

Project Sunshine, Inc.

Financial Report
December 31, 2022

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Independent Auditor's Report

Board of Directors
Project Sunshine, Inc.

Opinion

We have audited the financial statements of Project Sunshine, Inc. (Project Sunshine), which comprise the statements of financial position as of December 31, 2022 and 2021, 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 Project Sunshine, 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 Project Sunshine 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.

Emphasis of Matter

As discussed in Note 6 to the financial statements, in the year ended December 31, 2022, Project Sunshine adopted new accounting guidance Accounting Standard Update (ASU) 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

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 Project Sunshine's ability to continue as a going concern within one year after the date that the financial statements are issued or 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 Project Sunshine'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 Project Sunshine'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.

RSM US LLP

New York, New York
November 14, 2023

Project Sunshine, Inc.

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

	2022	2021
Assets		
Cash and cash equivalents	\$ 1,361,642	\$ 4,202,327
Investments	3,002,914	-
Contributions receivable	533,682	310,289
Prepaid expenses and other assets	232,390	181,786
Property and equipment, net	128,797	57,569
Right-of-use assets	540,761	-
Total assets	\$ 5,800,186	\$ 4,751,971
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 251,888	\$ 132,966
Deferred revenue	100,000	-
Deferred rent obligation	-	4,155
Operating lease liabilities	545,761	-
Total liabilities	897,649	137,121
Commitments		
Net assets:		
Without donor restrictions	4,639,751	4,150,067
With donor restrictions	262,786	464,783
Total net assets	4,902,537	4,614,850
Total liabilities and net assets	\$ 5,800,186	\$ 4,751,971

See notes to financial statements.

Project Sunshine, Inc.

Statements of Activities

Years Ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support, revenue, gains and losses:						
Grants and contributions	\$ 2,701,313	\$ 262,786	\$ 2,964,099	\$ 2,695,913	\$ 464,783	\$ 3,160,696
Contributed services	94,172	-	94,172	109,217	-	109,217
Special event revenue (net of direct expenses of \$280,825 and \$82,937 for 2022 and 2021, respectively)	1,383,484	-	1,383,484	585,144	-	585,144
Net investment return	2,192	-	2,192	(117)	-	(117)
Net assets released from restrictions— satisfaction of restrictions	464,783	(464,783)	-	480,086	(480,086)	-
Total support, revenue, gains and losses	4,645,944	(201,997)	4,443,947	3,870,243	(15,303)	3,854,940
Expenses:						
Program services	3,386,236	-	3,386,236	2,934,228	-	2,934,228
Supporting services:						
Management and general	429,810	-	429,810	403,813	-	403,813
Fundraising	340,214	-	340,214	270,702	-	270,702
Total expenses	4,156,260	-	4,156,260	3,608,743	-	3,608,743
Change in net assets	489,684	(201,997)	287,687	261,500	(15,303)	246,197
Net assets:						
Beginning	4,150,067	464,783	4,614,850	3,888,567	480,086	4,368,653
Ending	<u>\$ 4,639,751</u>	<u>\$ 262,786</u>	<u>\$ 4,902,537</u>	<u>\$ 4,150,067</u>	<u>\$ 464,783</u>	<u>\$ 4,614,850</u>

See notes to financial statements.

Project Sunshine, Inc.

**Statements of Functional Expenses
Years Ended December 31, 2022 and 2021**

	2022				2021			
	Program Services	Supporting Services		Total Expenses	Program Services	Supporting Services		Total Expenses
		Management and General	Fundraising			Management and General	Fundraising	
Employee compensation:								
Salaries	\$ 1,324,134	\$ 142,259	\$ 129,630	\$ 1,596,023	\$ 1,225,156	\$ 139,585	\$ 124,325	\$ 1,489,066
Employee benefits	145,475	10,954	20,976	177,405	123,417	9,133	14,549	147,099
Payroll taxes	107,032	8,059	15,433	130,524	102,299	7,570	12,060	121,929
Total employee compensation	1,576,641	161,272	166,039	1,903,952	1,450,872	156,288	150,934	1,758,094
Other expenses:								
Computer	149,537	9,489	28,761	187,787	73,901	2,483	3,955	80,339
Food	5,132	3,649	439	9,220	4,862	1,718	24	6,604
Insurance	23,081	1,569	3,004	27,654	23,467	1,737	2,766	27,970
Miscellaneous expenses	38,128	2,857	5,696	46,681	26,666	1,727	2,751	31,144
Occupancy	205,804	15,497	29,676	250,977	227,727	16,851	26,846	271,424
Office supplies and materials	48,800	1,105	5,838	55,743	28,325	716	15,433	44,474
Printing and postage	157,461	447	332	158,240	125,079	463	372	125,914
Materials and other support	849,167	627	44,819	894,613	586,261	-	-	586,261
Professional fees	81,928	211,453	9,694	303,075	123,874	173,507	8,639	306,020
Consulting fees	189,016	18,270	39,153	246,439	213,525	34,652	53,365	301,542
Telephone	9,146	689	1,319	11,154	10,231	757	1,206	12,194
Travel	26,716	952	1,741	29,409	2,021	3,542	-	5,563
Depreciation and amortization	25,679	1,934	3,703	31,316	37,417	2,769	4,411	44,597
Bad debt expense	-	-	-	-	-	6,603	-	6,603
Total other expenses	1,809,595	268,538	174,175	2,252,308	1,483,356	247,525	119,768	1,850,649
Total expenses	\$ 3,386,236	\$ 429,810	\$ 340,214	\$ 4,156,260	\$ 2,934,228	\$ 403,813	\$ 270,702	\$ 3,608,743

See notes to financial statements.

Project Sunshine, Inc.

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

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 287,687	\$ 246,197
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	31,316	44,597
Net realized and unrealized loss on investments	26,369	-
Bad debt expense	-	6,603
Deferred rent	-	(28,470)
Changes in operating assets and liabilities:		
Increase in contributions receivable	(223,393)	(6,789)
Increase in prepaid expenses and other assets	(50,604)	(18,143)
Increase in operating lease right-of-use asset	(544,916)	-
Increase (decrease) in accounts payable and accrued expenses	118,922	(62,151)
Increase in deferred revenue	100,000	-
Increase in operating lease liabilities	545,761	-
Decrease in Paycheck Protection Program (PPP)	-	(250,600)
Net cash provided by (used in) operating activities	291,142	(68,756)
Cash flows from investing activities:		
Purchases of investments	(4,125,283)	-
Proceeds from sale of investments	1,096,000	-
Purchase of property and equipment	(102,544)	(9,529)
Net cash used in investing activities	(3,131,827)	(9,529)
Net (decrease) in cash and cash equivalents	(2,840,685)	(78,285)
Cash and cash equivalents:		
Beginning	4,202,327	4,280,612
Ending	<u>\$ 1,361,642</u>	<u>\$ 4,202,327</u>

See notes to financial statements.

Project Sunshine, Inc.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Organization and principal business activity: Project Sunshine, Inc. (Project Sunshine) is a corporation organized under the state of New Jersey not-for-profit corporation law. The organization's mission is to bring the healing power of play and connection to children with medical needs through the passion of dedicated volunteers. Over 2022, Project Sunshine coordinated the services of over 17,050 volunteers who assembled Activity Kits that are sent to hospital partners across the country or led in-person and virtual programs that provide opportunities for creative expression, intellectual stimulation, socialization and sensory integration. Project Sunshine's volunteers are organized by chapters. Chapters are not separate financial organizations. In 2022, we had 105 chapters of community and college volunteers. Project Sunshine partners with over 485 medical facilities across the U.S., Israel and Kenya, serving more than 201,500 pediatric patients and families. Project Sunshine Canada, whose financial statements are not included in these financial statements, operates programs in Canada under a separate entity with its own distinct Board. Project Sunshine Israel is a related party whose financial statements are not included in these financial statements as it does not meet the criteria for consolidation.

Basis of accounting and financial statement presentation: These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The financial statement presentation follows the requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, Financial Statements of Not-for-Profit Organizations.

Net assets: Under ASC 958, Project Sunshine is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor-imposed restrictions.

Net assets with donor restrictions contain donor-imposed restrictions that permit Project Sunshine to use or expend the assets as specified by the donor.

Revenue recognition: Project Sunshine's revenue consists of grants, contributions, fund-raising and special event revenue. Grants, contributions and fundraising revenue are reported as support without donor restrictions or support with donor restrictions depending on the existence or absence of any donor restrictions. When a donor or sponsor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. However, when a donor or sponsor restriction is met in the same period, the support is recorded as without donor restriction. If a contribution or grant agreement contains a right of release from the respective obligation provision on the part of the grantor, and the agreement also contains a barrier to overcome, Project Sunshine recognizes revenue for these conditional contributions when the related barrier to entitlement has been overcome.

Project Sunshine recognizes revenue, other than grants, contributions and fundraising, in accordance with ASC Topic 606, Revenue from Contracts with Customers, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize the revenue when or as the performance obligations are satisfied

Project Sunshine, Inc.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Project Sunshine considers special event revenue to include both exchange transaction and contribution portions. Project Sunshine's performance obligation and condition of the contribution are to host the event for its registered attendees. Payments are received upon the event registration. Revenue is recognized at a point in time when the event takes place for both exchange transaction and contribution portions. Deferred revenue of \$100,000 and \$0 as of December 31, 2022 and 2021, respectively, related to special events.

Project Sunshine records various types of contributed support, including services and materials in support of the various aspects of its programs and operations. Contributed support is recognized in accordance with ASC 958-605, Contributions Received. Accordingly, contributed services are recognized as revenue if those services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by people possessing those skills, and would typically be purchased by Project Sunshine if not provided by contribution. Contributed services received amounted to \$94,172 and \$109,217 for 2022 and 2021, respectively, and are included in the accompanying statements of activities and statements of functional expenses.

Unpaid volunteers have made a contribution of approximately 63,950 hours during 2022 and 20,500 hours in 2021, to assist in Project Sunshine's programs. The value of this contributed time is not reflected in these financial statements because such services do not meet the recognition requirements of U.S. GAAP.

Cash and cash equivalents: Cash and cash equivalents include primarily checking and money market accounts held in four financial institutions. One financial institution held approximately 100% and 73% of the total cash and cash equivalents at December 31, 2022 and 2021, respectively.

Project Sunshine maintains cash in deposit accounts which, at times, may exceed federally insured limits and which potentially subject Project Sunshine to a concentration of credit risk. Project Sunshine manages this risk by placing its monies in high-quality financial institutions. Project Sunshine has not experienced any losses in such accounts.

Investments: Project Sunshine initially records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external and direct internal investment expenses.

Contributions receivable: Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Contributions receivable that are expected to be collected in one year or more are recorded at the present value of their estimated future cash flows, using a risk adjusted interest rate at the time the promise is received. Amortization of the discount is offset against contributions revenue. An allowance for doubtful contributions received is provided by management based on Project Sunshine's experience with the donors and their ability to pay. No allowance for doubtful contributions was deemed necessary for the years ended December 31, 2022 and 2021.

Concentration: For the year ended December 31, 2022, one donor contributed \$351,906, which accounted for 12% of total contribution revenue. The contributions receivable from two donors in the total amount of \$350,250 make up 66% of total contributions receivable balance as of December 31, 2022.

For the year ended December 31, 2021, two donors contributed \$854,433, which accounted for 27% of total contribution revenue. The contributions receivable from two donors in the total amount of \$165,000 make up 53% of total contributions receivable balance as of December 31, 2021.

Project Sunshine, Inc.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Prepaid expenses and other assets: Prepaid expenses are payments to vendors that benefit future reporting periods, including unused portions of insurance policies in effect at year-end. Other assets include lease security deposits held by the landlord until the end of the lease term.

Property and equipment: Property and equipment is recorded at cost. Project Sunshine capitalizes all purchases of property and equipment with a cost in excess of \$500 and having an estimated life greater than one year. Depreciation is provided using the straight-line method based on the estimated useful lives of the assets. Leasehold improvements are amortized over the remaining life of the lease.

Leases: Project Sunshine 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. Under Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, a contract is or contains a lease when: (i) explicitly or implicitly identified assets have been deployed in the contract, and (ii) the customer obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. Project Sunshine also considers whether its service arrangements include the right to control the use of an asset.

Project Sunshine made an accounting policy election under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of twelve months or less. For all other leases, Project Sunshine recognizes right-of-use (ROU) assets and lease liabilities based on the present value of lease payments over the lease term at the commencement date of the lease (or January 1, 2022 for existing leases upon the adoption of 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.

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index). Subsequent changes in an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

Project Sunshine's leases may include a non-lease component representing additional services transferred to Project Sunshine, such as common area maintenance for real estate. Project Sunshine made an accounting policy election to account for each separate lease component and the non-lease components associated with that lease component as a single lease component. Non-lease components that are variable in nature are recorded in variable lease expense in the period incurred.

A lessee that is not a public business entity is permitted to use a risk-free discount rate for its leases, determined using a period comparable with that of the lease term, as an accounting policy election for all leases. In order to ease the accounting burden of determining incremental borrowing rates under ASC 842, Project Sunshine has made this accounting policy election for all leases. The risk-free discount rates were obtained using U.S. Treasury securities as posted on the Federal Reserve website. The Organization uses the implicit rate when readily determinable.

Functional classification of expenses: Program services, management and general, and fundraising expenses have been recorded on the statements of functional expenses based on either a direct costing method for those expenses directly attributable to a particular program or supporting service function or on an allocation basis. Such allocations are determined by management and allocated on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, benefits, occupancy, computer, office supplies and materials, etc., which are allocated based on estimates of time and effort.

Project Sunshine, Inc.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions by management that could affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Income taxes: Project Sunshine was incorporated in 1998 and is exempt from federal income taxes under Internal Revenue Code (IRC) Section 501(a) as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the IRC. Additionally, Project Sunshine as a nonprofit entity is subject to unrelated business income tax (UBIT), if applicable. For the tax years ended December 31, 2022 and 2021, Project Sunshine did not owe any UBIT.

Management evaluated Project Sunshine's tax positions for all open tax years and has concluded that Project Sunshine had taken no uncertain tax positions that require adjustment or disclosure to these financial statements. Generally, Project Sunshine is no longer subject to income tax examinations by U.S. federal, state or local tax authorities for years before 2019, which is the standard statute of limitations look-back period.

Recently adopted accounting pronouncements: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations related to their leasing arrangements. This comprehensive new standard amends and supersedes existing lease accounting guidance and is intended to increase transparency and comparability among organizations by recognizing ROU lease assets and lease liabilities on the statement of financial position and requiring disclosure of key information about leasing arrangements. Lease expense continues to be recognized in a manner similar to legacy U.S. GAAP. Project Sunshine adopted the new lease standard on January 1, 2022 using the optional transition method to the modified retrospective approach. Under this transition provision, results for reporting periods beginning on January 1, 2022 are presented under Topic 842, while prior period amounts continue to be reported and disclosed in accordance with the Project Sunshine's historical accounting treatment under ASC Topic 840, Leases.

To reduce the burden of adoption and ongoing compliance with Topic 842, a number of practical expedients and policy elections are available under the new guidance. Project Sunshine elected the "package of practical expedients" permitted under the transition guidance, which among other things, did not require reassessment of whether contracts entered into prior to adoption are or contain leases, and allowed carryforward of the historical lease classification for existing leases. Project Sunshine has not elected to adopt the "hindsight" practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term at adoption on January 1, 2022.

Adoption of Topic 842 resulted in the recording of ROU assets and lease liabilities related to Project Sunshine's operating leases of \$782,154 and \$786,301 on January 1, 2022. The adoption of the new lease standard did not materially impact our change in net assets or cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets.

Project Sunshine, Inc.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU requires a not-for-profit entity to present contributed nonfinancial assets in the statements of activities as a line item that is separate from contributions of cash or other financial assets. The term nonfinancial asset includes fixed assets, use of fixed assets or utilities, materials and supplies, intangible assets, services and unconditional promises of those assets. The ASU should be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted. Project Sunshine has adopted this standard for the year ended December 31, 2022, which resulted in expanded footnote disclosure related to contributed nonfinancial assets.

Recently issued accounting pronouncements: In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This update represents a significant change in the allowance for credit losses accounting model by requiring immediate recognition of management's estimates of current expected credit losses. Under the prior model, losses were recognized only as they were incurred, which the FASB has noted delayed recognition of expected losses that might not yet have met the threshold of being probable. The ASU is effective for fiscal years beginning after December 15, 2022. Project Sunshine is evaluating the impact of this ASU on the financial statements.

In November 2019, the FASB issued ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*. This ASU provides narrow-scope improvements to Topic 326. For entities that have not yet adopted ASU 2016-13 as of November 26, 2019, the effective dates for ASU 2019-11 are the same as the effective dates and transition requirements in ASU 2016-13. Project Sunshine is evaluating the impact of adoption of this ASU on the financial statements.

Subsequent events: Project Sunshine evaluated events occurring after the date of the financial statements to consider whether or not the effect of such events needs to be reflected and/or disclosed in the financial statements. Such evaluation was performed through November 14, 2023, the date that these financial statements were available to be issued.

Note 2. Investments and Fair Value Measurements

Project Sunshine's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The hierarchy gives the highest priority to fair values determined using unadjusted quoted prices in active markets for identical asset or liabilities (Level 1) and the lowest priority to fair values determined using unobservable inputs (Level 3). An asset's or liability's classification is determined based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the Project Sunshine has the ability to access at the measurement date.

Project Sunshine, Inc.

Notes to Financial Statements

Note 2. Investments and Fair Value Measurements (Continued)

Level 2: Valuations derived from inputs other than quoted market prices for identical assets and liabilities that are observable either directly or indirectly, such as:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3: Valuations are derived from techniques that require significant unobservable inputs. Project Sunshine has no assets or liabilities measured at fair value in the Level 3 category.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments measured at fair value:

Money market funds: Shares of money market funds are valued at quoted market prices that represent the net asset value of shares held by Project Sunshine at year-end.

Equities: Equities are valued at the closing price reported on the active market on which the individual securities are traded.

Corporate and international bonds: Corporate and international bonds are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

U.S. Government notes, bonds and bills: U.S. Government notes, bonds and bills are based on quoted market prices in active markets.

The following table sets forth by level, within the fair value hierarchy, Project Sunshine's assets at fair value as of December 31, 2022:

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash and cash equivalents	\$ 34,549	\$ -	\$ -	\$ 34,549
Money market funds	25,609	-	-	25,609
U.S. Treasury bills	15,459	-	-	15,459
U.S. Government notes and bonds	837,751	-	-	837,751
Bonds:				
Corporate bonds	-	745,697	-	745,697
International bonds	-	220,004	-	220,004
Equities:				
U.S. large capitalization equities	869,004	-	-	869,004
Developed international equities	187,296	-	-	187,296
Emerging markets equities	67,545	-	-	67,545
Total investments	<u>\$ 2,037,213</u>	<u>\$ 965,701</u>	<u>\$ -</u>	<u>\$ 3,002,914</u>

Project Sunshine, Inc.

Notes to Financial Statements

Note 2. Investments and Fair Value Measurements (Continued)

Project Sunshine invests in a combination of corporate and international bonds, equities, U.S. treasury notes, and bonds. Investment securities are exposed to various risks, such as interest rate, market rate and credit risks. As a result, the investment balances reported in the accompanying financial statements may not be reflective of the portfolio's value during subsequent periods.

Note 3. Contributions Receivable, Net

At December 31, 2022 and 2021, the net present value of contributions receivable is \$533,682 and \$310,289, respectively. Net present value was calculated using a discount rate commensurate with the risk involved. The discount rate used in this calculation is 2.86% in 2022 and 2021.

	2022	2021
Total contributions receivable	\$ 534,508	\$ 311,927
Net present value discount	(826)	(1,638)
Net present value of contributions receivable	<u>\$ 533,682</u>	<u>\$ 310,289</u>
Amount due in:		
Less than one year	514,508	281,927
One to five years	20,000	30,000
Total	<u>\$ 534,508</u>	<u>\$ 311,927</u>

Note 4. Property and Equipment, Net

Property and equipment, net at December 31, consists of the following:

	2022	2021
Website and database	\$ 309,650	\$ 209,650
Leasehold improvements	-	29,782
Office furniture and equipment	170,512	189,332
	<u>480,162</u>	<u>428,764</u>
Less accumulated depreciation and amortization	(351,365)	(371,195)
Property and equipment, net	<u>\$ 128,797</u>	<u>\$ 57,569</u>

Note 5. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following periods or purposes/programs at December 31:

	2022	2021
Time restrictions	\$ 150,000	\$ 350,000
Purpose restrictions	112,786	114,783
	<u>\$ 262,786</u>	<u>\$ 464,783</u>

Project Sunshine, Inc.

Notes to Financial Statements

Note 6. Leases

Project Sunshine leases office space under an operating lease agreement in New York City from an unrelated party that has an initial term from transition of 3.17 years. This lease includes one option to renew one year, generally at Project Sunshine's sole discretion, with renewal terms that can extend the lease term. The option to extend a lease is included in the lease term when it is reasonably certain that Project Sunshine will exercise that option. This lease is deemed to be an operating lease based on the underlying terms of the agreement and the criteria included in ASC 842.

Operating lease cost is recognized on a straight-line basis over the lease term. In the year ended December 31, 2022, the total lease expense from the above operating lease was \$243,882. Rent expense for the year ended December 31, 2021, amounted to \$269,925.

Supplemental cash flow information related to the lease is as follows for the year ended December 31.

	2022
Cash paid for amounts included in measurement of lease liabilities:	
Operating cash flows - payments on operating leases	\$ 247,347

For operating leases, ROU assets are recorded in operating lease ROU assets, net and lease liabilities are recorded in operating lease liabilities in the accompanying statements of financial position.

Supplemental information related to leases is as follows as of December 31:

	2022
Operating lease ROU assets	\$ 540,761
Operating lease liabilities	545,761
Weighted-average remaining lease term – operating leases	2.17 years
Weighted-average discount rate – operating leases	1.04%

The following is a schedule of future minimum lease payments, including interest, under the term of the leases, together with the present value of the net minimum lease payments, as of December 31, 2022:

Years ending December 31:	
2023	\$ 250,511
2024	258,025
2025	43,214
Total lease payments	551,750
Less: imputed interest	(5,989)
Total present value of lease liabilities	\$ 545,761

Project Sunshine, Inc.

Notes to Financial Statements

Note 6. Leases (Continued)

Future minimum lease commitments, as determined under Topic 840, for all non-cancelable leases are as follows as of December 31, 2021:

Years ending December 31:

2022	\$	236,427
2023		250,510
2024		43,214
Total minimum future payments required	\$	<u>530,151</u>

Note 7. Employee Benefits

Project Sunshine participates in a defined contribution retirement 401(k) plan (the Plan) for all employees meeting certain eligibility requirements. The amount contributed to the Plan is determined by resolution of the Board. There was no employer pension contribution for the years ended December 31, 2022 and 2021.

Note 8. Liquidity and Availability of Financial Assets

The following reflects Project Sunshine's financial assets available within one year of the statement of financial position date for general expenditures over the next 12 months, reduced by amounts not available for general use because of contractual or donor-imposed restrictions, comprise the following as of December 31:

	2022	2021
Cash and cash equivalents	\$ 1,361,642	\$ 4,202,327
Investments	3,002,914	-
Contributions receivable	533,682	310,289
Total financial assets	4,898,238	4,512,616
Less those unavailable for general expenditures within one year:		
Donor-restricted assets	262,786	464,783
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,635,452</u>	<u>\$ 4,047,833</u>

Project Sunshine regularly monitors the cash balance to ensure sufficient liquidity exists to meet its operating needs as well as other commitments and obligations over the next 12 months.

Project Sunshine, Inc.

Notes to Financial Statements

Note 9. Contributed Nonfinancial Assets

For the years ended December 31, 2022 and 2021, contributed nonfinancial assets recognized within the statements of activities included:

	2022	2021	Utilization in Program/ Activities	Donor Restriction	Value Techniques and Inputs
Legal services	\$ 75,171	\$ 47,868	Management and General	No associated donor restrictions	Contributed services from attorneys are valued at the estimated fair value based on current rates for similar legal services.
Advertising services	19,001	61,349	Program Services	No associated donor restrictions	Contributed services from advertisers are valued at the estimated fair value based on current rates for similar advertising services.
	<u>\$ 94,172</u>	<u>\$ 109,217</u>			