

Sterling-Turner Foundation

Financial Statements – Modified Cash Basis
and Independent Auditors' Report
for the years ended December 31, 2018 and 2017

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, 2018 and 2017 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, 2018 and 2017 and its revenue, expenses, and cash flows for the years then ended in accordance with the modified cash basis of accounting.

Basis of Accounting

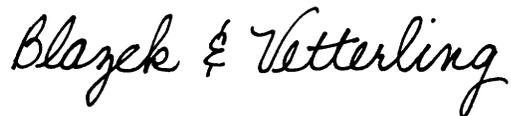
As described in Note 1, these financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, Sterling-Turner Foundation adopted the amendments of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. These amendments have been applied on a retrospective basis to the financial statements as of and for the year ended December 31, 2017, except that certain information has been omitted as permitted by the ASU. 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, 2018 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.



August 26, 2019

Sterling-Turner Foundation

Statements of Assets and Net Assets – Modified Cash Basis as of December 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| ASSETS | | |
| Cash | \$ 116,069 | \$ 79,560 |
| Investments, at cost (<i>Note 4</i>): | | |
| Equity securities – common stock | 5,715,942 | 3,971,558 |
| Money market mutual funds | 193,704 | 51,780 |
| Prepaid excise tax and other assets | <u>15,427</u> | <u>40,086</u> |
| TOTAL ASSETS | <u>\$ 6,041,142</u> | <u>\$ 4,142,984</u> |
| NET ASSETS | | |
| Net assets without donor restrictions | <u>\$ 6,041,142</u> | <u>\$ 4,142,984</u> |
| TOTAL NET ASSETS | <u>\$ 6,041,142</u> | <u>\$ 4,142,984</u> |

See accompanying notes to financial statements.

Sterling-Turner Foundation

Statements of Revenue and Expenses – Modified Cash Basis for the years ended December 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| REVENUE: | | |
| Interest and dividends | \$ 2,100,867 | \$ 2,024,940 |
| Realized gain on sale of investments | 2,713,001 | 279,570 |
| Investment custodial and management fees | <u>(79,927)</u> | <u>(59,213)</u> |
| Total revenue | <u>4,733,941</u> | <u>2,245,297</u> |
| EXPENSES: | | |
| Program services: | | |
| Grants made | 2,615,400 | 2,521,000 |
| Salaries and related costs | 83,828 | 83,931 |
| Office rent | 22,815 | 22,817 |
| Other | <u>15,733</u> | <u>10,613</u> |
| Total program services | 2,737,776 | 2,638,361 |
| Management and general: | | |
| Professional fees | 21,584 | 38,097 |
| Salaries and related costs | 18,280 | 18,424 |
| Office rent | 4,975 | 5,009 |
| Other | 5,931 | 4,830 |
| Federal excise tax (Note 5) | <u>47,237</u> | <u>22,262</u> |
| Total expenses | <u>2,835,783</u> | <u>2,726,983</u> |
| CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS | 1,898,158 | (481,686) |
| Net assets without donor restrictions, beginning of year | <u>4,142,984</u> | <u>4,624,670</u> |
| Net assets without donor restrictions, end of year | <u>\$ 6,041,142</u> | <u>\$ 4,142,984</u> |

See accompanying notes to financial statements.

Sterling-Turner Foundation

Statements of Cash Flows – Modified Cash Basis for the years ended December 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets without donor restrictions | \$ 1,898,158 | \$ (481,686) |
| Adjustments to reconcile changes in net assets without donor restrictions to net cash used by operating activities: | | |
| Realized gain on sale of investments | (2,713,001) | (279,570) |
| Changes in prepaid excise tax and other assets | <u>24,659</u> | <u>(6,270)</u> |
| Net cash used by operating activities | <u>(790,184)</u> | <u>(767,526)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of investments | (2,018,453) | |
| Proceeds from sale of investments | 2,987,070 | 289,995 |
| Net change in money market mutual funds held as investments | <u>(141,924)</u> | <u>427,839</u> |
| Net cash provided by investing activities | <u>826,693</u> | <u>717,834</u> |
| NET CHANGE IN CASH | 36,509 | (49,692) |
| Cash, beginning of year | <u>79,560</u> | <u>129,252</u> |
| Cash, end of year | <u>\$ 116,069</u> | <u>\$ 79,560</u> |
| <i>Supplemental disclosure of cash flow information:</i> | | |
| Federal excise tax paid | \$20,000 | \$35,455 |

See accompanying notes to financial statements.

Sterling-Turner Foundation

Notes to Financial Statements for the years ended December 31, 2018 and 2017

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 – 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, 2018, the Foundation had unpaid grant commitments totaling approximately \$3.3 million.

Functional allocation of expenses – Expenses are reported by their functional classification as program services or supporting activities. 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 one or more program or supporting activities 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 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14

The Foundation adopted the amendments of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended December 31, 2018. These amendments have been applied on a retrospective basis to the financial statements for the year ended December 31, 2017, except that information regarding liquidity and availability of resources has been omitted as permitted by the

ASU. Adoption of this ASU resulted in reclassification of previously reported activities and net assets to conform to the 2018 presentation but had no impact on total net assets or total changes in net assets for 2017.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of December 31, 2018 comprise the following:

| | |
|--|---------------------|
| Financial assets at December 31, 2018: | |
| Cash | \$ 116,069 |
| Other assets | 5,720 |
| Investments, at cost | <u>5,909,646</u> |
| Total financial assets | <u>6,031,435</u> |
| Total financial assets available for general expenditure | <u>\$ 6,031,435</u> |

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing program activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

As part of the Foundation's liquidity management, it structures its financial assets to be available as general expenditures and liabilities become due or as additional funding opportunities are presented by maintaining its investments in common stock and mutual funds. The Foundation operates with a balanced budget and determines the spending level for each year as part of the annual budget process.

NOTE 4 – INVESTMENTS

Investments in common stock have a fair value of \$48,277,112 and \$56,884,104 at December 31, 2018 and 2017, 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, 2018, one of the Foundation's fifty holdings comprises 72% of the total fair value of common stock. At December 31, 2017, two of the Foundation's thirteen holdings comprise 85% 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 5 – 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 2018 and 2017, 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 6 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 26, 2019, 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, 2018

| <u>Grantee</u> | <u>Amount Paid</u> |
|---|--------------------|
| <u>Commitments:</u> | |
| His Father's Heart Ministries | \$ 250,000 |
| Kinkaid School, Inc. | 100,000 |
| Museum of Fine Arts | 200,000 |
| Rafter Cross Cowboy Church | 22,400 |
| San Angelo Museum | 25,000 |
| St. Thomas High School | 120,000 |
| Stages, Inc. | 500,000 |
| University of Houston | 500,000 |
| <u>Grants:</u> | |
| Angela's House | 10,000 |
| Boys and Girls Clubs of Greater Houston | 25,000 |
| Bridges to Life | 10,000 |
| Buffalo Bayou Partnership | 15,000 |
| Casa de Esperanza de los Ninos | 25,000 |
| Children's Museum | 10,000 |
| Clayton Dabney (Houston) | 25,000 |
| Council on Recovery | 3,000 |
| Crime Stoppers | 10,000 |
| Crystal Charity Ball | 15,000 |
| Cystic Fibrosis | 10,000 |
| Discovery Green | 10,000 |
| Epilepsy Foundation | 10,000 |
| The Forge | 20,000 |
| Grape Creek Volunteer Fire Department | 50,000 |
| Hill Country Arts Foundation | 35,000 |
| Hill Country CASA | 25,000 |
| Houston Arboretum and Nature Center | 20,000 |
| Houston Ballet | 30,000 |
| Houston Botanic Garden | 50,000 |
| Houston Food Bank | 20,000 |
| Houston Museum of Natural Science | 25,000 |
| Hunt Volunteer Fire Department | 10,000 |
| Ingram Volunteer Fire Department | 10,000 |
| Kappa Kappa | 10,000 |
| Kerrville Independent School District | 50,000 |
| Mercy Gate Ministries | 10,000 |

(continued)

Sterling-Turner Foundation

Schedule of Grants and Commitments Paid during the year ended December 31, 2018 *(continued)*

| <u>Grantee</u> | <u>Amount Paid</u> |
|-----------------------------------|---------------------|
| Museum of Fine Arts Houston | 30,000 |
| Open Door Mission | 25,000 |
| Pathways for Little Feet | 10,000 |
| Periwinkle Foundation | 10,000 |
| Rafter Cross Cowboy Church | 30,000 |
| Raphael Community Free Clinic | 5,000 |
| Ronald McDonald House of Houston | 25,000 |
| St. Luke's Center for Counseling | 50,000 |
| Salvation Army | 30,000 |
| San Angelo Museum of Fine Arts | 25,000 |
| Seal Legacy Foundation | 25,000 |
| Small Steps Nurturing Center | 15,000 |
| Special Olympics Texas | 10,000 |
| Spring Spirit | 15,000 |
| Star of Hope | 25,000 |
| Timberwood Park Elementary | <u>25,000</u> |
| Total grants and commitments paid | <u>\$ 2,615,400</u> |