

TAX RETURN – FORM 990
April 1, 2008 to March 31, 2009 (FY2009)

FREQUENTLY ASKED QUESTIONS

Why is the financial data on the Form 990 so much lower than on the annual audit 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 tax return for the last two fiscal years? The expense ratios for the last two fiscal years were as follows:

Category	FY2009	FY2008
Program Expenses	80%	82%
Fundraising Expenses	14%	13%
Management & General Expenses	6%	5%

Why did Total Revenue decrease by \$4.8M for HQ between FY2009 and the prior year, FY2008 (see 990, Line 12)? 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 available from corporate sponsors. HQ works very hard to secure new in-kind donations each year in order to mitigate costs and to subsidize its program activities. In FY2009, HQ received \$2.2M less in donated goods than in the prior year.

Another revenue category that experiences some fluctuation is the timing of Fun Center placements for U.S. Chapters. In FY2009, HQ received \$1.5M less in Fun Center orders from U.S. Chapters than in the prior year because of large orders made in FY2008.

The rest of the difference in revenue between FY2009 and FY2008 was \$1.1M raised between two one-time corporate promotions/sponsorships.

Why did Total Expenses decrease by \$2.1M between FY2009 and FY2008 (see 990, Line 18)? The majority of this change has to do with the \$2.2M

decrease in donated goods received in FY2009 as compared to FY2008, as noted above.

Why was there a loss of \$2.3M in FY2009 (see 990, Line 19)? 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, HQ 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 \$1.25M.

At the end of FY2008, HQ 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 \$325K in expenses for in-kind goods that were received in prior years but were used for programs in FY2009.

As per IRS regulations, there are certain activities that appear on the annual audit but are not included in the revenue and expenses of the tax return. In FY2009, there were several such activities, including the merger of two U.S. Chapters into HQ and the unrealized loss on investments. The net impact of these activities in FY2009 was \$266K.

The balance of the decrease in net assets was the \$440k loss that HQ 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. The Board of Directors voted to use a portion of the Board-Designated Reserve to temporarily cover the shortfall until funds can be restored to the reserve.

Why did Total Liabilities increase by \$700K in FY2009 as compared to FY2008 (see 990, Line 21)? 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.

Why did Net Assets decrease by \$2M between FY2009 and FY2008 (see 990, Line 22)? Net Assets decreased largely because of the spending of prior year program-restricted funds, the depletion of in-kind program inventory, and the net loss experienced in FY2009, as detailed above.