

STARLIGHT CHILDREN'S FOUNDATION
FINANCIAL REPORT
DECEMBER 31, 2022

STARLIGHT CHILDREN'S FOUNDATION
CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 18

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Starlight Children's Foundation
Culver City, California

Opinion on the Financial Statements

We have audited the accompanying financial statements of Starlight Children's Foundation (a nonprofit organization) (the "Foundation"), which comprise the statements of financial position as of December 31, 2022 and 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, 2022 and 2021, and the changes in its net assets and its cash flows for the years 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. Our responsibilities under those standards are further described in the Auditor's 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.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities 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 auditor's 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 generally accepted auditing standards 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 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 generally accepted auditing standards, 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.



July 20, 2023

STARLIGHT CHILDREN'S FOUNDATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2022 and 2021

ASSETS

	2022	2021
Cash and cash equivalents	\$ 3,249,368	\$ 6,411,120
Investments	8,265,374	2,012,203
Receivables	97,177	1,794,846
Inventory	5,440,918	3,448,201
Prepaid expenses and other assets	1,513,912	1,439,993
Property and equipment, net	247,527	330,779
Right of use asset	27,490	-
	\$ 18,841,766	\$ 15,437,142

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable and accrued liabilities	\$ 532,684	\$ 602,165
Deferred revenue	5,000	28,600
Deferred rent	-	49,851
Lease liability	34,829	-
	572,513	680,616

Net Assets

Net assets without donor restrictions		
Undesignated	7,877,780	6,514,422
Board designated reserve	2,000,000	2,000,000
	9,877,780	8,514,422
Net assets with donor restrictions	8,391,473	6,242,104
	18,269,253	14,756,526
	\$ 18,841,766	\$ 15,437,142

See notes to financial statements.

STARLIGHT CHILDREN'S FOUNDATION
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support						
Donations	\$ 2,300,266	\$ 6,028,843	\$ 8,329,109	\$ 2,100,556	\$ 5,966,739	\$ 8,067,295
In-kind donations	7,203,343	-	7,203,343	1,510,030	2,040,202	3,550,232
Net investment return	138,514	-	138,514	11,253	-	11,253
Program sales	491,900	-	491,900	306,000	-	306,000
Employee retention credit	485,271	-	485,271	-	-	-
Payroll Protection Program loan forgiveness	-	-	-	553,340	-	553,340
Other revenue	565	-	565	1,327	-	1,327
Net assets released from restriction	3,879,474	(3,879,474)	-	7,477,443	(7,477,443)	-
 Total revenues, gains, and other support	 <u>14,499,333</u>	 <u>2,149,369</u>	 <u>16,648,702</u>	 <u>11,959,949</u>	 <u>529,498</u>	 <u>12,489,447</u>
Expenses						
Program services	9,981,832	-	9,981,832	9,735,860	-	9,735,860
Management and general	878,965	-	878,965	709,389	-	709,389
Fundraising	2,275,178	-	2,275,178	1,490,221	-	1,490,221
 Total expenses	 <u>13,135,975</u>	 <u>-</u>	 <u>13,135,975</u>	 <u>11,935,470</u>	 <u>-</u>	 <u>11,935,470</u>
 Change in net assets	 1,363,358	 2,149,369	 3,512,727	 24,479	 529,498	 553,977
Net assets, beginning	<u>8,514,422</u>	<u>6,242,104</u>	<u>14,756,526</u>	<u>8,489,943</u>	<u>5,712,606</u>	<u>14,202,549</u>
Net assets, ending	<u>\$ 9,877,780</u>	<u>\$ 8,391,473</u>	<u>\$ 18,269,253</u>	<u>\$ 8,514,422</u>	<u>\$ 6,242,104</u>	<u>\$ 14,756,526</u>

See notes to financial statements.

STARLIGHT CHILDREN'S FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2022 and 2021

	2022													
	Program Services								Supporting Services					
	Starlight Gowns	Starlight Gaming	Starlight Spaces	Starlight Families	Starlight Toy Deliveries	Starlight VR	Starlight Education	Starlight Mission Delivery	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses	
Purchased goods distributed	\$ 2,101,077	\$ 823,277	\$ -	\$ 5,260	\$ 916,427	\$ (93,114)	\$ 207,353	\$ 10,847	\$ 3,971,127	\$ -	\$ -	\$ -	\$ 3,971,127	
Donated goods distributed	-	-	-	660	3,627,057	100,977	62,111	-	3,790,805	-	-	-	3,790,805	
Salaries and employee benefits	116,783	48,449	2,490	15,304	124,830	35,625	67,530	912,792	1,323,803	442,347	1,276,197	1,718,544	3,042,347	
Marketing and promotion	-	-	-	-	-	-	-	372,918	372,918	-	372,918	372,918	745,836	
Donated professional services	27,825	14,584	-	15,533	-	-	738	-	58,680	190,168	114,201	304,369	363,049	
Technology costs	150	-	-	-	-	-	-	149,490	149,640	34,250	48,464	82,714	232,354	
Professional services	63,750	-	-	-	-	3,800	25,000	175	92,725	91,711	33,547	125,258	217,983	
Facilities	-	-	-	-	-	-	-	81,643	81,643	26,424	78,880	105,304	186,947	
Travel	-	-	-	-	-	2,128	-	64,222	66,350	30,971	66,056	97,027	163,377	
Banking, insurance and fees	-	-	-	-	-	-	-	3,465	3,465	23,988	107,712	131,700	135,165	
Fundraising costs	-	-	-	-	-	-	-	-	-	-	133,534	133,534	133,534	
Depreciation and amortization	-	-	-	-	-	-	-	55,320	55,320	26,625	28,055	54,680	110,000	
Other	-	-	-	-	-	-	-	15,356	15,356	12,481	15,614	28,095	43,451	
Total expenses by function	\$ 2,309,585	\$ 886,310	\$ 2,490	\$ 36,757	\$ 4,668,314	\$ 49,416	\$ 362,732	\$ 1,666,228	\$ 9,981,832	\$ 878,965	\$ 2,275,178	\$ 3,154,143	\$ 13,135,975	

	2021													
	Program Services								Supporting Services					
	Starlight Gowns	Starlight Gaming	Starlight Spaces	Starlight Families	Starlight Toy Deliveries	Starlight VR	Starlight Education	Starlight Mission Delivery	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses	
Purchased goods distributed	\$ 1,676,434	\$ 563,704	\$ -	\$ -	\$ 1,467,613	\$ 102,705	\$ 90,505	\$ 954	\$ 3,901,915	\$ -	\$ -	\$ -	\$ 3,901,915	
Donated goods distributed	-	-	-	-	3,470,207	28,866	315,017	7,999	3,822,089	-	-	-	3,822,089	
Salaries and employee benefits	164,650	134,287	9,625	-	183,762	104,968	139,592	488,877	1,225,761	435,620	916,977	1,352,597	2,578,358	
Marketing and promotion	-	-	-	-	-	-	-	240,210	240,210	-	240,210	240,210	480,420	
Donated professional services	41,225	296	-	-	36,490	-	45,725	11,713	135,449	108,903	5,600	114,503	249,952	
Technology costs	150	-	-	-	-	5,395	-	138,321	143,866	30,210	42,940	73,150	217,016	
Professional services	64,400	-	-	-	-	12,475	50,000	150	127,025	60,422	300	60,722	187,747	
Facilities	-	-	-	-	-	-	-	72,937	72,937	24,196	54,054	78,250	151,187	
Travel	-	-	-	-	-	-	-	1,525	1,525	1,584	4,628	6,212	7,737	
Banking, insurance and fees	-	-	-	-	-	-	-	4,747	4,747	25,060	91,571	116,631	121,378	
Fundraising costs	-	-	-	-	-	-	-	-	-	-	85,995	85,995	85,995	
Depreciation and amortization	-	-	-	-	-	-	-	55,314	55,314	19,619	28,048	47,667	102,981	
Other	-	-	-	-	-	12	2,923	2,087	5,022	3,775	19,898	23,673	28,695	
Total expenses by function	\$ 1,946,859	\$ 698,287	\$ 9,625	\$ -	\$ 5,158,072	\$ 254,421	\$ 643,762	\$ 1,024,834	\$ 9,735,860	\$ 709,389	\$ 1,490,221	\$ 2,199,610	\$ 11,935,470	

See notes to financial statements.

STARLIGHT CHILDREN'S FOUNDATION
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Change in net assets	\$ 3,512,727	\$ 553,977
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	110,000	102,981
Noncash operating lease expense	(42,512)	-
Deferred rent	-	(12,028)
Realized and unrealized (gains) losses on investments	13,454	(6,223)
Donated inventory	(6,840,295)	(3,300,281)
Changes in operating assets and liabilities:		
Receivable	1,697,669	(1,017,336)
Inventory	4,847,578	5,070,926
Prepaid expenses and other assets	(73,919)	(664,204)
Accounts payable and accrued liabilities	(69,481)	(471,874)
Deferred revenue	(23,600)	21,757
Net cash provided by operating activities	<u>3,131,621</u>	<u>277,695</u>
Cash flows from investing activities		
Purchases of equipment	(26,748)	(7,926)
Purchases of investments	(12,755,192)	(2,005,980)
Proceeds from sales of investments	6,488,567	-
Net cash used by investing activities	<u>(6,293,373)</u>	<u>(2,013,906)</u>
Net decrease in cash and cash equivalents	(3,161,752)	(1,736,211)
Cash and cash equivalents, beginning	<u>6,411,120</u>	<u>8,147,331</u>
Cash and cash equivalents, ending	<u>\$ 3,249,368</u>	<u>\$ 6,411,120</u>
Supplemental disclosure of noncash investing and financing activities:		
Right-of-use assets obtained in exchange for new operating lease obligations:	<u>\$ 192,432</u>	<u>\$ -</u>

See notes to financial statements.

STARLIGHT CHILDREN'S FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 – ORGANIZATION

Founded in 1982, Starlight Children's Foundation (the Foundation) raises funds and awareness to deliver happiness to seriously ill children and their families through the provision of Starlight programs to more than 800 hospital partners within the United States.

The Foundation licenses the Starlight trademark to international affiliates in Australia, Canada and the United Kingdom (the International Affiliates) through affiliate agreements, pursuant to which the affiliates deliver programs in their territories dedicated to the Starlight mission. Affiliate agreements entered into between each International Affiliate and the Foundation provide for common purposes and policy direction.

The accompanying financial statements present only the financial information of the Foundation. The International Affiliates operate independently. The Foundation does not exercise control over, nor does it have economic interests in, the International Affiliates. Therefore, the financial results of the International Affiliates are not consolidated into the accompanying financial statements.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period on an accrual basis. Accordingly, actual results could differ from those estimates.

Net Assets

The Foundation reports information regarding donations received in its statement of financial position and statement of activities according to two classes of net assets based upon the existence or absence of donor-imposed restrictions:

Net Assets without Donor Restrictions – Donations that are considered to be available for unrestricted use. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve which are reported separately.

STARLIGHT CHILDREN'S FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Net Assets with Donor Restrictions – Donations that are restricted by donors for a specific time period or purpose. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained restricted in perpetuity. Income earned on these assets may or may not be restricted, depending upon the donor-imposed restrictions.

Revenue Recognition

Donations

All donations are considered to be available for unrestricted use unless specifically restricted by the donor. Unconditional donations/promises to give are reported at fair value at the date the donation/promise is received. Conditional donations are recognized when the conditions on which they depend are substantially met. A condition must have both a barrier that must be overcome before the organization is entitled to the assets transferred or promised and a right of return. Assets received in a conditional donation are accounted for as refundable advances until the condition has been substantially met. The Foundation determines the allowance for uncollectible promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectible. No allowance for uncollectible contributions receivable was provided for at December 31, 2022, as management considers all amounts fully collectible.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities.

Donated Goods and Services

Donated noncash assets (in-kind donations) are recorded at estimated fair value at the date of donation. Donated goods generally consist of materials (inventory) for distribution to hospital partner facilities for hospitalized children. The Foundation does not monetize donated inventory. The Foundation estimates the fair value of donated inventory on the basis of estimates of wholesale values that would be received for selling similar products in the United States. If wholesale value is not available, the Foundation uses 50% of retail value.

STARLIGHT CHILDREN’S FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Goods and Services (Continued)

Donated services are recorded at fair value in the period received if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased by the Foundation. Donated services received in 2022 and 2021 consisted primarily of donated legal services. The donated legal services received were in support of the Foundation’s various programs and general corporate counseling, including, without limitation, negotiating contracts with its corporate supporters. The estimated fair value of donated legal services is based on the law firm’s detail of hours and rates for the legal services provided.

The estimated fair value of donated goods and services reflected in the financial statements as in-kind donations are as follows for the years ended December 31:

	2022	2021
Donated materials	\$ 6,840,294	\$ 3,300,280
Donated professional services	363,049	249,952
Total	\$ 7,203,343	\$ 3,550,232

Income Taxes

The Foundation is exempt from Federal income taxes under Section 501(c)(3) provisions of the Internal Revenue Code of 1986, as amended (“IRC” or “the Code”) and similar provisions of the State of California Revenue and Taxation Codes. The Foundation also has been classified as an entity that is not a private foundation within the meaning of IRC 509(a) and qualifies for deductible contributions as provided in IRC 170(b)(1)(A)(vi).

The Foundation evaluates its tax provisions for any potential uncertain tax positions. The Foundation believes its tax positions are more likely than not to be sustained if challenged by tax authorities.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments purchased with original maturities of three months or less to be cash and cash equivalents.

Investments

Investments in marketable securities are reported at fair value in the statement of financial position. Investments in short-term certificates of deposit are reported at cost, which approximates fair value. Sales and purchases of securities are recorded on a trade-date basis. Dividend income is recognized on the ex-dividend date and interest income is recognized on an accrual basis. Realized and unrealized gains and losses are included in the statements of activities.

STARLIGHT CHILDREN'S FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

The Foundation determines the fair values of its investments based on the fair value hierarchy established in FASB ASC 820, *Fair Value Measurements*, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The investment's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The statement requires fair value measurements to be classified and disclosed in one of the following three categories:

Level 1 - Quoted prices, in active markets for identical assets and liabilities, including equity and debt securities and derivative contracts that are traded in an active exchange market.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Inventory

Inventory is composed of materials that will be placed in hospital partner facilities for the use of hospitalized children. Inventory includes videogame players, monitors, and other electronics that make up the Starlight Nintendo Gaming Stations. Other inventory includes Starlight Hospital Gowns, Starlight Virtual Reality headsets, toys, games, and books to be distributed to hospitals, and other materials collected for distribution through the Foundation's programs. Purchased inventory is recorded at the lower of cost or net realizable value. Donated inventory is recorded at estimated fair value on the date of donation. Donated inventory accounted for approximately \$4,246,000 and \$1,214,000 of total inventory as of December 31, 2022 and 2021, respectively.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets primarily include prepaid deposits for the manufacture of Starlight Hospital Gowns, prepayments to Nintendo of America for the production and maintenance of Starlight Nintendo Gaming Stations, and a down payment on materials for care packages. These prepaid items will be placed in hospital partner facilities for hospitalized children upon completion.

Property and Equipment

Purchased property and equipment are stated at cost. Property and equipment are depreciated using the straight-line method over the following estimated useful lives:

Software and computers	3 - 5 years
Office equipment	3 - 5 years
Furniture and fixtures	7 years

STARLIGHT CHILDREN'S FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

Leasehold improvements are amortized over the shorter of the remaining lease term or the estimated useful lives. Maintenance, repairs, and renewals that neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Property and equipment are capitalized if the useful life is greater than one year.

Impairment of Long-Lived Assets

The Foundation's long-lived assets include property and equipment. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the expected future cash flow from the use of the asset and its eventual disposition is less than the carrying amount of the asset, an impairment loss is recognized and measured using the fair value of the related asset. The Foundation did not identify any impairment of its long-lived assets as of December 31, 2022 and 2021.

Allocation of Functional Expenses

The costs of providing the various programs and support services and other activities have been summarized on a program basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expense classification. Salaries, wages and other related expenses are allocated based on staff reporting. Facilities expense is allocated based on square footage that each program occupies.

Marketing and Promotion

Marketing and promotion costs are expensed as incurred.

PPP Loan

The Foundation accounted for the Paycheck Protection Program loan as a conditional contribution in accordance with FASB ASC 958-605, *Not-for-Profit Entities - Revenue Recognition*. Under this standard, loan proceeds are deemed a refundable advance until such time as the related conditions are met, which included meeting certain employee counts and incurring eligible expenditures.

STARLIGHT CHILDREN'S FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements

Leases

In February 2016, the FASB issued ASC Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statement of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the income statement. The Foundation adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition method, the Foundation has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Foundation's historical accounting treatment under ASC Topic 840, *Leases*.

The Foundation elected the "package of practical expedients" under the transition guidance within Topic 842, in which the Foundation does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Foundation has not elected to adopt the "hindsight" practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of Topic 842 on January 1, 2022.

The Foundation determines if both an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and if the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Foundation obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Foundation also considers whether its service arrangements include the right to control the use of an asset.

STARLIGHT CHILDREN'S FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements (Continued)

The Foundation made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. The Foundation did not have any such leases. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Foundation made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

The Foundation has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate, vehicle and equipment asset classes. As of December 31, 2022 and 2021, the Foundation only had one real estate lease and no vehicle or equipment lease. The non-lease components typically represent additional services transferred to the Foundation, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

Adoption of Topic 842 resulted in the recording of ROU assets and lease liabilities related to the Foundation's operating leases of approximately \$192,000 and \$242,000, respectively, and the reduction of deferred rent of approximately \$50,000 at January 1, 2022. The adoption of the new lease standard did not materially impact net earnings or cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets.

Contributed Nonfinancial Assets

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities: Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. The Foundation adopted ASU 2020-07 on January 1, 2022.

STARLIGHT CHILDREN'S FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Rent

Prior to the adoption of Topic 842, rent expense on the facility leases, including scheduled rent increases and rent abatement, was recorded on a straight-line basis over the term of the lease. The net excess of rent expense over cash paid was recorded as deferred rent in the accompanying statement of financial position at December 31, 2021.

Subsequent Events

The Foundation has evaluated subsequent events through July 20, 2023, the date the financial statements were available to be issued.

NOTE 3 – AVAILABILITY OF FINANCIAL ASSETS AND LIQUIDITY

The table below presents financial assets available for general expenditures within one year of the statement of financial position date:

	<u>2022</u>	<u>2021</u>
Financial assets		
Cash and cash equivalents	\$ 3,249,368	\$ 6,411,120
Investments	8,265,374	2,012,203
Receivables	<u>97,177</u>	<u>1,794,846</u>
Total financial assets	<u>11,611,919</u>	<u>10,218,169</u>
Less those unavailable for general expenditures within one year due to:		
Board designated reserve	\$ (2,000,000)	\$ (2,000,000)
Restricted net assets subject to expenditure for specific programs	<u>(8,391,473)</u>	<u>(6,242,104)</u>
	<u>(10,391,473)</u>	<u>(8,242,104)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,220,446</u>	<u>\$ 1,976,065</u>

The majority of the Foundation's expenditures are on the delivery of programs, using donor-restricted funds. A significant portion of these restricted assets is designed to fund operational salaries and expenses that are directly involved in the delivery of those specified programs.

STARLIGHT CHILDREN'S FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 3 – AVAILABILITY OF FINANCIAL ASSETS AND LIQUIDITY (Continued)

The Board designated reserve of \$2,000,000 was created to ensure ongoing operations in the event of unforeseen shortfalls and represents approximately four months of operating expenses. It is subject to expenditure only upon the approval of the Board of Directors. These funds are generally held in short-term investment accounts.

NOTE 4 – FAIR VALUE MEASUREMENTS

The fair value measurements and levels within the fair value hierarchy of those measurements for the investments reported at fair value on a recurring basis are as follows at December 31:

	2022	2021
U.S. Treasury notes and bills (Level 1)	\$ 8,265,374	\$ -
Equities (Level 1)	-	5,980
Certificates of deposit (not subject to fair valuation measurements)	-	2,006,223
Total investments	<u>\$ 8,265,374</u>	<u>\$ 2,012,203</u>

The investments in marketable securities have been valued at the closing prices reported on the active markets on which the individual investments are traded. The fair values of donated services, facilities, materials, and supplies are categorized in Level 2 of the fair value hierarchy.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2022	2021
Computers	\$ 55,446	\$ 28,698
Furniture and fixtures	104,458	104,458
Leasehold improvements	14,708	14,708
Software and website development	445,120	445,120
Total property and equipment	619,692	592,984
Accumulated depreciation and amortization	(372,205)	(262,205)
Total property and equipment, net	<u>\$ 247,527</u>	<u>\$ 330,779</u>

STARLIGHT CHILDREN'S FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>
Accounts payable	39,547	\$ 131
Accrued expenses	150,342	131,220
Accrued personnel expenses	192,595	135,485
Accrued warranty reserve	122,127	264,054
Credit card payables	<u>28,073</u>	<u>71,275</u>
 Total accounts payable and accrued liabilities	 <u>\$ 532,684</u>	 <u>\$ 602,165</u>

The warranty reserve relates to Starlight Nintendo Gaming Stations purchased from Nintendo of America and Starlight Virtual Reality headsets purchased from Lenovo. The Foundation is required to repair Starlight Nintendo Gaming Stations donated to healthcare facilities for three years after the units are distributed to the respective facilities.

NOTE 7 – PPP LOAN

On February 16, 2021, the Foundation received a loan from City National Bank (CNB) totaling \$553,340, pursuant to the Paycheck Protection Program (PPP) under Division A, Title I of the CARES Act, enacted on March 27, 2020. Funds from the loan could only be used for payroll costs, mortgage interest payments, lease payments, and utility payments. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. During the year ended December 31, 2021, the Foundation used the full \$553,340 loan amount for qualifying expenses and recognized an equivalent amount as grant revenue in the statement of activities. The loan was forgiven in full on February 17, 2022.

NOTE 8 – EMPLOYEE RETENTION CREDITS

The CARES Act provides an employee retention credit (ERC), which is a refundable tax credit against certain employment taxes for eligible employers. ERCs are recorded in the financial statements when the claim is filed. The Foundation claimed and received ERCs of \$485,271, which are recognized in the statement of activities for the year ended December 31, 2022.

STARLIGHT CHILDREN'S FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Restricted net assets consisted of the following during the years ended December 31, 2021 and 2022:

	Balance, December 31, 2021	Donations with Donor Restrictions	Released from Restriction	Balance, December 31, 2022
Hospital Wear Deliveries (including Care Packages)	\$ 1,526,983	\$ 3,013,438	\$ 1,859,474	\$ 2,680,947
Education	1,870,012	2,467,805	727,601	3,610,216
Gaming (Nintendo Switch)	429,960	200,000	296,790	333,170
Virtual Reality	2,298,013	185,600	840,122	1,643,491
Cause Marketing Grants	1,600	60,000	15,052	46,548
Other	115,536	-	115,536	-
	<u>-</u>	<u>102,000</u>	<u>24,899</u>	<u>77,101</u>
Total	<u>\$ 6,242,104</u>	<u>\$ 6,028,843</u>	<u>\$ 3,879,474</u>	<u>\$ 8,391,473</u>

	Balance, December 31, 2020	Donations with Donor Restrictions	Released from Restriction	Balance, December 31, 2021
Hospital Wear Deliveries (including Care Packages)	\$ 1,986,041	\$ 1,158,995	\$ 1,618,053	\$ 1,526,983
Education	1,638,920	3,940,202	3,709,110	1,870,012
Gaming (Nintendo Switch)	-	735,500	305,540	429,960
Virtual Reality	1,794,848	1,728,047	1,224,882	2,298,013
Cause Marketing Grants	282,646	28,454	309,500	1,600
Other	-	400,000	284,464	115,536
	<u>10,151</u>	<u>15,743</u>	<u>25,894</u>	<u>-</u>
Total	<u>\$ 5,712,606</u>	<u>\$ 8,006,941</u>	<u>\$ 7,477,443</u>	<u>\$ 6,242,104</u>

NOTE 10 – DEFINED CONTRIBUTION PENSION PLAN

The Foundation maintains an IRC 403(b) defined contribution pension plan to which employees may contribute. The Foundation matches all contributions up to a maximum of 3% of annual salary. The Foundation made approximately \$61,000 and \$43,000 in matching contributions for the years ended December 31, 2022 and 2021, respectively.

STARLIGHT CHILDREN'S FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 11 – OPERATING LEASES

The Foundation leased a facility in Culver City, California, under a lease agreement, which expired in February 2023. The lease liability related to this facility as of December 31, 2022 was approximately \$35,000. The Foundation relocated to a new Culver City facility and entered into a five-year lease agreement, effective March 1, 2023.

Operating lease costs are recognized on a straight-line basis over the lease terms. Rent expense was approximately \$177,000 and \$145,000 for the years ended December 31, 2022 and 2021, respectively.

Future minimum lease payments are as follows for the years ending December 31:

2023	\$ 77,600
2024	52,900
2025	54,800
2026	56,600
2027	58,700
2028	<u>9,800</u>
Total	<u>\$ 310,400</u>

NOTE 12 – CONCENTRATIONS AND RISKS

Two donors accounted for approximately 63% and 73% of the Foundation's total donation revenue for the years ended December 31, 2022 and 2021, respectively.

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, deposits of up to \$250,000 at FDIC-insured institutions are covered by FDIC insurance. To be protected by such deposit insurance threshold, the Foundation has made arrangements with its principal depository institution to transfer amounts exceeding this limit to other insured depository institutions, in each case in amounts not exceeding the deposit insurance limit. On occasion, such as pending or during funds transfers, the insurance limit may be exceeded.

NOTE 13 – RELATED PARTY TRANSACTIONS

A member of the Foundation's Board of Directors during 2022 and 2021 is a former partner and current senior counsel at a law firm that provided in-kind legal services of approximately \$363,000 and \$245,000 to the Foundation during the years ended December 31, 2022 and 2021, respectively. The legal services are included as in-kind donations in the statements of activities and as donated professional services in the statements of functional expenses.

Included in program sales in the statements of activities for the years ended December 31, 2022 and 2021 are \$247,500 and \$147,500, respectively, in sales to Starlight Children's Foundation Canada.