

**MORNING STAR MISSION MINISTRIES, INC.
(AN ILLINOIS NOT-FOR-PROFIT CORPORATION)**

**FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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To the Board of Trustees
Morning Star Mission Ministries, Inc.
Joliet, Illinois

Independent Auditor's Report

We have audited the accompanying financial statements of Morning Star Mission Ministries, Inc. (an Illinois not-for-profit corporation) which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Morning Star Mission Ministries, Inc., as of December 31, 2017 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.

Werner, Rogers, Doran & Ruzon, L.L.C.

July 26, 2018

MORNING STAR MISSION MINISTRIES, INC.

Statement of Financial Position
December 31, 2017

ASSETS

Current Assets

Cash	\$	581,880
Inventory		250,290
Miscellaneous Receivables		4,335
Prepaid Expenses		<u>30,826</u>

Total Current Assets 867,331

Endowment Investments

227,681

Capital Assets

Land		1,169,112
Buildings and Leasehold Improvements		9,605,996
Furniture, Fixtures and Equipment		738,777
Motor Vehicles		<u>180,486</u>

11,694,371

Less Accumulated Depreciation 4,666,648

Total Capital Assets 7,027,723

Total Assets \$ 8,122,735

The Accompanying Notes are an Integral Part of These Statements.

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts Payable	\$ 46,499
Accrued Liabilities	10,224
Payroll Liabilities	37,724
Current Portion of Long-Term Debt	262,939
Security Deposit on Rental Property	<u>12,374</u>
Total Current Liabilities	<u>369,760</u>
Long-Term Liabilities	
Long-Term Debt	3,737,007
Less Current Portion	<u>262,939</u>
Total Long-Term Debt	<u>3,474,068</u>
Total Liabilities	<u>3,843,828</u>
Net Assets	
Unrestricted	4,253,407
Permanently Restricted	<u>25,500</u>
Total Net Assets	<u>4,278,907</u>
Total Liabilities and Net Assets	<u>\$ 8,122,735</u>

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MORNING STAR MISSION MINISTRIES, INC.

Statement of Activities
For the Year Ended December 31, 2017

Changes in Unrestricted Net Assets

Public Support and Other Revenue

Public Support

Contributions	\$ 2,122,645
In-kind Contributions	3,346,762
Bequests	50,404
Other Grants	115,250
Special Events	72,288
Counseling Center	35,712
Retail Shop Income	821,865
Rent	116,629
Emergency Shelter Privileges	24,630
Miscellaneous	39,197

Total Public Support 6,745,382

Other Revenue

Investment Income	9,828
Net Unrealized Gain (Loss) on Investments	17,930

Total Other Revenue 27,758

Total Public Support and Other Revenue 6,773,140

Expenses

Program Services	5,982,728
Management and General	343,844
Fundraising	652,644

Total Expenses 6,979,216

Change in Unrestricted Net Assets (206,076)

Net Assets - Beginning of Year

4,484,983

Net Assets - End of Year

\$ 4,278,907

The Accompanying Notes are an Integral Part of These Statements.

MORNING STAR MISSION MINISTRIES, INC.

Statement of Cash Flows
For the Year Ended December 31, 2017

Increase (Decrease) in Cash

Cash Flows from Operating Activities

Change in Net Assets	(\$ 206,076)
Adjustments to Reconcile Change in Net Assets To Net Cash Provided by Operating Activities	
Depreciation	390,411
Unrealized Gain on Investments	(17,930)
Changes in Assets and Liabilities	
Miscellaneous Receivables	(2,517)
Inventory	53,601
Prepaid Expenses	(10,088)
Accounts Payable	8,888
Accrued Liabilities	5,229
Security Deposit on Rental Property	(1,250)
Payroll Liabilities	25,467
	<u>451,811</u>
Total Adjustments	<u>451,811</u>
Net Cash Provided by Operating Activities	<u>245,735</u>

Cash Flows from Investing Activities

Purchase of Capital Assets	(353,253)
Purchase of Long-Term Investments	(12,865)
	<u>(366,118)</u>
Net Cash (Used In) Investing Activities	<u>(366,118)</u>

Cash Flows from Financing Activities

Increase of Long-Term Borrowings	<u>93,943</u>
	<u>93,943</u>
Net Cash Provided by Financing Activities	<u>93,943</u>

Net (Decrease) in Cash (26,440)

Cash, Beginning of Year 608,320

Cash, End of Year \$ 581,880

The Accompanying Notes are an Integral Part of These Statements.

MORNING STAR MISSION MINISTRIES, INC.

Notes to Financial Statements
December 31, 2017

1. Summary of Significant Accounting Policies

Organization

Morning Star Mission Ministries, Inc., was organized in the State of Illinois as a not-for-profit corporation in 1909. The Mission serves as a non-denominational organization that provides Christian spiritual resources as well as providing for the immediate needs of the homeless or hungry. The Mission provides shelter, meals, clothing and counseling to men, women and families in the community of Joliet, Illinois.

Basis of Accounting

The financial statements are presented on an accrual basis of accounting, which recognizes income when earned, and expenses when incurred.

Financial Statement Presentation

The Mission has presented its financial statements in accordance with generally accepted accounting principles for not-for-profit organizations. Under this guidance, the Mission is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are not subject to donor-imposed stipulations and are available for support of the Mission's activities.

Temporarily restricted net assets represent funds subject to donor-imposed restrictions which will be met either by the Mission's actions or the passage of time. Temporarily restricted net assets are reclassified to unrestricted net assets when the restrictions are met or have expired. These reclassifications are reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets represent endowment funds subject to the restrictions of gift instruments requiring the principal to be maintained intact and only investment income be used for operations of the Mission.

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 certain reported amounts and disclosures. Actual results could differ from those estimates.

MORNING STAR MISSION MINISTRIES, INC.

Notes to Financial Statements
December 31, 2017

1. Summary of Significant Accounting Policies

Investments

Investments in marketable securities and mutual funds with readily determinable fair values are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Unrestricted marketable investments are classified as short-term unless otherwise designated by the Board. Investment income and gains and losses on investments are reported as increases or decreases in unrestricted net assets unless a donor or law temporarily or permanently restricts their use. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either passage of time or by use) in the reporting period in which the income and gain are recognized.

Cash and Cash Equivalents

Items presented as "Cash" on the statement of financial position consist primarily of cash held in demand deposit accounts. On the statement of cash flows, cash equivalents consist of short-term, highly liquid non-equity investments with an original maturity of three months or less.

Supplemental disclosure of cash flow information:

Cash paid during the year for:

Interest	\$	176,959
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Capital Assets

The cost of property and equipment purchased in excess of \$2,000 is capitalized. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Mission reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Mission reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the respective assets.

Revenue Recognition

All contributions are considered available for the Mission's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as temporarily or permanently restricted support and increase the respective class of net assets. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets.

MORNING STAR MISSION MINISTRIES, INC.

Notes to Financial Statements
December 31, 2017

1. Summary of Significant Accounting Policies

Pledges receivable in the accompanying statement of financial position consist of unconditional promises to give, which are recorded at their net realizable value at the time the promises are received. These promises to give are reflected as either current or long-term receivables on the statement of financial position. All long-term receivables are expected to be collected within five years.

Functional Expenses

Functional expenses have been allocated between program services and supporting services based on a method developed by the Mission.

Inventory

Inventory is comprised of donated merchandise to be sold within the retail stores. Donated inventory is valued at thrift store value at the date of donation.

Donated Services, Materials, and Use of Facilities

The Mission receives donations of professional and non-professional volunteer services. Donations of services performed by professionals have been recorded by the Mission in the amount of \$78,755 for the year ended December 31, 2017. The value of non-professional donated volunteer services is not reflected in the accompanying financial statements since there is no objective basis available by which to measure the value of such services. Nevertheless, a substantial number of volunteers have donated significant amounts of their time on behalf of the Mission's program services.

The Mission receives donated food and other consumables from various donors, which have been recorded by the Mission at the fair market value at the date of contribution. The amount of these contributions for the year ended December 31, 2017 is \$3,302,061.

The Mission leases a community residential house in Joliet, IL, which expired in November 2015, for a minimum annual rental of \$12. The Mission continues to lease the house on a month-to-month basis. The approximate fair rental value of such rent donated for the year ended December 31, 2017 was \$19,548, which is included in in-kind contributions revenue and in-kind rent expense in the accompanying statements of activities and functional expenses. The lease agreement will automatically renew month-to-month, but may be terminated by either party by giving a 30-day written notice of intention to terminate.

Retail Shop Income

Retail shop income represents proceeds from sales of donated inventory.

Advertising Expense

It is the Mission's policy to expense all advertising costs when incurred.

MORNING STAR MISSION MINISTRIES, INC.

Notes to Financial Statements
December 31, 2017

1. Summary of Significant Accounting Policies

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

2. Investments

The Mission held \$227,681, in investments as of December 31, 2017. Investments are stated at fair value and consist of mutual funds and money market accounts. Fair value is obtained from year-end statements provided by funds. There have been no changes in valuation techniques. Cost, fair values and unrealized appreciation at December 31, 2017 are summarized as follows:

	Cost	Fair Value	Unrealized Gain (Loss)
Endowment	\$ 210,855	\$ 227,681	\$ 16,826
	\$ 210,855	\$ 227,681	\$ 16,826

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2017:

	Unrestricted	Temporarily Unrestricted	Total
Interest and Dividend Income, Net	\$ 9,828	\$ -	\$ 9,828
Net Unrealized Gain on Investments	17,930	-	17,930
Total Investment Income	\$ 27,758	\$ -	\$ 27,758

Endowment Investments

The Mission's endowment consists of both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, 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.

Board-Designated Endowment Investment

Since November 17, 2011, the Board of Directors has designated \$139,460 of unrestricted donor gifts as funds functioning as an endowment for the purpose of producing income and appreciation for uses in the best interests of the Mission as it applies to the Mary L. Weitendorf Campus Family Center (Center). Since this endowment resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

MORNING STAR MISSION MINISTRIES, INC.

Notes to Financial Statements
December 31, 2017

2. Investments

The Mission has a spending policy that allows the interest and dividend income to be used for expenses of management of the Center. By vote of the majority of the entire Board of Directors, net income or five percent of the year-end market value of the fund (if net income is less) may be used as revenue in the annual budget of the Center. When operational funds of the Center are not sufficient, the Board of Directors may approve the invasion of principal on a 75 percent approval of the entire Board of Directors for the structure and equipment of the Center, and on a 90 percent approval of the entire Board of Directors for aid in the general operation of the Center. This is consistent with the Mission's objective to maintain these funds without invasion except under the most necessary of circumstances and with the approval of the entire board.

To achieve that objective, the Mission has adopted an investment policy that attempts to provide a total return on the assets including income, appreciation, and protection of principal. The Board of Directors determine the asset allocation strategy utilized in investing the assets of the board-designated endowment fund. The classification of investments include equity, fixed income securities, and cash equivalents.

Donor-Restricted Endowment Investment

The Mission's donor-restricted endowment consists of donor-restricted funds established to enhance the quality of life for people without means.

The Board of Trustees of the Mission has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Mission classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Any capital appreciation is considered to be temporarily restricted until gains are realized and therefore available to be appropriated for expenditure by the Mission. Unrealized losses are included in unrestricted net assets. Earnings of the fund are included in unrestricted net assets as these amounts are appropriated for expenditure. In accordance with SPMIFA, the Mission considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Mission, and (7) the Mission's investment policies.

Spending and Investment Policies - The Mission has not established a formal investment policy or spending policy at December 31, 2017.

MORNING STAR MISSION MINISTRIES, INC.

Notes to Financial Statements
December 31, 2017

2. Investments

Endowment Net Asset Composition

Endowment net asset composition by type of fund as of December 31, 2017 is as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-Restricted Endowment Funds	\$ -	\$ 25,500	\$ 25,500
Board-Designated Endowment Funds	<u>202,181</u>	<u>-</u>	<u>202,181</u>
Total Endowment Funds	<u>\$ 202,181</u>	<u>\$ 25,500</u>	<u>\$ 227,681</u>

Changes in endowment net assets as of December 31, 2017 are as follows :

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment Net Assets, Beginning of Year	\$ 168,583	\$ 25,500	\$ 194,083
Contributions	8,900		8,900
Net Investment Income	6,768	-	6,768
Net Unrealized Appreciation (Depreciation)	<u>17,930</u>	<u>-</u>	<u>17,930</u>
Endowment Net Assets, End of Year	<u>\$ 202,181</u>	<u>\$ 25,500</u>	<u>\$ 227,681</u>

Implementation of FSP FAS 117-1

In August 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds of a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management Institutional Funds Act of 2006 (UPMIFA). FSP FAS 117-1 also requires additional disclosures about an organization's endowment funds (both donor restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of Illinois enacted UPMIFA effective June 30, 2009, the provisions of which apply to endowment funds existing or established after that date. The Mission adopted FSP FAS 117-1 for the year ending December 31, 2007. The board of trustees has determined that the Mission's permanently restricted net assets meet the definition of endowment funds under UPMIFA.

MORNING STAR MISSION MINISTRIES, INC.

Notes to Financial Statements
December 31, 2017

2. Investments

Fair Value Measurements

Accounting principles generally accepted in the United States of America provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under US GAAP are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2 - Inputs to the valuation methodology include

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in active markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

Fair value measurements at December 31, 2017 are as follows:

	Level 1	Level 2	Level 3
Investments:			
Money Market Funds and Other Cash	\$ -	\$ -	\$ -
Mutual Funds	-		
Endowment Investments:			
Money Market Funds and Other Cash			
Equivalents	17,773	-	-
Mutual Funds	209,908	-	-
Total Investments	\$ 227,681	\$ -	\$ -

MORNING STAR MISSION MINISTRIES, INC.

Notes to Financial Statements
December 31, 2017

3. Capital Assets

The summary of capital assets by major category is as follows:

Land	\$	1,169,112
Buildings		9,605,996
Furniture, Fixtures and Equipment		738,777
Motor Vehicles		180,486
		11,694,371
Accumulated Depreciation	(4,666,648)
Total Capital Assets	\$	7,027,723

4. Long-Term Debt

Long-term debt at December 31, 2017 consists of the following:

BMO Harris Bank N.A, Due January 15, 2021, Interest rate of 4.45%, 59 payments of \$1,775 and one payment of \$233,551. Secured by property located at 250 North Republic, Joliet, IL 60435.	\$	229,467
First Midwest Bank, Due May 20, 2018, Interest rate of 4.75%, 64 payments of \$1,359 and one payment of \$128,027. Secured by property located at 106 East Benton, Joliet, IL 60432.		128,884
People First Bank, due April 21, 2038 payments of \$20,833 thru April 21, 2013 Initial interest rate of 5.9%, 300 payments of \$18,961 beginning May 21, 2013. Interest rate changed on 4/21/2013, at a rate of 4.95% (based on the 5 year treasury rate plus a margin of 3.5%). Secured by property located at 2571 East Lincoln Highway, New Lenox, IL 60451.		2,896,691
Hometown National Bank, Due November 07, 2022, Interest rate of 4.38%, 59 payments of \$1,511 and one payment of \$199,778. Secured by property located at 2561 East Lincoln Highway, New Lenox, IL 60451.		239,686
First National Bank of Illinois, Due December 1, 2020 Interest rate of 5.5%, 59 payments of \$3,604 and one payment of \$156,136 at maturity.		242,279
	\$	3,737,007

MORNING STAR MISSION MINISTRIES, INC.

Notes to Financial Statements
December 31, 2017

4. Long-Term Debt

Debt repayment for the following five years and in total is as follows:

<u>Year Ended</u>	<u>Amount</u>
December 31, 2018	\$ 262,939
December 31, 2019	140,982
December 31, 2020	295,478
December 31, 2021	307,893
December 31, 2022	312,548
Thereafter	<u>2,417,167</u>
	<u>\$ 3,737,007</u>

5. Net Asset Restrictions

Permanently restricted net assets represent contributions to an Endowment fund. Income from the fund including net realized gains, interest and dividends shall be utilized specifically for assisting those persons in need of food, shelter, clothing and Christian-care.

6. Concentrations of Credit Risk

The Mission maintains cash balances at various financial institutions located in Illinois. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At various times during the year ended December 31, 2017 amounts held at certain financial institutions exceeded the insured amount.

7. Thrift Shop Operations

The Treasure Chest Resale shops and Some Where In Time Antique Store are thrift shops operated by Morning Star Mission Ministries. The Mission receives donations of clothing and household goods (see note 1) some of which are placed in inventory at the thrift shops for resale. Donated inventory is valued at thrift store value at the date of donation. Sales generated by the thrift shop operations are recognized as public support.

8. Employee Benefit Plan

The mission has a 403(b) plan covering employees. Employees may contribute six months after their hire date. The mission will match up to three percent of salary after one year of service. The Mission has a 457(b) plan for its Executive Director. Plan expenses incurred by the Mission during 2017 were \$17,622.

MORNING STAR MISSION MINISTRIES, INC.

Notes to Financial Statements
December 31, 2017

9. Leases

The Mission is the lessor under operating leases expiring in 2018 and thereafter. The following is a summary of property held for lease at December 31, 2017:

Land	\$	576,500
Buildings		1,497,029
Less Accumulated Depreciation	(<u>531,615</u>)
	\$	<u>1,541,914</u>

Minimum future rentals to be received on non-cancelable leases as of December 31, 2017 for the next five years are:

2018	\$	101,071
2019		40,802
2020		-
2021		-
	\$	<u>141,873</u>

10. Uncertain Tax Positions

The Mission is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code except on net income derived from unrelated business activities. The Mission rents out 50% of its commercial real estate located in New Lenox, Illinois. Income derived from this rental activity is subject to tax on unrelated business income. The Mission did not incur a tax liability for the year ended December 31, 2017 on this unrelated business income. In addition, the Mission has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

The Mission has concluded that no material uncertain tax positions have been taken on any open tax returns. For the current year, the Mission's management believes all tax positions are fully supportable by existing Federal law and related interpretations and there are no uncertain tax positions to consider.

11. Subsequent Events

The Mission's management evaluated subsequent events through July 26, 2018, the date these financial statements were available to be issued.