Believe in Me

Financial Statements and
Independent Auditors' Report

December 31, 2021 and 2020

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Believe in Me
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DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Believe in Me
Spokane, Washington

Opinion

We have audited the accompanying financial statements of Believe in Me (the Foundation) (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The 2020 financial statements were reviewed by us, and our report thereon, dated February 4, 2022, stated that we are not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
February 22, 2023

Believe in Me
Statements of Financial Position
December 31, 2021 and 2020

ASSETS		(Audited) 2021		(Reviewed) 2020
Cash and cash equivalents	$	**614,037**	$	907,713
Prepaid expenses		**26,174**		16,023
Investments		**8,837,212**		8,566,219
Receivables		**5,435**		-
Property and equipment, net		**2,026,445**		2,041,001
Beneficial interest in the Carbon Fund		**-**		35,193
Beneficial interest in Elizabeth C. Pool Charitable Trust		**-**		327,420
Total assets	**$**	**11,509,303**	$	11,893,569
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable	**$**	**29,879**	$	10,765
Deferred rental income		**-**		3,400
Accrued payroll		**13,356**		22,999
Paycheck Protection Program note payable		**-**		15,200
Payable to Morning Star Boys' Ranch		**1,688,018**		-
Total liabilities		**1,731,253**		52,364
Net assets				
Without donor restrictions		**9,041,530**		10,782,265
With donor restrictions		**736,520**		1,058,940
Total net assets		**9,778,050**		11,841,205
Total liabilities and net assets	**$**	**11,509,303**	$	11,893,569

See accompanying notes to financial statements.

Believe in Me
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2021 (Audited)

	2021		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Revenues, gains, and other support			
Contributions	$ 22,768	$ 5,000	**$ 27,768**
Contributed software	304,309	-	**304,309**
Contributed services	65,185	-	**65,185**
Special event revenue, net of expenses of $104,563	(20,369)	-	**(20,369)**
Rental and other income	5,938	-	**5,938**
Farm income	61,976	-	**61,976**
Investment return	1,071,147	-	**1,071,147**
Gain on forgiveness of Paycheck Protection Program note payable	15,200	-	**15,200**
Total revenues, gains, and other support	1,526,154	5,000	**1,531,154**
Net assets released from restrictions	327,420	(327,420)	**-**
Expenses			
Program	2,584,390	-	**2,584,390**
Management and general	477,962	-	**477,962**
Fundraising	531,957	-	**531,957**
Total expenses	3,594,309	-	**3,594,309**
Change in net assets	(1,740,735)	(322,420)	**(2,063,155)**
Net assets, beginning of year	10,782,265	1,058,940	**11,841,205**
Net assets, end of year	$ 9,041,530	$ 736,520	**$ 9,778,050**

See accompanying notes to financial statements.

Believe in Me
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2020 (Reviewed)

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
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**
Total revenues, gains, and other support	1,239,548	23,151	**1,262,699**
Net assets released from restrictions	181,076	(181,076)	**-**
Expenses			
Program	731,259	-	**731,259**
Management and general	357,289	-	**357,289**
Fundraising	260,392	-	**260,392**
Total expenses	1,348,940	-	**1,348,940**
Change in net assets	71,684	(157,925)	**(86,241)**
Net assets, beginning of year	10,710,581	1,216,865	**11,927,446**
Net assets, end of year	$ 10,782,265	$ 1,058,940	**$ 11,841,205**

See accompanying notes to financial statements.

Believe in Me
Statements of Functional Expenses
Years Ended December 31, 2021 and 2020

	(Audited) 2021			
	Program Services	Management and General	Fundraising	Total
Transfers to Morning Star Boys' Ranch	$ 2,050,631	$ -	$ -	**$ 2,050,631**
Contribution to charities	522,670	-	-	**522,670**
Salaries	5,619	115,192	56,368	**177,179**
Payroll taxes and employee benefits	1,034	21,196	10,371	**32,601**
Purchased services	-	88,463	-	**88,463**
Supplies	-	8,588	-	**8,588**
Utilities	89	7,171	2,006	**9,266**
Occupancy	981	48,093	22,044	**71,118**
Insurance	2,777	13,388	-	**16,165**
Depreciation	-	13,987	-	**13,987**
Advertising	-	33,491	-	**33,491**
Interest	-	5,925	-	**5,925**
Other expense	-	63,009	43,725	**106,734**
In-kind expenses	589	59,459	309,446	**369,494**
Sports event	-	-	87,997	**87,997**
Total expenses	**$ 2,584,390**	**$ 477,962**	**$ 531,957**	**$ 3,594,309**

	(Reviewed) 2020			
	Program Services	Management and General	Fundraising	Total
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**
Total expenses	**$ 731,259**	**$ 357,289**	**$ 260,392**	**$ 1,348,940**

See accompanying notes to financial statements.

Believe in Me
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	(Audited) 2021	(Reviewed) 2020
Change in Cash and Cash Equivalents		
Cash flows from operating activities		
Cash received from contributions	**$ 27,768**	$ 44,485
Cash received from investments	**189,458**	373,100
Cash received from special events	**57,960**	17,437
Cash received from other sources	**65,826**	86,359
Cash paid for employee salaries and benefits	**(219,423)**	(139,354)
Cash paid to suppliers and others	**(502,548)**	(321,346)
Cash distributed to charities	**(523,413)**	(949,061)
Net cash from operating activities	**(904,372)**	(888,380)
Cash flows from investing activities		
Proceeds from sale of Colby Cabin property	**-**	336,920
Purchase of property and equipment	**-**	(95,100)
Purchase of investments	**(2,192,796)**	(4,273,489)
Proceeds from sale of investments	**2,803,492**	5,591,030
Net cash from investing activities	**610,696**	1,559,361
Cash flows from financing activities		
Cash received from contributions restricted for investments in endowments	**-**	30
Proceeds from line of credit	**550,000**	250,000
Principal payments on line of credit	**(550,000)**	(250,000)
Proceeds from Paycheck Protection Program note payable	**-**	15,200
Net cash from financing activities	**-**	15,230
Net change in cash and cash equivalents	**(293,676)**	686,211
Cash and cash equivalents, beginning of year	**907,713**	221,502
Cash and cash equivalents, end of year	**$ 614,037**	$ 907,713

See accompanying notes to financial statements.

Believe in Me
Statements of Cash Flows (Continued)
Years Ended December 31, 2021 and 2020

		(Audited) 2021		(Reviewed) 2020
Reconciliation of Change in Net Assets to Net Cash From Operating Activities				
Change in net assets	**$**	**(2,063,155)**	$	(86,241)
Adjustments to reconcile change in net assets to net cash from operating activities				
Depreciation		**13,987**		11,146
Change in beneficial interest in Carbon Fund		**743**		726
Change in beneficial interest in Elizabeth C. Pool Charitable Trust		**-**		(1,975)
Transfer of beneficial interests in Carbon Fund and Elizabeth C. Pool Charitable Trust to Morning Star Boys' Ranch		**361,870**		-
Gain on investments		**(881,689)**		(436,275)
(Gain) loss on disposal of property and equipment		**569**		(98,415)
Gain on forgiveness of Paycheck Protection Program note payable		**(15,200)**		-
Contributions restricted for investments in endowments		**-**		(30)
Change in:				
Prepaid expenses		**(10,151)**		(15,188)
Receivables		**(5,435)**		-
Accounts payable		**19,114**		3,249
Payable to Morning Star Boys' Ranch		**1,688,018**		(288,754)
Accrued payroll		**(9,643)**		19,977
Deferred rental income		**(3,400)**		3,400
Net cash used in operating activities	**$**	**(904,372)**	$	(888,380)

See accompanying notes to financial statements.

1. Organization and Summary of Significant Accounting Policies:

a. Organization

Believe in Me (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 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.

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, 2021 and 2020, was approximately $-0- and $35,000, 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 $-0- and $16,000, respectively, were received by the Foundation, included on the statements of activities and changes in net assets for the years ended December 31, 2021 and 2020, 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.

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 approximately $65,000 and $72,000 are included in the statements of activities as contributions revenue and management and general and fundraising expense for the years ended December 31, 2021 and 2020, 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 787 and 477 hours, valued at approximately $14,000 and $12,000 for the years ended December 31, 2021 and 2020, 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, 2021 and 2020, the Foundation had no uncertain tax positions requiring accrual.

Subsequent events – Subsequent events were evaluated through February 22, 2023, which is the date the financial statements were available to be issued.

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 Accounting Standards Update (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.

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.

	2021	**2020**
Financial assets, at year end	**$ 9,456,684**	$ 9,836,545
Less those unavailable for general expenditures within one year, due to:		
Donor-imposed restrictions:		
Restricted by donor with time or purpose	**(267,611)**	(262,611)
Investments held in perpetuity	**(468,909)**	(468,909)
Beneficial interests	**-**	(362,613)
Board designations:		
Quasi-endowment fund, primarily for long-term investing	**(1,857,353)**	(1,510,440)
Payable to Morning Star Boys' Ranch	**(1,688,018)**	-
Financial assets available to meet cash needs for general expenditures within one year	**$ 5,174,793**	$ 7,231,972

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 $1,550,000 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 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:

	(Audited) 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 1,857,353	$ -	**$ 1,857,353**
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 appropration for the education fund	-	232,529	**232,529**
Total funds	**$ 1,857,353**	**$ 701,438**	**$ 2,558,791**

	(Reviewed) 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
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 appropration for the education fund	-	227,529	**227,529**
Total funds	**$ 1,510,440**	**$ 696,438**	**$ 2,206,878**

3. Endowments (continued):

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

	(Audited) 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 1,510,440	$ 696,438	**$ 2,206,878**
Investment return, net	346,913	-	**346,913**
Contributions	-	5,000	**5,000**
Endowment net assets, end of year	**$ 1,857,353**	**$ 701,438**	**$ 2,558,791**

	(Reviewed) 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
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**
Endowment net assets, end of year	**$ 1,510,440**	**$ 696,438**	**$ 2,206,878**

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, 2021 and 2020. 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 5 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 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 were transferred to Morning Star Boys' Ranch in January 2022.

4. Investments:

Investments consisted of the following:

	(Audited) 2021	(Reviewed) 2020
Cash and cash equivalents	**$ 503,298**	$ 466,222
Fixed income funds		
Mutual funds	**-**	412,243
Taxable US	**374,228**	627,091
Taxable high yield	**134,076**	136,252
Taxable inflation protected securities	**28,197**	28,522
Taxable foreign sovereign	**50,486**	168,259
Other fixed income	**287,815**	250,061
Total fixed income funds	**874,802**	1,622,428
Equities		
Real estate securities	**122,761**	94,513
Commodities	**11,967**	12,485
US equities	**3,899,210**	3,679,110
Developed foreign	**943,631**	1,029,900
Emerging foreign	**133,975**	160,964
Exchange traded funds	**958,100**	604,884
Other equity	**38,549**	30,713
Total equities	**6,108,193**	5,612,569
Alternative investments	**1,350,919**	865,000
	$ 8,837,212	$ 8,566,219

Subsequent to December 31, 2021, the Foundation invested an additional $25,000 in alternative investments. The Foundation’s fair value of investments has also had a material decline in fair value subsequent to the statements of financial position date.

The former Board Chair during 2020 and 2021 is a board member and shareholder of two of the alternative investment companies.

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.

Believe in Me
Notes to Financial Statements (Continued)
Years Ended December 31, 2021 and 2020

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:

	(Audited) 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments at fair value	$ 6,476,763	$ 1,009,530	$ 1,350,919	**$ 8,837,212**

	(Reviewed) 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**
	$ 6,384,036	**$ 1,317,183**	**$ 1,227,613**	**$ 8,928,832**

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

	(Audited) 2021	**(Reviewed) 2020**
Balance, beginning of year	**$ 1,227,613**	$ 536,364
Purchase of alternative investments at cost	**600,919**	690,000
Disposal of alternative investments at cost	**(115,000)**	-
Transfer of beneficial interest to the Ranch	**(362,613)**	-
Change in value of beneficial interests	**-**	1,249
Balance, end of year	**$ 1,350,919**	$ 1,227,613

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 $1,000. 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:

	(Audited) 2021	(Reviewed) 2020
Land	**$ 1,950,800**	$ 1,950,800
Furniture and equipment	**71,944**	114,626
Leasehold improvements	**26,682**	26,682
	2,049,426	2,092,108
Less accumulated depreciation	**(22,981)**	(51,107)
Property and equipment, net	**$ 2,026,445**	$ 2,041,001

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, 2021), and is collateralized by investments. In March 2022, the Foundation drew $200,000, and in August 2022 an additional $300,000. The outstanding balance on the line of credit of $500,000 was paid off in December 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 draws on this line of credit were approximately $12,000 and $5,000 (included in accounts payable) each year for December 31, 2021 and 2020.

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 CARES Act Provider Relief Fund, which was enacted March 27, 2020.

The Foundation received forgiveness of the PPP loan in July 2021. The loan forgiveness has been recorded as a gain on forgiveness of Paycheck Protection Program loan in the statement of revenues, expenses, and changes in net position.

9. Net Assets:

Net assets without donor restrictions were comprised of the following:

		(Audited) 2021		(Reviewed) 2020
Undesignated	**$**	**850,000**	$	850,000
Board-designated				
Operating reserve		**90,838**		2,062,373
Long-term investments		**8,100,692**		7,869,892
Total net assets without donor restrictions	**$**	**9,041,530**	$	10,782,265

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

		(Audited) 2021		(Reviewed) 2020
Subject to expenditure for specified purpose				
Morning Star Boys' Ranch as follows:				
Athletic programs	**$**	**35,082**	$	35,082
Education fund		**232,529**		227,529
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		**12,932**		12,932
Beneficial interest in perpetual trust		**-**		327,420
Total net assets with donor restrictions	**$**	**736,520**	$	1,058,940

10. Retirement Plan:

The Foundation offered its employees a Simplified Employee Pension Individual Retirement Arrangement IRA Plan in 2020. Effective February 15, 2021, the Foundation offered a 403(b) retirement 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.

Participation in the Plan is optional. An employee becomes eligible after 90 days of service. The Plan allows the Foundation to make a discretionary matching contribution up to 3 percent of the employee's salary. The Foundation contributed approximately $4,000 and $3,000 to the Plan on behalf of its employees during the years ended December 31, 2021 and 2020, respectively.

All amounts of compensation deferred and matching contributions under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of employee plan participants. Consistent with this, the Foundation has no rights to these assets and, therefore, plan assets and liabilities are not reported on the Foundation's financial statements.

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, 2021 and 2020, the Foundation distributed funds in the amount of approximately $105,000 and $215,000, respectively, to the Ranch. The Foundation also matched a remodel expansion grant to the Ranch of approximately $331,000 in the year ended December 31, 2020.

During 2021, the Foundation transferred the net proceeds from the sale of the Colby Cabin in the amount of $336,920 to the Ranch, as well as its beneficial interest in the Carbon Fund and the Elizabeth C. Pool Charitable Trust as further discussed in Note 1, and farming equipment of approximately $363,000 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 January 2022. The land transfer was also completed in April 2022. An additional $5,000 in restricted funds for educational purposes was also transferred to the Ranch in January 2023.

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. This lease was terminated September 2022.

12. Commitments:

The Foundation 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 3 percent increase per year of any renewal. Future minimum lease payments under the operating lease for building space consists of the following:

Years Ending December 31,		
2022	$	55,288
2023		56,948
2024		58,656
2025		40,208
	$	**211,100**

The Foundation entered into a five-year agreement with Seattle Hockey Partners LLC for four seats for eleven hockey games each season commencing February 17, 2021. Future minimum payments under the seat agreement consists of the following:

Years Ending December 31,		
2022	$	70,612
2023		74,144
2024		77,850
2025		81,742
	$	**304,348**

The Foundation entered into an agreement with Stage2Studios for media consulting and brand impact videos March 29, 2021, and another two-year agreement in May 2022. Future minimum payments under the agreements consists of the following:

Years Ending December 31,		
2022	$	90,650
2023		65,850
	$	**156,500**