

Sterling-Turner Foundation

Financial Statements – Modified Cash Basis
and Independent Auditors' Report
for the years ended December 31, 2016 and 2015

Sterling-Turner Foundation

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Independent Auditors' Report

To the Board of Trustees of
Sterling-Turner Foundation:

We have audited the accompanying financial statements of Sterling-Turner Foundation, which comprise the statements of assets and net assets – modified cash basis as of December 31, 2016 and 2015 and the related statements of revenue and expenses – modified cash basis and of cash flows – modified cash basis 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 the modified cash basis of accounting as described in Note 1; 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 also is 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 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 our audits 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 assets and net assets of Sterling-Turner Foundation as of December 31, 2016 and 2015 and its revenue, expenses and cash flows for the years then ended in accordance with the modified cash basis of accounting.

Basis of Accounting

As described in Note 1, these 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 this matter.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. Supplementary information in the schedule of grants and commitments paid during the year ended December 31, 2016 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 the auditing procedures applied in our audits 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.

Blazek & Vetterling

October 5, 2017

Sterling-Turner Foundation

Statements of Assets and Net Assets – Modified Cash Basis as of December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 129,252	\$ 132,154
Investments, at cost (<i>Note 2</i>):		
Equity securities – common stock	3,981,983	3,981,983
Money market mutual funds	479,619	322,294
Prepaid excise tax and other assets	<u>33,816</u>	<u>34,528</u>
TOTAL ASSETS	<u>\$ 4,624,670</u>	<u>\$ 4,470,959</u>
NET ASSETS		
Unrestricted net assets	<u>\$ 4,624,670</u>	<u>\$ 4,470,959</u>
TOTAL NET ASSETS	<u>\$ 4,624,670</u>	<u>\$ 4,470,959</u>

See accompanying notes to financial statements.

Sterling-Turner Foundation

Statements of Revenue and Expenses – Modified Cash Basis for the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
REVENUE:		
Interest and dividends	\$ 1,954,256	\$ 1,952,684
Realized gain on sale of investments	<u> </u>	<u>1,903,362</u>
Total revenue	<u>1,954,256</u>	<u>3,856,046</u>
EXPENSES:		
Grants and commitments paid	1,493,000	3,312,000
Salaries and related costs	100,491	96,615
Federal excise tax <i>(Note 3)</i>	79,650	73,050
Investment custodial and management fees	54,134	48,530
Other professional fees	28,203	41,498
Office rent	25,268	25,326
Other	<u>19,799</u>	<u>14,886</u>
Total expenses	<u>1,800,545</u>	<u>3,611,905</u>
CHANGES IN UNRESTRICTED NET ASSETS		
	153,711	244,141
Unrestricted net assets, beginning of year	<u>4,470,959</u>	<u>4,226,818</u>
Unrestricted net assets, end of year	<u>\$ 4,624,670</u>	<u>\$ 4,470,959</u>

See accompanying notes to financial statements.

Sterling-Turner Foundation

Statements of Cash Flows – Modified Cash Basis for the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in unrestricted net assets	\$ 153,711	\$ 244,141
Adjustments to reconcile changes in unrestricted net assets to net cash provided (used) by operating activities:		
Realized gain on sale of investments		(1,903,362)
Changes in prepaid excise tax and other assets	<u>712</u>	<u>16,337</u>
Net cash provided (used) by operating activities	<u>154,423</u>	<u>(1,642,884)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments		1,979,772
Cost of investment purchases		(239,479)
Net change in money market mutual funds held as investments	<u>(157,325)</u>	<u>(47,170)</u>
Net cash provided (used) by investing activities	<u>(157,325)</u>	<u>1,693,123</u>
NET CHANGE IN CASH	(2,902)	50,239
Cash, beginning of year	<u>132,154</u>	<u>81,915</u>
Cash, end of year	<u>\$ 129,252</u>	<u>\$ 132,154</u>
<i>Supplemental disclosure of cash flow information:</i>		
Federal excise tax paid	\$78,860	\$56,353

See accompanying notes to financial statements.

Sterling-Turner Foundation

Notes to Financial Statements for the years ended December 31, 2016 and 2015

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Sterling-Turner Foundation (the Foundation) was established in 1960 by Isla Carroll Sterling Turner for the purpose of supporting charities in Harris County, Texas. In 1982, the geographic support area was expanded to the entire State of Texas at the discretion of the Board of Trustees (the Board). Since 2003, the Board has limited funding to charities in the following five Texas counties: Tom Green, Kerr, Travis, Fort Bend and Harris.

Basis of presentation – The Foundation’s financial statements are presented in accordance with the modified cash basis of accounting. This method of accounting differs from generally accepted accounting principles primarily in that revenue is recognized when received rather than when earned and expenses are recognized when paid rather than when incurred. The Foundation recognizes an asset or liability for federal excise tax in the tax year that it arises.

Federal income tax status – The Foundation is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code (the Code) and is classified as a private foundation. As a private foundation, the Foundation is subject to federal excise tax on net investment income, as defined by federal tax laws.

Investments are reported at cost. Realized gains and losses on sales of investments are computed using the first-in, first-out method.

Net asset classification – Revenue and the related net assets are classified based on the existence or absence of donor-imposed restrictions. Unrestricted net assets include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation. All of the Foundation’s net assets are unrestricted and are available to support the broad purpose of the Foundation.

Grants and commitments paid are recognized as expenses when paid by the Foundation. At December 31, 2016, the Foundation had unpaid grant commitments totaling approximately \$3.8 million.

Functional expenses – The expenses of the Foundation are summarized on a natural basis in the statements of revenue and expenses. In 2016 and 2015, approximately 89% and 94%, respectively, of the Foundation’s expenses relate to the grant program and 11% and 6%, respectively, relate to management and general.

NOTE 2 – INVESTMENTS

Investments in common stock have a fair value of \$59,916,243 and \$52,553,047 at December 31, 2016 and 2015, respectively. The fair value is based on the closing prices reported on the active market on which the individual securities are traded. Two of the Foundation’s thirteen holdings comprise 87% of the total fair value of common stock at December 31, 2016 and 2015.

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the fair value of investment securities will occur in the near term and that such changes could materially affect the fair value amounts in this disclosure.

NOTE 3 – FEDERAL EXCISE TAX

The Code imposes an excise tax on private foundations equal to 2% of net investment income (principally interest, dividends, and net realized capital gains, less expenses incurred in the production of investment income). This tax is reduced to 1% for private foundations that meet certain distribution requirements. In 2016 and 2015, the Foundation computed its provision for federal excise tax at the rate of 2% and 1%, respectively.

The Foundation's federal excise tax expense activity for the year ended December 31, 2016 is as follows:

Federal excise tax applicable to 2016	\$ 37,720
Federal excise tax adjustments for 2012 through 2015	<u>41,930</u>
Total federal excise tax expense	<u>\$ 79,650</u>

Internal Revenue Code §4942 requires that the Foundation annually make qualifying charitable distributions of approximately 5% of the fair value of noncharitable assets during the prior year reduced by acquisition indebtedness, if any, with respect to such assets. Such qualifying distributions must be made by the end of the succeeding taxable year in order to avoid the imposition of a 30% federal excise tax on any undistributed income. The Foundation is currently in compliance with these provisions and is not subject to this federal excise tax on undistributed income.

The Foundation believes that it has appropriate support for the federal excise tax positions taken and, as such, does not have any uncertain tax positions that could result in a material impact on the Foundation's financial statements.

NOTE 4 – COMMITMENTS

The Foundation leases office space under a noncancelable operating lease. Future minimum commitments under the lease are as follows:

2017	\$ 45,540
2018	46,230
2019	46,575
2020	47,265
2021	47,610
Thereafter	<u>15,870</u>
Total	<u>\$ 249,090</u>

The Foundation provides leased space to the Isla Carroll Turner Friendship Trust for an annual total rent of approximately \$25,000. Lease payments totaled \$45,195 and \$44,505 in 2016 and 2015, respectively.

NOTE 5 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 5, 2017, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

Sterling-Turner Foundation

Schedule of Grants and Commitments Paid during the year ended December 31, 2016

<u>Grantee</u>	<u>Amount Paid</u>
<u>Commitments:</u>	
Annunciation Orthodox School	\$ 100,000
Houston Livestock Show and Rodeo	18,000
Houston Parks Board	50,000
Kinkaid School, Inc.	100,000
Museum of Fine Arts	200,000
Stages, Inc.	100,000
Texas Children's Hospital	125,000
Texas Education Works (Western Academy)	100,000
<u>Grants:</u>	
Alley Theatre	25,000
Austin Smiles	20,000
Casa de Esperanza de los Ninos	15,000
Center for Hearing and Speech	15,000
Clayton Dabney (Houston)	10,000
Cystic Fibrosis Foundation (Houston)	10,000
Epilepsy Foundation	10,000
Friends & Faculty of Ingram Tom Moore High School	5,000
Genesys Works	20,000
Grape Creek Volunteer Fire Department	15,000
Hermann Park Conservancy	50,000
Hill Country Arts Foundation	10,000
Hill Country CASA	20,000
Houston Arboretum and Nature Center	35,000
Houston Ballet	25,000
Houston Council on Alcoholism	20,000
Houston Grand Opera	25,000
Houston Museum of Natural Science	25,000
Houston Parks Board	10,000
Houston Symphony	25,000
Jesuit Cristo Rey High School	10,000
Kappa Kappa Gamma	10,000
Katy Prairie Conservancy	10,000
Lighthouse of Houston	15,000
Museum of Fine Arts, Houston	100,000
Museum of Western Art Foundation	10,000
My Healing Place	10,000

(continued)

Sterling-Turner Foundation

Schedule of Grants and Commitments Paid during the year ended December 31, 2016 *(continued)*

<u>Grantee</u>	<u>Amount Paid</u>
Open Door Mission	20,000
Pathways for Little Feet	10,000
San Angelo Museum of Fine Arts	50,000
Seal Legacy Foundation	10,000
Small Steps Nurturing Center	15,000
Spaulding for Children	10,000
St. Luke's Center for Counseling	10,000
Texas Parks and Wildlife	10,000
YMCA of Greater Houston	<u>10,000</u>
Total grants and commitments paid	<u>\$ 1,493,000</u>