

Sterling-Turner Foundation

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2005

**Daniel P. McGuire, P.C.**  
Certified Public Accountants  
Houston, Texas

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

We have audited the accompanying statement of assets, liabilities and net assets - cash basis of Sterling-Turner Foundation (a nonprofit organization) as of December 31, 2005, and the related statement of revenue, expenses and other changes in net assets - cash basis for the year then ended. These financial statements are the responsibility of the Foundation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, the Foundation prepares its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets - cash basis of Sterling-Turner Foundation as of December 31, 2005 and its revenue, expenses and other changes in its net assets - cash basis for the year then ended, on the basis of accounting described in Note 2.



Houston, Texas

July 13, 2006

Sterling-Turner Foundation  
Statement of Assets, Liabilities and Net Assets - Cash Basis  
December 31, 2005

ASSETS

Current Assets:		
Cash and Cash Equivalents	\$ 112,839.80	
Due from Related Entity	230.58	
Prepaid Excise Tax	<u>30,739.00</u>	
Total Current Assets		143,809.38
Non-Current Assets:		
Investments	<u>5,243,260.14</u>	
Total Non-Current Assets		5,243,260.14
Property & Equipment	127,394.79	
Accumulated Depreciation	<u>(79,087.61)</u>	
Total Furniture and Equipment		48,307.18
Deposits		<u>3,605.00</u>
TOTAL ASSETS		<u>\$ 5,438,981.70</u>

NET ASSETS

Net Assets:		
Temporarily Restricted	<u>\$ 5,438,981.70</u>	
Total Net Assets		<u>5,438,981.70</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 5,438,981.70</u>

See accompanying notes.

Sterling-Turner Foundation  
Statement of Revenues, Expenses  
and Changes in Net Assets - Cash Basis  
December 31, 2005

Revenue	
Dividends	\$1,055,104.24
Total Revenue	<u>1,055,104.24</u>
Operating Expenses	
Depreciation Expense	18,805.08
Grants	2,776,956.00
Insurance	15,072.11
Professional Fees	17,537.45
Rent	35,338.66
Office Expense	10,849.60
Other Operating Expense	2,459.64
Trustee Fees	4,700.00
Wages and Salaries	49,750.08
Payroll Taxes	3,778.47
Investment Advisory Fees	48,551.26
Total Operating Expenses	<u>2,983,798.35</u>
Other Income and Expense	
Net Gain/(Loss) - Investment Securities	1,301,472.49
Interest Income	1,775.09
Federal Excise Tax Expense	(30,739.00)
Tax Penalties	<u>(183.06)</u>
Total Other Income and Expense	<u>1,272,325.52</u>
Decrease in Net Assets	(656,368.59)
Net Assets - Temporarily Restricted, January 1, 2005	<u>6,095,350.29</u>
Net Assets - Temporarily Restricted, December 31, 2005	<u>\$5,438,981.70</u>

See accompanying notes.

Sterling-Turner Foundation  
Notes to Financial Statements  
December 31, 2005

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 are 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 2005 and accordingly, these financials do not reflect any activity related to this class of assets for 2005.

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 tax exempt from Federal income taxes, the Foundation is subject to a 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, 2005 the Foundation was in compliance under the minimum distribution rules and as such was liable for the excise tax at a reduced rate of one percent (1%).

The Foundation made estimated excise tax payments of \$30,739.00 in 2005.

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, 2005, the investment securities had a market value of \$ 48,177,678.00.

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 2005 was \$ 18,805.08.

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, 2005, unpaid amounts under outstanding commitments totaled \$ 1,100.00 and is payable as follows:

<u>Recipient</u>	<u>Amount</u>
End Hunger	\$ 1,100.00

NOTE 4. Operating Lease

The Foundation shares certain office expense with a related entity. In 2001, the Foundation co-signed an office lease with a term of ten years. The commencement of the lease was January 28, 2002. At December 31, 2005, the future minimum lease payments under the sharing arrangement were as follows:

2006	34,222.00
2007	34,299.00
2008	35,149.00
2009	35,226.00
Thereafter	<u>75,242.00</u>
	<u>\$ 214,138.00</u>

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 2005 was \$ 35,338.66.

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.

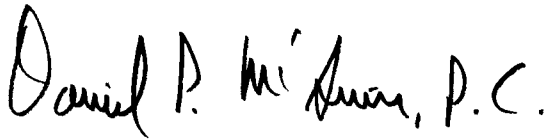
**SUPPLEMENTARY INFORMATION**

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

Our report on our audit of the basic financial statements of Sterling-Turner Foundation for the year then ended December 31, 2005 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 2005 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 we performed in our audit of the related basic financial statements.

In our 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.



Houston, Texas

July 13, 2006

Sterling-Turner Foundation  
Schedule of Grants and Commitment Payments for 2005

Grantee	Paid
Alley Theater	10,000.00
Angela House - Society of St. Vincent de Paul	30,000.00
Arbor Preschool	10,000.00
Asia Society of Texas : Asia House	500,000.00
Austin Smiles	63,566.00
Avondale House	75,000.00
Big Brothers and Big Sisters of SE Texas	10,000.00
Boys and Girls Country	10,000.00
Briarwood School	10,000.00
Bridges to Life	10,000.00
Brookwood Community	5,000.00
CanCare of Houston Inc	10,000.00
Casa de Esperanza	10,000.00
Casa de Esperanza de los Ninos	5,000.00
Child Advocates Inc.	10,000.00
The Children's Fund	5,000.00
Children's Medical Center Foundation of Central Texas	150,000.00
The Chinquapin School	25,000.00
Christ Episcopal Church, Cedar Park, TX	25,000.00
Coastal Conservation Association	200,000.00
Contemporary Arts Museum of Houston	5,000.00
DePelchin Children's Center	10,000.00
Duchesne Academy	30,000.00
End Hunger Network	223,890.00
Episcopal High School	25,000.00
Family Elder Care	10,000.00
Family Services of Greater Houston	5,000.00
Foundation for the Retarded	50,000.00
Friends and Faculty of Ingram Tom Moore HS	9,000.00
The Gathering Place	10,000.00
Girl Scouts of San Jacinto Council	5,000.00
Good Samaritan Foundation	25,000.00
Hana & Arthur Ginzburg	5,000.00
Hill Country District Jr Livestock Show	20,000.00
Hill Country Youth Ranch	50,000.00
Hill Country CASA	20,000.00
Hits Theater	2,500.00
Holy Cross Chapel	30,000.00

Sterling-Turner Foundation  
Schedule of Grants and Commitment Payments for 2005

Grantee	Paid
Holy Rosary Church	12,000.00
Houston Arboretum & Nature Center	25,000.00
Houston Ballet	20,000.00
Houston Grand Opera	10,000.00
Houston Habitat for Humanity	100,000.00
Houston PBS	10,000.00
Houston Pi Beta Phi Foundation	5,000.00
Houston Symphony Society	10,000.00
Houston Zoo Inc.	60,000.00
Hunt Volunteer Fire Department	10,000.00
Inprint Inc.	10,000.00
James Phillips Williams Memorial Foundation	5,000.00
Jesuit Volunteer Corp South	11,000.00
Josh P. McGovern Museum	10,000.00
Katalyst Ministries	25,000.00
Lord of the Streets Episcopal Church	15,000.00
Memorial Ashford Little League	10,000.00
Memorial Hermann Foundation	50,000.00
The Menil Foundation Inc.	50,000.00
Museum of Natural Science	30,000.00
Museum of Fine Arts	43,000.00
My Friend A. Neuenschwander Foundation	2,500.00
National Guard Association Educational Foundation	50,000.00
Open Door Mission	35,000.00
Palmer Memorial Church	15,000.00
Post Oak YMCA	15,000.00
Rise School of Dallas	3,000.00
Ronald McDonald House	25,000.00
Salvation Army of Kerr County	65,000.00
Salvation Army of Houston	25,000.00
St. Agnes Academy	25,000.00
St. Catherine's Montessori School	75,000.00
St. John's Presbyterian Church	25,000.00
St. Luke's Methodist Church	10,000.00
St. Thomas High School	50,000.00
Sam Houston Area Council BSA	10,000.00
San Angelo Museum of Fine Arts	35,000.00
San Jose Clinic	10,000.00
Schreiner University	30,000.00

Sterling-Turner Foundation  
Schedule of Grants and Commitment Payments for 2005

Grantee	Paid
Sid Peterson Memorial Hospital Foundation	500,000.00
Star of Hope	75,000.00
Sunshine Kids	25,000.00
Taping for the Blind	10,000.00
Texas Children's Hospital	10,000.00
Texas Women's University	100,000.00
Trees for Houston	10,000.00
University of Houston Moores School of Music	50,000.00
Westminster Weekdays School	20,000.00
Young Life - Houston	30,000.00
Subtotal 2005 Grants and Commitments	\$ 3,576,956.00
Less: refund of commitment from St. Joseph's Hospital	- 800,000.00
2005 Grants and Commitments Expense	\$ 2,776,956.00

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