

**Starlight Children's Foundation**

Financial Statements

December 31, 2020



## TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 13



## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Starlight Children's Foundation (a California nonprofit corporation) (the "Foundation"), which comprise the statement of financial position as of December 31, 2020, 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 Starlight Children's Foundation as of December 31, 2020, 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.

*Armanino LLP*

Armanino<sup>LLP</sup>  
Los Angeles, California

June 23, 2021



An independent firm  
associated with Moore  
Global Network Limited

Starlight Children's Foundation  
Statement of Financial Position  
December 31, 2020

ASSETS

Cash and cash equivalents	\$ 8,147,331
Contributions and pledges receivable	777,510
Inventory	5,218,846
Prepaid expenses and other assets	775,789
Property and equipment, net	<u>425,834</u>
 Total assets	 <u><u>\$ 15,345,310</u></u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued liabilities	\$ 1,074,039
Deferred rent	61,879
Deferred revenue	<u>6,843</u>
Total liabilities	<u>1,142,761</u>
 Commitments and contingencies (Notes 8, 10 and 12)	
 Net assets	
Without donor restrictions	
Undesignated	6,489,943
Board-designated reserve	<u>2,000,000</u>
Total without donor restrictions	8,489,943
With donor restrictions	<u>5,712,606</u>
Total net assets	<u>14,202,549</u>
 Total liabilities and net assets	 <u><u>\$ 15,345,310</u></u>

The accompanying notes are an integral part of these financial statements.

Starlight Children's Foundation  
Statement of Activities  
For the Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Contributions	\$ 2,012,610	\$ 4,269,509	\$ 6,282,119
Contributed goods, services, and use of facilities	1,184,203	2,361,158	3,545,361
Investment income, net	35,432	-	35,432
Program sales	106,800	-	106,800
Conditional grant revenue - Paycheck Protection Program	535,610	-	535,610
Other revenue	254	-	254
Net assets released from restriction	<u>8,318,832</u>	<u>(8,318,832)</u>	<u>-</u>
Total revenues, gains, and other support	<u>12,193,741</u>	<u>(1,688,165)</u>	<u>10,505,576</u>
Functional expenses			
Program services			
Starlight Gowns	834,731	-	834,731
Starlight Gaming	143,397	-	143,397
Starlight Spaces	17,732	-	17,732
Starlight Toy Deliveries	3,128,404	-	3,128,404
Starlight VR	538,322	-	538,322
Starlight Mission Delivery	<u>1,689,857</u>	<u>-</u>	<u>1,689,857</u>
Total program services	<u>6,352,443</u>	<u>-</u>	<u>6,352,443</u>
Support services			
Management and general	1,282,849	-	1,282,849
Fundraising	<u>1,294,725</u>	<u>-</u>	<u>1,294,725</u>
Total support services	<u>2,577,574</u>	<u>-</u>	<u>2,577,574</u>
Total functional expenses	<u>8,930,017</u>	<u>-</u>	<u>8,930,017</u>
Change in net assets	3,263,724	(1,688,165)	1,575,559
Net assets, beginning of year	<u>5,226,219</u>	<u>7,400,771</u>	<u>12,626,990</u>
Net assets, end of year	<u>\$ 8,489,943</u>	<u>\$ 5,712,606</u>	<u>\$ 14,202,549</u>

The accompanying notes are an integral part of these financial statements.

Starlight Children's Foundation  
Statement of Functional Expenses  
For the Year Ended December 31, 2020

	Starlight Gowns	Starlight Gaming	Starlight Spaces	Starlight Toy Deliveries	Starlight VR	Starlight Mission Delivery	Management and General	Fundraising	Total
Banking, Corp. Insurance & Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,103	\$ 22,954	\$ 37,459	\$ 63,516
Depreciation	-	-	-	-	-	47,253	20,096	25,337	92,686
Donated professional services	4,144	4,969	-	42,346	13,933	191,763	365,376	199,973	822,504
Contributed goods	-	-	-	1,405,114	19,875	-	-	-	1,424,989
Facilities	-	-	-	-	-	98,125	41,585	49,062	188,772
Fundraising costs	-	-	-	-	-	-	-	33,811	33,811
Marketing & public relations	20,435	-	-	-	-	48,842	-	69,277	138,554
Miscellaneous	-	-	-	-	-	5,920	10,213	4,243	20,376
Professional services	-	-	-	-	-	15,264	130,953	15,265	161,482
Promotion	-	-	-	-	-	76,203	-	76,202	152,405
Programs expense	664,869	74,715	204	1,516,936	449,056	27,069	-	-	2,732,849
Salaries and employee benefits	145,283	63,713	17,528	158,425	55,421	1,014,036	616,365	727,181	2,797,952
Taxes and licenses	-	-	-	5,583	-	-	484	-	6,067
Technology costs	-	-	-	-	37	157,025	70,997	46,036	274,095
Travel and automobile	-	-	-	-	-	5,254	3,826	10,879	19,959
	<u>\$ 834,731</u>	<u>\$ 143,397</u>	<u>\$ 17,732</u>	<u>\$ 3,128,404</u>	<u>\$ 538,322</u>	<u>\$ 1,689,857</u>	<u>\$ 1,282,849</u>	<u>\$ 1,294,725</u>	<u>\$ 8,930,017</u>

The accompanying notes are an integral part of these financial statements.

Starlight Children's Foundation  
Statement of Cash Flows  
For the Year Ended December 31, 2020

Cash flows from operating activities	
Change in net assets	\$ 1,575,559
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation and amortization	92,686
Deferred rent	(23,595)
Warranty reserve	61,758
Realized gains on sales investments	(25,280)
Donated inventory	(1,334,517)
Changes in operating assets and liabilities	
Contributions and pledges receivable	(737,210)
Inventory	(1,532,031)
Prepaid expenses and other assets	191,469
Accounts payable and accrued liabilities	218,730
Deferred revenue	(9,957)
Net cash used in operating activities	<u>(1,522,388)</u>
Cash flows from investing activities	
Purchases of property and equipment	(176,755)
Purchases of investments	(11,983,880)
Proceeds from sales of investments	<u>16,001,000</u>
Net cash provided by investing activities	<u>3,840,365</u>
Net increase in cash and cash equivalents	2,317,977
Cash and cash equivalents, beginning of year	<u>5,829,354</u>
Cash and cash equivalents, end of year	<u><u>\$ 8,147,331</u></u>

The accompanying notes are an integral part of these financial statements.

Starlight Children's Foundation  
Notes to Financial Statements  
December 31, 2020

1. ORGANIZATION

Founded in 1982, Starlight Children's 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.

Starlight Children's Foundation also provides ongoing programs throughout the United Kingdom, Canada, and Australia through international affiliates (the "International Affiliates"). Affiliate agreements entered into between each International Affiliate and the Foundation provide for common purposes and policy direction.

The accompanying financial statements were prepared to present the financial information of Starlight Children's Foundation (referred to herein as the "Foundation") in the United States. The Foundation's International Affiliates operate independently, and the Foundation does not exercise control, 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, based on Accounting Standards Codification (ASC) 958-810-25, Consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Service Code and corresponding California provisions. However, the Foundation remains subject to income taxes on any net income that is derived from a trade or business, regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

ASC Topic 740, Income Taxes (ASC 740), prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, disclosure, and transition. Management believes that there are no such uncertain tax positions for the Foundation at December 31, 2020.

The Foundation's federal income tax and informational returns for tax years ended December 31, 2017 and subsequent remain open to examination by the Internal Revenue Service. The returns for California, the Foundation's only state tax jurisdiction, remain open to examination by the California Franchise Board for tax years ended December 31, 2016 and subsequent.

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.



Starlight Children's Foundation  
Notes to Financial Statements  
December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets

The Foundation's net assets and changes therein are classified and reported as follows:

- *Without donor restrictions* - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve which are reported separately.
- *With donor restrictions* - Net assets subject to donor- (or grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions could be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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 and liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Cash and cash equivalents

The Foundation considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash and cash equivalents. The Foundation had no cash equivalents as of December 31, 2020 due to timing of maturity dates. As such the balance depicted is actual cash in U.S. Dollars consisting of both funds with and without donor restrictions.

The Foundation maintains its cash, cash equivalents, and investments in bank deposit accounts and other investment accounts, which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts.

Concentrations

The Foundation's bank balances may occasionally exceed the Federal Deposit Insurance Corporation's insured limits. The Foundation has not experienced and does not anticipate any losses relating to cash held in these accounts.

Three contributors accounted for 67% (32%, 24%, and 11%) of the Foundation's total contribution revenue for the year ended December 31, 2020.

Starlight Children's Foundation  
Notes to Financial Statements  
December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

The Foundation maintains investments in short-term U.S. Government Treasury bills. The term of the bills is 90 days. During the year, the Foundation liquidated all investments.

Contributions and pledges receivable

Contributions, including pledges, representing unconditional promises to give are recorded at estimated fair value, and recognized as revenue in the period the pledge is made or cash is received, as appropriate. The Foundation reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. Total pledges receivable are expected to be collected in their entirety within one year subsequent to the year-end.

Inventory

Inventory is comprised 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 units. Other inventory includes Starlight Hospital Gowns, Starlight Virtual Reality, toys, games, and books to be distributed to hospitals, and other materials collected for distribution through the Foundation's programs. Purchased inventory is stated at cost. Donated inventory is recorded at estimated fair value, or wholesale values depending on the size of the donation, at the time of donation. The Foundation reviews the carrying value of its inventory for possible impairment whenever events or changes in circumstances indicate that the fair value may have declined since it was originally acquired. An impairment loss is recognized when the fair value of the inventory is lower than the carrying amount, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized during the year ended December 31, 2020.

Prepaid expenses and other assets

Prepaid expenses and other assets primarily include prepaid deposits for the manufacture of Starlight gowns of \$352,242 and prepayment to Nintendo of America of \$104,236 as advance payment for the production and maintenance of Starlight Nintendo Gaming units. All of these prepaid items will be placed in hospital partner facilities for hospitalized kids upon completion. Other prepaid expenses and other assets total \$319,311.

Property and equipment

Property and equipment having a useful life of more than one year are recorded at cost if purchased. Donated assets are capitalized at the estimated fair value at the date of receipt and restrictions are released once the asset has been placed into service. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expenses as incurred. Property and equipment are capitalized if the useful life is greater than one year.

Starlight Children's Foundation  
Notes to Financial Statements  
December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

The estimated useful lives of property and equipment are as follows:

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

Leasehold improvements are amortized on the straight-line basis over the term of the lease.

Long-lived assets

The Foundation reviews the carrying values of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related assets to its estimated fair value. No impairment losses were recognized during the year ended December 31, 2020.

Deferred rent

Deferred rent represents the difference between the lease payments made on its facilities and the lease expense. The lease expense is recognized on a straight-line basis considering planned lease escalations and free rent concessions.

Contributed goods and services

Contributions of donated noncash assets are recorded at fair value, which may be wholesale value depending on the quantities received, in the period received. Contributed goods generally consist of materials for distribution to hospital partner facilities for hospitalized kids. For the year ended December 31, 2020, the Foundation received \$2,722,857 of contributed goods for distribution to hospitals for use by children as part of its programs.

Contributions of 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 2020 totaled \$822,504 and consisted primarily of donated legal fees. The donated legal fees received were in support of the Foundation's various programs and negotiating contracts with its major supporters.

Starlight Children's Foundation  
Notes to Financial Statements  
December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional allocation of expense

The Foundation allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated using bases determined by management to be reasonable.

Subsequent events

The Foundation has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2020 to determine whether items should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through June 23, 2021, the date these financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements, except as disclosed in Note 5.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Office equipment	\$ 22,595
Furniture and fixtures	104,458
Leasehold improvements	14,708
Software and computers	<u>443,297</u>
	585,058
Accumulated depreciation and amortization	<u>(159,224)</u>
	<u><u>\$ 425,834</u></u>

Depreciation and amortization expense was \$92,686 for the year ended December 31, 2020.

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following:

Accounts payable	\$ 573,805
Accrued expenses	123,660
Accrued personnel expenses	144,155
Accrued warranty reserve - Starlight Nintendo Gaming units	211,937
Credit card payables	19,411
Other accrued liabilities	<u>1,071</u>
	<u><u>\$ 1,074,039</u></u>

Starlight Children's Foundation  
Notes to Financial Statements  
December 31, 2020

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (continued)

The \$211,937 warranty reserve relates to Starlight Nintendo Gaming units purchased from Nintendo of America. The Foundation is required to repair Starlight Nintendo Gaming units donated to healthcare facilities for three years after the units are distributed to the respective facilities.

5. PAYCHECK PROTECTION PROGRAM

In April 21 2020, the Foundation received loan proceeds of \$535,610 from a promissory note issued by a financial institution under the Paycheck Protection Program ("PPP") which was established under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act and is administered by the U.S Small Business Administration ("SBA"). The term of the loan is two years, and the annual interest rate is 1.00%. Payments of principal and interest are deferred for the first ten months of the loan. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loans granted. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations.

As of December 31, 2020, the Foundation has used the full amount of received proceeds to fund eligible payroll, rent, and utility expenses under the terms of the PPP loan and believes that it will qualify for forgiveness. As a result, the Foundation has accounted for the PPP Loan in accordance with the Financial Accounting Standards Board's Accounting Standards Codification ("ASC") 958-605 as a conditional contribution. The Foundation initially recorded the amount received as a refundable advance followed by a reduction in the advance and recognition of revenue as the aforementioned conditions were substantially met. Accordingly, the Foundation has recognized the \$535,610 of PPP loan proceeds as conditional grant revenue and is included in the line item 'Conditional Grant Revenue - Paycheck Protection Program' in the accompanying statement of activities.

In February 2021, the Foundation received the second round of PPP funding in the amount of \$553,340 with the same terms. The Foundation expects most of this amount to be forgiven.

In May 2021, the Foundation's loan forgiveness application for the \$535,610 of loan proceeds received in April 2020 was fully approved by the SBA.

6. CONTRIBUTED GOODS AND SERVICES

Contributed goods and services consist of the following:

Donated materials and supplies	\$ 2,722,857
Donated professional services	<u>822,504</u>
	<u><u>\$ 3,545,361</u></u>

Starlight Children's Foundation  
Notes to Financial Statements  
December 31, 2020

7. NET ASSETS WITH DONOR RESTRICTIONS

Purpose restricted net assets consisted of the following:

	Released from Restriction	Balance, December 31, 2020
Starlight Gowns	\$ 3,087,109	\$ 1,986,041
Starlight Deliveries (Care Packages)	4,263,159	1,638,920
Starlight Gaming (Nintendo Switch)	363,376	1,794,848
Starlight VR	543,158	282,646
Starlight Spaces	23,666	10,151
Starlight Star Visits	38,364	-
	<u>\$ 8,318,832</u>	<u>\$ 5,712,606</u>

8. DEFINED CONTRIBUTION PENSION PLAN

The Foundation maintains a 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 \$24,210 in matching contributions for the year ended December 31, 2020.

9. RELATED PARTY TRANSACTIONS

The accounts of the Foundation's International Affiliates in the United Kingdom, Australia and Canada are not included in the accompanying 2020 financial statements. During 2020, there was no activity between the Foundation and its International Affiliates.

10. COMMITMENTS

The Foundation leases certain facilities and equipment under long-term operating lease agreements that expire through November 2022.

Future minimum lease payments for leases that have a remaining noncancelable term in excess of one year are as follows:

<u>Year ending December 31,</u>	
2021	\$ 208,258
2022	<u>201,039</u>
	<u>\$ 409,297</u>

Facilities rent expense was \$177,048 for the year ended December 31, 2020.

Starlight Children's Foundation  
Notes to Financial Statements  
December 31, 2020

11. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$ 8,147,331
Contributions and pledges receivable	<u>777,510</u>
	<u>8,924,841</u>
 Board-designated reserve	 (2,000,000)
Net assets subject to expenditure for specified purpose (see Note 7)	<u>(5,712,606)</u>
	<u>(7,712,606)</u>
 Financial assets available for general expenditure	 <u><u>\$ 1,212,235</u></u>

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

As part of Starlight's liquidity management plan, cash in excess of daily requirements was invested in treasury securities.

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

12. RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. The pandemic has reduced some existing corporate partnership funding in 2020, but has been mitigated by the Foundation's increased individual giving and receiving a Paycheck Protection Plan Loan (i.e. SBA PPP Loan). The financial effects of the pandemic on funding from corporate partnerships and its ability to return corporate funding to prior levels cannot be reasonably estimated at this time.