Financial Statements of

STARLIGHT CHILDREN'S FOUNDATION CANADA

FONDATION POUR L'ENFANCE STARLIGHT CANADA

Year ended December 31, 2022

STARLIGHT CHILDREN’S FOUNDATION CANADA FONDATION POUR L’ENFANCE STARLIGHT CANADA

Table of Contents

	Page
Independent Auditor’s Report	
Financial Statements of Starlight Children’s Foundation Canada	
Balance Sheet	1
Statement of Changes in Net Assets	2
Statement of Operations	3
Statement of Cash Flows	4
Notes to Financial Statements	5 - 14

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INDEPENDENT AUDITOR'S REPORT

To the Directors of Starlight Children's Foundation Canada / Fondation pour l'enfance Starlight Canada

Qualified Opinion

We have audited the financial statements of Starlight Children Foundation Canada / Foundation pour l'enfance Starlight (the "Foundation"), which comprise:

- the statement of financial position as at December 31, 2022
- the statement of changes in net assets for the year then ended
- the statement of operations for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, except for the effects of the matter described in the "Basis or Qualified Opinion" section of our auditor's report, the accompanying financial statements, present fairly, in all material respects, the financial position of the Foundation as at December 31, 2022, and its results of operations and its cash flows for the year then ended in accordance with Canadian Accounting standards for not-for-profit organizations.

Basis for Qualified Opinion

In common with many non-for-profit organizations, the Foundation derives revenues from donations, the completeness of which is not susceptible to satisfactory of audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Foundation and we were not able to determine whether adjustments might be necessary to donations and fundraising events revenues, excess of revenues over expenses, cash flows from operations for the year ended December 31, 2022, current assets and net assets as at December 31, 2022. The audit opinion from the predecessor auditor on the financial statements for the year ended December 31, 2021 was modified similarly because of the effects of this limitation in scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our auditor's report.

We are independent of the Foundation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.

Other Matter - Comparative Information

The financial statements for the year ended December 31, 2021 were audited by another auditor who expressed a qualified opinion on those financial statements on July 26, 2022.

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 a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  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.

- 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP*

Montréal, Canada

May 23, 2023

*CPA auditor, public accountancy permit No. A109021

STARLIGHT CHILDREN'S FOUNDATION CANADA
FONDATION POUR L'ENFANCE STARLIGHT CANADA

Balance Sheet

December 31, 2022, with comparative information for 2021

	2022	2021
Assets		
Current assets:		
Cash	$ 1,310,228	$ 2,057,947
Short-term investments (note 2)	437,456	137,943
Pledges and sundry receivables (note 3)	469,180	406,963
Materials to be distributed	208,513	264,815
Prepaid expenses	149,762	169,035
	2,575,139	3,036,703
Property and equipment (note 4)	3,421,226	3,097,172
	$ 5,996,365	$ 6,133,875
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 394,417	$ 490,730
Deferred revenue and contributions (note 5)	144,869	392,435
Current portion of long-term debt (note 6)	195,772	134,500
	735,058	1,017,665
Long-term debt (note 6)	2,233,173	2,148,645
Deferred contributions (note 7)	26,880	33,600
	2,995,111	3,199,910
Net assets:		
Unrestricted	3,001,254	2,933,965
Commitments (note 8)		
	$ 5,996,365	$ 6,133,875

See accompanying notes to financial statements.

On behalf of the Board:

_______________________ Director

_______________________ Director

STARLIGHT CHILDREN'S FOUNDATION CANADA FONDATION POUR L'ENFANCE STARLIGHT CANADA

Statement of Changes in Net Assets

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Balance, beginning of year	$ 2,933,965	$ 2,672,449
Excess of revenues over expenses	67,289	261,516
Balance, end of year	$ 3,001,254	$ 2,933,965

See accompanying notes to financial statements.

STARLIGHT CHILDREN'S FOUNDATION CANADA FONDATION POUR L'ENFANCE STARLIGHT CANADA

Statement of Operations

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Revenues:		
Fundraising events	$ 2,070,671	$ 1,458,539
Donations	6,072,289	4,398,463
In-kind donations (including amortization of deferred contributions of approximately $6,720 (2021 - $8,000))	1,829,008	1,692,724
Interest	27,893	8,543
	9,999,861	7,558,269
Expenses (note 9):		
Program (including amortization of property and equipment of approximately $157,000 (2021 - $118,000) and loss on disposal of property and equipment of approximately $3,000 (2021 - $22,000))	8,655,669	6,537,433
Fundraising	962,272	548,659
General and administrative (including amortization of property and equipment of approximately $18,000 (2021 - $12,000))	314,631	210,661
	9,932,572	7,296,753
Excess of revenues over expenses	$ 67,289	$ 261,516

See accompanying notes to financial statements.

STARLIGHT CHILDREN'S FOUNDATION CANADA FONDATION POUR L'ENFANCE STARLIGHT CANADA

Statement of Cash Flows

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Cash provided by (used in):		
Operating:		
Excess of revenues over expenses	$ 67,289	$ 261,516
Amortization of property and equipment	174,348	130,131
Amortization of deferred contributions	(6,720)	(8,400)
Loss on disposal of property and equipment	2,688	21,576
Unrealized loss on investment	(6,503)	–
	231,102	404,823
Net change in non-cash operating working capital items (note 11)	(330,521)	(111,941)
	(99,419)	292,882
Financing:		
Repayment of long-term debt	(234,201)	(134,500)
Investing:		
Acquisition of property and equipment	(241,050)	(252,593)
Proceeds from disposal of property and equipment	119,961	78,500
(Increase) decrease in short-term investments, net	(293,010)	56,601
	(414,099)	(117,492)
Net (decrease) increase in cash	(747,719)	40,890
Cash, beginning of year	2,057,947	2,017,057
Cash, end of year	$ 1,310,228	$ 2,057,947

	2022	2021
Supplemental information related to cash flows:		
Acquisition of property and equipment through long term debt financing	$ 380,001	$ –
Donations in kind included in materials to be distributed	88,457	264,815

See accompanying notes to financial statements.

The Foundation is incorporated under the *Canada Not-for-profit Corporations Act* and is a registered charity under the *Income Tax Act*. The Foundation enhances the lives of critically, chronically and seriously ill children and their families through wish granting and other entertainment-related activities.

1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

The Foundation also applies the Canadian standards for private enterprises to the extent that these standards address topics not addressed in Canadian accounting standards for not-for-profit organizations.

These financial statements include:

(a) Use of estimates:

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(b) Cash and cash equivalents:

Cash and cash equivalents include cash on hand, bank balances less outstanding cheques and investments with a maturity period of three months or less when purchased.

(c) Revenue recognition:

The Foundation follows the deferral method of accounting for contributions.

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Revenues from events are recognized in the period when the event occurred.

Donations mostly originate from individuals and corporations.

1. Significant accounting policies (continued):

(d) Pledges receivable:

Because of the uncertainty surrounding the collectability of pledges, the Foundation recognizes only those pledges for which amounts have been received at the date of completion of the financial statements.

(e) Contributed materials:

The Foundation obtains equipment, airline tickets, donated toys and other gifts free of charge from various contributors. These materials would normally have to be purchased from regular suppliers. They are recorded at the estimated fair value at the time of the donation.

The fair value of these materials for the period is estimated at $1,917,000 (2021 - $1,958,000). They have been recorded as follows:

- $88,000 (2021 - $265,000) have been recorded both as contributed materials to be distributed and deferred contributions in the statement of financial position. They will be recorded both as revenue and expenses in the statement of revenues and expenses when the Foundation distributes the related assets; and
- $1,829,000 (2021 - $1,693,000) have been recorded both as revenues and expenses in the statement of revenues and expenses.

Contributed materials to be distributed at year-end include donated toys and games collected for distribution through the Foundation's programs. The Foundation reviews the carrying value of its contributed materials to be distributed for possible impairment whenever events or circumstances indicate that the fair value may have declined since it was originally acquired. An impairment loss is recognized when the fair value (current replacement cost) is lower than the carrying amount, in which case a write-down is recorded to reduce the related asset to its estimated current replacement cost. No impairment losses were recognized during the period ended December 31, 2022. Contributed materials in property and equipment are amortized on the same basis as useful life of capital assets.

1. Significant accounting policies (continued):

(f) Allocation of expenses:

Certain general operating expenses of the Foundation are allocated between three functions: program, fundraising and administration. The allocation is considered appropriate to each type of expense and is used consistently from year to year. These general operating expenses are allocated on the following basis:

(i) Wages and benefits are allocated based on the percentage of time that each employee is directly involved in a function; and

(ii) Occupancy costs, insurance and office expenses are allocated based on the proportion of square footage.

(g) Property and equipment:

Property and equipment are accounted for at cost. Amortization is calculated using the following methods, rates and period:

Asset	Method	Rate and period
Building	Declining balance method	5%
Furniture and equipment	Declining balance method	30%
Computer	Declining balance method	30%
Vehicles	Declining balance method	20%
Boats	Straight-line method	9 years

(h) Short-term investments:

Short-term investments include investments with an initial maturity date of less than 12 months and portfolio investments in public company shares to be held on a short-term basis.

(i) Long-lived assets:

When the long-lived assets, which comprise property and equipment, no longer have any long-term service potential to the Foundation, the excess of their net carrying amount over any residual value is recognized as an expense in the statement of revenues and expenses. A write-down should not be subsequently reversed.

1. Significant accounting policies (continued):

(j) Government assistance:

Government assistance related to current expenses, in particular those related to salaries and rent, are accounted for using the cost reduction approach whereby the subsidies are credited to the related expenses when the related expenditures are incurred, provided there is reasonable assurance that the Company has complied and will continue to comply with all the conditions.

In fiscal year 2021, subsidies received from the Government of Canada under the Canada Emergency Wage Subsidy for Employers ("CEWS"), amounting to approximately $360,000, have been applied as follows: $263,000 reduction of program salaries, $65,000 reduction to fundraising expenses and $32,000 reduction of general and administrative salaries. In addition, subsidies received from the Government of Canada under the Canada Emergency Rent Subsidy ("CERS") amounted to approximately $57,000 and have been applied as a reduction of general and administrative expenses.

(k) Financial instruments:

The Foundation initially measures its financial assets and liabilities originated or exchanged in arm's-length transactions at fair value. Financial assets and liabilities originated or exchanged in related party transactions, except for those that involve parties whose sole relationship with the Foundation is in the capacity of management, are initially measured at cost.

The cost of a financial instrument in a related party transaction depends on whether the instrument has repayment terms. If it does, the cost is determined using its undiscounted cash flows, excluding interest and dividend payments, less any impairment losses previously recognized by the transferor. Otherwise, the cost is determined using the consideration transferred or received by the Foundation in the transaction.

The Foundation subsequently measures all its financial assets and liabilities at amortized cost, except for short-term investments which are measured at fair value, which is based on year-end quoted market prices. The unrealized gain or loss on short-term investments, being the difference between book value and fair value are included in excess (deficiency) of revenues over expenses in the statement of operations.

1. Significant accounting policies (continued):

(k) Financial instruments (continued):

Transaction costs related to financial instruments subsequently measured at fair value or to those originated or exchanged in a related party transaction are recognized in income in the period incurred. Transaction costs related to financial instruments originated or exchanged in an arm's-length transaction that are subsequently measured at amortized cost are recognized in the original cost of the instrument. When the instrument is measured at amortized cost, the transaction costs are then recognized in income over the life of the instrument using the straight-line method.

Financial assets subsequently measured at amortized cost are tested for impairment when there are indicators of possible impairment. Any impairment loss is recognized in net earnings. The previously recognized impairment loss may subsequently be reversed to a maximum of the cost or amortized cost that would have been reported at the date of the reversal had the impairment not been recognized previously.

2. Short-term investments:

The investments consist of guaranteed investment certificates of approximately $370,000 (2021 - $133,000), that bear interest ranging from 0.25% to 2% (2021 - 0.60%) per annum and mature at dates ranging from January 26, 2023 to April 14, 2023 (2021 - January 21, 2022 to April 14, 2022) and portfolio investments of $68,000 (2021 - $5,000).

3. Pledges and sundry receivables:

	2022	2021
Pledges receivable	$ 178,112	$ 175,965
Government remittances receivable	272,862	179,424
Sundry receivables	18,206	51,574
	$ 469,180	$ 406,963

In 2021, included in sundry receivables is an advance receivable from an employee of approximately $38,000, bearing interest at 1%. The advance was repaid in 2022.

4. Property and equipment:

			2022	2021
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 1,853,398	$ –	$ 1,853,398	$ 1,853,398
Building	815,546	126,715	688,831	725,085
Furniture and equipment	19,187	6,830	12,357	3,581
Computer	114,202	85,328	28,874	27,763
Vehicles:				
Automobiles	204,949	65,147	139,802	72,665
UTVs	152,242	35,838	116,404	145,505
Boats:				
Pontoons	581,552	104,992	476,560	149,175
Hovercrafts	135,000	30,000	105,000	120,000
	$ 3,876,076	$ 454,850	$ 3,421,226	$ 3,097,172

As part of its programs, the Foundation offers adapted Utility Terrain Vehicles (UTVs), pontoons and hovercraft rides.

5. Deferred revenue and contributions:

Deferred revenue represents amounts received that relate to fundraising activities that will occur in the following year, and deferred contributions relate to contributed materials and funded projects which will be distributed in the subsequent periods. Changes in deferred revenue and contributions are approximately as follows:

	2022	2021
Balance, beginning of year	$ 392,435	$ 340,213
Recognized as revenue during the year	(188,705)	(327,505)
Received in the year, relating to subsequent years	45,386	171,835
Contributed materials to be distributed	71,000	207,892
Written off during the year	(175,247)	–
Balance, beginning of year	$ 144,869	$ 392,435

6. Long-term debt:

	2022	2021
Mortgage payable bearing interest at 3.99% per annum, repayable in monthly capital instalments of $10,229 plus interest, amortized over 20 years, matures on September 26, 2024, secured by an immovable hypothec on the land and the building in the amount of $2,455,000. During the year, interest on the long-term debt amounted to approximately $84,000 (2021 - $89,000).[ii]	$ 2,045,833	$ 2,168,583
Term loan bearing interest at 3.74%, repayable in monthly capital instalments of $979 plus interest with a final payment of $71,500 due on September 26, 2025, secured by a movable hypothec on all property in the amount of $200,000. During the year, interest on the long-term debt amounted to approximately $4,100 (2021 - $4,500). [i][ii]	102,812	114,562
Financing loan bearing interest at 4.39%, repayable in monthly capital and interest instalments of $6,029, which matures on April 28, 2027, secured by a pontoon with a net book value of $348,334 as at December 31, 2022. During the year, interest on the long-term debt amounted to approximately $10,000 (2021 - nil). [i]	280,300	–
	2,428,945	2,283,145
Current portion of long-term debt	(195,772)	(134,500)
	$ 2,233,173	$ 2,148,645

(i) As part of one of its programs, the Foundation offers adapted boating to its families. The term loan is used to finance the boat that the Foundation uses to carry out this activity.

(ii) Under the terms of both loans, the Foundation is required to comply with certain financial covenants. As at December 31, 2022, the Foundation was in compliance with the financial covenants.

The Foundation's banking facility makes available business credit cards for an aggregate available credit in the amount of $200,000 (2021 - $200,000), repayable on demand and bearing interest at 19.15% per annum. The Foundation signed a movable hypothec on its investments as security for the facility.

6. Long-term debt (continued):

Principal payments due in each of the next five years are as follows:

2023	$ 195,772
2024	1,998,849
2025	146,218
2026	69,880
2027	18,226

7. Deferred contributions:

Deferred contributions relate to capital contributions for property and equipment of the same amount. Changes in deferred contributions are approximately as follows:

	2022	2021
Balance, beginning of year	$ 33,600	$ 42,000
Recognized as revenue in the year	(6,720)	(8,400)
Balance, end of year	$ 26,880	$ 33,600

8. Commitments:

The commitment of the Foundation for the premise agreement (exclusive of other occupancy charges) and other contractual program obligations will aggregate approximately $276,000:

2023	$ 58,000
2024	60,000
2025	62,000
2026	64,000
2027	32,000

9. Allocation of expenses:

The general operating expenses are allocated approximately as follows:

	Wages and benefits		Insurance		Occupancy and office	
	2022	2021	2022	2021	2022	2021
Program	$ 1,290,000	$ 951,000	$ 54,000	$ 34,000	$ 445,000	$ 306,000
Fundraising	292,000	188,000	6,000	6,000	55,000	47,000
General and administrative	200,000	124,000	3,000	3,000	31,000	30,000

10. Financial instruments:

The significant risks arising from financial instruments to which the Foundation is exposed as at December 31, 2022 are detailed below.

(a) Interest rate risk:

The Foundation is exposed to interest rate risk on its fixed interest and variable-interest financial instruments. Fixed-interest instruments subject the Foundation to a fair value risk while the variable-interest instruments subject it to a cash flow risk.

(b) Credit risk:

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Foundation is exposed to credit risk with regard to uncertainty as to timing and collectability of pledges and sundry receivables. The uncertainty associated with pledges due more than a year from the year-end date precludes their recognition until collection. Historically, the Foundation collects virtually all of its pledges receivable.

(c) Liquidity risk:

Liquidity risk is the risk the Foundation will have difficulty to raise the funds required to have sufficient liquid financial resources to fulfill its mission, to meet its obligations associated with financial liabilities and continue operating despite adverse events with financial consequences. This need for sufficient liquidity is considered in the preparation of the annual budget, in the monitoring of cash flows and in the comparison of actual operating results with budget. As at December 31, 2022, the Foundation has met its objective of having significant liquidity to meet its current obligations.

11. Supplemental cash flow information:

	2022	2021
Net change in non-cash operating working capital items:		
Pledges and sundry receivables	$ (62,217)	$ (77,125)
Materials to be distributed	(32,155)	(514,897)
Prepaid expenses	19,273	31,518
Accounts payable and accrued liabilities	(96,313)	131,526
Deferred revenue and contributions	(159,109)	317,037
	$ (330,521)	$ (111,941)

12. Comparative information:

Certain comparative information for 2021 has been reclassified to conform with the financial statement presentation adopted for the current year.