

# **Morning Star Foundation**

Financial Statements and  
Independent Accountants' Review Report

December 31, 2020 and 2019



**DINGUS | ZARECOR & ASSOCIATES** PLLC  
Certified Public Accountants

**Morning Star Foundation**  
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## 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 nonprofit organization), which comprise the statements of financial position as of December 31, 2020 and 2019, 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 engagements 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.

### **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  
February 4, 2022

**Morning Star Foundation**  
**Statements of Financial Position**  
**December 31, 2020 and 2019**

<b>ASSETS</b>	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 907,713	\$ 221,502
Prepaid expenses	16,023	835
Investments	8,566,219	9,447,485
Property and equipment, net	2,041,001	2,195,552
Beneficial interest in the Carbon Fund	35,193	35,919
Beneficial interest in Elizabeth C. Pool Charitable Trust	327,420	325,445
<b>Total assets</b>	<b>\$ 11,893,569</b>	<b>\$ 12,226,738</b>
<b>LIABILITIES AND NET ASSETS</b>		
<i>Liabilities</i>		
Accounts payable	\$ 10,765	\$ 7,516
Deferred rental income	3,400	-
Payable to Morning Star Boys' Ranch	-	288,754
Accrued payroll	22,999	3,022
Paycheck Protection Program note payable	15,200	-
<b>Total liabilities</b>	<b>52,364</b>	<b>299,292</b>
<i>Net assets</i>		
Without donor restrictions	10,782,265	10,710,581
With donor restrictions	1,058,940	1,216,865
<b>Total net assets</b>	<b>11,841,205</b>	<b>11,927,446</b>
<b>Total liabilities and net assets</b>	<b>\$ 11,893,569</b>	<b>\$ 12,226,738</b>

*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, 2020**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<i>Revenues, gains, and other support</i>			
Contributions	\$ 39,485	\$ 5,030	\$ 44,515
Contributed software	158,744	-	158,744
Contributed services	71,933	-	71,933
Special event revenue, net of expenses of \$21,928	(4,491)	-	(4,491)
Rental and other income	3,595	-	3,595
Farm income	79,364	-	79,364
Investment return	793,229	16,146	809,375
Change in beneficial interest in the Carbon Fund	(726)	-	(726)
Change in beneficial interest in Elizabeth C. Pool Charitable Trust	-	1,975	1,975
Gain on sale of Colby Cabin property	98,415	-	98,415
<b>Total revenues, gains, and other support</b>	<b>1,239,548</b>	<b>23,151</b>	<b>1,262,699</b>
<i>Net assets released from restrictions</i>	181,076	(181,076)	-
<i>Expenses</i>			
Program	731,259	-	731,259
Management and general	357,289	-	357,289
Fundraising	260,392	-	260,392
<b>Total expenses</b>	<b>1,348,940</b>	<b>-</b>	<b>1,348,940</b>
<i>Change in net assets</i>	71,684	(157,925)	(86,241)
<i>Net assets, beginning of year</i>	10,710,581	1,216,865	11,927,446
<b>Net assets, end of year</b>	<b>\$ 10,782,265</b>	<b>\$ 1,058,940</b>	<b>\$ 11,841,205</b>

*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**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<i>Revenues, gains, and other support</i>			
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
<i>Net assets released from restrictions</i>	17,793	(17,793)	-
<i>Expenses</i>			
Program	632,750	-	632,750
Management and general	187,400	-	187,400
Fundraising	27,980	-	27,980
Total expenses	848,130	-	848,130
<i>Change in net assets</i>	812,172	(13,397)	798,775
<i>Net assets, beginning of year</i>	9,898,409	1,230,262	11,128,671
<b>Net assets, end of year</b>	\$ 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 Functional Expenses**  
**Year Ended December 31, 2020**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Contribution to charities	\$ 660,307	\$ -	\$ -	\$ 660,307
Salaries	53,393	40,353	44,253	137,999
Payroll taxes and employee benefits	8,403	6,183	6,746	21,332
Purchased services	-	135,831	-	135,831
Supplies	-	22,311	-	22,311
Utilities	394	3,101	1,151	4,646
Occupancy	3,282	20,096	9,572	32,950
Insurance	1,081	12,963	-	14,044
Depreciation	3,558	7,588	-	11,146
Advertising	-	5,804	-	5,804
Interest	-	4,078	-	4,078
Other expense	-	38,465	29,350	67,815
In-kind expenses	841	60,516	169,320	230,677
<b>Total expenses</b>	<b>\$ 731,259</b>	<b>\$ 357,289</b>	<b>\$ 260,392</b>	<b>\$ 1,348,940</b>

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

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

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
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
<b>Total expenses</b>	<b>\$ 632,750</b>	<b>\$ 187,400</b>	<b>\$ 27,980</b>	<b>\$ 848,130</b>

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



**Morning Star Foundation**  
**Statements of Cash Flows**  
**Years Ended December 31, 2020 and 2019**

	2020	2019
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from contributions	\$ 44,485	\$ 45,523
Cash received from investments	373,100	166,589
Cash received from special events	17,437	-
Cash received from other sources	86,359	62,129
Cash paid for employee salaries and benefits	(139,354)	(80,748)
Cash paid to suppliers and others	(321,346)	(152,174)
Cash distributed to charities	(949,061)	(328,109)
Net cash used in operating activities	(888,380)	(286,790)
<i>Cash flows from investing activities</i>		
Proceeds from sale of Colby Cabin property	336,920	-
Purchase of property and equipment	(95,100)	(3,124)
Purchase of investments	(4,273,489)	(4,659,272)
Proceeds from sale of investments	5,591,030	5,073,833
Net cash provided by investing activities	1,559,361	411,437
<i>Cash flows from financing activities</i>		
Cash received from contributions restricted for investments in endowments	30	350
Proceeds from line of credit	250,000	175,000
Principal payments on line of credit	(250,000)	(175,000)
Proceeds from Paycheck Protection Program note payable	15,200	-
Net cash provided by financing activities	15,230	350
Net increase in cash and cash equivalents	686,211	124,997
Cash and cash equivalents, beginning of year	221,502	96,505
<b>Cash and cash equivalents, end of year</b>	<b>\$ 907,713</b>	<b>\$ 221,502</b>

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

**Morning Star Foundation**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2020 and 2019**

	2020	2019
<b><i>Reconciliation of Change in Net Assets to Net Cash Used in Operating Activities</i></b>		
Change in net assets	\$ (86,241)	\$ 798,775
<i>Adjustments to reconcile change in net assets to net cash used in operating activities</i>		
Depreciation	11,146	5,152
Change in beneficial interest in Carbon Fund	726	1,204
Change in beneficial interest in Elizabeth C. Pool Charitable Trust	(1,975)	18,227
Gain on investments	(436,275)	(1,391,745)
Gain on sale of Colby Cabin property	(98,415)	-
Contributions restricted for investments in endowments	(30)	(350)
Change in:		
Prepaid expenses	(15,188)	165
Accounts payable	3,249	(8,863)
Payable to Morning Star Boys' Ranch	(288,754)	288,754
Accrued payroll	19,977	1,891
Deferred rental income	3,400	-
<b>Net cash used in operating activities</b>	<b>\$ (888,380)</b>	<b>\$ (286,790)</b>

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

**Morning Star Foundation**  
**Notes to Financial Statements**  
**Years Ended December 31, 2020 and 2019**

**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.

To help the public distinguish between Morning Star Boys' Ranch and Morning Star Foundation, the Foundation changed its name to Believe In Me in November 2021. The Foundation also updated its mission to help every kid develop the self-confidence they need to succeed by funding children's charities that provide disadvantaged kids with a safe place to call home, a family that loves them, a feeling of community, and opportunities to learn, build self-esteem, and have fun.

The Foundation also subsequently transferred certain assets to Morning Star Boys' Ranch (the Ranch) that include beneficial interest in the Carbon Fund and Elizabeth C. Pool Charitable Trust, farming equipment, land, and accumulated funds restricted for the benefit of the Ranch.

**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. Alternative investments which do not have a readily determinable fair value are stated at cost 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.

**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

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

**b. Summary of Significant Accounting Policies (continued)**

***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 (FASB) Accounting Standards Codification (ASC) 958-605, *Revenue Recognition for Not-for-Profit Entities*. The Foundation has granted Innovia Foundation (Innovia) variance power and Innovia 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 athletic programs at the Ranch. The fair value of the Foundation's reciprocal transfers included on the statements of financial position as of December 31, 2020 and 2019, was approximately \$35,000 and \$36,000, respectively. The beneficial interest in the Fund was transferred to the Ranch in April 2021.

***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 of the primary beneficiary. Distributions of approximately \$16,000 and \$17,000, respectively, were received by the Foundation, included on the statements of activities and changes in net assets for the years ended December 31, 2020 and 2019, respectively, and have been restricted by the donor. The beneficial interest in the Elizabeth C. Pool Charitable Trust was transferred to the Ranch in April 2021.

***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.

***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.

***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.

**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

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

**b. Summary of Significant Accounting Policies (continued)**

**Contributions and grants (continued)**– 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.

**Contributed 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. Contributed services of \$71,933 and \$-0- are included in the statements of activities as contributions revenue and management and general and fundraising expense for the years ended December 31, 2020 and 2019, respectively.

In addition, 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 477 and 530 hours, valued at approximately \$12,000 and \$13,000 for the years ended December 31, 2020 and 2019, respectively.

**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, 2020 and 2019, the Foundation had no uncertain tax positions requiring accrual.

**Subsequent events** – Subsequent events were evaluated through February 4, 2022, which is the date the financial statements were available to be issued.

**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**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, 2022, 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.

**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**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 expenditures within one year of the statements of financial position date have not been subtracted as unavailable.

	<b>2020</b>	<b>2019</b>
<i>Financial assets, at year end</i>	\$ <b>9,836,545</b>	\$ 10,030,351
Less those unavailable for general expenditures within one year, due to:		
Donor-imposed restrictions:		
Restricted by donor with time or purpose	<b>(262,611)</b>	(422,541)
Investments held in perpetuity	<b>(468,909)</b>	(468,879)
Beneficial interests	<b>(362,613)</b>	(361,364)
Board designations:		
Quasi-endowment fund, primarily for long-term investing	<b>(1,510,440)</b>	(1,315,382)
<b>Financial assets available to meet cash needs for general expenditures within one year</b>	<b>\$ 7,231,972</b>	<b>\$ 7,462,185</b>

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 expenditures 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.

**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**3. Endowments:**

The Foundation's endowments consist of two individual funds established for Father Joe/Support-A-Boy and for purposes that support 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



**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**3. Endowments (continued):**

The endowment fund is composed of the following:

	2020		Total
	Without Donor Restrictions	With Donor Restrictions	
Board-designated endowment funds	\$ 1,510,440	\$ -	\$ 1,510,440
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	468,909	468,909
Amounts available for appropriation for the education fund	-	227,529	227,529
<b>Total funds</b>	<b>\$ 1,510,440</b>	<b>\$ 696,438</b>	<b>\$ 2,206,878</b>

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
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 appropriation for the education fund	-	222,529	222,529
<b>Total funds</b>	<b>\$ 1,315,382</b>	<b>\$ 691,408</b>	<b>\$ 2,006,790</b>

**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**3. Endowments (continued):**

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

	<b>2020</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 1,315,382	\$ 691,408	\$ 2,006,790
Investment return, net	195,058	-	195,058
Contributions	-	5,030	5,030
<b>Endowment net assets, end of year</b>	<b>\$ 1,510,440</b>	<b>\$ 696,438</b>	<b>\$ 2,206,878</b>

	<b>2019</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
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
<b>Endowment net assets, end of year</b>	<b>\$ 1,315,382</b>	<b>\$ 691,408</b>	<b>\$ 2,006,790</b>

***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, 2020 and 2019. 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.

***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.

**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**3. Endowments (continued):**

*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 5 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.

The two individual funds established for Father Joe/Support-A-Boy and educational endeavors of young people that have resided at the Ranch was transferred to Morning Star Boys' Ranch in February 2022.

**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**4. Investments:**

Investments consisted of the following:

	<b>2020</b>	<b>2019</b>
<i>Cash and cash equivalents</i>	\$ 466,222	\$ 1,189,893
<i>Fixed income funds</i>		
Mutual funds	412,243	551,092
Taxable US	627,091	582,827
Taxable high yield	136,252	152,712
Taxable inflation protected securities	28,522	26,712
Taxable foreign sovereign	168,259	166,057
Other fixed income	250,061	227,604
Total fixed income funds	1,622,428	1,707,004
<i>Equities</i>		
Real estate securities	94,513	212,101
Commodities	12,485	-
US equities	3,679,110	1,788,088
Developed foreign	1,029,900	693,241
Emerging foreign	160,964	203,547
Common stocks	-	2,493,499
Exchange traded funds	604,884	866,481
Other equity	30,713	118,631
Total equities	5,612,569	6,375,588
<i>Alternative investments</i>	865,000	175,000
	\$ 8,566,219	\$ 9,447,485

Subsequent to December 31, 2020, the Foundation invested an additional \$485,919 in alternative investments.

The Board Chair at December 31, 2020, is a board member and shareholder of two of the alternative investment companies.

**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**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.

**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**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:

	2020			
	Level 1	Level 2	Level 3	Total
Investments at fair value	\$ 6,384,036	\$ 1,317,183	\$ 865,000	\$ 8,566,219
Beneficial interest in the Carbon Fund	-	-	35,193	35,193
Beneficial interest in Elizabeth C. Pool Charitable Trust	-	-	327,420	327,420
	<b>\$ 6,384,036</b>	<b>\$ 1,317,183</b>	<b>\$ 1,227,613</b>	<b>\$ 8,928,832</b>

	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
	<b>\$ 7,904,472</b>	<b>\$ 1,368,013</b>	<b>\$ 536,364</b>	<b>\$ 9,808,849</b>

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

	2020	2019
Balance, beginning of year	\$ 536,364	\$ 380,795
Purchase of alternative investments at cost	690,000	175,000
Change in value of beneficial interests	1,249	(19,431)
<b>Balance, end of year</b>	<b>\$ 1,227,613</b>	<b>\$ 536,364</b>

**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**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
Leasehold improvements	7 to 15 years

A summary of property and equipment follows:

	<b>2020</b>	<b>2019</b>
Land	\$ 1,950,800	\$ 2,085,800
Buildings and building improvements	-	142,328
Furniture and equipment	114,626	47,619
Leasehold improvements	26,682	-
	<b>2,092,108</b>	<b>2,275,747</b>
Less accumulated depreciation	<b>(51,107)</b>	<b>(80,195)</b>
<b>Property and equipment, net</b>	<b>\$ 2,041,001</b>	<b>\$ 2,195,552</b>

**7. Lines 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 (2.25 percent at December 31, 2020), and is collateralized by investments. The outstanding balance on the line of credit was \$-0- at December 31, 2020. In June 2021, the Foundation drew \$250,000, and in September 2021 an additional \$300,000, and paid off the balance in January 2022. The Foundation also has a line of credit with its Washington Trust Bank credit cards. The open line of credit totaled \$50,000 and \$55,000 and draws on this line of credit were approximately \$5,000 and \$1,000 (included in accounts payable) each year for December 31, 2020 and 2019.

**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**8. Paycheck Protection Program Note Payable:**

In July 2020, the Foundation was granted a loan from Washington Trust Bank in the aggregate amount of \$15,200 pursuant to the Paycheck Protection Program (PPP) under Division A, Title I of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which was enacted March 27, 2020.

The PPP loan, which was in the form of a note dated July 2, 2020, matures on July 1, 2025, and bears interest at a rate of 1 percent per annum, payable monthly commencing on August 1, 2021. The note may be prepaid by the Foundation at any time prior to maturity with no prepayment penalties. Funds from the loan may only be used for payroll costs, costs used to continue group healthcare benefits, mortgage payments, rent, utilities, and interest on other debt obligation incurred before February 15, 2020. The Foundation intends to use the entire loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act.

In July 2021, the Foundation received notification from the lender that the loan had been fully forgiven. The loan forgiveness will be recorded as a gain on forgiveness of Paycheck Protection Program loan in the statements of activities and changes in net assets for the year ending December 31, 2021.

**9. Net Assets:**

Net assets without donor restrictions were comprised of the following:

	<b>2020</b>	<b>2019</b>
<i>Undesignated</i>	\$ <b>850,000</b>	\$ 850,000
<i>Board-designated</i>		
Operating reserve	<b>2,062,373</b>	1,268,597
Long-term investments	<b>7,869,892</b>	8,591,984
<b>Total net assets without donor restrictions</b>	<b>\$ 10,782,265</b>	<b>\$ 10,710,581</b>



**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**9. Net Assets (continued):**

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

	2020	2019
<i>Subject to expenditure for specified purpose</i>		
Morning Star Boys' Ranch as follows:		
Capital improvements	\$ -	\$ 94,930
Athletic programs	35,082	35,082
General operations	-	70,000
Education fund	227,529	222,529
<i>Subject to the organization's spending policy and appropriation</i>		
Investment in perpetuity, which, once appropriated, is expendable to support:		
Support-A-Boy fund	455,977	455,977
Father Joe endowment fund	12,932	12,902
Beneficial interest in perpetual trust	327,420	325,445
<b>Total net assets with donor restrictions</b>	<b>\$ 1,058,940</b>	<b>\$ 1,216,865</b>

**10. 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 \$3,000 and \$2,000 to the Plan on behalf of its employees during the years ended December 31, 2020 and 2019, respectively.

The Foundation offers its employees the option of participating in a 403(b) Plan effective February 15, 2021.

**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**11. Morning Star Boys' Ranch:**

The primary nonprofit organization to which the Foundation makes distributions is 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, 2020 and 2019, the Foundation distributed funds in the amount of approximately \$215,000 and \$268,000, respectively, to the Ranch. The Foundation also matched a remodel expansion grant to the Ranch of approximately \$331,000 and \$289,000 for the years ended December 31, 2020 and 2019, respectively.

During 2021, the Foundation transferred its beneficial interest in the Carbon Fund and the Elizabeth C. Pool Charitable Trust as further discussed in Note 1, farming equipment, and cash distributions of approximately \$442,000 to the Ranch.

The Foundation has committed to transferring land, the Father Joe/Support-A-Boy and educational endowment funds, and athletic programs restricted net assets as further discussed in Note 3 and Note 9. The Father Joe/Support-A-Boy and educational endowment funds and restricted funds for athletics programs were transferred to the Ranch in February 2022. The land transfer is also expected to be completed in April 2022.

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.

**12. Commitment:**

The Foundation entered into a three-year operating lease agreement with The Barbieri Family Foundation for office space commencing October 1, 2018. The Foundation also entered into a five-year operating lease agreement with SureWould, LLC for office space commencing May 1, 2020. The Foundation has two successive options to extend the term of the lease for five years each with at least three percent increase per year of any renewal. Future minimum lease payments under the operating lease for building space consisted of the following:

<b>Years Ending December 31,</b>		
2021	\$	59,176
2022		55,288
2023		56,948
2024		58,656
2025		40,208
	<b>\$</b>	<b>270,276</b>