

**CONSOLIDATED ANNUAL AUDIT
April 1, 2008 to March 31, 2009 (FY2009)**

FREQUENTLY ASKED QUESTIONS

Why is the financial data on the annual audit so much higher than on the tax return for the same period? The annual audit includes the consolidated financial information for Starlight Headquarters (HQ) along with all of the U.S. Chapters, as per accounting guidelines. Since HQ and each of the U.S. Chapters are separate corporations, each entity is required to file a separate tax return showing only its own financial activities for the fiscal year.

How is Starlight's rating determined on Charity Navigator? Charity Navigator uses just the tax return for HQ in order to determine the organization's rating. Some of the other Starlight Chapters are rated separately on Charity Navigator using their own respective tax returns.

What were the expense ratios on the audit for the last two fiscal years? The expense ratios for the last two fiscal years were as follows:

Category	FY2009	FY2008
Program Expenses	78%	79%
Fundraising Expenses	15%	15%
Management & General Expenses	7%	6%

Why did Total Revenue decrease by \$7.7M between FY2009 and the prior year, FY2008? There are some revenue categories that vary significantly from one year to the next.

The most volatile revenue line-item for the organization is in-kind donations. This is because many of the gifts are only received one time, based on the inventories and/or time available from corporate sponsors and partners. Starlight works very hard to secure new in-kind donations each year in order to mitigate costs and to subsidize its program activities. In FY2009, Starlight received \$3.1M less in donated goods, services, and use of facilities than in the prior year.

The majority of the \$3.4M change in Contributions between FY2009 and FY2008 was from a one-time \$1.5M donation and a \$1.3M bequest valuation increase for the New York Chapter. The balance of the difference was from one-time corporate promotions/sponsorships that occurred in FY2008 and were not repeated in FY2009.

Another revenue category that experiences some fluctuation is the timing of Fun Center placements for International Affiliates. In FY2009, Starlight received \$690K less in Fun Center orders from Affiliates than in the prior year because of large orders made in FY2008.

The rest of the difference in revenue between FY2009 and FY2008 was the \$540k change in investment values due to the downturn in the economy.

Why was there a loss of \$5.1M in FY2009? There are several factors that caused the loss in FY2009, referred to as a “decrease in net assets.”

The most significant factor contributing to the decrease is the spending of program-restricted funds received in prior periods. As per accounting requirements, Starlight booked certain program-restricted funds in prior fiscal years and did not spend the money until FY2009. Since the revenue is recognized in one year and the expense occurs in another, it creates a decrease or “loss.” The impact of this decrease in FY2009 was \$2.67M.

At the end of FY2008, Starlight held an inventory of donated program goods on its books. As this inventory is distributed to program recipients, the expense is incurred on the financial statements. In FY2009, the organization recognized \$1.57M in expenses for in-kind goods that were received in prior years but were used for programs in FY2009.

The balance of the decrease in net assets was the \$220K investment loss and the \$620k unrestricted loss that Starlight incurred based on the challenging economic climate. The organization made targeted expense cuts wherever possible in order to reduce the loss for FY2009, while still maintaining its program services.

Why did Receivables decrease by \$1.8M between FY2008 and FY2009? The most significant activity that impacted this change was the partial payment of \$2.15M against a \$2.8M bequest from the New York Chapter. In addition, Receivables from International Affiliates decreased by \$340K because of a one-time \$100K grant and the timing of program inventory purchases from the Canada Affiliates. These payments are offset by \$700K in new receivables booked in FY2009.

Why did Inventory decrease by \$1.4M in FY2009 as compared to FY2008? Inventory decreased because of the \$1.57M in in-kind goods that were received in FY2008 and distributed for program purposes in FY2009. This amount is offset somewhat by new inventory acquisitions in FY2009.

Why did Accounts Payable and Accrued Liabilities increase by \$1.5M in FY2009 as compared to FY2008? \$700K of this increase is tied directly to the liability associated with the purchase and manufacturing of nearly 800 Fun Center units at the end of FY2009 as compared to 450 at the end of FY2008. The balance is related to the timing of new hospital grants from the New York Chapter that were accrued at 3/31/09.

Why did Net Assets decrease by \$5.1M between FY2009 and FY2008? Net Assets decreased largely because of the spending of prior year program-restricted funds, the depletion of in-kind program inventory, the investment loss, and the net unrestricted loss experienced in FY2009, as detailed above.

Why did the Unrestricted Board Designated Net Assets decrease by \$270K between FY2009 and FY2008? The Board of Directors voted to use a portion of the Board-Designated Reserve to temporarily cover HQ’s unrestricted loss until funds can be restored to the reserve.