

**First Star, Inc.**  
**Financial Statements and  
Independent Auditor's Report**  
**December 31, 2022 and 2021**

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**First Star, Inc.**

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## Independent Auditor's Report

To the Board of Directors  
First Star, Inc.

### *Opinion*

We have audited the accompanying financial statements of First Star, Inc., which comprise the statements of financial position as of December 31, 2022 and 2021, 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 accompanying financial statements present fairly, in all material respects, the financial position of First Star, Inc. as of December 31, 2022 and 2021, 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 audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). 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 First Star, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 First Star, Inc.'s ability to continue as a going concern for 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 GAAS 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 GAAS, 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 First Star, Inc.'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 First Star, Inc.'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 audits.



Los Angeles, California  
July 10, 2023

**First Star, Inc.**

**Statements of Financial Position  
December 31, 2022 and 2021**

Assets

	<u>2022</u>	<u>2021</u>
Current assets		
Cash	\$ 1,432,424	\$ 1,400,584
Pledges receivable, net	125,364	486,099
Prepaid expenses and other assets	<u>8,481</u>	<u>9,967</u>
Total current assets	<u>1,566,269</u>	<u>1,896,650</u>
Total assets	<u><u>\$ 1,566,269</u></u>	<u><u>\$ 1,896,650</u></u>

Liabilities and Net Assets

Current liabilities		
Accounts payable and accrued expenses	<u>\$ 767</u>	<u>\$ 1,716</u>
Total current liabilities	<u>767</u>	<u>1,716</u>
Contingencies	-	-
Net assets		
Without donor restrictions	897,799	875,279
With donor restrictions	<u>667,703</u>	<u>1,019,655</u>
Total net assets	<u>1,565,502</u>	<u>1,894,934</u>
Total liabilities and net assets	<u><u>\$ 1,566,269</u></u>	<u><u>\$ 1,896,650</u></u>

See Notes to Financial Statements.

**First Star, Inc.**

**Statement of Activities  
Year Ended December 31, 2022**

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Support and revenues			
Contributions	\$ 233,380	\$ 966,147	\$ 1,199,527
Contributed assets, facilities and services	180,589	264,081	444,670
Other income	31,018	-	31,018
Net assets released from restrictions	<u>1,582,180</u>	<u>(1,582,180)</u>	<u>-</u>
Total support and revenues	<u>2,027,167</u>	<u>(351,952)</u>	<u>1,675,215</u>
Expenses			
Programs services	1,672,353	-	1,672,353
Management and general	215,253	-	215,253
Fundraising	<u>117,041</u>	<u>-</u>	<u>117,041</u>
Total expenses	<u>2,004,647</u>	<u>-</u>	<u>2,004,647</u>
Change in net assets	22,520	(351,952)	(329,432)
Net assets, beginning	<u>875,279</u>	<u>1,019,655</u>	<u>1,894,934</u>
Net assets, end	<u>\$ 897,799</u>	<u>\$ 667,703</u>	<u>\$ 1,565,502</u>

See Notes to Financial Statements.

**First Star, Inc.**

**Statement of Activities  
Year Ended December 31, 2021**

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Support and revenues			
Contributions	\$ 448,174	\$ 1,330,504	\$ 1,778,678
Contributed assets, facilities and services	297,277	174,766	472,043
PPP loan forgiveness	92,400	-	92,400
Other income (loss)	5	-	5
Net assets released from restrictions	<u>1,735,132</u>	<u>(1,735,132)</u>	<u>-</u>
Total support and revenues	<u>2,572,988</u>	<u>(229,862)</u>	<u>2,343,126</u>
Expenses			
Programs services	1,931,814	-	1,931,814
Management and general	162,731	-	162,731
Fundraising	<u>96,922</u>	<u>-</u>	<u>96,922</u>
Total expenses	<u>2,191,467</u>	<u>-</u>	<u>2,191,467</u>
Change in net assets	381,521	(229,862)	151,659
Net assets, beginning	<u>493,758</u>	<u>1,249,517</u>	<u>1,743,275</u>
Net assets, end	<u>\$ 875,279</u>	<u>\$ 1,019,655</u>	<u>\$ 1,894,934</u>

See Notes to Financial Statements.

**First Star, Inc.**

**Statement of Functional Expenses  
Year Ended December 31, 2022**

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Bank charges	\$ 150	\$ 2,413	\$ -	\$ 2,563
Employee compensation - non-academy	52,207	96,688	80,157	229,052
Foster academy program - compensation	454,057	-	-	454,057
Foster academy program - including: supplies, incentives, and other	755,078	-	-	755,078
In-kind occupancy	71,380	12,620	-	84,000
In-kind volunteer goods and services	307,597	16,189	36,884	360,670
Insurance	-	17,092	-	17,092
Office supplies	771	13,953	-	14,724
Marketing	537	-	-	537
Printing and postage	292	1,552	-	1,844
Professional fees	27,500	46,167	-	73,667
Telephone	363	903	-	1,266
Technical support	507	3,909	-	4,416
Travel and meetings	1,914	3,767	-	5,681
	<u>1,672,353</u>	<u>215,253</u>	<u>117,041</u>	<u>2,004,647</u>
Total expenses	<u>\$ 1,672,353</u>	<u>\$ 215,253</u>	<u>\$ 117,041</u>	<u>\$ 2,004,647</u>

See Notes to Financial Statements.



**First Star, Inc.**

**Statement of Functional Expenses  
Year Ended December 31, 2021**

	Program services	Management and general	Fundraising	Total
Bank charges	\$ 27	\$ 2,530	\$ 19	\$ 2,576
Employee compensation - non-academy	7,160	53,125	55,019	115,304
Foster academy program - compensation	566,009	10	-	566,019
Foster academy program - including: supplies, incentives, and other	945,533	-	-	945,533
In-kind occupancy	71,400	12,600	-	84,000
In-kind volunteer goods and services	333,601	17,558	36,884	388,043
Insurance	-	15,667	-	15,667
Office supplies	1,809	12,400	-	14,209
Printing and postage	713	947	-	1,660
Professional fees	4,563	41,843	5,000	51,406
Telephone	242	992	-	1,234
Technical support	357	4,012	-	4,369
Travel and meetings	400	1,047	-	1,447
Total expenses	<u>\$ 1,931,814</u>	<u>\$ 162,731</u>	<u>\$ 96,922</u>	<u>\$ 2,191,467</u>

See Notes to Financial Statements.

**First Star, Inc.**

**Statements of Cash Flows**  
**Years Ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ (329,432)	\$ 151,659
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Gain on PPP loan forgiveness	-	(92,400)
Changes in operating assets and liabilities		
Pledges receivable	360,735	272,451
Prepaid expenses and other assets	1,486	(2,222)
Accounts payable and accrued expenses	<u>(949)</u>	<u>1,716</u>
Net cash provided by operating activities	<u>31,840</u>	<u>331,204</u>
Cash flows from financing activities		
Proceeds from PPP loan	<u>-</u>	<u>92,400</u>
Net cash provided by financing activities	<u>-</u>	<u>92,400</u>
Net increase in cash	31,840	423,604
Cash, beginning	<u>1,400,584</u>	<u>976,980</u>
Cash, end	<u><u>\$ 1,432,424</u></u>	<u><u>\$ 1,400,584</u></u>

See Notes to Financial Statements.

## **First Star, Inc.**

### **Notes to Financial Statements December 31, 2022 and 2021**

#### **Note 1 - Organization and nature of activities**

##### **Business activity**

First Star, Inc. (the "Organization"), a not-for-profit organization, was organized under the laws of the District of Columbia on February 14, 2000. The Organization, which is also known as First Star Academies, improves the lives of foster youth by partnering with child welfare agencies, universities, and school districts to ensure foster youth have the academic, life skills, and adult support needed to successfully transition to higher education and adulthood. The Organization pursues its mission through innovative college-preparatory programs, providing technical assistance to stakeholders, and advocating for policy change. Primary funding for the Organization is provided by donations and grants from corporations, foundations and individuals.

##### **Leveraged funding for First Star Academy programs**

In addition to the support directly received by the Organization, the Organization's university partners have received approximately \$5,000,000 in funding to support First Star Programs. These funds were received directly by the university partners in 2021 and 2022 and have not passed through the Organization. The funds were received from both public and private sources and are to be used to support the university partners' First Star Programs. The funds include the following sources: \$1.4 million in ESSER funds to the First Star Arizona State University Academy; \$1.5 million in the 22-23 California State budget to support First Star Academies within the California State University System; \$1.0 million in 2022 from the Utah Department of Education to support the First Star University of Utah Academy and the Impact scholars program; and \$1.1 million in the 21-23 New Jersey State budgets to support First Star Academies at Rowan University.

##### **Basis of accounting**

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP")

##### **Financial statement presentation**

The Organization reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. They are described as follows:

*Net Assets Without Donor Restrictions* - Net assets for use in general operations and not subject to donor (or certain grantor) restrictions. Net assets may be designated for specific purposes by action of the Board.

*Net Assets With Donor Restrictions* - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time, purpose, or other events specified by the donor. Other donor-imposed restrictions are 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.

##### **Contributions**

Contributions received are recorded as support with donor restrictions or support without donor restrictions depending on the existence or nature of any donor restrictions. Contributions for which donors have imposed restrictions, which limit the use of the donated assets, are reported as restricted support if the restrictions are not met in the same reporting period. When such donor-imposed restrictions are met in subsequent reporting periods, net assets with donor restrictions are reclassified

## **First Star, Inc.**

### **Notes to Financial Statements December 31, 2022 and 2021**

to net assets without donor restrictions and reported as net assets released from restrictions. Contributions of assets which donors have stipulated must be maintained in perpetuity, with only the income earned thereon available for current use, are classified as net assets with donor restrictions. Contributions for which donors have not stipulated restrictions, as well as contributions for which donors have stipulated restrictions that are met within the same reporting period, are reported as support without donor restrictions.

Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return to the donor, are not recognized until the conditions on which they depend have been substantially met. The Organization did not have any conditional promises to give at December 31, 2022 and 2021.

The Organization reports gifts of goods and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

#### **Contributed assets, facilities and services**

Contributions of donated services that enhance a non-financial asset and contributed services that are considered specialized and can be estimated, and would have been purchased if not donated, are reflected in the accompanying financial statements. Contributed services are recorded as contributions at their estimated fair market value as of the date of the donation and include professional and intern volunteers providing executive, management, legal, consulting and fundraising services in the ordinary course of business for the Organization and office space used in Los Angeles.

#### **Pledges receivable**

Pledges receivable are stated at unpaid balances, less an allowance for doubtful accounts and a discount on those pledges receivable due in greater than one year. The Organization provides for losses on receivables using the allowance method. The allowance is based on experience and other circumstances. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible receivables when management determines the receivable will not be collected. At December 31, 2022 and 2021, the Organization believes that all pledges receivable are collectible.

#### **Income taxes**

The Organization is tax-exempt under section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is included in the accompanying financial statements.

The Organization has no unrecognized tax benefits at December 31, 2022 and 2021. The Organization's federal and state income tax returns prior to 2019 and 2018, respectively, are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. Management has analyzed the tax positions taken by the Organization and has concluded that, as of December 31, 2022 and 2021, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statement.

## **First Star, Inc.**

### **Notes to Financial Statements December 31, 2022 and 2021**

The Organization recognizes interest and penalties associated with tax matters, if applicable, as part of income tax expense and includes accrued interest and penalties with accounts payable and accrued expenses in the statements of financial position.

#### **Functional allocation of expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of functional expenses. Accordingly, certain costs have been allocated among the programs, fundraising and management and general activities benefitted based on level of effort.

#### **Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **New accounting pronouncements**

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-02, *Leases* ("Topic 842"), which establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. This guidance results in a more faithful representation of the rights and obligations arising from operating and capital leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. The Organization has elected to apply the deferrals provided by ASU 2020-05, and therefore adopted Topic 842 for fiscal years beginning after December 15, 2021 on a modified retrospective basis with a cumulative effect transition adjustment as of the beginning of the period that includes initial adoption of the standard. The Organization evaluated the potential impact of adoption, and due to the Organization not having significant operating leases, at December 31, 2022 and 2021, there was no impact on the financial statements.

For the year ended December 31, 2022, the Organization adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This standard provides guidance on the presentation of contributed nonfinancial assets in the statement of activities and additional disclosure requirements for each type of contributed nonfinancial asset. The ASU provides transparency on the measurement of the contributed nonfinancial assets of the Organization and will not change existing recognition and measurement requirements. The Organization has implemented the provisions of ASU 2020-07 applicable to all contributed nonfinancial assets, which has been applied retrospectively to all periods presented.

#### **Subsequent events**

The Organization evaluated the impact of subsequent events through July 10, 2023, which is the date the financial statements were available to be issued.

#### **Note 2 - Liquidity and availability**

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

**First Star, Inc.**

**Notes to Financial Statements  
December 31, 2022 and 2021**

At December 31, 2022 and 2021, financial assets available for general expenditures within one year of the statement of financial position date consist of the following:

	<u>2022</u>	<u>2021</u>
Cash	\$ 1,432,424	\$ 1,400,584
Pledges receivable, net	<u>125,364</u>	<u>486,099</u>
Total	1,557,788	1,886,683
Less: net assets with donor restrictions	<u>(667,703)</u>	<u>(1,019,655)</u>
	<u>\$ 890,085</u>	<u>\$ 867,028</u>

**Note 3 - Concentrations**

**Credit risk**

Financial instruments which potentially subject the Organization to concentrations of credit risk consist primarily of cash. The Organization maintains its cash with high credit quality financial institutions. At times, such amounts may exceed federally insured limits.

**Pledges receivable**

At December 31, 2022 and 2021, approximately 92% and 99% of the Organization's pledges receivable were from two donors, respectively.

**Contributions**

For the years ended December 31, 2022 and 2021, approximately 48% and 33% of the Organization's contributions were provided by three donors, respectively.

**Note 4 - Pledges receivable**

At December 31, 2022, the gross undiscounted pledges receivable due in less than one year are \$125,364 and there are no amounts due in greater than one year. At December 31, 2021, the gross undiscounted pledges receivable due in less than one year were \$486,099 and there were no amounts due in greater than one year.

**Note 5 - 401(k) plan**

First Star adopted a 401(k) Plan effective January 1, 2021 that allows participating employees to contribute from one percent of their pretax annual compensation to the maximum amount permitted under law to the Plan. The Plan covers all employees who have at least two months of service. First Star makes no contributions within the plan.

**Note 6 - Net assets**

At December 31, 2022 and 2021, net assets with donor restrictions consist of \$667,703 and \$1,019,655, respectively, restricted for purpose for the Foster Youth Academies Program, which includes the \$125,364 and \$486,099, respectively, of pledges receivable. During the years ended December 31, 2022 and 2021, releases of restrictions due to purpose or time were \$1,582,180 and \$1,735,132, respectively.

**First Star, Inc.**

**Notes to Financial Statements  
December 31, 2022 and 2021**

**Note 7 - Contingencies**

In conjunction with the Coronavirus Aid, Relief, and Economic Security (CARES) Act being passed by Congress in March 2020, the Organization applied for a Small Business Administration ("SBA") Paycheck Protection Program ("PPP") loan as outlined in the Small Business Debt Relief Program. This program provides immediate relief to small businesses with non-disaster PPP loans.

On January 26, 2021, the SBA approved a loan amount of \$92,400 for the Organization. The loan had a five-year maturity and included a fixed interest rate of 1% per year until the maturity date. During the year ended December 31, 2021, the Organization submitted its application for loan forgiveness and received notice from its lender in September 2021 that the forgiveness was approved for the full amount of the loan. Accordingly, in 2021, the Organization derecognized the \$92,400 loan and recognized a corresponding gain on debt forgiveness in the accompanying statement of activities. There is a six-year period during which the SBA can review the Organization's forgiveness calculation.

**Note 8 - In-kind contributions**

For the years ended December 31, 2022 and 2021, the Organization recorded and retained in-kind contributions on the statement of activities of \$444,670 and \$472,043, respectively, which consists of the following:

	<u>2022</u>	<u>2021</u>
Donated office space	\$ 84,000	\$ 84,000
Volunteer hours	224,159	220,547
UCLA's academy goods and services	84,777	69,098
Legal services	15,886	52,258
Marketing services	-	30,000
General and holiday goods	<u>35,848</u>	<u>16,140</u>
	<u>\$ 444,670</u>	<u>\$ 472,043</u>

All in-kind contributions received by the Organization for the years ended December 31, 2022 and 2021 were recorded at fair value and evaluated by management to determine any donor restrictions apply. Any considered without donor restrictions are to be used by the Organization as determined by the board of directors and management. The fair market value was determined through active markets of identical or similar items.



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