

**THE GEORGE FOUNDATION**  
**CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
December 31, 2014

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
The George Foundation  
Richmond, TX

We have audited the accompanying consolidated financial statements of The George Foundation (the "Foundation"), a charitable trust, which comprise the consolidated statements of assets, liabilities, and net assets – federal excise tax basis, as of December 31, 2014 and 2013, and the related consolidated statements of revenues, expenses, and changes in net assets – federal excise tax basis for the years then ended, and the related notes to the consolidated 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 basis of accounting The George Foundation uses for federal excise tax purposes described in Note 2; this includes determining that the federal excise tax 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.

### ***Auditors' 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 auditors' 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 auditors consider 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 consolidated financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of The George Foundation as of December 31, 2014 and 2013, and its revenues, expenses, and changes in net assets for the years then ended, in accordance with the basis of accounting The George Foundation uses for federal excise tax purposes described in Note 2.

***Federal Excise Tax Basis of Accounting***

As described in Note 2 of the financial statements, the consolidated financial statements are prepared on the basis of accounting The George Foundation uses for federal excise tax purposes, 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 this matter.

A handwritten signature in cursive script that reads "Mohle Adams".

CERTIFIED PUBLIC ACCOUNTANTS

July 21, 2015

THE GEORGE FOUNDATION  
CONSOLIDATED STATEMENTS OF ASSETS, LIABILITIES,  
AND NET ASSETS – FEDERAL EXCISE TAX BASIS  
December 31, 2014 and 2013

ASSETS

	<u>2014</u>	<u>2013</u>
Current:		
Cash and cash equivalents	\$ 7,912,508	\$ 19,501,538
Accounts receivable, current	-	25
Other current assets	37,641	17,176
Investments (Note 3)	<u>198,641,659</u>	<u>188,053,924</u>
Total current assets	206,591,808	207,572,663
Oil and gas properties (Note 5)	58,973	58,973
Accounts receivable, non-current (Note 6)	1,852,528	1,143,005
Organizational costs (Note 7)	111,058	-
Property, improvements, and equipment, net (Note 9)	33,647,740	25,368,080
Charitable use and grant related capital assets, net (Note 9)	<u>4,594,844</u>	<u>4,581,932</u>
Total assets	<u>\$ 246,856,951</u>	<u>\$ 238,724,653</u>

LIABILITIES AND NET ASSETS

Current:		
Accounts payable	\$ 10,571	\$ -
Deposits	<u>2,250</u>	<u>2,000</u>
Total current liabilities	12,821	2,000
Commitments and contingencies (Note 10)		
Net assets:		
Unrestricted	<u>246,844,130</u>	<u>238,722,653</u>
Total liabilities and net assets	<u>\$ 246,856,951</u>	<u>\$ 238,724,653</u>

The accompanying notes are an integral part of the financial statements.

THE GEORGE FOUNDATION  
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS – FEDERAL EXCISE TAX BASIS  
For the years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Changes in unrestricted net assets:		
Revenue and gains:		
Oil and gas royalties	\$ 6,066,298	\$ 6,727,384
Dividends	2,775,628	2,493,712
Interest	2,503,159	2,591,740
Net realized investment gains (Note 8)	9,279,158	9,445,959
Gain (loss) on sale of assets	(115,113)	105,047
Other investment income	1,752,533	3,055,155
Farm crop rentals and sale of raised livestock	895,380	881,494
Easements and other income	2,550,449	246,528
Lease grazing rentals	68,809	71,105
Rentals - other	60,200	64,486
	<u>25,836,501</u>	<u>25,682,610</u>
Functional expenses: (Note 12)		
Grants (Note 11)	12,253,978	7,337,607
Ad valorem and production taxes	583,445	737,736
General and administrative expenses	2,864,004	3,232,392
George Ranch Historical Park operating expenses	1,316,319	1,235,458
Federal excise tax expense	486,049	375,143
Farm rental expenses	148,314	208,408
Depreciation - George Ranch Historical Park	228,299	226,464
Depreciation - other than George Ranch Historical Park	81,268	72,589
	<u>17,961,676</u>	<u>13,425,797</u>
Increase in unrestricted net assets	7,874,825	12,256,813
Net assets at beginning of year	238,722,653	226,157,995
Fair market value of grants in excess of cost (Note 13)	278,207	349,262
Write off of charitable use assets (Note 13)	(31,555)	(41,417)
Net assets at end of year	<u>\$ 246,844,130</u>	<u>\$ 238,722,653</u>

The accompanying notes are an integral part of the financial statements.

THE GEORGE FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2014 and 2013

**(1) Organization**

The George Foundation (the “Foundation”) is a charitable trust created by A. P. George and Mamie E. George. Income of the Foundation is used to make grants to fund religious, charitable, scientific, literary, and educational purposes. The principal source of income for the Foundation is derived from investments in equities, bonds, agricultural assets, and mineral interests.

**(2) Summary of Significant Accounting Policies**

Basis of Accounting

The financial statements of the Foundation are prepared on the federal excise tax basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Revenues and their related assets are recognized when received rather than when earned, and expenses and their related liabilities are recognized when paid rather than when the obligation is incurred.

Principles of Consolidation

The Foundation's consolidated financial statements include the accounts of The George Foundation and its wholly-owned special purpose entity subsidiaries, Berry Place Ventures Management, LLC, Berry Place Ventures, LP, and Berry Place Holdings, LP. All significant intercompany transactions have been eliminated.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with the federal excise tax basis of accounting requires the Foundation's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at 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.

Cash and Cash Equivalents

The Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

Receivable balances outstanding include receivables from investment income and non-current receivables from the Fort Bend County Levee Improvement District No. 6 (“LID”) and the Fort Bend County Municipal Utility District #207 (“MUD”).

Asset Valuation

Assets which were received from the Estates of A. P. George, deceased, and Mamie E. George, deceased, are stated at amounts established for federal tax purposes. Subsequent additions are recorded at cost. Contributions received are valued based on the donor's basis in the asset on the date received.

Marketable Securities

Marketable securities are recorded at cost on the date of acquisition.

THE GEORGE FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2014 and 2013

**(2) Summary of Significant Accounting Policies (Continued)**

Other Investments

Other investments include nonmarketable securities, such as partnerships, which are accounted for using the Schedule K-1s of the federal income tax returns of the various partnerships. Current year distributions up to accumulated realized income are recognized in the current year as income. If the partnerships have current year distributions in excess of accumulated realized income these excess distributions are reported as a return of capital against the investment.

Gains and (Losses) on Investments

Gains and losses on investment transactions, as presented below in Note 8, are determined and recorded on the first-in, first-out basis of the security at the time of disposition.

George Ranch Historical Park

The George Ranch Historical Park is a project of the Foundation. Assets acquired through purchase are capitalized at acquisition cost. Assets acquired through donation are capitalized based on the donor's basis in the asset on the date received. Purchases of assets are recorded as decreases in unrestricted net assets if purchased with unrestricted assets and as decreases in temporarily restricted or permanently restricted net assets if purchased with donor-restricted assets. Contributions of assets are not recognized in the statements of revenues, expenses, and changes in net assets. Consistent with the handling in prior years, 2014 and 2013 expenditures in the amounts of \$304,170 and \$158,999, respectively, have been capitalized as project costs and the remaining expenditures of \$1,316,319 and \$1,235,458, respectively, have been expensed.

Property and Equipment

Property and equipment are valued at historical cost and depreciated by the straight-line method at rates between 4 and 39 years depending on the nature and estimated useful life of the asset. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Grants

Grants approved by the Foundation's Board of Trustees are recorded as an expense when paid.

Profit Sharing Plan

The Foundation also has a profit sharing plan with a salary reduction feature permitted under section 401(k) of the Internal Revenue Code. The plan covers all employees over the age of twenty-one who have completed one year of service. The Foundation may make matching discretionary contributions equal to a percentage of the amount of the salary reduction the employees elect to defer. Salary reduction amounts and matching contributions are subject to limits imposed by the Internal Revenue Code. The Foundation's contributions to the plan in 2014 and 2013 were \$18,949 and \$ 26,773, respectively.

THE GEORGE FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2014 and 2013

**(2) Summary of Significant Accounting Policies (Continued)**

Employee Benefit Plan

The Foundation has a defined benefit pension plan that uses the projected unit credit actuarial cost method for financial reporting purposes. The Foundation uses the “aggregate cost method” for funding purposes. The plan covers substantially all of the Foundation’s employees. The benefits are based on years of service and the average monthly compensation for the five consecutive years when the employee had the highest aggregate compensation. In 2014 and 2013, the Foundation contributed \$110,176 and \$197,527, respectively, to the plan. The defined-benefit pension plan is funded in amounts sufficient to meet the minimum requirements of the Employee Retirement Income Security Act of 1974. As of February 9, 2015, the date of the latest actuarial valuation, the Adjusted Funding Target Attainment Percentage, as defined by the Pension Protection Act of 2006, for 2014 and 2013 was 107.06% and 97.40%, respectively.

Income Taxes

The Foundation is classified as a private foundation and is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. Net investment income is subject to federal excise tax. The maximum rate for such tax is 2%. Unrelated business income is subject to either Trust tax rates or Schedule D tax rates. Excise tax expense for the years ended December 31, 2014 and 2013 was \$486,049 and \$375,143, respectively.

Management evaluates tax positions taken or expected to be taken in the course of preparing the Foundation’s financial statements to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions, including interest and penalties if applicable, with respect to tax not deemed to meet the “more-likely-than-not” threshold would be recorded as an expense in the current year. The Foundation’s decision regarding tax positions is subject to review and may be adjusted at a later date based on factors including, but not limited to, ongoing analyses of tax laws, regulations, and interpretations thereof. No interest expense or penalties have been recognized as of and for the year ended December 31, 2014 and 2013.

The Foundation’s federal Return of Private Foundation (Form 990-PF) and their Exempt Organization Business Income Tax Return (Form 990-T) are subject to examinations by major taxing authorities for the three years prior to 2014.

**(3) Investments**

The statements of assets, liabilities, and net assets and the related statements of revenues, expenses, and changes in net assets do not include any unrealized gains or losses due to changes in the market value of assets.

THE GEORGE FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2014 and 2013

**(3) Investments (Continued)**

Market values of marketable securities are determined on the last business day of the fiscal year. Investments in partnerships are determined in reference to the market value of net assets reported either on the partnership's Schedule K-1 or on the owner's percentage of the partnership's financial statements received by management.

The original costs, market values, and unrealized gains (losses) of investments on hand at December 31, 2014 and 2013 are summarized as follows:

<u>2014</u>	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Corporate stocks	\$ 58,684,193	\$ 91,005,002	\$ 32,320,809
U.S. Government obligations	29,694,032	29,874,873	180,841
Corporate bonds and notes	25,296,988	25,160,603	(136,385)
Mutual funds	58,427,340	58,761,798	334,458
Partnerships	26,485,255	43,800,593	17,315,338
Certificates of deposit	53,851	51,595	(2,256)
	<u>\$198,641,659</u>	<u>\$248,654,464</u>	<u>\$ 50,012,805</u>
<u>2013</u>			
Corporate stocks	\$ 48,863,833	\$ 81,328,472	\$ 32,464,639
U.S. Government obligations	27,252,887	27,456,920	204,033
Corporate bonds and notes	22,789,443	22,786,415	(3,028)
Mutual funds	59,577,781	65,151,798	5,574,017
Partnerships	29,260,419	43,546,359	14,285,940
Certificates of deposit	309,561	303,025	(6,536)
	<u>\$188,053,924</u>	<u>\$240,572,989</u>	<u>\$ 52,519,065</u>

**(4) Concentrations and Credit Risk**

At December 31, 2014 and 2013, the Foundation's financial instruments included cash and investments. The financial instruments are stated at cost in accordance with the federal excise tax basis of accounting.

Financial instruments that potentially subject the Foundation to significant concentrations of credit risk consist principally of investments held in brokerage accounts with professional investment managers investing the funds and direct investments in investment partnerships. To manage its level of exposure, the Foundation utilizes the services of an investment advisor who evaluates the investment managers, provides quarterly reviews of portfolio performance, and monitors compliance with the Foundation's investment policies.

The Foundation, at various times in the ordinary course of business, maintains cash in demand deposit accounts in excess of federally insured limits.

THE GEORGE FOUNDATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 December 31, 2014 and 2013

**(5) Oil and Gas Properties**

Oil and gas properties at December 31, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Cost	\$ 4,028,827	\$ 4,028,827
Accumulated depletion	<u>3,969,854</u>	<u>3,969,854</u>
	<u>\$ 58,973</u>	<u>\$ 58,973</u>

Depletion expense was \$0 and \$0 for the periods ending December 31, 2014 and 2013, respectively.

**(6) Accounts Receivable**

The Foundation has non-current receivables from the LID, of which it is a member and the MUD, of which it is a member. Several major property owners in the area, including the Foundation, decided to fund a levee in order to better protect their land. Those funding the LID and MUD expect to be reimbursed through bond issuances as the area develops. The Foundation also has non-current receivables from cooperatives of which they are members. Accounts receivable, non-current consists of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Fort Bend County Levee Improvement District No. 6	\$ 403,864	\$ 900,622
Fort Bend County Municipal Utility District #207	1,399,624	196,874
Fairchild Farmers Cooperative Gin	45,015	41,897
Plains Cotton Cooperative Association	<u>4,025</u>	<u>3,612</u>
	<u>\$ 1,852,528</u>	<u>\$ 1,143,005</u>

**(7) Organizational Costs**

Berry Place Ventures Management, LLC and Berry Place Ventures, LP were formed on June 6, 2014. Berry Place Holdings, LP was formed on October 31, 2014. The purpose of these special purpose entities is to hold land for investment, associated with the Berry Tract owned by the Foundation.

**(8) Net Realized Gain on Investments**

Net realized gains for the periods ending December 31, 2014 and 2013 are presented as follows:

	<u>2014</u>	<u>2013</u>
Proceeds	\$ 79,865,517	\$ 69,475,355
Cost of securities sold	<u>(70,586,359)</u>	<u>(60,029,396)</u>
Net realized gains on investments	<u>\$ 9,279,158</u>	<u>\$ 9,445,959</u>



THE GEORGE FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2014 and 2013

**(10) Commitments - Unpaid Conditional Grants and Conditional Grants (Continued)**

2015	\$	4,083,630
2016		1,191,769
2017		543,334
2018		360,000
	\$	<u>6,178,733</u>

**(11) Grant Payments**

The amount of grant payments each year differs from the amount budgeted for grant spending for that year for various reasons. Grants deferred from prior years or pending payment are a result of contingencies or restrictions on the grants that had not been met by the grant recipient organization. Grant payments are sometimes accelerated for excise tax planning purposes.

In 2014 and 2013, net grant payments totaled \$12,253,978 and \$7,337,607, respectively, and included the following:

	<u>2014</u>
Grants approved in 2014 and paid in 2014	\$ 6,856,145
Payments in 2014 on grants deferred from prior years	<u>5,427,833</u>
	12,283,978
Grant refunds received	<u>(30,000)</u>
Net grant payments	<u>\$ 12,253,978</u>
	<u>2013</u>
Grants approved for 2013 and paid in 2013	\$ 5,173,055
Payments in 2013 on grants deferred from prior years	<u>3,164,816</u>
	8,337,871
Grant refunds received	<u>(1,000,264)</u>
Total	<u>\$ 7,337,607</u>

THE GEORGE FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2014 and 2013

**(12) Functional Expenses**

Total expenses in 2014 and 2013 are categorized as follows:

	<u>2014</u>	<u>2013</u>
Program expenses:		
Grants	\$12,253,978	\$ 7,337,607
George Ranch Historical Park operating expenses	1,316,319	1,235,458
Depreciation - George Ranch Historical Park	<u>228,299</u>	<u>226,464</u>
	<u>13,798,596</u>	<u>8,799,529</u>
General operating expenses:		
General and administrative expenses	2,864,004	3,232,392
Ad valorem and production taxes	583,445	737,736
Farm rental expenses	148,314	208,408
Federal excise taxes	486,049	375,143
Depreciation - office	27,352	25,138
Depreciation - farm and other	<u>53,916</u>	<u>47,451</u>
	<u>4,163,080</u>	<u>4,626,268</u>
Total expenses	<u>\$17,961,676</u>	<u>\$13,425,797</u>

**(13) Changes to Net Assets**

In 2014 and 2013 the Foundation granted real property with a fair market value of \$278,207 and \$349,262, respectively, in excess of its cost basis to one of its grantees. Additionally, charitable use assets of \$31,555 and \$41,417, respectively, were written off. These transactions were recorded as direct postings to Net Assets in accordance with the federal excise tax basis of accounting.

**(14) Subsequent Events**

The Foundation has evaluated subsequent events through July 21, 2015, the date which the financial statements were available to be issued. As of July 21, 2015, there were no subsequent events requiring further disclosure.