

# **Morning Star Foundation**

Financial Statements and  
Independent Accountants' Review Report

December 31, 2018 and 2017



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

**Morning Star Foundation**  
**Table of Contents**

	<b>Page</b>
<i>INDEPENDENT ACCOUNTANTS' REVIEW REPORT</i>	1
<i>FINANCIAL STATEMENTS:</i>	
Statements of financial position	2
Statement of activities and changes in net assets – year ended December 31, 2018	3
Statement of activities and changes in net assets – year ended December 31, 2017	4
Statement of functional expenses – year ended December 31, 2018	5
Statement of functional expenses – year ended December 31, 2017	6
Statements of cash flows	7-8
Notes to financial statements	9-23



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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 not-for-profit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, 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 2018, the Foundation adopted new accounting guidance, Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*.

### **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 6, 2019

**Morning Star Foundation**  
**Statements of Financial Position**  
**December 31, 2018 and 2017**

<b>ASSETS</b>	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	\$ 96,505	\$ 92,290
Prepaid expenses	1,000	650
Investments	8,470,301	9,215,932
Property and equipment, net	2,197,580	2,243,537
Beneficial interest in the Carbon Fund	37,123	36,435
Beneficial interest in Elizabeth C. Pool Charitable Trust	343,672	367,102
<b>Total assets</b>	<b>\$ 11,146,181</b>	<b>\$ 11,955,946</b>
<b>LIABILITIES AND NET ASSETS</b>		
<i>Liabilities</i>		
Accounts payable	\$ 16,379	\$ 2,535
Payroll taxes and retirement contributions payable	1,131	2,429
<b>Total liabilities</b>	<b>17,510</b>	<b>4,964</b>
<i>Net assets</i>		
Without donor restrictions	9,898,409	10,778,395
With donor restrictions	1,230,262	1,172,587
<b>Total net assets</b>	<b>11,128,671</b>	<b>11,950,982</b>
<b>Total liabilities and net assets</b>	<b>\$ 11,146,181</b>	<b>\$ 11,955,946</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, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
<i>Revenues, gains, and other support</i>			
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 income (loss), net of investment expenses	(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)
<b>Total revenues, gains, and other support</b>	<b>(363,875)</b>	<b>101,002</b>	<b>(262,873)</b>
<i>Net assets released from restrictions</i>	43,327	(43,327)	-
<i>Expenses</i>			
Program	394,062	-	394,062
Management and general	120,628	-	120,628
Fundraising	44,748	-	44,748
<b>Total expenses</b>	<b>559,438</b>	<b>-</b>	<b>559,438</b>
<i>Change in net assets</i>	(879,986)	57,675	(822,311)
<i>Net assets, beginning of year</i>	10,778,395	1,172,587	11,950,982
<b>Net assets, end of year</b>	<b>\$ 9,898,409</b>	<b>\$ 1,230,262</b>	<b>\$ 11,128,671</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, 2017**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<i>Revenues, gains, and other support</i>			
Contributions	\$ 62,856	\$ 13,482	\$ 76,338
Special event revenue, net of expenses of \$2,500	746	27,064	27,810
Rental and other income	5,506	-	5,506
Farm income	60,771	-	60,771
Investment income, net of investment expenses	1,228,743	17,775	1,246,518
Change in beneficial interest in the Carbon Fund	2,585	-	2,585
Change in beneficial interest in Elizabeth C. Pool Charitable Trust	-	(1,583)	(1,583)
<b>Total revenues, gains, and other support</b>	<b>1,361,207</b>	<b>56,738</b>	<b>1,417,945</b>
<i>Net assets released from restrictions</i>	75,059	(75,059)	-
<i>Expenses</i>			
Program	363,430	-	363,430
Management and general	138,983	-	138,983
Fundraising	36,258	-	36,258
<b>Total expenses</b>	<b>538,671</b>	<b>-</b>	<b>538,671</b>
<i>Change in net assets</i>	897,595	(18,321)	879,274
<i>Net assets, beginning of year</i>	9,880,800	1,190,908	11,071,708
<b>Net assets, end of year</b>	<b>\$ 10,778,395</b>	<b>\$ 1,172,587</b>	<b>\$ 11,950,982</b>

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

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

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
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
<b>Total expenses</b>	<b>\$ 394,062</b>	<b>\$ 120,628</b>	<b>\$ 44,748</b>	<b>\$ 559,438</b>

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

**Morning Star Foundation**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2017**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Contribution to charities	\$ 348,541	\$ -	\$ -	\$ 348,541
Salaries	-	51,600	12,900	64,500
Payroll taxes and employee benefits	-	12,023	3,006	15,029
Purchased services	-	25,944	6,657	32,601
Supplies	-	1,898	475	2,373
Utilities	511	4,101	-	4,612
Occupancy	3,207	18,656	792	22,655
Insurance	-	14,641	-	14,641
Depreciation	7,366	2,434	-	9,800
Repairs and maintenance	2,495	729	-	3,224
Advertising	-	262	1,148	1,410
Other expense	1,310	6,695	11,280	19,285
<b>Total expenses</b>	<b>\$ 363,430</b>	<b>\$ 138,983</b>	<b>\$ 36,258</b>	<b>\$ 538,671</b>

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



**Morning Star Foundation**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	2018	2017
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from contributions	\$ 128,363	\$ 90,792
Cash received from investments	189,409	180,125
Cash received from special events	39,531	30,310
Cash received from other sources	44,268	66,277
Cash paid for employee salaries and benefits	(71,517)	(78,406)
Cash paid to suppliers and others	(96,229)	(102,493)
Cash distributed to charities	(382,997)	(348,541)
Net cash used in operating activities	(149,172)	(161,936)
<i>Cash flows from investing activities</i>		
Proceeds from note receivable	-	30,000
Proceeds from sale of property and equipment	175	-
Purchase of property and equipment	(19,974)	-
Purchase of investments	(3,008,646)	(5,797,031)
Proceeds from sale of investments	3,181,422	5,477,749
Net cash provided by (used in) investing activities	152,977	(289,282)
<i>Cash flows from financing activities</i>		
Cash received from contributions restricted for investments in endowments	410	296
Net increase (decrease) in cash and cash equivalents	4,215	(450,922)
Cash and cash equivalents, beginning of year	92,290	543,212
<b>Cash and cash equivalents, end of year</b>	<b>\$ 96,505</b>	<b>\$ 92,290</b>

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

**Morning Star Foundation**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2018 and 2017**

	2018	2017
<b><i>Reconciliation of Change in Net Assets to Net Cash Used in Operating Activities</i></b>		
Change in net assets	\$ (822,311)	\$ 879,274
<i>Adjustments to reconcile change in net assets to net cash used in operating activities</i>		
Depreciation	7,609	9,800
Change in beneficial interest in Carbon Fund	(688)	(2,585)
Change in beneficial interest in Elizabeth C. Pool Charitable Trust	23,430	1,583
Loss (gain) on investments	572,855	(1,066,393)
Loss on disposal of property	58,147	-
Contributions restricted for investments in endowments	(410)	(296)
Change in:		
Contributions receivable	-	14,750
Prepaid expenses	(350)	(650)
Accounts payable	13,844	1,458
Payroll taxes and retirement contributions payable	(1,298)	1,123
<b>Net cash used in operating activities</b>	<b>\$ (149,172)</b>	<b>\$ (161,936)</b>

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

**Morning Star Foundation**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

**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. The unrealized gain or loss on investments is reflected in the statements of activities and changes in net assets.

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, 2018 and 2017, was approximately \$37,000 and \$36,000, respectively.

**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**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 \$18,000 each year received by the Foundation, included on the statements of activities and changes in net assets for the years ended December 31, 2018 and 2017, respectively, have been temporarily 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.

***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.

**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

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

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

*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, 2018 and 2017, the Foundation had no uncertain tax positions requiring accrual.

*Reclassifications* – Certain amounts have been reclassified in the 2017 financial statements in order to be consistent with the 2018 presentation. These reclassifications had no effect on the previously reported change in net assets.

*Subsequent events* – Subsequent events were evaluated through May 6, 2019, which is the date the financial statements were available to be issued.

*Change in accounting pronouncements* – The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU also requires changes in the way certain information is aggregated and reported by the Foundation, including required disclosures about the liquidity and availability of resources. The standard impacts the presentation of net assets and the disclosures related to liquidity and availability.

**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

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

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

*Upcoming accounting standard pronouncements* – In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Foundation's year ending December 31, 2019. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Foundation has not yet determined which application method it will use. The Foundation does not expect that this standard will have a significant impact on the Foundation's main revenue stream; however, management is still assessing the actual impact.

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, 2020, 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, 2018 and 2017**

**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.

	<b>2018</b>	<b>2017</b>
<i>Financial assets, at year end</i>	\$ <b>8,947,601</b>	\$ 9,711,759
Less those unavailable for general expenditures within one year, due to:		
Donor-imposed restrictions:		
Restricted by donor with time or purpose	<b>(418,061)</b>	(337,366)
Investments held in perpetuity	<b>(468,529)</b>	(468,119)
Beneficial interests	<b>(380,795)</b>	(403,537)
Board designations:		
Quasi-endowment fund, primarily for long-term investing	<b>(1,002,586)</b>	(1,152,949)
<b>Financial assets available to meet cash needs for general expenditures within one year</b>	<b>\$ 6,677,630</b>	<b>\$ 7,349,788</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 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 its quasi-endowment fund.

**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**3. Endowments:**

The Foundation's endowments consist of two individual funds established for Father Joe/Support A Boy and Education purposes that support Morning Star Boys Ranch (the Ranch) and its mission and the educational endeavors of young people that have resided at the Ranch. Its 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, 2018 and 2017**

**3. Endowments (continued):**

The endowment fund is composed of the following:

	<b>2018</b>		<b>Total</b>
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	
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 appropriation for the education fund		217,529	217,529
<b>Total Funds</b>	<b>\$ 1,002,586</b>	<b>\$ 686,058</b>	<b>\$ 1,688,644</b>

	<b>2017</b>		<b>Total</b>
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	
Board-designated endowment funds	\$ 1,152,949	\$ -	\$ 1,152,949
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	468,119	468,119
Amounts available for appropriation for the education fund	-	212,429	212,429
<b>Total Funds</b>	<b>\$ 1,152,949</b>	<b>\$ 680,548</b>	<b>\$ 1,833,497</b>

**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**3. Endowments (continued):**

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

	<b>2018</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
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)
<b>Endowment net assets, end of year</b>	<b>\$ 1,002,586</b>	<b>\$ 686,058</b>	<b>\$ 1,688,644</b>

	<b>2017</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 297,365	\$ 672,652	\$ 970,017
Investment return, net	149,306	-	149,306
Contributions	-	7,896	7,896
Other changes:			
Transfer from operating funds	706,278	-	706,278
<b>Endowment net assets, end of year</b>	<b>\$ 1,152,949</b>	<b>\$ 680,548</b>	<b>\$ 1,833,497</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, 2018 and 2017. 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.

**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**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.

**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**4. Investments:**

Investments consisted of the following:

	<b>2018</b>	<b>2017</b>
<i>Cash and cash equivalents</i>	\$ <b>578,491</b>	\$ 400,136
<i>Fixed income</i>		
Mutual funds	<b>509,249</b>	901,246
Taxable US	<b>1,291,494</b>	1,175,575
Taxable high yield	<b>396,131</b>	382,605
Taxable inflation protected securities	<b>124,916</b>	121,900
Taxable foreign sovereign	<b>196,699</b>	201,935
Taxable hedged fixed income	<b>35,016</b>	37,045
Other fixed income	<b>586,461</b>	645,086
Total fixed income funds	<b>3,139,966</b>	3,465,392
<i>Equities</i>		
Real estate securities	<b>79,244</b>	103,317
US equities	<b>3,458,280</b>	4,004,528
Developed foreign	<b>327,786</b>	332,932
Emerging foreign	<b>38,957</b>	34,991
Common stocks	-	17,486
Exchange traded funds	<b>847,577</b>	857,150
Total equities	<b>4,751,844</b>	5,350,404
	<b>\$ 8,470,301</b>	\$ 9,215,932

**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**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.

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, 2018 and 2017**

**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:

	<b>2018</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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 perpetual trust	-	-	343,672	343,672
	<b>\$ 5,760,340</b>	<b>\$ 2,709,961</b>	<b>\$ 380,795</b>	<b>\$ 8,851,096</b>

  

	<b>2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investments at fair value	\$ 6,548,469	\$ 2,667,463	\$ -	\$ 9,215,932
Beneficial interest in the Carbon Fund	-	-	36,435	36,435
Beneficial interest in perpetual trust	-	-	367,102	367,102
	<b>\$ 6,548,469</b>	<b>\$ 2,667,463</b>	<b>\$ 403,537</b>	<b>\$ 9,619,469</b>

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

	<b>2018</b>	<b>2017</b>
Balance, beginning of year	\$ 403,537	\$ 402,535
Change in value of beneficial interests	(22,742)	1,002
<b>Balance, end of year</b>	<b>\$ 380,795</b>	<b>\$ 403,537</b>

**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**6. Notes Receivable:**

The Foundation loaned \$150,000 to Catholic Diocese of Spokane (the Diocese) in June 2012, at -0- percent interest for the duration of the loan. Payments were made in five equal annual payments of \$30,000 which began May 31, 2013, and ended May 31, 2017.

Spokane South Little League (SSLL) purchased land owned by the Foundation in September 2012. The Foundation received \$93,986 in cash and a note receivable for the remaining balance of \$476,411. During 2015, the agreement was modified such that the remaining balance of \$476,411 was due on April 1, 2017. During 2017, Spokane Youth Sports Association (SYSA) took over as purchaser and paid off the remaining balance.

**7. 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 is capitalized when its 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:

	<b>2018</b>	<b>2017</b>
Land	\$ 2,085,800	\$ 2,085,800
Buildings and building improvements	142,328	194,394
Furniture and equipment	44,495	48,575
	<b>2,272,623</b>	2,328,769
Less accumulated depreciation	<b>(75,043)</b>	(85,232)
<b>Property and equipment, net</b>	<b>\$ 2,197,580</b>	<b>\$ 2,243,537</b>

**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**8. Net Assets:**

Net assets without donor restrictions were comprised of the following:

	<b>2018</b>	<b>2017</b>
<i>Undesignated</i>	\$ 850,000	\$ 850,000
<i>Board-designated</i>		
Operating reserve	1,427,575	1,481,513
Long-term investments	7,620,834	8,446,882
<b>Total net assets without donor restrictions</b>	<b>\$ 9,898,409</b>	<b>\$ 10,778,395</b>

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

	<b>2018</b>	<b>2017</b>
<i>Subject to expenditure for specified purpose</i>		
Morning Star Boys Ranch as follows:		
Capital improvements	\$ 94,930	\$ 94,930
Athletic programs	35,602	30,007
General operations	70,000	-
Education fund	217,529	212,429
<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	12,552	12,142
Beneficial interest in perpetual trust	343,672	367,102
<b>Total net assets with donor restrictions</b>	<b>\$ 1,230,262</b>	<b>\$ 1,172,587</b>



**Morning Star Foundation**  
**Notes to Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**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 \$1,000 and \$4,000, to the Plan on behalf of its employees during the years ended December 31, 2018 and 2017, 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, 2018 and 2017, the Foundation distributed funds in the amount of approximately \$379,000 and \$345,000, respectively, to the Ranch. The Foundation has committed to the Ranch in 2019 \$250,000 for its annual distribution and approximately \$289,000 for phase 1 of the remodel expansion project of the Ranch.

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.