

**STARLIGHT CHILDREN'S FOUNDATION**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**DECEMBER 31, 2023**

# STARLIGHT CHILDREN'S FOUNDATION

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## 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, 2023 and 2022, 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, 2023 and 2022, 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.

The image shows a handwritten signature in black ink that reads "Singer Lewak LLP". The signature is written in a cursive, flowing style.

May 10, 2024



**STARLIGHT CHILDREN'S FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2023 and 2022**

**ASSETS**

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 1,578,791	\$ 3,249,368
Investments	8,437,763	8,265,374
Receivables	960,282	97,177
Inventory	7,681,011	6,652,206
Prepaid expenses and other assets	238,970	302,624
Property and equipment, net	141,895	247,527
Operating lease right-of-use asset	<u>192,283</u>	<u>27,490</u>
<b>Total assets</b>	<b><u>\$ 19,230,995</u></b>	<b><u>\$ 18,841,766</u></b>

**LIABILITIES AND NET ASSETS**

**Liabilities**

Accounts payable and accrued liabilities	\$ 781,358	\$ 532,684
Deferred revenue	42,599	5,000
Operating lease liability	<u>213,236</u>	<u>34,829</u>
<b>Total liabilities</b>	<u>1,037,193</u>	<u>572,513</u>

**Net Assets**

Net assets without donor restrictions		
Undesignated	7,201,123	7,877,780
Board designated reserve	<u>2,000,000</u>	<u>2,000,000</u>
<b>Total net assets without donor restrictions</b>	9,201,123	9,877,780
<b>Net assets with donor restrictions</b>	<u>8,992,679</u>	<u>8,391,473</u>
<b>Total net assets</b>	<u>18,193,802</u>	<u>18,269,253</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 19,230,995</u></b>	<b><u>\$ 18,841,766</u></b>

See notes to financial statements.

**STARLIGHT CHILDREN'S FOUNDATION**  
**STATEMENTS OF ACTIVITIES**  
**Years Ended December 31, 2023 and 2022**

	<b>2023</b>			<b>2022</b>		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support						
Donations	\$ 2,601,289	\$ 5,677,412	\$ 8,278,701	\$ 2,300,266	\$ 6,028,843	\$ 8,329,109
In-kind donations	9,210,247	-	9,210,247	7,203,343	-	7,203,343
Net investment return	413,860	-	413,860	138,514	-	138,514
Program sales	480,794	-	480,794	491,900	-	491,900
Employee retention credit	-	-	-	485,271	-	485,271
Other revenue (loss)	(10,688)	-	(10,688)	565	-	565
Net assets released from restriction	5,076,206	(5,076,206)	-	3,879,474	(3,879,474)	-
Total revenues, gains, and other support	17,771,708	601,206	18,372,914	14,499,333	2,149,369	16,648,702
Expenses						
Program services	14,597,104	-	14,597,104	9,981,832	-	9,981,832
Management and general	719,446	-	719,446	878,965	-	878,965
Fundraising	3,131,815	-	3,131,815	2,275,178	-	2,275,178
Total expenses	18,448,365	-	18,448,365	13,135,975	-	13,135,975
Change in net assets	(676,657)	601,206	(75,451)	1,363,358	2,149,369	3,512,727
Net assets, beginning	9,877,780	8,391,473	18,269,253	8,514,422	6,242,104	14,756,526
Net assets, ending	\$ 9,201,123	\$ 8,992,679	\$ 18,193,802	\$ 9,877,780	\$ 8,391,473	\$ 18,269,253

See notes to financial statements.

# STARLIGHT CHILDREN'S FOUNDATION

## STATEMENTS OF FUNCTIONAL EXPENSES

### Years Ended December 31, 2023 and 2022

2023													
	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	Supporting Services	Total Expenses
Purchased goods distributed	\$ 1,318,544	\$ 376,835	\$ -	\$ 22,767	\$ 2,454,743	\$ 96,577	\$ 140,838	\$ 130,846	\$ 4,541,150	\$ -	\$ -	\$ -	\$ 4,541,150
Donated goods distributed	-	4,400	-	263,436	7,525,803	15,561	30,682	282	7,840,164	376,946	1,630,674	2,007,620	7,840,164
Salaries and employee benefits	-	-	-	-	-	-	-	1,633,047	1,633,047	-	808,941	808,941	3,640,667
Marketing and promotion	-	-	-	-	-	-	-	278,855	278,855	-	58,595	162,929	1,087,796
Donated professional services	-	-	-	-	-	-	-	92,905	92,905	104,334	76,345	147,209	255,834
Technology costs	-	-	-	-	-	-	-	106,737	106,737	70,864	4,364	51,895	253,946
Professional services	-	-	-	-	-	-	-	-	-	47,531	84,209	92,176	51,895
Facilities	-	-	-	-	-	-	-	6,584	6,584	7,967	177,101	223,874	98,760
Travel	-	-	-	-	-	-	-	60,092	60,092	46,773	90,583	118,160	283,966
Banking, insurance and fees	-	-	-	-	-	-	-	782	782	27,577	121,633	123,409	118,942
Fundraising costs	-	-	-	-	-	-	-	1,203	1,203	1,776	56,111	83,313	124,612
Depreciation and amortization	-	-	-	-	-	-	-	27,265	27,265	27,202	23,259	110,578	110,578
Other	-	-	-	-	-	-	-	8,320	8,320	8,476	-	-	40,055
Total expenses by function	\$ 1,318,544	\$ 381,235	\$ -	\$ 286,203	\$ 9,980,546	\$ 112,138	\$ 171,520	\$ 2,346,918	\$ 14,597,104	\$ 719,446	\$ 3,131,815	\$ 3,851,261	\$ 18,448,365

  

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	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	442,347	1,276,197	1,718,544	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	-	372,918	372,918	3,042,347
Marketing and promotion	-	-	-	-	-	-	-	372,918	372,918	190,168	114,201	304,369	745,836
Donated professional services	27,825	14,584	-	15,533	-	-	738	-	58,680	34,250	48,464	82,714	363,049
Technology costs	150	-	-	-	-	-	-	149,490	149,640	91,711	33,547	125,258	232,354
Professional services	63,750	-	-	-	-	3,800	25,000	175	92,725	26,424	78,880	105,304	217,983
Facilities	-	-	-	-	-	-	-	81,643	81,643	30,971	66,056	97,027	186,947
Travel	-	-	-	-	-	2,128	-	64,222	66,350	23,988	107,712	131,700	163,377
Banking, insurance and fees	-	-	-	-	-	-	-	3,465	3,465	-	133,534	133,534	135,165
Fundraising costs	-	-	-	-	-	-	-	-	-	26,625	28,055	54,680	110,000
Depreciation and amortization	-	-	-	-	-	-	-	-	-	12,481	15,614	28,095	43,451
Other	-	-	-	-	-	-	-	55,320	55,320	-	-	-	-
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

See notes to financial statements.

**STARLIGHT CHILDREN'S FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Change in net assets	\$ (75,451)	\$ 3,512,727
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	110,578	110,000
Loss on disposal of property and equipment	11,087	-
Amortization of operating lease right-of-use asset	69,859	(42,512)
Realized and unrealized (gains) losses on investments	(47,696)	13,454
Donated inventory	(8,955,421)	(6,840,295)
Changes in operating assets and liabilities:		
Receivables	(863,105)	1,697,669
Inventory	7,926,616	4,847,578
Prepaid expenses and other assets	(12,779)	(73,919)
Accounts payable and accrued liabilities	248,674	(69,481)
Deferred revenue	37,599	(23,600)
Operating lease liability	(56,245)	-
Net cash provided by (used in) operating activities	<u>(1,606,284)</u>	<u>3,131,621</u>
Cash flows from investing activities		
Purchases of property and equipment	(18,333)	(26,748)
Proceeds from sales property and equipment	2,300	-
Purchases of investments	(12,873,260)	(12,755,192)
Proceeds from sales of investments	<u>12,825,000</u>	<u>6,488,567</u>
Net cash used by investing activities	<u>(64,293)</u>	<u>(6,293,373)</u>
Net change in cash and cash equivalents	(1,670,577)	(3,161,752)
Cash and cash equivalents, beginning	<u>3,249,368</u>	<u>6,411,120</u>
<b>Cash and cash equivalents, ending</b>	<b><u>\$ 1,578,791</u></b>	<b><u>\$ 3,249,368</u></b>
<b>Supplemental disclosure of noncash investing and financing activities:</b>		
Right-of-use assets obtained in exchange for new operating lease obligations:	<u>\$ 226,761</u>	<u>\$ 192,432</u>

See notes to financial statements.

**STARLIGHT CHILDREN'S FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2023 AND 2022**

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**NOTE 1 – ORGANIZATION**

Founded in 1982, Starlight Children's Foundation (the "Foundation" or "Starlight") 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 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, which present financial information solely of the Foundation.

**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 that are reported separately.

Net Assets with Donor Restrictions – Donations that are restricted by donors for a specific time period or purpose. When a donor restriction on net assets expires, those 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 that the funds be restricted in perpetuity. Income earned on these assets may or may not be restricted, depending upon the donor-imposed restrictions.

**STARLIGHT CHILDREN'S FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2023 AND 2022**

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**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

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.

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, 2023, as management considers all amounts fully collectible.

*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 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. Prior to January 1, 2023, if wholesale value was not available, the Foundation used 50% of retail value. Effective January 1, 2023, management used 70% of retail value, if wholesale value was not available, in recognition of current wholesale market values reported by the corporate donors. The effect of this change was an increase to the value of 2023 inventory and in-kind donations reported by approximately \$215,000.

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 2023 and 2022 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 various suppliers and other contractors. The estimated fair value of donated legal services was based on the law firm's detail of hours and rates for the legal services provided.

**STARLIGHT CHILDREN'S FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2023 AND 2022**

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**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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. 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.

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.

**STARLIGHT CHILDREN'S FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2023 AND 2022**

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**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Inventory

Inventory is composed of products that will be delivered to hospital partner facilities for the use of hospitalized children. Inventory includes video game 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, books, and other goods/products 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 \$5,330,000 and \$4,246,000 of total inventory as of December 31, 2023 and 2022, respectively. Deposits for the manufacture of Starlight Hospital Gowns, for the production and maintenance of Starlight Nintendo Gaming Stations, and for care packages accounted for approximately \$1,520,000 and \$1,211,000 of total inventory as of December 31, 2023 and 2022, respectively.

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

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, 2023 and 2022.

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.



**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Leases

The Foundation determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and 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 those underlying assets and directs how and for what purpose the assets are 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.

The Foundation recognizes most leases on its statements 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. Leases are classified as either finance leases or operating leases based on certain criteria. Classification of the lease affects the pattern of expense recognition in the statements of activities.

The Foundation made an accounting policy election, available to non-public companies under FASB Accounting Standards Update No. 2023-01, *Leases* (“ASC Topic 842”), not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. 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 ASC 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 received. To determine the present value of lease payments, the Foundation made an accounting policy election available to non-public companies within ASC Topic 842 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 ASC 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, 2023 and 2022, the Foundation had only one real estate lease and no vehicle or equipment leases. 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.

**STARLIGHT CHILDREN'S FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2023 AND 2022**

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**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Recently Adopted Accounting Pronouncement

In June 2016, the FASB issued ASC Topic 326, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments*, which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Foundation that are subject to the guidance in ASC Topic 326 are receivables. The Foundation adopted the standard on January 1, 2023. The impact of the adoption was not considered material to the financial statements and primarily resulted in new disclosures only.

Reclassifications

Certain reclassifications for presentation purposes have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications have no effect on the previously reported net assets or change in net assets.

Subsequent Events

The Foundation has evaluated subsequent events through May 10, 2024, 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>2023</u>	<u>2022</u>
Financial assets		
Cash and cash equivalents	\$ 1,578,791	\$ 3,249,368
Investments	8,437,763	8,265,374
Receivables	<u>960,282</u>	<u>97,177</u>
Total financial assets	10,976,836	11,611,919
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 expenditures for specific programs	<u>(8,992,679)</u>	<u>(8,391,473)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>(\$ 15,843)</u>	<u>\$ 1,220,446</u>

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

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

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 U.S. Treasuries.

**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:

	<u>2023</u>	<u>2022</u>
U.S. Treasury notes and bills (Level 1)	<u>\$ 8,437,763</u>	<u>\$ 8,265,374</u>

The investments in marketable securities are for treasury notes with terms ranging from one month to two years. They 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, goods/products, 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:

	<u>2023</u>	<u>2022</u>
Computers	\$ 54,680	\$ 55,446
Furniture and fixtures	72,723	104,458
Leasehold improvements	-	14,708
Software and website development	<u>416,908</u>	<u>445,120</u>
Total property and equipment	544,311	619,732
Accumulated depreciation and amortization	<u>(402,416)</u>	<u>(372,205)</u>
Total property and equipment, net	<u>\$ 141,895</u>	<u>\$ 247,527</u>

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**NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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

	<u>2023</u>	<u>2022</u>
Accounts payable	\$ 18,558	\$ 39,547
Accrued expenses	498,318	150,342
Accrued personnel expenses	227,667	192,595
Accrued warranty reserve	5,087	122,127
Credit card payables	<u>31,728</u>	<u>28,073</u>
 Total accounts payable and accrued liabilities	 <u>\$ 781,358</u>	 <u>\$ 532,684</u>

Accrued expenses increased due to the timing of hospital gown production.

The warranty reserve related to Starlight Virtual Reality headsets purchased from Lenovo and Starlight Nintendo Gaming Stations purchased from Nintendo of America. The Foundation transitioned away from the Lenovo headsets in early 2023 and relieved the warranty reserve accordingly. 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 and is continuing to hold an appropriate reserve amount based on historical experience.

**NOTE 7 – 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.

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**NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS**

Restricted net assets consisted of the following during the years ended December 31, 2023 and 2022:

	Balance, December 31, 2022	Donations with Donor Restrictions	Released from Restriction	Balance, December 31, 2023
Hospital Wear	\$ 2,680,947	\$ 3,040,000	\$ 1,979,145	\$ 3,741,802
Deliveries (including Care Packages)	3,610,216	407,411	1,527,526	2,490,101
Education	333,170	87,345	87,197	333,318
Gaming (Nintendo Switch)	1,643,491	1,692,656	973,611	2,362,536
Virtual Reality	46,548	50,000	71,547	25,001
Other	<u>77,101</u>	<u>400,000</u>	<u>437,180</u>	<u>39,921</u>
Total	<u>\$ 8,391,473</u>	<u>\$ 5,677,412</u>	<u>\$ 5,076,206</u>	<u>\$ 8,992,679</u>

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

**NOTE 9 – IN-KIND DONATIONS**

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

	<u>2023</u>	<u>2022</u>
Donated goods	\$ 8,954,413	\$ 6,840,294
Donated professional services	<u>255,834</u>	<u>363,049</u>
Total	<u>\$ 9,210,247</u>	<u>\$ 7,203,343</u>

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**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 \$68,000 and \$61,000 in matching contributions for the years ended December 31, 2023 and 2022, respectively.

**NOTE 11 – OPERATING LEASES**

The Foundation leased a facility in Culver City, California, under a lease agreement, which expired in February 2023. The Foundation relocated to a new Culver City facility and entered into a five-year lease agreement, effective March 1, 2023, with an option to renew for another five years.

Operating lease costs are recognized on a straight-line basis over the lease term and were approximately \$78,000 and \$177,000 for the years ended December 31, 2023 and 2022, respectively. The reduction in lease costs resulted from moving to a smaller office space as Starlight transitioned to a largely remote work environment.

Future undiscounted cash flows for each of the next five years and a reconciliation to the operating lease liabilities recognized on the statement of financial position are as follows as of December 31, 2023:

	2024	\$	52,900
	2025		54,800
	2026		56,600
	2027		58,700
	2028		<u>9,800</u>
Total lease payments			232,800
Less imputed interest			<u>(19,564)</u>
Total present value of lease liabilities		\$	<u>213,236</u>
Weighted-average remaining lease term years for operating leases			3.92
Weighted-average discount rate for operating leases			4.27%
<i>(Discount rate = U.S. Treasury securities for a 5-year maturity at March 1, 2023, i.e. lease date)</i>			

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**NOTE 12 – CONCENTRATIONS AND RISKS**

Two donors accounted for approximately 46% and 63% of the Foundation's total donation revenue for the years ended December 31, 2023 and 2022, respectively.

Deposits of up to \$250,000 at FDIC-insured institutions are covered by FDIC insurance. 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**

During 2023 and 2022, lawyers with a law firm that contributed in-kind legal services of approximately \$256,000 and \$363,000 to the Foundation during the years ended December 31, 2023 and 2022, respectively, held a seat on the Foundation's Board of Directors. 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, 2023 and 2022 are \$100,000 and \$247,500, respectively, in sales to Starlight Children's Foundation Canada.