

Sterling-Turner Foundation

Financial Statements – Modified Cash Basis
and Independent Auditors' Report
for the years ended December 31, 2020 and 2019

Sterling-Turner Foundation

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Statements of Assets, Liabilities and Net Assets – Modified Cash Basis as of December 31, 2020 and 2019	3
Statements of Revenue and Expenses – Modified Cash Basis for the years ended December 31, 2020 and 2019	4
Statements of Cash Flows – Modified Cash Basis for the years ended December 31, 2020 and 2019	5
Notes to Financial Statements for the years ended December 31, 2020 and 2019	6
Supplementary Information:	
Schedule of Grants and Commitments Paid during the year ended December 31, 2020	8

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, liabilities and net assets – modified cash basis as of December 31, 2020 and 2019 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, 2020 and 2019 and its revenue, expenses, liabilities 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, 2020 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

October 12, 2021

Sterling-Turner Foundation

Statements of Assets, Liabilities and Net Assets – Modified Cash Basis as of December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 178,848	\$ 73,692
Investments, at cost (<i>Note 3</i>):		
Common stock	7,141,819	5,856,685
Money market mutual funds	665,664	173,243
Prepaid excise tax and other assets	<u>6,741</u>	<u>38,820</u>
TOTAL ASSETS	<u>\$ 7,993,072</u>	<u>\$ 6,142,440</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Deferred call options	<u>\$ 77,459</u>	
Net assets without donor restrictions	<u>7,915,613</u>	<u>\$ 6,142,440</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,993,072</u>	<u>\$ 6,142,440</u>

See accompanying notes to financial statements.

Sterling-Turner Foundation

Statements of Revenue and Expenses – Modified Cash Basis for the years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
REVENUE:		
Interest and dividends	\$ 2,164,038	\$ 2,203,721
Realized gain on sale of investments	1,664,364	800,412
Investment custodial and management fees	<u>(134,311)</u>	<u>(158,638)</u>
Total revenue	<u>3,694,091</u>	<u>2,845,495</u>
EXPENSES:		
Program services:		
Grants made	1,695,000	2,535,000
Salaries and related costs	100,568	86,937
Office rent	22,072	21,861
Other	<u>12,801</u>	<u>19,397</u>
Total program services	1,830,441	2,663,195
Management and general:		
Salaries and related costs	21,877	18,940
Professional fees	9,740	23,601
Office rent	4,802	4,762
Other	<u>2,785</u>	<u>5,326</u>
Total management and general	39,204	52,629
Federal excise tax (<i>Note 4</i>)	<u>51,273</u>	<u>28,373</u>
Total expenses	<u>1,920,918</u>	<u>2,744,197</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	1,773,173	101,298
Net assets without donor restrictions, beginning of year	<u>6,142,440</u>	<u>6,041,142</u>
Net assets without donor restrictions, end of year	<u>\$ 7,915,613</u>	<u>\$ 6,142,440</u>

See accompanying notes to financial statements.

Sterling-Turner Foundation

Statements of Cash Flows – Modified Cash Basis for the years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets without donor restrictions	\$ 1,773,173	\$ 101,298
Adjustments to reconcile changes in net assets without donor restrictions to net cash provided (used) by operating activities:		
Realized gain on sale of investments	(1,664,364)	(798,989)
Change in prepaid excise tax and other assets	32,079	(23,393)
Change in deferred call options	<u>77,459</u>	<u> </u>
Net cash provided (used) by operating activities	<u>218,347</u>	<u>(721,084)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(4,752,871)	(1,446,370)
Proceeds from sale of investments	5,132,101	2,104,617
Net change in money market mutual funds held as investments	<u>(492,421)</u>	<u>20,460</u>
Net cash provided (used) by investing activities	<u>(113,191)</u>	<u>678,707</u>
NET CHANGE IN CASH	105,156	(42,377)
Cash, beginning of year	<u>73,692</u>	<u>116,069</u>
Cash, end of year	<u>\$ 178,848</u>	<u>\$ 73,692</u>
 <i>Supplemental disclosure of cash flow information:</i>		
Federal excise tax paid	\$20,000	\$54,000

See accompanying notes to financial statements.

Sterling-Turner Foundation

Notes to Financial Statements for the years ended December 31, 2020 and 2019

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, 2020, the Foundation had unpaid grant commitments totaling \$1 million, all of which is expected to be paid 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 \$8.0 million at December 31, 2020 and \$6.1 million at December 31, 2019. All financial assets are available to fund the Foundation's general expenditures within one year at the discretion of the Board. The Board approves 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 \$39.3 million at December 31, 2020 and \$52.2 million at December 31, 2019. The fair value is based on the closing price reported on the active market on which the individual securities are traded. At December 31, 2020, one of the Foundation's holdings comprise 49% of the total fair value of common stock. At December 31, 2019, one of the Foundation's holdings comprise 67% 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 net investment income (principally interest, dividends, and net realized capital gains, less expenses incurred in the production of investment income). The Foundation computed its provision for federal excise tax at the rate of 1.39% in 2020 and 1% in 2019.

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

Management has evaluated subsequent events through October 12, 2021, 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, 2020

<u>Grantee</u>	<u>Amount Paid</u>
<u>Commitments:</u>	
Stages, Inc.	\$ 500,000
University of Houston	500,000
<u>Grants:</u>	
Angela's House	10,000
BakerRipley	20,000
Bay Area Turning Point, Inc.	10,000
Big Brothers Big Sisters Lone Star	10,000
Boys & Girls Club of Greater Houston	25,000
Boys & Girls Country	5,000
Bridges to Life	5,000
Casa de Esperanza de los Niños	25,000
Center for Child Protection	5,000
Center for Hearing and Speech	5,000
Children's Museum	10,000
Christ Clinic	10,000
Christian Outreach Alliance Clear Lake	25,000
Clayton Dabney Foundation	5,000
Council on Recovery	10,000
Cystic Fibrosis Foundation	10,000
Discovery Green	10,000
East Fort Bend Human Needs Ministry	10,000
Eyes on Me	10,000
Nick Finnegan Counseling Center	10,000
Forge for Families	10,000
Hermann Park Conservancy	5,000
Hill Country CASA	10,000
Houston Ballet	20,000
Houston Food Bank	50,000
Houston Zoo	10,000
Hunt Volunteer Fire Department	5,000
Joy School, The	100,000
Katy Cares, Inc.	7,500
Kid's Meals, Inc.	25,000
Lord of the Streets	10,000
Ronald McDonald House Houston	5,000
Mercy Gate Ministries	25,000
Moving Waters	10,000
Museum of Fine Arts, Houston	10,000

(continued)

Sterling-Turner Foundation

Schedule of Grants and Commitments Paid during the year ended December 31, 2020 *(continued)*

<u>Grantee</u>	<u>Amount Paid</u>
Open Door Mission	25,000
Pathways for Little Feet	2,500
Raphael Community Free Clinic	5,000
Salvation Army	30,000
Second Servings	5,000
SIRE	5,000
Spaulding for Children	5,000
Star of Hope	50,000
Taping for the Blind	5,000
Women's Home	20,000
YMCA of Greater Houston	<u>10,000</u>
Total grants and commitments paid	<u>\$ 1,695,000</u>