

STERLING-TURNER FOUNDATION

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2013

Daniel P. McGuire, P.C.
Certified Public Accountant
Houston, Texas

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Sterling-Turner Foundation
Houston, Texas

We have audited the accompanying financial statements of Sterling-Turner Foundation (a nonprofit organization), which comprise the statement of assets, liabilities, and net assets—cash basis as of December 31, 2013, and the related statement of support, revenue, and expenses—cash basis for the year 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 cash basis of accounting as described in Note 2; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's 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

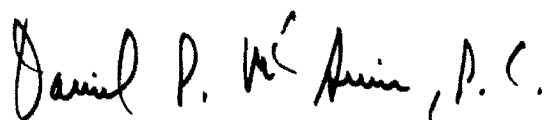
In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Sterling-Turner Foundation as of December 31, 2013, and its support, revenue, and expenses for the year then ended in accordance with the cash basis of accounting as described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of Grants and Commitment Payments on page 11 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.



Houston, Texas
July 1, 2014

Sterling-Turner Foundation
Statement of Assets, Liabilities and Net Assets - Cash Basis
December 31, 2013

ASSETS

Current Assets		
Cash and Cash Equivalents	\$ 73,445.11	
Due from Related Entity	3,525.16	
Prepaid Excise Tax	<u>29,676.00</u>	
Total Current Assets		106,646.27
Non-Current Assets		
Investments	<u>3,887,123.06</u>	
Total Non-Current Assets		3,887,123.06
Fixed Assets		
Property & Equipment	129,867.72	
Accumulated Depreciation	<u>(128,628.19)</u>	
Total Fixed Assets		1,239.53
Other Assets		
Deposits	<u>3,622.50</u>	
Total Other Assets		<u>3,622.50</u>
 TOTAL ASSETS		 <u>\$ 3,998,631.36</u>

NET ASSETS

Net Assets		
Temporarily Restricted	\$ 3,998,631.36	
Total Net Assets		<u>3,998,631.36</u>
 TOTAL LIABILITIES AND NET ASSETS		 <u>\$ 3,998,631.36</u>

See accompanying notes.

Sterling-Turner Foundation
Statement of Revenues, Expenses
and Changes in Net Assets - Cash Basis
December 31, 2013

Revenues	
Dividends	\$ 1,726,400.21
Total Revenues	<u>1,726,400.21</u>
Operating Expenses	
Depreciation Expense	854.00
Grants	2,526,000.00
Insurance	12,946.61
Professional Fees	45,043.31
Rent	21,782.83
Office Expense	5,333.50
Other Operating Expense	3,374.02
Trustee Fees	1,200.00
Wages and Salaries	74,250.08
Payroll Taxes	5,680.02
Investment Advisory Fees	42,204.38
Total Operating Expenses	<u>2,738,668.75</u>
Other Income and Expenses	
Net Gain/(Loss) - Investment Securities	759,298.27
Interest Income	20.05
Nondividend Distributions	7,436.48
Federal Excise Tax Expense	<u>(27,477.32)</u>
Total Other Income and Expenses	<u>739,277.48</u>
Increase/Decrease in Net Assets	(272,991.06)
Net Assets - Temporarily Restricted, January 1, 2013	<u>4,271,622.42</u>
Net Assets - Temporarily Restricted, December 31, 2013	<u>\$ 3,998,631.36</u>

See accompanying notes.

Sterling-Turner Foundation
Notes to Financial Statements
December 31, 2013

NOTE 1. Nature of the Organization

The Sterling-Turner Foundation, a nonprofit Texas Corporation, was organized in November, 1960, to promote religious, charitable and educational purposes in the State of Texas.

NOTE 2. Summary of Significant Accounting Policies

a.) Basis of Financial Statements

The financial statements are reported on the cash basis. Under this basis, revenue is recognized when collected rather than when earned, and expenditures are recognized when paid rather than when incurred. This basis is a comprehensive basis of accounting other than generally accepted accounting principles.

b.) Basis of Presentation

Financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. A description of the three net asset categories is as follows:

Unrestricted - Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted - Net assets whose use by the Foundation is subject to donor-imposed restrictions that can be fulfilled by actions of the Foundation pursuant to those restrictions or that expire by the passage of time.

Permanently Restricted - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Foundation. No permanently restricted assets were held during 2013 and accordingly, these financials do not reflect any activity related to this class of assets for 2013.

c.) Income Tax Status

The Foundation is a private foundation as defined in Section 501(c)(3) of the Internal Revenue Code of 1986. Although the Foundation is tax exempt from Federal income taxes, the Foundation is subject to Federal excise tax.

The Foundation is generally required to distribute, as contributions, an amount equal to at least its excess of income over expenditures. At December 31, 2013, the Foundation was liable for excise tax in the amount of \$33,574.

d.) Cash and Cash Equivalents

Cash and cash equivalents are defined as all monies in checking and money market accounts.

The Foundation, in the ordinary course of business, maintains bank balances, at times, in excess of FDIC insured limits.

e.) Investments - Non-Current

Investments are stated at cost. Donated investments are reflected as contributions at their market values at date of receipt. Realized gains or losses on sales of investments are determined based on the identified investment's carrying value.

At December 31, 2013, the investment securities had a market value of \$68,143,722.65.

f.) Furniture & Fixtures

It is the Foundation's policy to capitalize furniture and fixtures over \$100.00, lesser amounts are expensed. Furniture and fixtures are depreciated using the straight-line method.

Depreciation for 2013 was \$854.00.

g.) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3. Commitments

At December 31, 2013, the unpaid outstanding commitments totaled \$4,250,000 and were payable to the following organizations:

<u>Recipient</u>	<u>Amount</u>
University of Houston	\$ 3,500,000
Texas Children's Hospital	750,000
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	\$ 4,250,000
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NOTE 4. Operating Lease

The Foundation shares certain office expense with a related entity. In 2013, the Foundation co-signed an office lease with a term of ten years. The commencement of the lease was March 16, 2012. At December 31, 2013, the future minimum lease payments under the sharing arrangement were as follows:

2014	\$ 22,080.00
2015	22,252.50
2016	22,597.50
2017	22,770.00
2018	23,115.00
2019	23,287.50
2020	23,632.50
2021	23,805.00
2022	7,935.00
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	\$ 213,210.00
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The Foundation is also required to pay a proportionate share of the actual operating costs, in addition to the monthly rent as determined on an annual basis.

Rental expense for 2013 was \$21,782.83.

NOTE 5. Investment and Revenue Concentrations

The Foundation's investments provide its sole revenue source. The portfolio is comprised almost exclusively of one security. This concentration and the inherent market volatility can affect the Foundation's policies and operations.

NOTE 6. Subsequent Events

Subsequent events were evaluated by management through July 1, 2014, the date that the financial statements were available to be issued. Management found no subsequent events to report.

NOTE 7. Taxes

Management is not aware of any tax positions that would have a significant impact on its financial position. Its federal tax returns for tax year 2011 and 2012 remain subject to examination.

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Sterling-Turner Foundation
Houston, Texas

My report on my audit of the basic financial statements of the Sterling-Turner Foundation for the year ended December 31, 2013 appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Grants and Commitment Payments for 2013 is presented for supplementary analysis purposes and is not considered necessary for fair presentation of the basic financial statements. The supplementary financial information has been subjected to the applicable audit procedures I performed in my audit of the related basic financial statements.

In my opinion, all of the supplementary financial information is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

Daniel P. McGuire, P.C.

Houston, Texas
July 1, 2014

Sterling-Turner Foundation
Schedule of Grants and Commitment Payments for 2013

Grantee	Paid
Alley Theatre	\$ 30,000.00
Austin Children's Museum	10,000.00
Austin Smiles	25,000.00
Austin Speech Labs, Inc	20,000.00
Bridges to Life	10,000.00
Buffalo Bayou Partnership	50,000.00
CanCare of Houston, Inc.	25,000.00
Caritas of Austin	30,000.00
Casa de Esperanza de los Ninos, Inc.	10,000.00
Center for Hearing and Speech	25,000.00
Chaucer Drive Study Center, Inc.	10,000.00
Children Advocates, Inc.	11,000.00
Children's Medical Center Foundation of Central Texas	25,000.00
Children's Museum of Houston	30,000.00
Clayton Dabney Foundation for Kids	50,000.00
Coastal Conservation of Texas	25,000.00
Community Foundation of Texas Hill Country	5,000.00
Cystic Fibrosis Foundation	25,000.00
Epilepsy Foundation Texas	10,000.00
Eye Care For Kids Foundation	10,000.00
Hermann Park Conservancy	50,000.00
Hill Country Arts Foundation	20,000.00
Hill Country CASA	15,000.00
Hill Country District Junior	35,000.00
Hill Country Youth Ranch	50,000.00
Houston Aphasia Recovery Center	10,000.00
Houston Arboretum & Nature Center	10,000.00
Houston Ballet Foundation	30,000.00
Houston Center for Literacy	10,000.00
Houston Center for Photography	10,000.00
Houston Grand Opera Association	30,000.00
Houston-Harris County Immunization Registration	10,000.00
Houston Museum of Fine Arts	100,000.00
Houston Museum of Natural Sciences	25,000.00
Houston Symphony Society	30,000.00
Houston Zoo, Inc	30,000.00
Hunt Volunteer Fire Department	10,000.00
Ingram Volunteer Fire Department	10,000.00
Memorial Park Conservancy, Inc.	10,000.00
The Monarch School, Inc.	30,000.00
Neighborhood Centers, Inc.	20,000.00
W. Oscar Neuhaus Memorial foundation	10,000.00
Pathways for Little Feet, Inc.	10,000.00
Prayers Heard in Heaven	10,000.00
San Angelo Christian Academy	20,000.00

Sterling-Turner Foundation

Schedule of Grants and Commitment Payments for 2013

Grantee	Paid
San Angelo Museum of Fine Arts	30,000.00
San Jose Clinic	5,000.00
Schreiner University	30,000.00
Small Steps Nurturing Center	35,000.00
Southmore Foundation, Inc.	10,000.00
SIRE, Inc.	10,000.00
St. Luke's United Methodist Church	10,000.00
Star of Hope	15,000.00
Texas Children's Hospital	250,000.00
University of Houston	1,000,000.00
The Women's Home	10,000.00
The Woods Project	15,000.00
Workshop Houston	10,000.00
YMCA of Greater Houston - Trotter	65,000.00
2013 Grants and Commitment Payments	<u>\$ 2,526,000.00</u>

