>	<b>Student Loan Fund</b>	<b>Plant Fund</b>	<b>Totals</b>	<b>Totals</b>	
\$ 265	\$ 172	\$ 150	\$ -	\$ 43,133	\$ 42,256	
92	60	-	-	15,000	23,750	
6	4	-	-	967	1,550	
489	316	-	-	79,497	69,700	
286	185	-	-	46,451	43,544	
17	11	-	-	2,765	60,292	
15	9	-	-	2,375	3,115	
6	4	-	-	1,044	1,031	
112	72	-	-	18,146	377	
70	45	-	-	11,337	10,620	
5	3	-	-	878	2,669	
1,097	709	-	-	178,269	173,583	
85	55	-	-	13,735	13,389	
-	-	-	-	-	10,609	
8	5	-	-	1,316	1,683	
107	69	-	-	17,358	15,966	
19	12	-	-	3,063	4,224	
1	1	-	-	204	323	
-	-	-	-	-	5,306	
55	35	-	-	8,886	10,971	
<b>\$ 2,735</b>	<b>\$ 1,767</b>	<b>\$ 150</b>	<b>\$ -</b>	<b>\$ 444,424</b>	<b>\$ 494,958</b>	