

Sterling-Turner Foundation

Financial Statements – Modified Cash Basis
and Independent Auditors' Report
for the years ended December 31, 2017 and 2016

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, 2017 and 2016 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 financial position of Sterling-Turner Foundation as of December 31, 2017 and 2016 and the changes in its net assets and its 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, 2017 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 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.

Blazek & Vetterling

August 23, 2018

Sterling-Turner Foundation

Statements of Assets and Net Assets – Modified Cash Basis as of December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 79,560	\$ 129,252
Investments, at cost (<i>Note 2</i>):		
Equity securities – common stock	3,971,558	3,981,983
Money market mutual funds	51,780	479,619
Prepaid excise tax and other assets	<u>40,086</u>	<u>33,816</u>
TOTAL ASSETS	<u>\$ 4,142,984</u>	<u>\$ 4,624,670</u>
NET ASSETS		
Unrestricted net assets	<u>\$ 4,142,984</u>	<u>\$ 4,624,670</u>
TOTAL NET ASSETS	<u>\$ 4,142,984</u>	<u>\$ 4,624,670</u>

See accompanying notes to financial statements.

Sterling-Turner Foundation

Statements of Revenue and Expenses – Modified Cash Basis for the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
REVENUE:		
Interest and dividends	\$ 2,024,940	\$ 1,954,256
Realized gain on sale of investments	<u>279,570</u>	<u> </u>
Total revenue	<u>2,304,510</u>	<u>1,954,256</u>
EXPENSES:		
Grants and commitments	2,521,000	1,493,000
Salaries and related costs	102,356	100,491
Investment custodial and management fees	59,213	54,134
Other professional fees	38,097	28,203
Office rent	27,825	25,268
Federal excise tax (<i>Note 3</i>)	22,262	79,650
Other	<u>15,443</u>	<u>19,799</u>
Total expenses	<u>2,786,196</u>	<u>1,800,545</u>
CHANGES IN UNRESTRICTED NET ASSETS	(481,686)	153,711
Unrestricted net assets, beginning of year	<u>4,624,670</u>	<u>4,470,959</u>
Unrestricted net assets, end of year	<u>\$ 4,142,984</u>	<u>\$ 4,624,670</u>

See accompanying notes to financial statements.

Sterling-Turner Foundation

Statements of Cash Flows – Modified Cash Basis for the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in unrestricted net assets	\$ (481,686)	\$ 153,711
Adjustments to reconcile changes in unrestricted net assets to net cash provided (used) by operating activities:		
Realized gain on sale of investments	(279,570)	
Changes in prepaid excise tax and other assets	<u>(6,270)</u>	<u>712</u>
Net cash provided (used) by operating activities	<u>(767,526)</u>	<u>154,423</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	289,995	
Net change in money market mutual funds held as investments	<u>427,839</u>	<u>(157,325)</u>
Net cash provided (used) by investing activities	<u>717,834</u>	<u>(157,325)</u>
NET CHANGE IN CASH	(49,692)	(2,902)
Cash, beginning of year	<u>129,252</u>	<u>132,154</u>
Cash, end of year	<u>\$ 79,560</u>	<u>\$ 129,252</u>
<i>Supplemental disclosure of cash flow information:</i>		
Federal excise tax paid	\$35,455	\$78,860

See accompanying notes to financial statements.

Sterling-Turner Foundation

Notes to Financial Statements for the years ended December 31, 2017 and 2016

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 accompanying 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 in that they are available to support the broad purpose of the Foundation.

Grants and commitments are recognized as expenses when paid by the Foundation. At December 31, 2017, the Foundation had unpaid grant commitments totaling approximately \$2.7 million.

Functional expenses – The expenses of the Foundation are summarized on a natural basis in the statements of revenue and expenses. In 2017 and 2016, approximately 95% and 89%, respectively, of the Foundation's expenses relate to the grant program and 5% and 11%, respectively, relate to management and general.

Recent financial accounting pronouncement – In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions*. New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. The

Foundation is required to adopt this ASU for fiscal year 2018. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

NOTE 2 – INVESTMENTS

Investments in common stock have a fair value of \$56,884,104 and \$59,916,243 at December 31, 2017 and 2016, 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 85% and 87% of the total fair value of common stock at December 31, 2017 and 2016, respectively.

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 2017 and 2016, the Foundation computed its provision for federal excise tax at the rate of 1% and 2%, respectively.

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 – RELATED PARTY TRANSACTIONS

Members of the Board of the Foundation and their families serve on numerous charitable boards of directors. Grants awarded to these organizations were approximately \$445,000 for the year ended December 31, 2017.

NOTE 5 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 23, 2018, 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, 2017

<u>Grantee</u>	<u>Amount Paid</u>
<u>Commitments:</u>	
Annunciation Orthodox School	\$ 100,000
Houston Livestock Show and Rodeo	18,000
Kinkaid School, Inc.	100,000
Museum of Fine Arts	200,000
St. Thomas High School	120,000
Stages, Inc.	100,000
University of Houston	500,000
<u>Grants:</u>	
Alley Theatre	25,000
Big Brother Big Sisters	20,000
Buffalo Bayou Partnership	15,000
CanCare of Houston	20,000
Casa de Esperanza de los Ninos	25,000
Center for Hearing and Speech	25,000
Clayton Dabney (Houston)	25,000
Communities in Schools	25,000
Concordia Lutheran Church	25,000
Cystic Fibrosis Foundation (Houston)	10,000
Discovery Green Conservancy	25,000
Epilepsy Foundation	10,000
Grape Creek Volunteer Fire Department	25,000
Hill Country Arts Foundation	20,000
Hill Country CASA	25,000
Hill Country Youth Ranch	25,000
His Father's Heart Ministries	50,000
Houston Arboretum and Nature Center	20,000
Houston Ballet	25,000
Houston Council on Alcoholism	3,000
Houston Food Bank	20,000
Houston Grand Opera	25,000
Houston Livestock Show and Rodeo	20,000
Houston Museum of Natural Science	25,000
Houston Parks Board	15,000
Houston Symphony	25,000
Hunt Volunteer Fire Department	15,000
Ingram Volunteer Fire Department	10,000

(continued)

Sterling-Turner Foundation

Schedule of Grants and Commitments Paid during the year ended December 31, 2017 *(continued)*

<u>Grantee</u>	<u>Amount Paid</u>
Katy Prairie Conservancy	10,000
Kids' Meals Inc.	25,000
Magnificat Houses, Inc.	25,000
Museum of Fine Arts Houston	125,000
Nora's Gift Foundation	15,000
Open Door Mission	25,000
Pathways for Little Feet	10,000
Peterson Regional Medical Center	30,000
Raphael Community Free Clinic	5,000
Ronald McDonald House of Houston	40,000
St. Edward's University	25,000
St. Luke's Center for Counseling	10,000
Salvation Army	50,000
San Angelo Museum of Fine Arts	50,000
Seal Legacy Foundation	25,000
Small Steps Nurturing Center	15,000
Spaulding for Children	10,000
Special Olympics Texas	10,000
Stages, Inc.	150,000
Star of Hope	25,000
Taping for the Blind	25,000
Timberwood Park Elementary	25,000
YES Prep	30,000
Youth Development Center	<u>25,000</u>
Total grants and commitments paid	<u>\$ 2,521,000</u>