Morning Star Foundation

Financial Statements and
Independent Accountants' Review Report

December 31, 2019 and 2018

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Morning Star Foundation
Table of Contents

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Directors
Morning Star Foundation
Spokane, Washington

Report on the Financial Statements

We have reviewed the accompanying financial statements of Morning Star Foundation (the Foundation) (a not-for-profit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2019, the Foundation adopted new accounting guidance, Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958).* Our conclusion is not modified with respect to this matter.

12015 East Main Avenue | Spokane Valley, WA 99206 | 509.242.0874 | www.dzacpa.com

Accountants' Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
May 28, 2020

Morning Star Foundation
Statements of Financial Position
December 31, 2019 and 2018

ASSETS		2019		2018
Cash and cash equivalents	**$**	**221,502**	$	96,505
Prepaid expenses		**835**		1,000
Investments		**9,447,485**		8,470,301
Property and equipment, net		**2,195,552**		2,197,580
Beneficial interest in the Carbon Fund		**35,919**		37,123
Beneficial interest in Elizabeth C. Pool Charitable Trust		**325,445**		343,672
Total assets	**$**	**12,226,738**	$	11,146,181
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable	**$**	**7,516**	$	16,379
Payable to Morning Star Boys' Ranch		**288,754**		-
Payroll taxes and retirement contributions payable		**3,022**		1,131
Total liabilities		**299,292**		17,510
Net assets				
Without donor restrictions		**10,710,581**		9,898,409
With donor restrictions		**1,216,865**		1,230,262
Total net assets		**11,927,446**		11,128,671
Total liabilities and net assets	**$**	**12,226,738**	$	11,146,181

See accompanying independent accountants' review report and notes to financial statements.

Morning Star Foundation
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Contributions	$ 40,523	$ 5,350	**$ 45,873**
Other income	93	-	**93**
Farm income	62,036	-	**62,036**
Investment return	1,541,061	17,273	**1,558,334**
Change in beneficial interest in the Carbon Fund	(1,204)	-	**(1,204)**
Change in beneficial interest in Elizabeth C. Pool Charitable Trust	-	(18,227)	**(18,227)**
Total revenues, gains, and other support	1,642,509	4,396	**1,646,905**
Net assets released from restrictions	17,793	(17,793)	**-**
Expenses			
Program	632,750	-	**632,750**
Management and general	187,400	-	**187,400**
Fundraising	27,980	-	**27,980**
Total expenses	848,130	-	**848,130**
Change in net assets	812,172	(13,397)	**798,775**
			-
Net assets, beginning of year	9,898,409	1,230,262	**11,128,671**
Net assets, end of year	$ 10,710,581	$ 1,216,865	**$ 11,927,446**

See accompanying independent accountants' review report and notes to financial statements.

Morning Star Foundation
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2018

		Without Donor Restrictions		With Donor Restrictions		Total
Revenues, gains, and other support						
Contributions	$	47,668	$	81,105	**$**	**128,773**
Special event revenue, net of expenses of $11,110		3,117		25,304		**28,421**
Rental and other income		4,883		-		**4,883**
Farm income		39,385		-		**39,385**
Investment return		(401,469)		18,023		**(383,446)**
Loss on disposal of property		(58,147)		-		**(58,147)**
Change in beneficial interest in the Carbon Fund		688		-		**688**
Change in beneficial interest in Elizabeth C. Pool Charitable Trust		-		(23,430)		**(23,430)**
Total revenues, gains, and other support		(363,875)		101,002		**(262,873)**
Net assets released from restrictions		43,327		(43,327)		**-**
Expenses						
Program		394,062		-		**394,062**
Management and general		120,628		-		**120,628**
Fundraising		44,748		-		**44,748**
Total expenses		559,438		-		**559,438**
Change in net assets		(879,986)		57,675		**(822,311)**
Net assets, beginning of year		10,778,395		1,172,587		**11,950,982**
Net assets, end of year	$	9,898,409	$	1,230,262	**$**	**11,128,671**

See accompanying independent accountants' review report and notes to financial statements.

Morning Star Foundation
Statement of Functional Expenses
Year Ended December 31, 2019

	Program Services	Management and General	Fundraising	Total
Contribution to charities	$ 616,863	$ -	$ -	**$ 616,863**
Salaries	-	52,993	12,089	**65,082**
Payroll taxes and employee benefits	-	14,137	3,420	**17,557**
Purchased services	-	54,997	3,955	**58,952**
Supplies	-	4,346	-	**4,346**
Utilities	567	2,670	-	**3,237**
Occupancy	6,945	11,611	994	**19,550**
Insurance	1,312	14,320	-	**15,632**
Depreciation	4,491	661	-	**5,152**
Repairs and maintenance	2,572	-	-	**2,572**
Advertising	-	17,675	4,229	**21,904**
Interest	-	1,142	-	**1,142**
Other expense	-	12,848	3,293	**16,141**
Total expenses	**$ 632,750**	**$ 187,400**	**$ 27,980**	**$ 848,130**

See accompanying independent accountants' review report and notes to financial statements.

Morning Star Foundation
Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services	Management and General	Fundraising	Total
Contribution to charities	$ 382,997	$ -	$ -	**$ 382,997**
Salaries	-	37,988	19,826	**57,814**
Payroll taxes and employee benefits	-	8,205	4,200	**12,405**
Purchased services	-	25,179	9,120	**34,299**
Supplies	-	4,205	-	**4,205**
Utilities	423	4,195	-	**4,618**
Occupancy	3,217	19,456	733	**23,406**
Insurance	-	14,968	-	**14,968**
Depreciation	7,425	184	-	**7,609**
Advertising	-	268	5,247	**5,515**
Other expense	-	5,980	5,622	**11,602**
Total expenses	**$ 394,062**	**$ 120,628**	**$ 44,748**	**$ 559,438**

See accompanying independent accountants' review report and notes to financial statements.

Morning Star Foundation
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

		2019		2018
Increase (Decrease) in Cash and Cash Equivalents				
Cash flows from operating activities				
Cash received from contributions	**$**	**45,523**	$	128,363
Cash received from investments		**166,589**		189,409
Cash received from special events		**-**		39,531
Cash received from other sources		**62,129**		44,268
Cash paid for employee salaries and benefits		**(80,748)**		(71,517)
Cash paid to suppliers and others		**(152,174)**		(96,229)
Cash distributed to charities		**(328,109)**		(382,997)
Net cash used in operating activities		**(286,790)**		(149,172)
Cash flows from investing activities				
Proceeds from sale of property and equipment		**-**		175
Purchase of property and equipment		**(3,124)**		(19,974)
Purchase of investments		**(4,659,272)**		(3,008,646)
Proceeds from sale of investments		**5,073,833**		3,181,422
Net cash provided by investing activities		**411,437**		152,977
Cash flows from financing activities				
Cash received from contributions restricted for investments in endowments		**350**		410
Proceeds from line of credit		**175,000**		-
Principal payments on line of credit		**(175,000)**		-
Net cash provided by financing activities		**350**		410
Net increase in cash and cash equivalents		**124,997**		4,215
Cash and cash equivalents, beginning of year		**96,505**		92,290
Cash and cash equivalents, end of year	**$**	**221,502**	$	96,505

See accompanying independent accountants' review report and notes to financial statements.

Morning Star Foundation
Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of Change in Net Assets to Net Cash Used in Operating Activities		
Change in net assets	**$ 798,775**	$ (822,311)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	**5,152**	7,609
Change in beneficial interest in Carbon Fund	**1,204**	(688)
Change in beneficial interest in Elizabeth C. Pool Charitable Trust	**18,227**	23,430
Loss (gain) on investments	**(1,391,745)**	572,855
Loss on disposal of property	**-**	58,147
Contributions restricted for investments in endowments	**(350)**	(410)
Change in:		
Prepaid expenses	**165**	(350)
Accounts payable	**(8,863)**	13,844
Payable to Morning Star Boys' Ranch	**288,754**	-
Payroll taxes and retirement contributions payable	**1,891**	(1,298)
Net cash used in operating activities	**$ (286,790)**	$ (149,172)

See accompanying independent accountants' review report and notes to financial statements.

1. Organization and Summary of Significant Accounting Policies:

a. Organization

Morning Star Foundation (the Foundation) is a nonprofit charitable organization incorporated under the laws of the state of Washington. The Foundation's purpose is to provide major financial support to youth programs that provide all the ingredients necessary to help youth grow toward healthy, happy, and successful citizenship.

b. Summary of Significant Accounting Policies

Financial statement presentation – The financial statements of the Foundation are presented on the accrual basis of accounting. The Foundation reports information regarding its financial position and activities according to two classes of net assets: with and without donor restrictions.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Actual results could differ from those estimates.

Cash and cash equivalents – For purposes of reporting cash flows, the Foundation considers demand deposits, money market funds, and liquid investments, if any, purchased with an original maturity of 90 days or less to be cash equivalents.

Investments – Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position.

Allocation of interest, dividends, and gains/losses are based upon pools established according to net asset values. The interest, dividends, and gains/losses from certain endowment funds are temporarily or permanently restricted based upon the endowment contract.

Beneficial interest in the Carbon Fund – The Foundation has transferred funds (a reciprocal transfer) to the Carl & Gladys Carbon Fund (the Fund) accounted for under Financial Accounting Standards Board Accounting Standards Codification (ASC) 958-605, *Revenue Recognition for Not-for-Profit Entities*. The Foundation has granted Inland Northwest Community Foundation (INCF) variance power and INCF is the legal owner of the Fund. The Foundation receives annual distributions from the Fund equal to the investment return of both the Foundation's reciprocal transfers and contributions third-party donors have made to the Fund. Distributions received are restricted for the athletic programs. The fair value of the Foundation's reciprocal transfers included on the statements of financial position as of December 31, 2019 and 2018, was approximately $36,000 and $37,000, respectively.

1. Organization and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

Beneficial interest in Elizabeth C. Pool Charitable Trust – A perpetual trust held by a third party has been established with the Foundation in which the donor initiated and funded the perpetual trust. Under the terms of the trust, the Foundation has the irrevocable right to receive the income earned on the trust in perpetuity, but will never receive the assets held in the trust. The Foundation is one of five organizations that receive annual distributions from the trust equal to 50 percent of the investment return of the trust divided equally between the five organizations. The remaining 50 percent of trust income is distributed to the charity at the discretion of a board of advisors to the trust. Distributions received are restricted for capital improvements. Distributions of approximately $17,000 and $18,000, respectively, were received by the Foundation, included on the statements of activities and changes in net assets for the years ended December 31, 2019 and 2018, respectively, and have been restricted by the donor.

Net assets with donor restrictions and net assets without donor restrictions – Net assets with donor restrictions are those whose use by the Foundation has been restricted by donors to a specific time period or purpose. Donor restricted contributions received during the reporting year for which the restrictions have been met during the same year are reported as net assets without donor restrictions.

Contributions and grants – Contributions and grants received are recorded as with donor restriction or without donor restriction depending upon the existence or nature of any donor restrictions. Contributions that are restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions expire in the year in which the contributions are recognized.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Gifts of long-lived assets such as land, buildings, or equipment are reported as contributions without donor restrictions unless the donor has restricted the contributed asset for a specific purpose. Gifts of long-lived assets with explicit restrictions regarding their use and contributions of cash that must be used to acquire capital assets are reported as contributions with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. The Foundation reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Volunteer services – Contributed services are recognized only if the services require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Many individuals volunteer their time and perform a variety of tasks that assist the Foundation in performing its program services throughout the year, but these services do not meet the criteria for recognition as contributed services. Volunteer hours were 530, valued at approximately $13,000 for the year ended December 31, 2019.

1. Organization and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

Rental income – Rental income is recognized when rental payments are due.

Farm income **–** Farm income is recognized when the harvest is sold or when federal assistance payments are earned.

Allocation of supporting service and functional expenses **–** The cost of providing the various programs and other activities has been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy costs, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

Credit risk **–** The Foundation maintains its cash and cash equivalents balance with local banks and brokerage deposit accounts. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At various times during the year and at year end, the Foundation did have deposits in excess of FDIC coverage. The Foundation has not experienced any losses on such accounts and management does not believe it is exposed to any significant credit risk with respect to cash and cash equivalents.

Income tax status – The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except for income, if any, from activities unrelated to the Foundation's exempt purpose. The Foundation evaluates uncertain tax positions whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of December 31, 2019 and 2018, the Foundation had no uncertain tax positions requiring accrual.

Subsequent events **–** Subsequent events were evaluated through May 28, 2020, which is the date the financial statements were available to be issued.

Change in accounting principle **–** The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958).* The ASU provides guidance on determining whether a transaction is a contribution or exchange transaction and for distinguishing between conditional and unconditional contributions.

The Foundation implemented ASU No. 2018-08 in 2019 using the modified retrospective method. The standards did not have any significant impact on revenue or contribution recognition in the current or prior years.

1. Organization and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

Upcoming accounting standard pronouncements – In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statements of activities and changes in net assets. Currently, leases are classified as either capital or operating, with only capital leases recognized on the statements of financial position. The reporting of lease-related expenses in the statements of activities and changes in net assets and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Foundation’s year ending December 31, 2021, and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the financial statements as a result of the leases for rented building space being reported as liabilities on the statements of financial position. The effect of applying the new lease guidance on the financial statements will be to increase long-term assets and to increase short-term and long-term lease liabilities. The effects on the results of operations are not expected to be significant as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

2. Liquidity and Availability of Financial Assets:

The following reflects the Foundation's financial assets as of the statements of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statements of financial position date. Amounts not available include amounts set aside for long-term investing in the quasi-endowment that could be drawn upon if the governing board approves that action. However, amounts already appropriated from either the donor-restricted endowment or quasi-endowment for general expenditure within one year of the statements of financial position date have not been subtracted as unavailable.

	2019	2018
Financial assets, at year end	**$ 10,030,351**	$ 8,947,601
Less those unavailable for general expenditures within one year, due to:		
Donor-imposed restrictions:		
Restricted by donor with time or purpose	**(422,541)**	(418,061)
Investments held in perpetuity	**(468,879)**	(468,529)
Beneficial interests	**(361,364)**	(380,795)
Board designations:		
Quasi-endowment fund, primarily for long-term investing	**(1,315,382)**	(1,002,586)
Financial assets available to meet cash needs for general expenditures within one year	**$ 7,462,185**	$ 6,677,630

The Foundation is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Foundation must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As a part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. There is a fund established by the governing board that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, the Foundation also could draw upon $1,555,000 of available lines of credit, as further discussed in Note 7, or draw upon its quasi-endowment fund.

3. Endowments:

The Foundation’s endowments consist of two individual funds established for Father Joe/Support-A-Boy and for purposes that support Morning Star Boys' Ranch (the Ranch) and its mission with the educational endeavors of young people that have resided at the Ranch. The Foundation’s endowments include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The Foundation is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time-restricted until the Board of Directors appropriates such amounts for expenditure. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Board of Directors of the Foundation has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

3. Endowments (continued):

The endowment fund is composed of the following:

	2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Board-designated endowment funds	$ 1,315,382	$ -	**$ 1,315,382**
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	468,879	**468,879**
Amounts available for appropration for the education fund	-	222,529	**222,529**
Total Funds	**$ 1,315,382**	**$ 691,408**	**$ 2,006,790**

	2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Board-designated endowment funds	$ 1,002,586	$ -	**$ 1,002,586**
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	468,529	**468,529**
Amounts available for appropration for the education fund	-	217,529	**217,529**
Total Funds	**$ 1,002,586**	**$ 686,058**	**$ 1,688,644**

3. Endowments (continued):

The reconciliation of the beginning and ending balances of the endowment, in total and by net asset classes, follows:

	2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets, beginning of year	$ 1,002,586	$ 686,058	**$ 1,688,644**
Investment return, net	312,796	-	**312,796**
Contributions	-	5,350	**5,350**
Endowment net assets, end of year	**$ 1,315,382**	**$ 691,408**	**$ 2,006,790**

	2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets, beginning of year	$ 1,152,949	$ 680,548	**$ 1,833,497**
Investment return, net	(48,211)	-	**(48,211)**
Contributions	-	5,510	**5,510**
Other changes:			
Transfer to operating funds	(102,152)	-	**(102,152)**
Endowment net assets, end of year	**$ 1,002,586**	**$ 686,058**	**$ 1,688,644**

Underwater endowment funds – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor of SPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in net assets were $-0- for both December 31, 2019 and 2018. Deficiencies result from unfavorable market fluctuations that occur shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that are deemed prudent by the Board of Directors.

3. Endowments (continued):

Return objectives and risk parameters – The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately five percent annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Strategies employed for achieving objectives – To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of growth to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy – The Foundation has a policy of appropriating for distribution each year five percent of its endowment fund's fair value using a five-year rolling average in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return. The Foundation appropriates funds for distribution as requested by the various nonprofit organizations supported by the Foundation. The nonprofit organization submits an application outlining the request, which is then approved by the Foundation's Board of Directors. The Foundation has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations.

4. Investments:

Investments consisted of the following:

		2019		2018
Cash and cash equivalents	**$**	**1,189,893**	$	578,491
Fixed income				
Mutual funds		**551,092**		509,249
Taxable US		**582,827**		1,291,494
Taxable high yield		**152,712**		396,131
Taxable inflation protected securities		**26,712**		124,916
Taxable foreign sovereign		**166,057**		196,699
Taxable hedged fixed income		**-**		35,016
Other fixed income		**227,604**		586,461
Total fixed income funds		**1,707,004**		3,139,966
Equities				
Real estate securities		**212,101**		79,244
US equities		**1,788,088**		3,458,280
Developed foreign		**693,241**		327,786
Emerging foreign		**203,547**		38,957
Common stocks		**2,493,499**		-
Exchange traded funds		**866,481**		847,577
Other equity		**118,631**		-
Total equities		**6,375,588**		4,751,844
Alternative investments		**175,000**		-
	$	**9,447,485**	$	8,470,301

Subsequent to December 31, 2019, the Foundation invested an additional $240,000 in alternative investments.

In addition, there has been instability in the financial markets subsequent to December 31, 2019. The Foundation has material investments in equity securities and management anticipates the Foundation may experience a material decline in the fair value of their investments in equity securities subsequent to the statement of financial position date.

5. Fair Value Measurements:

The three levels of the fair value hierarchy are defined as follows:

- ***Level 1*** – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- ***Level 2*** – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.
- ***Level 3*** – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation’s assessment of the significance of a particular input to fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Investments are stated at fair value, which is determined by using market quotations and other information available at the valuation date.

Alternative investments are stated at cost, which do not have a readily determinable fair value. The fair value of a cost-method investment is not estimated if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value and the organization does not estimate the fair value of financial instruments because it is not practicable to estimate fair value.

Beneficial interest in the Carbon Fund is stated at fair value, which is determined by using market quotations of the underlying investments at the valuation date.

Beneficial interest in the perpetual trust is stated at fair value, which is determined by using the Foundation’s interest in market quotations of the underlying investments at the valuation date.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with the other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

5. Fair Value Measurements (continued):

The following tables disclose, by level within the fair value hierarchy, the Foundation’s assets and liabilities measured and reported on the statements of financial position, at fair value on a recurring basis:

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments at fair value	$ 7,904,472	$ 1,368,013	$ 175,000	**$ 9,447,485**
Beneficial interest in the Carbon Fund	-	-	35,919	**35,919**
Beneficial interest in Elizabeth C. Pool Charitable Trust	-	-	325,445	**325,445**
	$ 7,904,472	**$ 1,368,013**	**$ 536,364**	**$ 9,808,849**

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments at fair value	$ 5,760,340	$ 2,709,961	$ -	**$ 8,470,301**
Beneficial interest in the Carbon Fund	-	-	37,123	**37,123**
Beneficial interest in Elizabeth C. Pool Charitable Trust	-	-	343,672	**343,672**
	$ 5,760,340	**$ 2,709,961**	**$ 380,795**	**$ 8,851,096**

The following table sets forth a summary of changes in the fair value of the Foundation’s Level 3 assets:

	2019	**2018**
Balance, beginning of year	**$ 380,795**	$ 403,537
Investments at fair value	**175,000**	-
Change in value of beneficial interests	**(19,431)**	(22,742)
Balance, end of year	**$ 536,364**	$ 380,795

6. Property and Equipment:

The Foundation's property and equipment are reported at historical cost. Donated property and equipment are reported at their estimated fair value at the time of their donation. Property and equipment are capitalized when their acquisition cost or fair value at the date of donation is greater than $500. All property and equipment are depreciated using the straight-line method of depreciation over useful lives, as follows:

Buildings and building improvements	40 years
Furniture and equipment	5 to 10 years

A summary of property and equipment follows:

		2019		2018
Land	**$**	**2,085,800**	$	2,085,800
Buildings and building improvements		**142,328**		142,328
Furniture and equipment		**47,619**		44,495
		2,275,747		2,272,623
Less accumulated depreciation		**(80,195)**		(75,043)
Property and equipment, net	**$**	**2,195,552**	$	2,197,580

7. Line of Credit:

In July 2019, the Foundation opened a line of credit with US Bank (the Bank) in the amount of $1,500,000. The line of credit has an interest rate of equal to the prime rate announced by the Bank, minus 1 percent (1 percent at December 31, 2019), and is collateralized by investments. The outstanding balance on the line of credit was $-0- at December 31, 2019. In April 2020, the Foundation drew $250,000 on the line of credit. The Foundation also has a line of credit with its Washington Trust Bank credit cards. The open line of credit totaled $55,000 and $5,000 for December 31, 2019 and 2018, and draws on this line of credit were approximately $1,000 each year (included in accounts payable).

8. Net Assets:

Net assets without donor restrictions were comprised of the following:

		2019		2018
Undesignated	**$**	**850,000**	$	850,000
Board-designated				
Operating reserve		**1,268,597**		1,427,575
Long-term investments		**8,591,984**		7,620,834
Total net assets without donor restrictions	**$**	**10,710,581**	$	9,898,409

Net assets with donor restrictions were available for the following purposes:

		2019		2018
Subject to expenditure for specified purpose				
Morning Star Boys' Ranch as follows:				
Capital improvements	**$**	**94,930**	$	94,930
Athletic programs		**35,082**		35,602
General operations		**70,000**		70,000
Education fund		**222,529**		217,529
Subject to the organization's spending policy and appropriation				
Investment in perpetuity, which, once appropriated,				
is expendable to support:				
Support-A-Boy fund		**455,977**		455,977
Father Joe endowment fund		**12,902**		12,552
Beneficial interest in perpetual trust		**325,445**		343,672
Total net assets with donor restrictions	**$**	**1,216,865**	$	1,230,262

9. Retirement Plan:

The Foundation offers its employees a Simplified Employee Pension Individual Retirement Arrangement IRA Plan (the Plan). The Plan, available to all employees who meet the eligibility requirements, permits them to defer a portion of their salary until future years.

Each eligible employee may choose the financial institution in which the Plan is held. An employee becomes eligible with at least one year of service and has worked more than 1,000 hours during that year. The Foundation makes a contribution to the Plan each year equal to 6 percent of the participant's compensation on or before October 15 of each year of eligibility. Contribution amounts are set by the Board of Directors and are subject to change. The Foundation contributed approximately $2,000 and $1,000, to the Plan on behalf of its employees during the years ended December 31, 2019 and 2018, respectively.

10. Morning Star Boys' Ranch:

The primary nonprofit organization to which the Foundation makes distributions is the Morning Star Boys' Ranch (the Ranch), whose purpose is to operate residential treatment facilities and responsible living skills and transitional programs for youth in need of shelter, care, support, and direction. For the years ended December 31, 2019 and 2018, the Foundation distributed funds in the amount of approximately $268,000 and $379,000, respectively, to the Ranch. The Foundation has also committed to the Ranch $288,754 matching grant for phase 1 of the remodel expansion project to be distributed to the Ranch in 2020. The remaining $331,246 of the matching grant totaling up to $620,000 in matching funds will be distributed to the Ranch as the remodel project progresses.

The Foundation also leases property to the Ranch for $1 per month effective August 11, 2010, to provide care, treatment, character-building, benevolent and rehabilitative social services for boys and their families in need. The lease renews automatically for nine years each renewal term and may be terminated by either party upon providing 30 days advance notice to the other.

11. Commitment:

The Foundation entered into a three-year operating lease agreement with The Barbieri Family Foundation for office space commencing October 1, 2018. Future minimum lease payments under the operating lease for building space consisted of the following:

Years Ending December 31,		
2020	$	6,350
2021		5,500
	$	**11,850**

The Foundation subsequently entered into an operating lease agreement with SureWould, LLC for office space commencing May 1, 2020, with a total lease obligation of approximately $296,000 through July 2025.

12. Subsequent Event:

The COVID-19 coronavirus has created economic uncertainties which may negatively impact the Foundation's financial position. The ultimate COVID-19 coronavirus effect on the Foundation's financial position is unknown at this time.