

Sterling-Turner Foundation

Financial Statements – Modified Cash Basis
and Independent Auditors' Report
for the years ended December 31, 2019 and 2018

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, 2019 and 2018 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, 2019 and 2018 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, 2019 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

September 2, 2020

Sterling-Turner Foundation

Statements of Assets and Net Assets – Modified Cash Basis as of December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 73,692	\$ 116,069
Investments, at cost (<i>Note 3</i>):		
Common stock	5,856,685	5,715,942
Money market mutual funds	173,243	193,704
Prepaid excise tax and other assets	<u>38,820</u>	<u>15,427</u>
TOTAL ASSETS	<u>\$ 6,142,440</u>	<u>\$ 6,041,142</u>
NET ASSETS		
Net assets without donor restrictions	<u>\$ 6,142,440</u>	<u>\$ 6,041,142</u>
TOTAL NET ASSETS	<u>\$ 6,142,440</u>	<u>\$ 6,041,142</u>

See accompanying notes to financial statements.

Sterling-Turner Foundation

Statements of Revenue and Expenses – Modified Cash Basis for the years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
REVENUE:		
Interest and dividends	\$ 2,203,721	\$ 2,100,867
Realized gain on sale of investments	800,412	2,713,001
Investment custodial and management fees	<u>(158,638)</u>	<u>(79,927)</u>
Total revenue	<u>2,845,495</u>	<u>4,733,941</u>
EXPENSES:		
Program services:		
Grants made	2,535,000	2,615,400
Salaries and related costs	86,937	83,828
Office rent	21,861	22,815
Other	<u>19,397</u>	<u>15,733</u>
Total program services	2,663,195	2,737,776
Management and general:		
Professional fees	23,601	21,584
Salaries and related costs	18,940	18,280
Office rent	4,762	4,975
Other	<u>5,326</u>	<u>5,931</u>
Total management and general	52,629	50,770
Federal excise tax (Note 4)	<u>28,373</u>	<u>47,237</u>
Total expenses	<u>2,744,197</u>	<u>2,835,783</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	101,298	1,898,158
Net assets without donor restrictions, beginning of year	<u>6,041,142</u>	<u>4,142,984</u>
Net assets without donor restrictions, end of year	<u>\$ 6,142,440</u>	<u>\$ 6,041,142</u>

See accompanying notes to financial statements.

Sterling-Turner Foundation

Statements of Cash Flows – Modified Cash Basis for the years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets without donor restrictions	\$ 101,298	\$ 1,898,158
Adjustments to reconcile changes in net assets without donor restrictions to net cash used by operating activities:		
Realized gain on sale of investments	(798,989)	(2,713,001)
Changes in prepaid excise tax and other assets	<u>(23,393)</u>	<u>24,659</u>
Net cash used by operating activities	<u>(721,084)</u>	<u>(790,184)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,446,370)	(2,018,453)
Proceeds from sale of investments	2,104,617	2,987,070
Net change in money market mutual funds held as investments	<u>20,460</u>	<u>(141,924)</u>
Net cash provided by investing activities	<u>678,707</u>	<u>826,693</u>
NET CHANGE IN CASH	(42,377)	36,509
Cash, beginning of year	<u>116,069</u>	<u>79,560</u>
Cash, end of year	<u>\$ 73,692</u>	<u>\$ 116,069</u>
 <i>Supplemental disclosure of cash flow information:</i>		
Federal excise tax paid	\$54,000	\$20,000

See accompanying notes to financial statements.

Sterling-Turner Foundation

Notes to Financial Statements for the years ended December 31, 2019 and 2018

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 federal tax activity and any related asset or liability in the tax year to which it pertains.

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 which is subject to federal excise tax on net investment income.

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 – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation. The Foundation only has *net assets without donor restrictions* as they are available to support the broad purposes of the Foundation.

Grants and commitments are recognized as expenses when paid by the Foundation. At December 31, 2019, the Foundation had unpaid grant commitments totaling \$1.5 million, of which \$1 million is expected to be paid in 2020 and \$500,000 in 2021.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Management and general activities are not directly identifiable with specific activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs, office rent, certain supplies, and insurance are allocated on the basis of estimated time and effort expended.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation's financial assets comprise cash and investments reported at cost of \$6.1 million at December 31, 2019 and \$6.0 million at December 31, 2018. All financial assets are available to fund the Foundation's general expenditures within one year at the discretion of the Directors. Directors approve

grants and other general expenditures as part of the annual budget process. General expenditures are funded from interest and dividends received supplemented by proceeds from sales of common stock as needed.

NOTE 3 – INVESTMENTS

Investments in common stock have a fair value of \$52,168,990 and \$48,277,112 at December 31, 2019 and 2018, respectively. The fair value is based on the closing prices reported on the active market on which the individual securities are traded. At December 31, 2019, one of the Foundation's holdings comprise 67% of the total fair value of common stock. At December 31, 2018, one of the Foundation's holdings comprise 72% of the total fair value of common stock.

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 4 – 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 2019 and 2018, the Foundation computed its provision for federal excise tax at the 1% rate.

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 5 – SUBSEQUENT EVENTS

On March 11, 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and on March 13, 2020, a national emergency was declared in the United States. Financial markets have been impacted by fears of the COVID-19 pandemic and a decline in the price of oil. The fair value of the Foundation's investments have experienced a significant decline since December 31, 2019. While the Foundation expects these events may negatively impact investment return in the near future, the financial impact cannot be reasonably estimated at this time.

Management has evaluated subsequent events through September 2, 2020, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other 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, 2019

<u>Grantee</u>	<u>Amount Paid</u>
<u>Commitments:</u>	
Kinkaid School, Inc.	\$ 100,000
Museum of Fine Arts	200,000
Stages, Inc.	500,000
University of Houston	500,000
<u>Grants:</u>	
Angela's House	10,000
Archway Academy	5,000
Bayou Preservation Association	10,000
Be an Angel	10,000
Big Brothers Big Sisters Lone Star	10,000
Blue Bird Circle	20,000
Bo's place	10,000
Bridges to Life	20,000
Buffalo Bayou Partnership	5,000
Casa de Esperanza de los Ninos	50,000
Center for Hearing and Speech	25,000
Children's Museum	15,000
Christian Community Service Center	100,000
Clayton Dabney (Houston)	25,000
Crime Stoppers	10,000
Cystic Fibrosis	10,000
Discovery Green	100,000
East Fort Bend Human Needs Ministry	10,000
Forge for Families	10,000
Hill Country Arts Foundation	15,000
Hill Country CASA	10,000
Hill Country Youth Ranch	10,000
His Father's Heart Ministries	25,000
Houston Arboretum and Nature Center	15,000
Houston Ballet	25,000
Houston Museum of Natural Science	25,000
Hunt Volunteer Fire Department	10,000
Ingram Volunteer Fire Department	10,000
Jesuit Christo Rey High School Houston	15,000
Laity Renewal Foundation	15,000
Lord of the Streets	25,000
Magnificat House	40,000

(continued)

Sterling-Turner Foundation

Schedule of Grants and Commitments Paid during the year ended December 31, 2019 *(continued)*

<u>Grantee</u>	<u>Amount Paid</u>
Museum of Fine Arts Houston	10,000
Nature Discovery Center	25,000
Open Door Mission	45,000
Orange Show Foundation	15,000
Pathways for Little Feet	10,000
Raphael Community Free Clinic	5,000
Rise School	10,000
St. Edward's University	75,000
St. Luke's Center for Counseling	20,000
San Angelo Museum of Fine Arts	50,000
Schreiner University	30,000
Seal Legacy Foundation	50,000
SIRE	10,000
Small Steps Nurturing Center	20,000
Spaulding for Children	10,000
Spring Branch Baseball Program	15,000
Star of Hope	50,000
Timberwood Park Elementary	40,000
Women's Home	40,000
YMCA	10,000
Total grants and commitments paid	<u>\$ 2,535,000</u>