



THE MOODY FOUNDATION

Financial Statements and Schedule

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

THE MOODY FOUNDATION

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KPMG LLP
811 Main Street
Houston, TX 77002

Independent Auditors' Report

The Board of Trustees
The Moody Foundation:

We have audited the accompanying financial statements of The Moody Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, changes in net assets, and cash flows for the years 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 U.S. generally accepted accounting principles; this includes 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 audits. We conducted our audits 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 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 Moody Foundation as of December 31, 2013 and 2012, and the results of its operations, and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. Schedule 1 is presented for purposes of additional analysis and is 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 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 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.

KPMG LLP

Houston, Texas
March 13, 2014

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Statements of Financial Position

December 31, 2013 and 2012

Assets	2013	2012
Cash and cash equivalents	\$ 62,632,000	54,283,000
Investments:		
American National Insurance Company (notes 2 and 3)	603,344,000	561,070,000
Gal-Tex Hotel Corporation (note 4)	—	2,326,000
Marketable equity securities (note 3)	79,961,000	57,115,000
Bonds and other debt instruments (note 3)	556,145,000	571,011,000
Notes receivable (note 6)	12,536,000	12,581,000
Real estate	1,500,000	1,500,000
Total investments	<u>1,253,486,000</u>	<u>1,205,603,000</u>
Federal excise tax receivable	—	220,000
Accrued interest	3,778,000	3,918,000
Assets held for charitable purposes	43,000	43,000
Other assets, net of accumulated depreciation of \$1,639,000 and \$1,634,000 in 2013 and 2012, respectively	113,000	178,000
Assets held in charitable remainder trust (note 5)	<u>922,887,000</u>	<u>570,913,000</u>
Total assets	<u>\$ 2,242,939,000</u>	<u>1,835,158,000</u>
Liabilities and Net Assets		
Liabilities:		
Grants payable	\$ 144,688,000	65,483,000
Deferred tax liability (note 9)	11,552,000	11,081,000
Federal excise tax payable	124,000	—
Accounts payable and accrued liabilities	<u>45,000</u>	<u>20,000</u>
Total liabilities	<u>156,409,000</u>	<u>76,584,000</u>
Commitments and contingencies (note 11)		
Net assets:		
Unrestricted	889,906,000	926,580,000
Temporarily restricted (note 7)	461,444,000	285,457,000
Permanently restricted (note 8)	<u>735,180,000</u>	<u>546,537,000</u>
Total net assets	<u>2,086,530,000</u>	<u>1,758,574,000</u>
Total liabilities and net assets	<u>\$ 2,242,939,000</u>	<u>1,835,158,000</u>

See accompanying notes to financial statements.

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Statements of Activities

Years ended December 31, 2013 and 2012

	2013	2012
Changes in unrestricted net assets:		
Revenues and gains:		
Interest	\$ 19,920,000	22,950,000
Dividends	1,818,000	1,957,000
Net unrealized and realized gains (losses) on investments	(3,647,000)	10,289,000
Equity in income of affiliates (note 2)	56,727,000	39,915,000
Net assets released from restriction (note 5)	12,664,000	12,111,000
Other income	17,975,000	10,428,000
Grants lapsed or withdrawn	5,061,000	150,000
Total unrestricted revenues and gains	110,518,000	97,800,000
Expenses:		
Grant appropriations:		
Community and social services	69,059,000	24,398,000
Health and science	15,706,000	27,866,000
Education	48,265,000	31,029,000
Arts, humanities, and religion	5,475,000	6,890,000
Total grant appropriations	138,505,000	90,183,000
General and administrative expenses (note 10)	4,214,000	3,254,000
Expenses incurred in the production of revenues and gains	2,873,000	2,415,000
Provision for federal excise taxes (note 9)	1,600,000	1,644,000
Total expenses	147,192,000	97,496,000
(Decrease) increase in unrestricted net assets	(36,674,000)	304,000
Changes in temporarily restricted net assets:		
Change in value of charitable remainder trust (note 5)	188,651,000	(9,737,000)
Net assets released from restriction (note 5)	(12,664,000)	(12,111,000)
Increase (decrease) in temporarily restricted net assets	175,987,000	(21,848,000)
Changes in permanently restricted net assets:		
Change in value of charitable remainder trust (note 5)	188,651,000	(9,737,000)
Net unrealized and realized gains (losses) on investments	(2,341,000)	5,923,000
Equity in income of ANICO, net of dividends received (note 2)	2,333,000	1,365,000
Increase (decrease) in permanently restricted net assets	188,643,000	(2,449,000)
Increase (decrease) in net assets	\$ 327,956,000	(23,993,000)

See accompanying notes to financial statements.

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Statements of Changes in Net Assets
Years ended December 31, 2013 and 2012

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, December 31, 2011	\$ 926,276,000	307,305,000	548,986,000	1,782,567,000
Increase (decrease) in net assets	<u>304,000</u>	<u>(21,848,000)</u>	<u>(2,449,000)</u>	<u>(23,993,000)</u>
Net assets, December 31, 2012	926,580,000	285,457,000	546,537,000	1,758,574,000
Increase (decrease) in net assets	<u>(36,674,000)</u>	<u>175,987,000</u>	<u>188,643,000</u>	<u>327,956,000</u>
Net assets, December 31, 2013	\$ <u><u>889,906,000</u></u>	<u><u>461,444,000</u></u>	<u><u>735,180,000</u></u>	<u><u>2,086,530,000</u></u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 327,956,000	(23,993,000)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Distributions received from charitable remainder trust	12,664,000	12,111,000
Net realized losses (gains) on investments	2,281,000	(1,308,000)
Net unrealized losses (gains) on investments	3,707,000	(14,904,000)
Equity in income of affiliates	(59,060,000)	(41,280,000)
Change in value of charitable remainder trust	(377,302,000)	19,474,000
Deferred tax expense	471,000	1,044,000
Depreciation	75,000	85,000
Decrease in other assets	350,000	80,000
Noncash grant payment of stock	149,000	—
Increase in grants payable	79,205,000	40,026,000
Increase (decrease) in accounts payable and accrued liabilities	149,000	(143,000)
Net cash used in operating activities	(9,355,000)	(8,808,000)
Cash flows from investing activities:		
Proceeds from the sales, paydowns, and maturities of investments	473,955,000	453,981,000
Purchases of investments	(487,923,000)	(463,715,000)
Cash received on notes receivable	45,000	42,000
Dividends received from affiliates	18,963,000	18,966,000
Net cash provided by investing activities	5,040,000	9,274,000
Cash flows from financing activity:		
Restricted distributions received from charitable remainder trust	12,664,000	12,111,000
Net cash provided by financing activity	12,664,000	12,111,000
Net increase in cash and cash equivalents	8,349,000	12,577,000
Cash and cash equivalents, beginning of year	54,283,000	41,706,000
Cash and cash equivalents, end of year	\$ 62,632,000	54,283,000
Supplemental disclosure of cash flow information:		
Cash paid during the year for excise taxes	\$ 785,000	820,000

See accompanying notes to financial statements.

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Notes to Financial Statements

December 31, 2013 and 2012

(1) Organization and Summary of Significant Accounting Policies

(a) *Organization*

The Moody Foundation (the Foundation) is a private charitable foundation created in 1942 by W.L. Moody, Jr. and his wife, Libbie Rice Shearn Moody. The purpose of the Foundation is to promote and fund projects in the charitable areas that include, but are not limited to, humanities, arts, religion, education, health, science, community, and social services in the state of Texas.

(b) *Financial Statement Presentation*

The financial statements are presented in accordance with U.S. generally accepted accounting principles (GAAP). Assets received from the estate of W.L. Moody, Jr. were recorded in the financial statements at fair value on the date of receipt.

(c) *Interpretation of Relevant Law*

The Board of Trustees (the Board), following the provisions of the Foundation's trust indenture and the Uniform Prudent Investor Act (the Act) of the Texas Trust Code, classify net assets, revenues, gains, and losses based on the existence or absence of donor-imposed restrictions, as applicable. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets that are not subject to donor-imposed restrictions.
- *Temporarily restricted net assets* – Net assets that are subject to donor-imposed restrictions and require the passage of time or the occurrence of a specific event.
- *Permanently restricted net assets* – Net assets required to be maintained in perpetuity with only the interest and dividend income to be used for the Foundation's activities due to donor-imposed restrictions.

(d) *Cash and Cash Equivalents*

Cash and cash equivalents include amounts on deposit at financial institutions and highly liquid overnight investments of \$62,632,000 and \$54,283,000 as of December 31, 2013 and 2012, respectively.

(e) *Investment and Spending Policy*

The Foundation follows an investment and spending policy that attempts to provide a predictable stream of income to fund its charitable activities. Following this strategy, the Board invests all Foundation assets, restricted and unrestricted, in a manner that is intended to produce results that meet or exceed minimum distribution requirements plus inflation while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The Foundation has a policy of appropriating for distribution each year an amount that at least meets the minimum distribution as required by tax laws pertaining to private foundations. These

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December 31, 2013 and 2012

distribution payouts will be used to meet both grant making and administrative needs of the Foundation. To meet the payout level determined each year, the Foundation follows the investment policies described above, utilizing both income and capital appreciation. Where prudent, and not inconsistent with the Foundation's trust indenture or the Act, the Foundation may use a portion of the principal of certain funds to meet the established payout or to fund special projects as determined by the Board.

(f) *Investments and Investment Income*

The Foundation accounts for investments in equity securities with readily determinable fair values and all investments in debt securities at fair value, except for those accounted for under the equity method, with gains and losses included in the statements of activities.

The Foundation owns approximately 23% and 34% of the outstanding voting stock of the American National Insurance Company (ANICO) and Gal-Tex Hotel Corporation (Gal-Tex), respectively. These investments are accounted for using the equity method of accounting. The Foundation annually evaluates its investments in ANICO and Gal-Tex to determine whether the investments are impaired and records adjustments if appropriate.

Realized and unrealized gains or losses on investments are recorded based on donor-imposed restrictions. Dividends and interest income are available for unrestricted use. The permanently restricted portion of equity in income of ANICO is recorded net of dividends received from affiliates of \$1,043,000 in 2013 and 2012 that are available for unrestricted use.

The fair value of equity and debt securities is determined by reference to their quoted closing bid price at the reporting date, or if unquoted, determined using a valuation technique. Valuation techniques employed include market multiples and discounted cash flow analysis using expected future cash flows and market-related discount rates.

(g) *Depreciable Assets*

Depreciable assets are recorded at cost and are depreciated using the straight-line method based on estimated useful lives ranging from three to eight years.

(h) *Grant Appropriations*

The Foundation recognizes unconditional grant appropriations as expenses at the time grants are committed to the recipient organizations. The Foundation recognizes conditional grant appropriations as expenses when the conditions on which they depend have been substantially met. Scholarship program grants are paid over a four-year period.

(i) *Income Taxes*

The Foundation qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the Code), and is exempt from federal income tax under Section 501(a) of the Code on income from related activities.

Deferred excise tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and

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their respective excise tax bases. Deferred excise tax assets and liabilities are measured using enacted excise tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred excise tax assets and liabilities of a change in excise tax rates is recognized in income in the period that includes the enactment date.

(j) *Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires 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 changes in net assets during the reporting period. Significant items subject to such estimates and assumptions include investments, assets held in charitable remainder trust, and deferred taxes. Actual results could differ from those estimates.

(2) **ANICO**

The Foundation had an approximate 23% ownership interest in ANICO as of December 31, 2013 and 2012.

ANICO offers a broad spectrum of insurance products, including individual and group life insurance, health insurance, annuities, and property and casualty insurance. Through noninsurance subsidiaries, ANICO invests in stocks and real estate. Business is conducted in all 50 states, the District of Columbia, Puerto Rico, Guam, and American Samoa.

Summarized combined financial information for ANICO is as follows as of and for the years ended December 31:

	<u>2013</u>	<u>2012</u>
Revenues	\$ 3,119,210,000	2,987,060,000
Net income	268,372,000	191,041,000
Total assets	\$ 23,324,883,000	23,107,074,000
Total liabilities	\$ 19,121,552,000	19,267,747,000
Stockholders' equity	<u>4,203,331,000</u>	<u>3,839,327,000</u>
Total liabilities and stockholders' equity	<u>\$ 23,324,883,000</u>	<u>23,107,074,000</u>

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(3) Investments

The cost or amortized cost, estimated fair values of marketable equity and debt securities, and gross unrealized gains and losses as of December 31, 2013 and 2012 are as follows:

	December 31, 2013			Estimated fair value
	Cost or amortized cost	Unrealized gains	Unrealized losses	
Equity securities with published quotations:				
ALNICO (6,156,322 common shares)	\$ 603,344,000	101,801,000	—	705,145,000
Marketable equity securities	52,205,000	32,070,000	(4,314,000)	79,961,000
Debt securities:				
U.S. Treasury obligations	190,806,000	2,043,000	(2,579,000)	190,270,000
U.S. government agencies	153,878,000	2,100,000	(2,600,000)	153,378,000
Corporate and foreign bonds	205,493,000	7,393,000	(4,268,000)	208,618,000
Municipal obligations	3,692,000	207,000	(20,000)	3,879,000
	<u>\$ 1,209,418,000</u>	<u>145,614,000</u>	<u>(13,781,000)</u>	<u>1,341,251,000</u>
	December 31, 2012			Estimated fair value
	Cost or amortized cost	Unrealized gains	Unrealized losses	
Equity securities with published quotations:				
ANICO (6,157,822 common shares)	\$ 561,070,000	—	(140,552,000)	420,518,000
Marketable equity securities	45,450,000	17,668,000	(6,003,000)	57,115,000
Debt securities:				
U.S. Treasury obligations	147,477,000	4,853,000	(960,000)	151,370,000
U.S. government agencies	200,503,000	7,333,000	(1,036,000)	206,800,000
Corporate and foreign bonds	180,591,000	12,270,000	(2,161,000)	190,700,000
Municipal obligations	2,355,000	402,000	—	2,757,000
Other debt securities	18,983,000	4,707,000	(4,306,000)	19,384,000
	<u>\$ 1,156,429,000</u>	<u>47,233,000</u>	<u>(155,018,000)</u>	<u>1,048,644,000</u>

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The cost and estimated fair value of debt securities at December 31, 2013 and 2012, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2013	
	Cost	Estimated fair value
Due in one year or less	\$ 29,863,000	30,104,000
Due after one year through five years	231,812,000	232,988,000
Due after five years through ten years	87,729,000	88,271,000
Due after ten years	38,254,000	38,545,000
	387,658,000	389,908,000
Mortgage-backed securities (without single maturity dates)	166,211,000	166,237,000
	\$ 553,869,000	556,145,000
	2012	
	Cost	Estimated fair value
Due in one year or less	\$ 52,211,000	52,177,000
Due after one year through five years	171,303,000	172,634,000
Due after five years through ten years	87,871,000	95,715,000
Due after ten years	40,354,000	44,874,000
	351,739,000	365,400,000
Mortgage-backed securities (without single maturity dates)	198,170,000	205,611,000
	\$ 549,909,000	571,011,000

Proceeds from the sales, paydowns, and maturities of investment securities available for sale were \$473,955,000 and \$453,981,000 in 2013 and 2012, respectively. Gross realized gains and gross realized losses from the sale of investment securities available for sale included in “other income (expense), net” were \$1,853,000 and \$4,134,000, respectively, in 2013 and \$9,742,000 and \$8,434,000, respectively, in 2012.

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Notes to Financial Statements

December 31, 2013 and 2012

(4) Fair Value of Financial Instruments

The carrying amount and estimated fair value of financial instruments are shown below:

	December 31, 2013	
	Carrying amount	Estimated fair value
Financial assets:		
Equity securities with published quotations:		
ANICO (6,156,322 common shares)	\$ 603,344,000	705,145,000
Marketable equity securities	79,961,000	79,961,000
Debt securities:		
U.S. Treasury obligations	190,270,000	190,270,000
U.S. government agencies	153,378,000	153,378,000
Corporate and foreign bonds	208,618,000	208,618,000
Municipal obligations	3,879,000	3,879,000
	\$ 1,239,450,000	1,341,251,000

	December 31, 2012	
	Carrying amount	Estimated fair value
Financial assets:		
Equity securities with published quotations:		
ANICO (6,157,822 common shares)	\$ 561,070,000	420,518,000
Marketable equity securities	57,115,000	57,115,000
Debt securities:		
U.S. Treasury obligations	151,370,000	151,370,000
U.S. government agencies	206,800,000	206,800,000
Corporate and foreign bonds	190,700,000	190,700,000
Municipal obligations	2,757,000	2,757,000
Other debt securities	19,384,000	19,384,000
	\$ 1,189,196,000	1,048,644,000

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability. A fair value hierarchy is used to determine fair value based on a hypothetical transaction at the measurement date from the perspective of the market participant. An asset's or a liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

- Level 1 – Quoted prices in active markets for identical assets
- Level 2 – Other significant observable inputs (including quoted prices of similar securities, interest rates, prepayment speeds, credit risk, etc.).

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- Level 3 – Significant unobservable inputs (which may include the Foundation’s own assumptions in determining the fair value of investments)

The following is a summary categorization, as of December 31, 2013 and 2012, of the Foundation’s investments based on the level of inputs utilized in determining the value of such investments:

December 31, 2013			
	Level 1	Level 2	Level 3
	Quoted prices	Other significant observable inputs	Significant unobservable inputs
Investments in equity securities	\$ 79,961,000	—	—
Debt securities:			
U.S. Treasury obligations	—	190,270,000	—
U.S. government agencies	—	153,378,000	—
Corporate and foreign bonds	—	208,618,000	—
Municipal obligations	—	3,879,000	—
Other debt securities	—	—	—
Total	\$ 79,961,000	556,145,000	—

December 31, 2012			
	Level 1	Level 2	Level 3
	Quoted prices	Other significant observable inputs	Significant unobservable inputs
Investments in equity securities	\$ 57,115,000	—	—
Debt securities:			
U.S. Treasury obligations	—	151,370,000	—
U.S. government agencies	—	206,800,000	—
Corporate and foreign bonds	—	190,700,000	—
Municipal obligations	—	2,757,000	—
Other debt securities	—	19,384,000	—
Total	\$ 57,115,000	571,011,000	—

Grants payable are obligations that are noninterest-bearing and generally are paid within one year; therefore, their carrying value approximates fair value.

The Foundation obtains the fair value of publicly traded stocks, bonds, U.S. Treasury obligations, and other debt instruments based on quoted market prices. The estimated fair value of Gal-Tex common stock is \$9,860,000 and \$7,888,000 at December 31, 2013 and 2012, respectively.

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(5) Interest in Libbie Shearn Moody Trust

The Foundation has recorded its beneficial interest in the Libbie Shearn Moody Trust (the Trust) based on the estimated fair value of the assets contributed by the donor less the present value of the payments expected to be made to other life estates. The present value method for measuring the fair value of the contribution considers (a) the estimated return on the invested assets during the expected term of the Trust, (b) the contractual payment obligations under the Trust, (c) life expectancies of remaining life estate interests, and (d) an interest rate of 7.0%.

The Foundation receives distributions from the Trust applicable to its 75% remainderman interest in the income attributable to certain expired life estate interests in the Trust. One-half of these distributions are permanently restricted, and the remaining funds are temporarily restricted until distributions are made. Upon expiration of all life estates, the Foundation will receive 75% of the assets of the Trust.

Approximately 92% of the assets of the Trust are 9,949,585 shares of ANICO common stock with a fair value of \$1,139,625,000 and \$679,457,000 at December 31, 2013 and 2012, respectively.

(6) Notes Receivable

Notes receivable at December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Unsecured 1.25% note receivable from Moody Gardens	\$ 12,096,000	12,096,000
Other	440,000	485,000
	<u>\$ 12,536,000</u>	<u>12,581,000</u>

The unsecured 1.25% note receivable from a grant recipient is an advancing demand loan for a total amount of \$12,096,000 that was fully advanced to the grant recipient in 2011. Interest only is due in annual payments on the anniversary date of the loan. Interest payments received were \$151,000 and \$146,000 in 2013 and 2012. Payment of principal amounts outstanding are due upon demand of the Foundation or April 1, 2020, whichever should occur first.

(7) Temporarily Restricted Net Assets

Temporarily restricted net assets were \$461,444,000 and \$285,457,000 as of December 31, 2013 and 2012, respectively, and consisted of estimated future distributions from the Trust. Assets are released from restriction when time restrictions are met.

(8) Permanently Restricted Net Assets

Permanently restricted net assets consist primarily of the beneficial interest in the Trust, investments to be invested in perpetuity, and paintings to be held in perpetuity. Changes in permanently restricted net assets include the permanently restricted portion of equity in income of ANICO less dividends that are available for unrestricted use. Pursuant to donor restrictions, 338,522 of the 6,156,322 shares of ANICO common stock held by the Foundation are permanently restricted.

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(9) Federal Excise Tax

The Foundation is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code, as an organization described in Section 501(c)(3). Accordingly, the Foundation is not subject to federal income tax, except to the extent that it has unrelated business taxable income. The Foundation did not have unrelated business income in 2013 or 2012. However, the Foundation is classified as a private foundation under Section 509(a) and, as such, is subject to a federal excise tax of 2% on net investment income, unless certain conditions are met in which case the federal excise tax is reduced to 1%. In 2013 and 2012, the Foundation was subject to an excise tax on net investment income of 2%. Deferred excise taxes (benefit) are provided for on the unrealized increase (decrease) in the fair value of the Foundation's investment assets at a 2% rate. The following information is for the years ended December 31:

	<u>2013</u>	<u>2012</u>
Current tax expense	\$ 1,129,000	600,000
Deferred tax expense	471,000	1,044,000
Total excise tax expense	<u>\$ 1,600,000</u>	<u>1,644,000</u>

The Foundation is also required to make certain minimum qualifying distributions of its assets in accordance with formulas provided by federal law. The Foundation met its minimum distribution requirement for 2012. The Foundation will need to distribute an additional \$66,500,000 by December 31, 2014 to satisfy its 2013 minimum requirement.

(10) Related-Party Transactions

Members of the Board of Trustees and certain employees of the Foundation hold various positions with organizations that provide services to or receive grants from the Foundation. In addition, the Foundation's investment portfolio includes investments in other entities in which the Trust and other related parties have common investments. The Foundation has a number of recurring transactions with such entities.

During 2013 and 2012, Moody Gardens, Inc. was awarded grant appropriations of \$58,680,000 and \$20,000,000, respectively. During 2013 and 2012, Moody Gardens, Inc. received grant payments of \$15,377,000 and \$6,062,000, respectively. At year-end 2013 and 2012, the Foundation also had a note receivable from Moody Gardens in the amount of \$12,096,000 (note 6).

The Moody National Bank of Galveston (the Bank) leases office space to the Foundation and provides the Foundation with general banking services, general bookkeeping services, and physical custody of records and marketable securities. Total payments to the Bank were approximately \$574,000 and \$563,000 during the years ended December 31, 2013 and 2012, respectively. The Bank also serves as trustee for the Trust.

Insurance premiums paid to ANICO under a medical stop-loss insurance plan were approximately \$216,000 and \$132,000 for the years ended December 31, 2013 and 2012, respectively.

THE MOODY FOUNDATION

Notes to Financial Statements

December 31, 2013 and 2012

(11) Commitments and Contingencies

The Foundation has pending and threatened litigation and claims incurred in the ordinary course of business. Management believes that the probable resolution of such contingencies will not exceed insurance coverages and will not materially affect the financial position of the Foundation or the results of its operations.

(12) Subsequent Events

The Foundation has evaluated subsequent events through March 13, 2014, the date the financial statements were available to be issued, and determined that there were no subsequent events that would have materially affected the financial statements or required additional disclosure.

THE MOODY FOUNDATION

Grants

December 31, 2013

Recipient		Purpose/description	Tax status	Unpaid at December 31, 2012	2013 Activity		Unpaid at December 31, 2013
					Commitments	Payments	
AIDS Services of Austin	2013-01	Assistance in providing dental care to HIV-positive individuals in Central Texas through the Jack Sansing Dental Clinic, which services those who cannot otherwise access dental services	501 [c] 3	\$ —	25,000.00	25,000.00	—
American Cancer Society, Inc./Cattle Baron's Ball	2013-02	Support of the Junior Cattle Baron's Ball, which provides pediatric cancer patients and their families with a free afternoon outing to Disney on Ice	501 [c] 3	—	50,000.00	50,000.00	—
Austin Explore, Inc./Explore Austin	2012-36	Assistance in providing underserved Austin youth with mentoring and leadership training through a year-round outdoor adventure program	501 [c] 3	50,000.00	—	50,000.00	—
Austin Film Society	2013-31	Assistance in presenting the 2013 Texas Film Hall of Fame	501 [c] 3	—	25,000.00	—	25,000.00
Austin Film Society	2012-37	Assistance in presenting the 2013 Texas Film Hall of Fame, and in matching NEA funds to renovate a National Guard facility for use as a production stage and office space	501 [c] 3	25,000.00	—	25,000.00	—
Austin Parks Foundation	2013-32	Assistance in developing the Pease Park Master Plan to guide future landscaping and recreational decisions and keep the park flourishing	501 [c] 3	—	15,000.00	—	15,000.00
Austin Project	2013-33	Assistance, through a "general operations" grant to support relief efforts for those displaced and effected by the floods of October 31, 2013	501 [c] 3	—	20,000.00	20,000.00	—
Baylor College of Medicine	2010-14	Assistance in developing a functional-MRI test that will better identify areas of the brain affected by temporal lobe epilepsy prior to corrective surgery	501 [c] 3	93,696.00	—	—	93,696.00
Blue Bird Circle	2012-38	Assistance in treating children with neurological disorders by establishing the Blue Bird Circle Clinical Research Center at Texas Children's Hospital	501 [c] 3	50,000.00	—	50,000.00	—
Camp For All Foundation	2012-05	Support of the "Reaching the Stars" campaign to build improvements to Camp For All, including a multi-purpose center	501 [c] 3	75,000.00	—	75,000.00	—
Chinati Foundation	2012-40	Assistance in broadening the museum's impact in the community through the Chinati Internship Program	501 [c] 3	15,000.00	—	15,000.00	—
Child Protective Services Community Partners, Inc./Community Partners of Dallas	2013-03	Assistance in meeting the educational, therapeutic and other needs of children under CPS supervision who have remained in family care	501 [c] 3	—	15,000.00	—	15,000.00
Children's Assessment Center Foundation	2013-09	Assistance in expanding the Center to increase services to child victims of sexual abuse and to better advocate for all children in preventing abuse	501 [c] 3	—	125,000.00	—	125,000.00
City of Galveston/Parks & Recreation Dept.	2013-37	Assistance in constructing a community pool at a centrally located, city-owned site	501 [c] 3	—	1,325,000.00	—	1,325,000.00
City of Galveston/ Police Department	2013-38	Assistance in increasing the quality of crime-scene investigations by purchasing accident reconstruction equipment and software, and training officers in its use	501 [c] 3	—	89,332.00	—	89,332.00
Citysquare	2013-19	Assistance in providing affordable legal representation to low-income Dallas residents	501 [c] 3	—	12,500.00	—	12,500.00
College Baseball Foundation	2012-41	Assistance, over a three-year period, in constructing and endowing the College Baseball Hall of Fame	501 [c] 3	1,000,000.00	—	—	1,000,000.00
Crisman Preparatory School	2012-16	Assistance in updating network cabling and hardware	501 [c] 3	25,000.00	—	25,000.00	—
Crystal Charity Ball	2013-10	Assistance in providing eight Dallas County children's charities with substantial funding through support of the 2013 Crystal Charity Ball events	501 [c] 3	—	100,000.00	100,000.00	—
Dallas Center for the Performing Arts/ dba AT&T Performing Arts Center	2012-26	Assistance in providing high school students with theatrical experiences through the Backstage Spotlight program	501 [c] 3	150,000.00	—	—	150,000.00
Dallas Center for the Performing Arts/dba AT&T Performing Arts Center	2013-11	Sponsorship of the Starlight Chandelier and its accompanying music in the Winspear Opera House	501 [c] 3	—	5,000,000.00	1,000,000.00	4,000,000.00
Dallas Foundation/Zero to Five Funders' Collaborative Fund	2013-20	Support of the fourth year of the Zero to Five Funders' Collaborative to improve early childhood education in the Bachman Lake area of Dallas	501 [c] 3	—	25,000.00	25,000.00	—
Dallas Theater Center	2013-34	Assistance with Project Discovery which will engage students from North Texas high schools in a comprehensive, year-long theater education program	501 [c] 3	—	300,000.00	—	300,000.00
Elves & More	2012-43	Assistance in distributing bicycles to children in low-income schools as an incentive to improve academic performance, conduct or other factors leading to success	501 [c] 3	20,000.00	—	20,000.00	—
Equest	2013-12	Assistance in providing therapeutic care, in modalities that include physical, occupational and hippotherapy, to children and adults	501 [c] 3	—	35,000.00	35,000.00	—
Family Compass	2013-04	Assistance in providing educational and mentoring services to parents at risk of child abuse or neglect	501 [c] 3	—	15,000.00	15,000.00	—
Family Place, Inc.	2012-27	Assistance in reducing youth violence through the Be Project, an educational and therapeutic program addressing bullying, dating violence and sexual harassment	501 [c] 3	25,000.00	—	25,000.00	—
Friendswood ISD Education Foundation	2013-35	Assistance in providing innovative teaching grants, and in supporting future education projects by augmenting the endowment fund	501 [c] 3	—	100,000.00	—	100,000.00
Galaxy Counseling Center	2013-21	Assistance in supporting the Sexual Abuse Treatment Program	501 [c] 3	—	15,000.00	15,000.00	—
Galveston Bay Foundation	2013-13	Assistance increasing awareness of environmental issues affecting Galveston Bay through the "Bike Around the Bay" fundraising bike ride, scheduled for October 12 and 13, 2013	501 [c] 3	—	20,000.00	20,000.00	—
Galveston Chamber Partnership, Inc.	2013-36	Assistance in presenting the 2014, 2015, and 2016 women's conferences, "Celebrating Women: Mind, Body, Spirit," at Moody Gardens	501 [c] 3	—	150,000.00	—	150,000.00
Galveston Historical Foundation, Inc.	2012-29	Support of a major capital campaign to purchase the Bishop's Palace	501 [c] 3	1,500,000.00	—	1,500,000.00	—
Galveston Independent School District Educational Foundation, Inc.	2011-49	Assistance in expanding administrative staff and in increasing the funding awarded to improve education throughout the Galveston Independent School District	501 [c] 3	37,500.00	—	25,000.00	12,500.00
Gleanings From the Harvest for Galveston/dba Galveston County Food Bank	2013-14	Support of 2013 operating expenses, and assistance in building operating reserves for long-term stability in providing food to disadvantaged residents of Galveston County	501 [c] 3	—	150,000.00	150,000.00	—
Gulf Coast Big Brothers & Big Sisters, Inc.	2013-39	Assistance in expanding community and school-based programs to provide an additional 60 at-risk children and youth with a mentor for academic and social improvement	501 [c] 3	—	65,000.00	—	65,000.00
Health Alliance for Austin Musicians	2013-15	Assistance in providing Austin musicians with hearing screenings and protective ear plugs through the HEAR project	501 [c] 3	—	25,000.00	25,000.00	—
Hill Country Ride for AIDS, Inc.	2013-16	Assistance in raising funds for ten Central Texas AIDS service organizations through partial sponsorship of the Hill Country Ride for AIDS	501 [c] 3	—	25,000.00	25,000.00	—
Holy Family Catholic School	2012-10	Assistance with improvements to the early childhood and middle-school wings, and enhancing the appearance of the facility	501 [c] 3	100,000.00	—	100,000.00	—

THE MOODY FOUNDATION

Grants

December 31, 2013

Recipient		Purpose/description	Tax status	Unpaid at December 31, 2012	2013 Activity		Unpaid at December 31, 2013
					Commitments	Payments	
Jeremiah Program	2011-39	Assistance in replicating a successful model to break the cycle of generational poverty by providing a full range of needed services to young mothers of pre-school children	501 [c] 3	\$ 500,000.00	—	500,000.00	—
Kick Drugs Out of America Foundation/dba KICKSTART KIDS	2012-46	Assistance in operating a character-building arts program at Central Middle School	501 [c] 3	10,000.00	—	10,000.00	—
Letot Center Capital Foundation	2012-19	Assistance, over a five-year period, in construction a residential treatment center for the Dallas County Juvenile Department to serve exploited girls ages 13-17	501 [c] 3	1,500,000.00	—	300,000.00	1,200,000.00
Lutheran Music Academy of Galveston Island, Inc.	2010-42	Assistance in reorganizing the music academy to focus on an expanded curriculum increasing enrollment and a stronger financial base	501 [c] 3	33,333.36	—	33,333.36	—
Marathon Kis, Inc.	2012-47	Support, over a two-year period, of free running/walking, nutrition and gardening programs all aimed at improving the health of Texas elementary school children	501 [c] 3	200,000.00	—	200,000.00	—
Marfa International School	2013-22	Assistance in constructing an Art Lab that will serve students at all grade levels at Marfa International School.	501 [c] 3	—	25,000.00	—	25,000.00
McCallum High School Project Graduation	2013-17	Assistance in providing graduating seniors from McCallum High School with a safe, substance-free all-night celebration following their graduation	501 [c] 3	—	5,000.00	5,000.00	—
Moody Gardens, Inc	2012-11	Assistance with guest room and public areas renovations	501 [c] 3	13,938,065.19	—	13,938,065.19	—
Moody Gardens, Inc	2013-05	Assistance in adding an Ice Carving Exhibit at the Festival of Lights	501 [c] 3	—	4,952,630.00	295,520.61	4,657,109.39
Moody Gardens, Inc	2013-06	Assistance in making upgrades and improvements to the Discovery Pyramid	501 [c] 3	—	13,811,639.00	380,502.80	13,431,136.20
Moody Gardens, Inc	2013-07	Assistance in making upgrades and improvements to the Aquarium Pyramid	501 [c] 3	—	39,915,675.00	763,295.11	39,152,379.89
Moody Scholars Program	2010-09	Support of the Moody Scholars program, including scholarships to students in two Dallas County schools, and twelve Galveston County schools, and purchasing laptop computers for needy students	501 [c] 3	226,000.00	—	217,000.00	9,000.00
Moody Scholars Program	2010-43	Support of the Moody Scholars Program in Galveston County schools	501 [c] 3	383,000.00	—	195,000.00	188,000.00
Moody Scholars Program – 2012;	2011-55	Assistance in providing scholarships to students graduating from selected schools in Galveston, Travis and Dallas counties	501 [c] 3	514,000.00	—	224,000.00	290,000.00
Moody Scholars Program	2012-48	Support of the 2013 Moody Scholars Program in Galveston, Dallas and Travis counties	501 [c] 3	600,000.00	—	145,000.00	455,000.00
Neuhaus Memorial Foundation/dba Neuhaus Education Center	2012-49	Assistance in providing literacy education to teachers in Galveston County's public and private schools	501 [c] 3	9,945.00	—	9,945.00	—
O'Connell High School Foundation	2012-50	Assistance in repairing aging facilities, upgrading curriculum and faculty, and increasing the operating endowment	501 [c] 3	1,000,000.00	—	812,500.00	187,500.00
Out Youth Austin	2010-45	Assistance in renovating the current wheelchair ramp and front entryway to bring the facility up to code and provide a safer environment	501 [c] 3	7,500.00	—	7,500.00	—
Project Graduation, Inc.	2009-21	Assistance in providing graduating Ball High seniors with a safe, chemical-free graduation celebration	501 [c] 3	5,000.00	—	5,000.00	—
Rice University	2012-32	Assistance with the design phase for construction of the Moody Center for the Arts, a performance and exhibition space for a broad range of arts activities	501 [c] 3	17,300,000.00	—	—	17,300,000.00
Saint Andrew's Episcopal School	2011-11	Assistance, over a five-year period, in renovating Moody Coliseum	501 [c] 3	750,000.00	—	250,000.00	500,000.00
Saint Philip's School & Community Center	2013-40	Assistance in providing tuition assistance to students from low-income families so that they may benefit from a high-quality education in South Dallas	501 [c] 3	—	10,000.00	—	10,000.00
Shelter Ministries of Dallas/Genesis Women's Shelter	2013-42	Assistance in providing specialized education to children who have experienced domestic violence by providing salary support and partial funding to lease Integrated Learning Systems equipment	501 [c] 3	—	25,000.00	—	25,000.00
Southern Methodist University	2011-12	Assistance, over a five-year period, in renovating Moody Coliseum	501 [c] 3	4,000,000.00	—	4,000,000.00	—
SPCA of Texas	2013-08	Assistance in increasing the number of animals adopted by addressing their health issues in-house through the Shelter Vet program	501 [c] 3	—	25,000.00	25,000.00	—
St. Vincent's House	2012-13	Assistance in providing clinic care, including specialty clinics in vision, psychiatry, nephrology and dermatology to uninsured, underinsured and indigent patients	501 [c] 3	12,500.00	—	12,500.00	—
Sunshine Center	2013-23	Assistance in fostering independence, self-esteem, dignity and community responsibility among Galveston County individuals with developmental disabilities by matching funds raised in the Annual Appeal	501 [c] 3	—	30,000.00	30,000.00	—
Sustainable Food Center, Inc.	2012-51	Assistance in constructing a training center where low-income children and adults will learn healthier eating habits	501 [c] 3	25,000.00	—	25,000.00	—
TeamRogue	2012-52	Assistance in developing a running program targeting uninvolved high school students in order to improve their fitness, nutrition and scholastic achievements	501 [c] 3	15,000.00	—	15,000.00	—
Texas A&M University at Galveston	2013-24	Assistance in compiling engineering, economic and environmental studies that will forecast the effects of a coastal barrier across Galveston Bay	501 [c] 3	—	100,000.00	—	100,000.00
Texas General Land Office	2013-30	Permanent, unrestricted gift of the 1731 land document issued by Spain for the San Jose Mission.	501 [c] 3	—	150,000.00	150,000.00	—
Texas Wesleyan University	2012-53	Assistance in leveraging street improvement funding to create a campus entrance	501 [c] 3	250,000.00	—	250,000.00	—
The Settlement Club/dba The Settlement Home	2013-41	Assistance in purchasing a minivan for transporting residents of Moody Cottage	501 [c] 3	—	22,000.00	—	22,000.00
Transitional Learning Center at Galveston	2013-25	Assistance in Supporting treatment, research and education regarding traumatic brain injury at the Transitional Learning Center at Galveston-Postoffice	501 [c] 3	—	6,491,932.00	6,491,932.00	—
Transitional Learning Center at Galveston	2013-18	Transfer of 1,500 shares of American National Insurance Company common stock to assist with future operational and capital expansion plans	501 [c] 3	—	149,085.00	149,085.00	—
Trinity Episcopal School	2012-01	Assistance in constructing the Robert L. and Ann Moody Activity Center for Trinity Episcopal School's sports, performances and assemblies	501 [c] 3	818,235.00	—	818,229.00	—
United Way of Galveston, Inc./Galveston County Recovery Fund	2012-14	A pledge in the event of a federally declared disaster in Galveston or Galveston County. In the event no disaster throughout the one-year period of commitment, the Fund requests the memorandum of understanding and commitment of funds be renewed annually	501 [c] 3	50,000.00	—	—	50,000.00
United Way of Metropolitan Dallas, Inc.	2012-54	Assistance in preparing K-2nd grade teachers to present more math and science in early grades through the "Leaders in Science" program	501 [c] 3	50,000.00	—	50,000.00	—
University of Texas at Austin/Blanton Museum of Art	2012-55	Assistance in continuing the museum's policy of free admission every Thursday, and in presenting public programs and events on the third Thursday of every month	501 [c] 3	150,000.00	—	150,000.00	—
University of Texas at Austin/College of Communication Department of Radio-Television-Film	2012-56	Assistance, over a five-year period, in developing a university curriculum in 3-dimensional film and television production	501 [c] 3	2,170,374.00	—	546,135.00	1,624,239

**The Moody Foundation
Grants**
December 31, 2013

Schedule 1

Recipient		Purpose/description	Tax status	Unpaid at December 31, 2012	2013 Activity		Unpaid at December 31, 2013
					Commitments	Payments	
University of Texas at Austin/College of Communication	2013-26	Assistance, over a five-year period, in building a new hospital as part of the "Working Wonders" capital campaign	501 [c] 3	\$ —	48,000,000.00	12,000,000.00	36,000,000.00
UTMB/Miscellaneous	2012-21	Assistance, over a five-year period, in building a new hospital as part of the "Working Wonders" capital campaign	501 [c] 3	13,200,000.00	—	3,300,000.00	9,900,000.00
UTMB/Miscellaneous	2013-27	Assistance, over a three-year period, in creating the Moody Institute for Transitional Traumatic Brain Injury Research	501 [c] 3	—	9,000,000.00	3,000,000.00	6,000,000.00
West Texas A&M University	2011-45	Assistance in implementing a program in the Texas Panhandle to support and educate traumatic brain injury survivors and their caregivers	501 [c] 3	18,300.00	—	—	18,300.00
Willow City Volunteer Fire and Rescue, Inc.	2013-28	Assistance in purchasing a firefighting tender that will improve firefighting efforts in rural areas.	501 [c] 4	—	65,000.00	—	65,000.00
YMCA of Metropolitan Dallas	2013-29	Assistance in constructing a new Park Cities YMCA with additional space for programming adult activities and the Rise School	501 [c] 3	—	8,000,000.00	2,000,000.00	6,000,000.00
Young Women's Christian Association	2012-35	Assistance in providing parenting education and support to first-time mothers through a home-visit program for health and safety monitoring referral	501 [c] 3	25,000.00	—	25,000.00	—
				<u>60,927,448.55</u>	<u>138,504,793.00</u>	<u>54,744,543.07</u>	<u>144,687,692.48</u>
Grants lapsed or withdrawn				5,061,246.65	—	—	
Less returned grant payments from prior years				(558,292.20)	—	—	
Payments between prior year-end and withdrawal				<u>52,000.00</u>	<u>—</u>	<u>52,000.00</u>	
				<u>\$ 65,482,403.00</u>	<u>138,504,793.00</u>	<u>54,796,543.07</u>	

See accompanying independent auditors' report.