

Isla Carroll Turner Friendship Trust

Financial Statements – Modified Cash Basis
and Independent Auditors' Report
for the years ended December 31, 2017 and 2016

Isla Carroll Turner Friendship Trust

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Independent Auditors' Report

To the Board of Trustees of
Isla Carroll Turner Friendship Trust:

We have audited the accompanying financial statements of Isla Carroll Turner Friendship Trust, which comprise the statements of assets and net assets – modified cash basis as of December 31, 2017 and 2016 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 Isla Carroll Turner Friendship Trust as of December 31, 2017 and 2016 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 paid during the year ended December 31, 2017 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 our audits 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

August 23, 2018

Isla Carroll Turner Friendship Trust

Statements of Assets and Net Assets – Modified Cash Basis as of December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 71,799	\$ 188,544
Investments, at cost (<i>Note 2</i>):		
Equity securities – common stock	1,124,148	1,143,696
Money market mutual funds	9,524	45,140
Prepaid excise tax and other assets	<u>35,900</u>	<u>2,807</u>
TOTAL ASSETS	<u>\$ 1,241,371</u>	<u>\$ 1,380,187</u>
NET ASSETS		
Unrestricted net assets	<u>\$ 1,241,371</u>	<u>\$ 1,380,187</u>
TOTAL NET ASSETS	<u>\$ 1,241,371</u>	<u>\$ 1,380,187</u>

See accompanying notes to financial statements.

Isla Carroll Turner Friendship Trust

Statements of Revenue and Expenses – Modified Cash Basis for the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
REVENUE:		
Interest and dividends	\$ 1,673,815	\$ 1,650,150
Realized gain on sale of investments	<u>1,034,991</u>	<u>639,092</u>
Total revenue	<u>2,708,806</u>	<u>2,289,242</u>
EXPENSES:		
Grants made	2,595,500	1,965,000
Salaries and related costs	99,577	97,426
Investment custodial and management fees	44,993	47,342
Other professional fees	38,552	20,845
Office rent	27,810	25,268
Federal excise tax (<i>Note 3</i>)	26,445	44,630
Other	<u>14,745</u>	<u>14,678</u>
Total expenses	<u>2,847,622</u>	<u>2,215,189</u>
CHANGES IN UNRESTRICTED NET ASSETS	(138,816)	74,053
Unrestricted net assets, beginning of year	<u>1,380,187</u>	<u>1,306,134</u>
Unrestricted net assets, end of year	<u>\$ 1,241,371</u>	<u>\$ 1,380,187</u>

See accompanying notes to financial statements.

Isla Carroll Turner Friendship Trust

Statements of Cash Flows – Modified Cash Basis for the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in unrestricted net assets	\$ (138,816)	\$ 74,053
Adjustments to reconcile changes in unrestricted net assets to net cash used by operating activities:		
Realized gain on sale of investments	(1,034,991)	(639,092)
Changes in prepaid excise tax and other assets	<u>(33,093)</u>	<u>14,714</u>
Net cash used by operating activities	<u>(1,206,900)</u>	<u>(550,325)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	1,054,539	650,432
Net change in money market mutual funds held as investments	<u>35,616</u>	<u>14,328</u>
Net cash provided by investing activities	<u>1,090,155</u>	<u>664,760</u>
NET CHANGE IN CASH	(116,745)	114,435
Cash, beginning of year	<u>188,544</u>	<u>74,109</u>
Cash, end of year	<u>\$ 71,799</u>	<u>\$ 188,544</u>
<i>Supplemental disclosure of cash flow information:</i>		
Federal excise tax paid	\$60,000	\$30,000

See accompanying notes to financial statements.

Isla Carroll Turner Friendship Trust

Notes to Financial Statements for the years ended December 31, 2017 and 2016

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Isla Carroll Turner Friendship Trust (the Trust) was established in 1956 by Isla Carroll Sterling Turner. The Trust provides grants to charitable organizations for the purpose of assisting the elderly and older adults with Down’s Syndrome in the State of Texas.

Basis of presentation – The Trust’s 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 Trust recognizes an asset or liability for federal excise tax in the tax year that it arises.

Federal income tax status – The Trust is a §4947(a)(1) non-exempt charitable trust, which is treated as a private foundation for federal tax purposes. The Trust is exempt from federal income tax, but 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 – Revenue and the related net assets are classified based on the existence or absence of donor-imposed restrictions. Unrestricted net assets include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation. All of the Trust’s net assets are unrestricted in that they are available to support the broad purposes of the Trust.

Grants made are recognized as expenses when paid by the Trust.

Functional expenses – The expenses of the Trust are summarized on a natural basis in the statements of revenue and expenses. In 2017 and 2016, approximately 95% and 94%, respectively, of the Trust’s expenses relate to the grant program and 5% and 6%, respectively, relate to management and general.

Recent financial accounting pronouncement – In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions*. New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. The Trust is required to adopt this ASU for fiscal year 2018. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

NOTE 2 – INVESTMENTS

Investments in common stock are two corporate holdings that have a fair value of \$44,719,781 and \$49,277,713 at December 31, 2017 and 2016, respectively. The fair value is based on the closing prices reported on the active market on which the individual securities are traded. One of the Trust's two holdings comprise 98% and 99% of the total fair value of common stock at December 31, 2017 and 2016, respectively.

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 3 – 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. The Trust computed its provision for federal excise tax at the rate of 1% in 2017 and 2% in 2016.

Internal Revenue Code §4942 requires that the Trust 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 Trust is currently in compliance with these provisions and is not subject to this federal excise tax on undistributed income.

The Trust 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 Trust's financial statements.

NOTE 4 – RELATED PARTY TRANSACTIONS

Members of the Board of Trustees of the Trust and their families serve on numerous charitable boards of directors. Grants awarded to these organizations were approximately \$290,000 for the year ended December 31, 2017.

NOTE 5 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 23, 2018, 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.

Isla Carroll Turner Friendship Trust

Schedule of Grants Paid during the year ended December 31, 2017

<u>Grantee</u>	<u>Amount Paid</u>
All Saints Catholic Community	\$ 50,000
Alzheimer's Association Houston and Southeast Texas Chapter	50,000
Baylor College of Medicine, HCOA	50,000
Beacon of Downtown Houston, The	40,000
Briarwood-Brookwood, Inc.	100,000
Catholic Charities of the Archdiocese of Galveston-Houston	65,000
Cenacle Convent, Inc.	50,000
Chinese Community Center, Inc.	20,000
CHRISTUS Foundation for HealthCare	50,000
Clarewood House	50,000
Covenant Health Foundation	5,000
Daniels Towers, Inc.	50,000
Depression & Bipolar Support Alliance of Greater Houston	20,000
Dominican Sisters of Houston, Texas, Inc.	25,000
Dominican Sisters of Mary Immaculate Province	200,000
Easters Seals of Greater Houston, Inc.	25,000
Eden Home, Inc.	47,500
Evelyn Rubenstein Jewish Community Center of Houston	25,000
Family Service Center at Houston and Harris County	20,000
Family Services Association of San Antonio, Inc.	20,000
Foundation for the Retarded (The Center)	50,000
Friends for Life	20,000
Galveston County Food Bank (formerly Gleanings from The Harvest for Galveston, Inc.)	40,000
Golden Age Hobby House of Houston, Inc.	65,000
Golden Rule Broadcasting	25,000
Good Samaritan Foundation of Texas, Inc.	60,000
Halo House Foundation (Harris)	25,000
Hope & Healing Center & Institute	15,000
Houston Aphasia Recovery Center	20,000
Houston Area Parkinson Society	75,000
Houston Habitat for Humanity (Harris)	140,000
Houston Hospice (Harris)	50,000
Houston Humane Society (Harris)	5,000
Houston's Amazing Place, Inc.	50,000
Interfaith Caring Ministries	40,000
Interfaith Ministries for Greater Houston	60,000
Katy Christian Ministries (Harris)	5,000
Missions of Yahweh, Inc., The	60,000
Montrose Counseling Center, Inc.	40,000

(continued)

Isla Carroll Turner Friendship Trust

Schedule of Grants Paid during the year ended December 31, 2017

(continued)

<u>Grantee</u>	<u>Amount Paid</u>
New Hope Housing	50,000
Nixon Home Care, Inc.	50,000
Northwest Assistance Ministries	50,000
Precinct2gether, Inc.	30,000
Rebuilding Together – Houston	135,000
Rose, The	25,000
St. Dominic Village	100,000
Salvation Army, Houston Area Command, A Georgia Corporation, The	25,000
SEARCH Homeless Services	20,000
Seven Acres Jewish Senior Care Services, Inc.	50,000
Southeast Area Ministries	35,000
Target Hunger	25,000
University of Houston	78,000
Vita-Living, Inc.	40,000
Volunteer Interfaith Caregivers, Southwest	15,000
Wheeler Avenue 5C's, Inc.	35,000
YMCA of Greater Houston, Tellepsen Family Downtown	<u>25,000</u>
Total grants paid	<u>\$ 2,595,500</u>