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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
STAR Center Foundation dba STAR Institute for Sensory Processing Disorder  
Centennial, Colorado

**Report on the Financial Statements**

We have audited the accompanying financial statements of STAR Center Foundation dba STAR Institute for Sensory Processing Disorder, a nonprofit organization, which comprise the Statement of Financial Position as of December 31, 2019, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of STAR Center Foundation dba STAR Institute for Sensory Processing Disorder as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Watson Coon Ryan, LLC*

January 19, 2021  
Greenwood Village, Colorado

**STAR Center Foundation**  
**dba STAR Institute For Sensory Processing Disorder**  
**Statement of Financial Position**  
**December 31, 2019**

**ASSETS**

Cash	\$ 369,978
Accounts receivable	2,800
Educational merchandise inventory	6,094
Building, improvements and equipment, net	<u>2,963,439</u>
Total assets	<u><u>\$ 3,342,311</u></u>

**LIABILITIES AND NET ASSETS**

Accounts payable	\$ 163,520
Accrued payroll	106,528
Deferred revenue	62,760
Deferred property tax credit	31,902
Notes payable to a bank	2,401,536
Note payable to trust	449,278
Capital lease payable	<u>6,685</u>
Total liabilities	3,222,209
Net assets (deficit)	
Without donor restrictions	(72,059)
With donor restrictions	<u>192,161</u>
Total net assets	<u>120,102</u>
	<u><u>\$ 3,342,311</u></u>

The accompanying notes are an integral part of the financial statements.

**STAR Center Foundation**  
**dba STAR Institute For Sensory Processing Disorder**  
**Statement of Activities**  
**For the year ended December 31, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>
<b>Revenue and support</b>			
Program service revenues			
Treatments	\$ 1,676,281	\$ -	\$ 1,676,281
Education	909,517	-	909,517
Support			
Contributions	150,558	285,258	435,816
Special event revenue	-	117,398	117,398
Education merchandise sales	6,695	-	6,695
Net assets released from restrictions	347,349	(347,349)	-
Total revenue and support	3,090,400	55,307	3,145,707
<b>Expenses:</b>			
Program services	2,710,051	-	2,710,051
Management and general	180,595	-	180,595
Fundraising	311,700	-	311,700
Total Expenses	3,202,346	-	3,202,346
Change in net assets	(111,946)	55,307	(56,639)
Net assets, beginning of year	39,887	136,854	176,741
Net assets (deficit), end of year	\$ (72,059)	\$ 192,161	\$ 120,102

The accompanying notes are an integral part of the financial statements.

**STAR Center Foundation**  
**dba STAR Institute For Sensory Processing Disorder**  
**Statement of Functional Expenses**  
**For the year ended December 31, 2019**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 1,368,511	\$ 60,988	\$ 58,013	\$ 1,487,512
Payroll taxes	103,600	4,617	4,392	112,609
Pension and other benefits	81,272	3,622	3,445	88,339
Conferences and meetings	126,891	-	-	126,891
Depreciation and amortization	57,031	2,542	2,418	61,991
Information technology	83,088	2,358	2,243	87,689
Insurance	-	19,087	-	19,087
Interest	20,621	919	874	22,414
Marketing and promotion	-	-	39,034	39,034
Merchant processing fees	79,987	-	4,745	84,732
Occupancy	416,698	21,600	16,390	454,688
Office expenses	9,079	2,077	385	11,541
Other expenses	26,682	25,433	-	52,115
Professional service fees	201,683	33,168	179,761	414,612
Travel and meals	134,908	4,184	-	139,092
<b>Total Expenses By Function</b>	<b>\$ 2,710,051</b>	<b>\$ 180,595</b>	<b>\$ 311,700</b>	<b>\$ 3,202,346</b>

The accompanying notes are an integral part of the financial statements.

**STAR Center Foundation**  
**dba STAR Institute For Sensory Processing Disorder**  
**Statement of Cash Flows**  
**For the year ended December 31, 2019**

Cash flows from operating activities:	
Change in net assets	\$ (56,639)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation and amortization	61,991
Loss on disposition of assets	1,905
Amortization of debt discount	5,039
Change in operating assets and liabilities:	
Accounts receivable	40,924
Education merchandise inventory	489
Prepaid expenses	2,645
Security deposit on lease	24,365
Accounts payable	50,677
Accrued payroll	(33,918)
Deferred revenue	(37,532)
Deferred lease liability	(69,909)
Deferred property tax credit	31,902
Net cash from operating activities	<u>21,939</u>
Cash flows from investing activities:	
Purchase of property and equipment	<u>(626,980)</u>
Cash flows from investing activities	(626,980)
Cash flows from financing activities	
Principal paid on capital lease obligation	(5,138)
Principal received on note payable - trust	444,239
Principal paid on note payable banks	(8,464)
Principal received on note payable banks	<u>110,000</u>
Cash flows from financing activities	<u>540,637</u>
Net change in cash	(64,404)
Cash, beginning of period	<u>434,382</u>
Cash, end of period	<u><u>\$ 369,978</u></u>
Supplemental cash flow disclosure:	
Interest paid	\$ 17,375
Purchase of property with debt	2,300,000

The accompanying notes are an integral part of the financial statements.

STAR Center Foundation dba STAR Institute for Sensory Processing Disorder  
Notes to the Financial Statements  
December 31, 2019

1. Principal Activity and Summary of Significant Accounting Policies

Organization

STAR Center Foundation dba STAR Institute for Sensory Processing Disorder (“STAR”) is a Colorado Non-profit corporation based in Denver, Colorado. STAR’s vision is a world in which all people with Sensory Processing Disorder, a neurological condition that disrupts the daily lives of many children and adults, receive support and services that result in having a meaningful and fulfilled life. This is accomplished by STAR’s mission to provide: comprehensive assessment and effective intervention for Sensory Processing Disorder, rigorous research with collaborating university-based research partners, education for caregivers, pediatric professionals, and educators; and advocacy for official recognition of Sensory Processing Disorder worldwide. STAR is a world leader in treatment, research, education, and advocacy for Sensory Processing Disorder.

Cash and Cash Equivalents

STAR considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents

Receivables and Credit Policies

Accounts receivable consist primarily of amounts due for patient therapy and educational programs. STAR determines the allowance for uncollectable receivables based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Receivables are written off when deemed uncollectible. At December 31, 2019 the allowance was zero.

Education Merchandise Inventory

STAR inventory comprises program-related merchandise held for sale and is stated at cost determined by the retail method.

Building, improvements and equipment, net

STAR records property and equipment additions over \$1,000 at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 46 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.



STAR Center Foundation dba STAR Institute for Sensory Processing Disorder  
Notes to the Financial Statements  
December 31, 2019

STAR reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended December 31, 2019.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets without donor restrictions:* Net assets that are not subject to donor imposed restrictions and may be expended for any purpose in performing the primary objectives of STAR. These net assets may be used at the discretion of STAR's management and the board of directors.

*Net Assets with donor restrictions:* Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of STAR or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. STAR reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, 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.

Revenue Recognition and Adoption of Recent Accounting Guidance

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09 *Revenue from Contracts with Customers*. The FASB issued ASU 2016-10 "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing" in April 2016, ASU 2016-11, and ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients" in May 2016. These new standards supersede existing revenue recognition guidance and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods and services. STAR adopted this new guidance for the year ended December 31, 2019.

In June 2018, the Financial Accounting Standards Board issued Accounting Standards Update 2018-08, *Not-for-profit Entities* (Topic 958). This amendment is intended to clarify the scope and accounting guidance for contributions received and contributions made and eliminate diversity in practice in evaluating whether transactions should be accounted for as contributions (nonreciprocal

STAR Center Foundation dba STAR Institute for Sensory Processing Disorder  
Notes to the Financial Statements  
December 31, 2019

transactions) or as exchange transactions (reciprocal) transactions. Distinguishing between contributions and exchange transactions determines which guidance is applied. For contributions, an entity should follow clarified guidance in Topic 958, whereas for exchange transactions, an entity should adopt the guidance in Topic 606. STAR adopted this new guidance for the year ended December 31, 2019.

The adoption of this guidance did not have a material impact on the financial position of STAR as of December 31, 2018. In addition, it did not have a material impact on STAR's revenue recognition accounting policies.

STAR recognizes revenue from providing patient therapy and education products and services when the performance obligations of transferring the products and providing the services are met. Merchandise sales are recognized at the time of purchase. Membership dues are considered substantially a contribution and are recognized when received. Payment is generally required in advance of patient therapy programs and education services and amounts received in advance are deferred to the applicable period. Special event revenue is recognized when the event occurs. All goods and services are transferred at a point in time.

STAR recognizes contributions when cash, securities or other assets; an unconditional promise to give; or notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been substantially met.

#### Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to STAR's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by U.S. generally accepted accounting principles.

Contributed goods and property are recorded at fair value at the date of donation. Donated professional services are recorded at the fair value of the services received. No significant contributions of such goods or services were received during the year ended December 31, 2019.

#### Marketing and Promotion

Marketing and promotion costs are expensed as incurred.

#### Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited

STAR Center Foundation dba STAR Institute for Sensory Processing Disorder  
Notes to the Financial Statements  
December 31, 2019

Income Taxes

STAR is organized as a Colorado nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC 501(a) as an organization described in IRC Section 501(c)(3). STAR is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, STAR is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. STAR has determined that it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The accounting standards on accounting for uncertainty in income taxes address the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, STAR may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of STAR and various positions related to the potential sources of unrelated business taxable income. There were no uncertain tax positions identified by management for the year ended December 31, 2019.

Estimates

The preparation of STAR's financial statements in conformity with generally accepted accounting principles requires STAR's management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Accordingly, actual results could differ from those estimates. Significant estimates in these financial statements include the allocation of expenses on a functional basis.

Financial Instruments and Credit Risk

STAR manages deposit concentration risk by placing cash with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits. To date, STAR has not experienced losses in any of these accounts. Credit risk associated with receivables is considered to be limited due to high historical collection rates.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

STAR Center Foundation dba STAR Institute for Sensory Processing Disorder  
Notes to the Financial Statements  
December 31, 2019

Recent Accounting Guidance

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the statement of financial position for most leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the consolidated statement of activities. The effective date for this standard has been delayed to annual reporting periods beginning after December 15, 2021. STAR management is currently evaluating the effect that this Update will have on its financial statements.

2. Available Resources and Liquidity

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following:

Cash and cash equivalents	\$ 369,978
Accounts receivable, net	2,800
Less net assets with donor restrictions	<u>(192,161)</u>

Available to meet cash needs for  
general expenditures within 1 year \$ 180,617

STAR regularly monitors liquidity and operates under a budget to meet its operating needs and other contractual commitments.

3. Building, Improvements and Equipment, net

The following summarize STAR's property and equipment at December 31, 2019:

Office building and improvements	\$ 2,901,980
Playground research site	377,699
Furniture and equipment	167,136
Electronic learning platform	30,438
Accumulated depreciation	<u>(513,814)</u>
	<u>\$ 2,963,439</u>

STAR Center Foundation dba STAR Institute for Sensory Processing Disorder  
Notes to the Financial Statements  
December 31, 2019

4. Notes Payable to a Bank

Notes payable to STAR's bank consist of the following at December 31, 2019:

Note payable incurred to purchase an office building, in the original amount of \$2,300,000, secured by the office building, calling for 119 monthly payments of principal and interest of \$12,345 with the remaining balance due at maturity, bearing interest at 4.1%, and maturing in October 2029. \$ 2,291,536

Note payable incurred to improve the office building, in the original amount of \$110,000, secured by the general assets of STAR, calling for monthly payments of principal and interest of \$2,138, bearing interest at 6.14%, and maturing in December 2024. 110,000  
\$ 2,401,536

Future maturities of the notes payable are as follows:

2020	\$	74,228
2021		78,035
2022		81,745
2023		85,637
2024		89,230
Thereafter		<u>1,992,661</u>
		<u>\$ 2,401,536</u>

5. Note Payable to a Trust

On October 23, 2019, STAR received \$600,000 in exchange for an unsecured note payable to a Trust established by a Board Member. The note does not bear interest and matures on October 31, 2024. STAR recorded a contribution with donor restrictions for the difference between the stated zero interest rate and STAR's market interest rate of 6% in the amount of \$155,761. At the end of each year, STAR amortizes the discount on the note payable by recording interest expense and increasing the note payable using the effective interest method. Additionally, STAR records a corresponding reclassification between net assets with donor restrictions and net assets without donor restrictions for an amount equal to the interest expense recognized.

At December 31, 2019, the carrying amount of the note is \$449,278. During the year ended December 31, 2019 STAR recognized \$5,039 of interest expense related to the note.

STAR Center Foundation dba STAR Institute for Sensory Processing Disorder  
Notes to the Financial Statements  
December 31, 2019

6. Capital Lease Payable

During 2017, STAR entered into a lease financing agreement with a financial institution for computer servers. The lease requires monthly payments of \$508. Interest has been imputed at 10.099% per annum. The lease matures during 2021.

Future minimum lease payments as of December 31, 2019 are as follows:

2020		\$	6,098
2021			<u>1,016</u>
Total minimum lease payments			7,114
Less amount representing interest			<u>(429)</u>
 Capital lease obligation			 <u>\$ 6,685</u>

The computer servers were capitalized with a cost of \$20,000. At December 31, 2019, the accumulated depreciation was \$11,333.

7. Operating Lease for Office Space

During January 2011, STAR entered into an operating lease for office space extending through October 2018. During 2015 and 2016, additional office space was added, and the lease for the original space was extended through 2020. During the year ended December 31, 2019, STAR negotiated a termination of the lease and moved into the office building that STAR acquired.

Occupancy expense for the year ended December 31, 2019 consists of the following:

Scheduled lease payments		\$	301,405
Lease termination settlement			174,365
Deferred lease liability settled			(88,987)
Common area maintenance			33,484
Repairs and utilities			<u>34,421</u>
 Occupancy expense			 <u>\$ 454,688</u>

8. Net Assets With Donor Restrictions

Net assets with donor restrictions as of December 31, 2019 consist of funding received to produce and publish a research paper in the amount of \$41,439 and discount on note payable to trust in the amount of \$150,722.

STAR Center Foundation dba STAR Institute for Sensory Processing Disorder  
Notes to the Financial Statements  
December 31, 2019

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose as follows for the year ended December 31, 2019:

Scholarships and reduced patient fees	\$ 44,415
Discount on note payable to trust	5,039
Fundraising event expenses reducing the net event proceeds for scholarships	117,398
Integrated listening system	4,500
Capital campaign	<u>175,997</u>
Net assets released through satisfaction of purpose restrictions	<u>\$ 347,349</u>

9. Functionalized Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy and depreciation, which are allocated based on estimated usage, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort.

10. Employee Benefits

STAR maintains a SIMPLE IRA Plan for benefit of eligible employees, as defined by the Plan documents. STAR made employer contributions of \$18,647 to the Plan during the year ended December 31, 2019.

11. Related Party Transactions

As discussed in Note 5, STAR received a loan from a Trust established by the family of a Board Member.

STAR contracted with a construction company owned by a Board Member's spouse to make improvements to the office building purchased by STAR. During the year ended December 31, 2019, STAR paid the construction company \$57,135.

Approximately \$150,000 of STAR's support was received directly or indirectly from Board members.

STAR Center Foundation dba STAR Institute for Sensory Processing Disorder  
Notes to the Financial Statements  
December 31, 2019

12. Lease as a lessor

In conjunction with the purchase of the office building, STAR was assigned a lease as the lessor to allow for the operation of cellular equipment on the premises. The lease call for annual rent of \$4,200 to STAR and matures in September 2023. The lease automatically extends for four additional five year terms, however, the lessee has the right to terminate the agreement with prior written notice on each anniversary date.

13. Subsequent Events

Subsequent events were evaluated by management through the date of the auditor's report, which is the date the financial statements were available to be issued.

In January 2020, the playground research site was dismantled and placed in storage. Management is evaluating potential sites and usage for the dismantled equipment. The net book value of the playground research site equipment was approximately \$35,000 as of December 31, 2019.

Subsequent to year-end, the United States and global markets experienced significant declines in economic activity resulting from uncertainty caused by the world-wide coronavirus pandemic. STAR management is closely monitoring its liquidity and is actively working to minimize the impact of the pandemic. The financial statements do not include any adjustments related to the uncertainty caused by the pandemic.

On April 10, 2020, STAR obtained a loan in the amount of \$389,332 through the U.S. Small Business Administration Paycheck Protection Program. The loan is subject to the loan forgiveness provisions of the CARES Act and the entire loan is expected to be forgiven.