

ALL STARS PROJECT, INC.

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2008

ALL STARS PROJECT, INC.

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Independent Auditor's Report

Board of Directors All Stars Project, Inc.

We have audited the accompanying statement of financial position of All Stars Project, Inc. (ASP) as of December 31, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of ASP's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from ASP's 2007 financial statements and, in our report dated April 3, 2008, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ASP's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of All Stars Project, Inc. as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Loeb & Troper LLP

March 25, 2009

ALL STARS PROJECT, INC.

EXHIBIT A

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2008
(With Summarized Financial Information
for the Year Ended December 31, 2007)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	2008	2008	2008	2007
Revenues, gains and other support				
Contributions	\$ 3,482,068	\$ 1,263,835		\$ 4,745,903
Membership revenues	125,455			125,455
All Stars ticket sales	31,155			31,155
Theatre ticket sales	57,390			57,390
Theatre subscriptions	1,445			1,445
In-kind - labor				329
Special events	\$ 1,155,110			60,000
Less direct cost of special events	<u>(248,603)</u>			
Net revenues from special events	906,507			906,507
Product sales	3,240			3,240
Interest and dividends	38,111			38,111
Realized and unrealized gain (loss) on investments	(3,480)			(3,480)
Change in value of split-interest agreement	(40,727)			(40,727)
Training and licensing fees	15,000			15,000
Other revenues	587			587
Net assets released from restrictions (Note 9)	<u>1,152,414</u>	<u>(1,152,414)</u>		
Total revenues, gains and other support	<u>5,769,165</u>	<u>111,421</u>		<u>5,880,586</u>
Expenses (Exhibit C)				
Program services				
All Stars Talent Show Network	1,508,979			1,508,979
Development School for Youth	987,436			987,436
Castillo Theatre	595,088			595,088

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ALL STARS PROJECT, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2008
(With Summarized Financial Information
for the Year Ended December 31, 2007)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	2008	2008	2008	2007
Expenses (Exhibit C) (continued)				
Program services (continued)				
Volunteerism and Education	\$ 502,561	\$	\$	\$ 426,885
Youth on Stage	344,438			267,178
Production of Youth by Youth	83,702			75,567
Total program services	4,022,204			3,414,046
Supporting services				
Management and general	564,480			475,584
Fund raising	885,933			650,084
Total supporting services	1,450,413			1,125,668
Total expenses	5,472,617			4,539,714
Change in net assets before write-off of financing and renovation-related costs	296,548	\$ 111,421		1,011,834
Write-off of financing and renovation-related costs				(870,309)
Change in net assets (Exhibit D)	296,548	111,421		141,525
Net assets - beginning of year	5,496,291	1,091,993	\$ 100,000	6,546,759
Net assets - end of year (Exhibit B)	\$ 5,792,839	\$ 1,203,414	\$ 100,000	\$ 7,096,253
				\$ 6,688,284

See independent auditor's report.

The accompanying notes are an integral part of these statements.

ALL STARS PROJECT, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 1,798,916	\$ 291,823
Investments (Note 3)	1,201,027	1,396,680
Contributions receivable (Note 4)	612,573	1,118,449
Prepaid expenses and security deposit	76,485	120,627
Limited use assets		
Cash held in escrow (Note 7)	4,081	1,867,805
Beneficial interest in remainder trust (Note 5)	144,592	185,319
Fixed assets (net of accumulated depreciation and amortization of \$2,429,310 in 2008 and \$1,955,694 in 2007) (Note 6)	<u>15,929,313</u>	<u>14,625,775</u>
Total assets	<u>\$ 19,766,987</u>	<u>\$ 19,606,478</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 65,640	\$ 47,534
Construction payable	131,977	934,749
Accrued salaries and related expenses payable	356,188	131,281
Deferred revenue	12,894	
Accrued interest payable	124,035	104,630
Capital lease (Note 7)	11,480,000	11,700,000
Loan payable (Note 11)	<u>500,000</u>	
Total liabilities	<u>12,670,734</u>	<u>12,918,194</u>
Net assets (Exhibit A)		
Unrestricted - operating	1,475,503	3,505,265
Unrestricted - plant	<u>4,317,336</u>	<u>1,991,026</u>
Total unrestricted	5,792,839	5,496,291
Temporarily restricted (Note 9)	1,203,414	1,091,993
Permanently restricted (Note 9)	<u>100,000</u>	<u>100,000</u>
Total net assets	<u>7,096,253</u>	<u>6,688,284</u>
Total liabilities and net assets	<u>\$ 19,766,987</u>	<u>\$ 19,606,478</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2008
(With Summarized Financial Information
for the Year Ended December 31, 2007)

	Program Services										Total	
	All Stars Talent Show Network	Development School for Youth	Castillo Theatre	Volunteerism and Education	Youth on Stage	Production of Youth by Youth	Total Program Services	Management and General	Fund Raising	Special Events	2008	2007
Salaries	\$ 669,485	\$ 501,518	\$ 171,175	\$ 79,092	\$ 129,045	\$ 50,250	\$ 1,600,565	\$ 285,729	\$ 440,364		\$ 2,326,658	\$ 1,871,394
Payroll taxes and employee benefits	121,079	92,009	29,187	12,827	25,178	10,086	290,366	63,609	64,060		418,035	342,199
Total salaries and related expenses	790,564	593,527	200,362	91,919	154,223	60,336	1,890,931	349,338	504,424		2,744,693	2,213,593
Grants	9,662			17,500			27,162				27,162	50,988
Professional fees	68,668	40,088	277	62,723	26,278	8,176	206,210	42,355	42,868		291,433	156,857
Production expense	93,161	44,418	51,416	34,777	3,566	182	227,520	1,432	45,446	\$ 37,294	311,692	232,488
Interest expense	77,825	48,177	88,942	66,707	37,059		318,710	18,530	33,353		370,593	461,759
Credit service and bank charges	3,252	1,833	4,640	2,713	1,118	209	13,765	3,277	39,384		56,426	41,398
Insurance	19,441	12,035	22,218	16,664	9,258		79,616	7,464	8,332		95,412	92,197
Telephone	19,488	9,612	3,013	7,493	1,967	365	41,938	10,414	13,136		65,488	49,081
Database and computer services	11,442	7,437	2,367	3,131	3,610	1,063	29,050	9,569	9,980		48,599	38,124
Occupancy	87,605	43,351	33,021	44,218	24,166	5,995	238,356	65,562	40,710		344,628	296,188
Training and outreach	26,131	18,863	10,330	6,500	2,458	1,203	65,485	647	10,909		77,041	81,024
Advertising and design	16,184	7,649	12,844	2,185	1,601	25	40,488	762	14,418		55,668	55,324
Transportation	36,300	32,030	1,239	17,871	587	191	88,218	976	10,869		100,063	66,884
Equipment rental	10,282	4,213	1,801	2,283	2,264	790	21,633	6,083	4,451		32,167	23,140
Repairs and maintenance	23,867	14,800	23,507	18,197	10,696	493	91,560	9,377	10,677		111,614	85,075
Postage and shipping	15,674	5,661	2,897	1,489	642	444	26,807	1,312	10,993		39,112	43,939
Office expense	14,667	8,124	2,193	3,501	2,234	1,360	32,079	6,411	8,145		46,635	38,958
Catering	3,587	3,107		10,805	11	59	17,569		2,084	163,127	182,780	51,101
Printing	34,367	20,579	15,908	6,232	6,795	917	84,798	1,015	21,450		107,263	76,553
Space rental	26,189	5,442	54	1,650	650	500	34,485		746	48,182	83,413	156,566
Depreciation and amortization	98,100	61,308	112,962	79,729	52,840	650	405,589	25,293	42,734		473,616	365,901
Dues, subscriptions and conference fees	18,949	3,148	3,647	3,796	2,230	651	32,421	3,006	9,568		44,995	67,494
Miscellaneous	3,574	2,034	1,450	478	185	93	7,814	1,657	1,256		10,727	16,720
Total expenses	1,508,979	987,436	595,088	502,561	344,438	83,702	4,022,204	564,480	885,933	248,603	5,721,220	4,761,352
Less direct cost of special events										(248,603)	(248,603)	(221,638)
Total expenses (excluding direct expenses of special events) (Exhibit A)	\$ 1,508,979	\$ 987,436	\$ 595,088	\$ 502,561	\$ 344,438	\$ 83,702	\$ 4,022,204	\$ 564,480	\$ 885,933	\$ -	\$ 5,472,617	\$ 4,539,714

See independent auditor's report.

The accompanying notes are an integral part of these statements.

ALL STARS PROJECT, INC.
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Change in net assets (Exhibit A)	\$ 407,969	\$ 141,525
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Donated stock	(465,421)	(567,277)
Depreciation	473,616	365,901
Realized and unrealized loss (gain) on investments	3,480	(3,522)
Realized loss on disposal of fixed asset		870,309
Change in value of split-interest agreement	40,727	(33,132)
Decrease (increase) in assets		
Contributions receivable	505,876	173,493
Prepaid expenses and security deposit	44,142	(48,797)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	18,106	(4,675)
Accrued salaries and related expenses payable	224,907	24,460
Accrued interest payable	124,035	(102,341)
Deferred revenue	12,894	(8,618)
Net cash provided by operating activities	<u>1,390,331</u>	<u>807,326</u>
Cash flows from investing activities		
Decrease (increase) in limited use assets	1,863,724	(1,867,805)
Fixed asset additions	(2,684,556)	(3,367,139)
Purchase of investments	(1,500,388)	(613,039)
Proceeds from sale of investments	<u>2,157,982</u>	<u>952,372</u>
Net cash used by investing activities	<u>(163,238)</u>	<u>(4,895,611)</u>
Cash flows from financing activities		
Proceeds from capital lease		11,895,000
Proceeds from loan	500,000	
Principal payments on capital lease	<u>(220,000)</u>	<u>(7,766,666)</u>
Net cash provided by financing activities	<u>280,000</u>	<u>4,128,334</u>
Net increase in cash	1,507,093	40,049
Cash and cash equivalents - beginning of year	<u>291,823</u>	<u>251,774</u>
Cash and cash equivalents - end of year	<u>\$ 1,798,916</u>	<u>\$ 291,823</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest - net of amounts capitalized	<u>\$ 246,558</u>	<u>\$ 564,100</u>
Cash paid during the year for capitalized interest	<u>\$ 275,053</u>	<u>\$ 113,592</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 1 - NATURE OF ORGANIZATION

All Stars Project, Inc. (ASP) is a nonpartisan, not-for-profit 501(c)(3) organization dedicated to promoting human development through the use of an innovative performance-based model. Founded in 1981, ASP creates privately funded, outside-of-school, educational and performing arts activities for tens of thousands of poor and minority young people. It sponsors community and experimental theatre, develops leadership training and pursues volunteer initiatives that build and strengthen communities.

ASP actively promotes supplementary education and the performance learning model in academic and civic arenas.

The All Stars Talent Show Network

The All Stars Talent Show Network (ASTSN) is an after-school, performance-based enrichment program for inner city youth. Each year, thousands of children and young adults aged 5-25 participate in several dozen All Stars events. ASTSN is produced in New York, Chicago and the Bay Area. In addition, ASP has licensing agreements with other nonprofit organizations to produce ASTSN in Atlanta, Boston, Los Angeles, and Amsterdam, The Netherlands.

The Joseph A. Forgione Development School for Youth

The Joseph A. Forgione Development School for Youth (DSY) is a leadership-training program for young people between the ages of 16 to 21. DSY's two yearly leadership-training cycles are organized as ensemble performances and include a series of workshops led by senior executives from corporations who partner with the program. DSY graduates are placed in summer internships provided by sponsoring companies. DSY programming is currently in New York and New Jersey.

The Castillo Theatre

The Castillo Theatre brings challenging, thought-provoking entertainment to the heart of New York's theatre district. Since 1983, Castillo has staged over 100 productions – from multicultural and avant garde plays, to musicals and performance projects.

Youth Onstage!

Youth Onstage! provides young performers aged 13 to 21 with the opportunity to perform on stage in plays that have something to say about the world and its future. In addition to producing plays for young casts, Youth Onstage! conducts classes and workshops in acting, playwriting, improvisation and technical theatre.

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 1 - NATURE OF ORGANIZATION (continued)**Talented Volunteers**

The award-winning Talented Volunteers program involves hundreds of people of all ages and from all walks of life who give generously of their time, energy and talents. Hours are varied and flexible, and new volunteers receive orientation and training before taking a position. Talented Volunteers work side by side with young people, helping to produce ASTSN events. They work in ASP's theatres on costumes, sets, tech, house staff, audience development, marketing and fund raising, as well as organizing special events and the annual Bowl-a-thon. There are about 650 active volunteers.

Production of Youth by Youth

Production of Youth by Youth is a two-semester after-school program designed to train under-privileged teens aged 14 to 19 to perform as cultural creators and producers in their communities and beyond. Through weekly on-site and off-site workshops with cultural institutions in New York, young people produce youth forums in their communities. Each spring, they are placed in a six-week unpaid internship with a cultural institution.

ASP's primary sources of support are contributions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared on the accrual basis.

There are 650 active volunteers who contribute approximately 120,000 hours each year in various ASP programs. The value of these hours of volunteerism is not reflected in these financial statements because they are not performed by professionals in their professional capacity. However, the value of these hours of volunteerism is of tremendous value to ASP.

Contributions are recognized as revenues when received, whether as cash, other assets, or a promise of future payment. Contributions are reported as restricted support 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, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Program fees consist of membership dues, ticket sales, and theatre subscriptions, which are reported at the estimated net realizable amounts from individuals and organizations.

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the current value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The costs of providing ASP's services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Fixed assets are capitalized at cost. Items with a cost in excess of \$1,000 and an estimated useful life of more than one year are capitalized. Depreciation and amortization is recorded on the straight-line method over the estimated useful lives of the assets as follows:

Condominiums	40 years
Condominium improvements	20 years
Furniture, fixtures and equipment	3 - 10 years
Video equipment	5 years
Computer equipment	3 - 5 years

Investments are recorded at fair value based upon quoted market price.

Beneficial interest in unitrust is recorded at its actuarial present value.

The value of in-kind labor is based upon the amount ASP would have paid for the donated service that was provided.

Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use by ASP has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended December 31, 2007, from which the summarized information was derived.

Certain prior-year amounts have been reclassified to conform to the current-year presentation.

Cash and cash equivalents include highly liquid instruments with maturities when acquired of three months or less at the date of purchase.

ASP determines whether an allowance for uncollectibles should be provided for contributions receivable. Such estimates are based on management's assessment of the aged basis of its contributions, current economic conditions and historical information. Interest is not charged on outstanding contributions receivable. Contributions receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted.

Fair Value Measurements

SFAS No. 157, *Fair Value Measurements* (SFAS No. 157) defines fair value, establishes a framework for measuring fair value and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. SFAS No. 157 also expands financial statement disclosures about fair value measurements. On February 12, 2008, the Financial Accounting Standards Board (FASB) issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), which delays the effective date of SFAS No. 157 for one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. Partial deferral of SFAS No. 157 was elected under the provisions of FSP 157-2 related to the measurement of fair value used when evaluating intangible assets and other long-lived assets for impairment and valuing asset retirement obligations and liabilities for exit or disposal activities. Furthermore, the impact of implementing FSP 157-2 is not expected to be material on the financial statements. The impact of partially adopting SFAS No. 157 effective January 1, 2008 was not material to the financial statements.

On October 10, 2008, the FASB issued FSP 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP 157-3), which clarifies application of SFAS No. 157 in a market that is not active. FSP 157-3 was effective upon issuance, including prior periods for which financial statements have not been issued. The adoption of this FSP had no impact on the financial statements.

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements on a Recurring Basis

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. Our assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy. The following table presents the asset balances measured at fair value on a recurring basis as of December 31, 2008:

	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total
Assets				
Certificate of deposit	\$ 500,000	\$ -	\$ -	\$ 500,000
Bonds	700,000	-	-	700,000
Equities	1,027	-	-	1,027
Beneficial interest in remainder unitrust	144,592			144,592

(1) Quoted prices in active markets for identical assets or liabilities

(2) Observable inputs other than quoted prices in active markets for identical assets and liabilities

(3) No observable pricing inputs in the market

Fair Value Measurements on a Nonrecurring Basis

As permitted by FSP 157-2, the fair value measurement disclosure was deferred of any (a) long-lived assets and finite lived intangible assets in the determination of impairment under SFAS No. 142 or SFAS No. 144, (b) asset retirement obligations initially measured at fair value under SFAS No. 143, *Accounting for Asset Retirement Obligations*, and (c) nonfinancial liabilities for exit or disposal activities initially measured at fair value under SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*.

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of SFAS No. 115* (SFAS No. 159) permits but does not require measurement of financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. As ASP did not elect to fair value any of the financial instruments under the provisions of SFAS No. 159, the adoption of this statement effective January 1, 2008 did not have an impact on the financial statements.

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FASB Interpretation No. 48 - Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 (FIN 48)

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 was effective for fiscal years beginning after December 15, 2006. On November 7, 2007, the FASB voted to defer FIN 48 for one year until fiscal years beginning after December 15, 2007. On October 15, 2008, the FASB voted to continue the deferral of FIN 48 for non-public companies and not-for-profits for an additional year until fiscal years beginning after December 15, 2008.

As FIN 48 has not yet been adopted, the organization is continuing to use FASB Statement No. 5, *Accounting for Contingencies* (FAS 5) to evaluate uncertain tax positions. The organization is currently evaluating the impact on the financial statements of adopting FIN 48.

NOTE 3 - INVESTMENTS

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Money market			\$ 1,246,509	\$ 1,246,509
Certificate of deposit	\$ 500,000	\$ 500,000		
Bonds	700,006	700,000	150,062	150,171
Equities	<u>1,021</u>	<u>1,027</u>		
	<u>\$ 1,201,027</u>	<u>\$ 1,201,027</u>	<u>\$ 1,396,571</u>	<u>\$ 1,396,680</u>

ASP invests in various investments. These investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term, based upon the markets' performance, and that such changes could materially affect the amounts reported on the balance sheet.

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 4 - CONTRIBUTIONS RECEIVABLE

All contributions receivable have been recorded at present value. Those receivables that are due in more than one year have been discounted to their present value using a discount rate of 5%.

Contributions receivable are due as follows:

2009	\$	443,219
2010		78,000
2011		45,000
2012		25,000
2013		25,000
Thereafter		<u>25,000</u>
		641,219
Less discount to present value		(21,146)
Less allowance for doubtful accounts		<u>(7,500)</u>
	\$	<u>612,573</u>

NOTE 5 - BENEFICIAL INTEREST IN REMAINDER UNITRUST

All Stars Project, Inc. is a 50 percent beneficiary in a charitable remainder unitrust held by an independent trustee. The discount rate used in calculating the present value was 5%. The trustee shall pay to the donors, for as long as either of the two parties shall live, 7.5% of the net assets of the trust as valued annually. The present value of the beneficial interest in the remainder unitrust at December 31, 2008 and 2007 is \$144,592 and \$185,319, respectively.

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 6 - FIXED ASSETS

	<u>2008</u>	<u>2007</u>
Condominium	\$ 7,750,000	\$ 7,750,000
Condominium improvements	9,906,149	4,174,901
Furniture, fixtures and equipment	441,578	438,774
Video equipment	74,996	74,996
Computer equipment	<u>185,900</u>	<u>176,274</u>
	18,358,623	12,614,945
Less accumulated depreciation and amortization	<u>(2,429,310)</u>	<u>(1,955,694)</u>
	15,929,313	10,659,251
Construction in progress	<u> </u>	<u>3,966,524</u>
	<u>\$ 15,929,313</u>	<u>\$ 14,625,775</u>

In 2007, ASP moved to an alternate location for its Manhattan office during construction. In Spring 2008, ASP moved back to its Manhattan office. Included in condominium improvements is \$157,829 of capitalized interest.

NOTE 7 - CAPITAL LEASE

In December 2002, ASP purchased an office condominium in New York. The purchase was financed by the issuance of New York City Industrial Development Agency Bonds. The bonds were issued in two series: Series A in the amount of \$5,750,000 was secured by a purchase money mortgage for the purchase of the premises; Series B in the amount of \$2,500,000 to be used for the renovation and furnishings, and subordinate to the Series A.

In January 2007, the bonds were refinanced and an additional amount of \$4,230,000 was issued for renovations. The New York City Industrial Development Agency is selling and assigning its leasehold interest in the condominium pursuant to an Installment Sale Agreement and Assignment of Lease to ASP. The balance as of December 31, 2008 and 2007 is \$11,480,000 and \$11,700,000, respectively.

The lease covenants require a debt service ratio of 1.25 to 1; and a minimum cash balance and investments of \$900,000 in 2008 and \$1,000,000 in 2009. In addition, cash plus investments and the current portion of pledges, minus any outstanding line of credit, must be \$1,650,000 for 2008 and \$1,750,000 for 2009.

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 7 - CAPITAL LEASE (continued)

The bonds are collateralized by the condominium and contributions receivable.

Maturities, amounts and interest rates are as follows:

	<u>Series A Bonds</u>	<u>Series B Bonds</u>
Principal balance	\$ 9,280,000	\$ 2,200,000
Maturity date	01/16/2013	08/01/2023
Interest rate	Variable	8.75%

Variable rates are adjusted weekly. At December 31, 2008, the interest rate was 1.27%.

Scheduled principal payments for the Series A variable rate bonds are as follows:

2009	\$ 160,000
2010	170,000
2011	175,000
2012	185,000
2013	<u>8,590,000</u>
	<u>\$ 9,280,000</u>

Scheduled combined payments of principal and interest for the Series B fixed rate bonds are as follows:

2009	\$ 267,500
2010	270,938
2011	268,500
2012	270,626
2013	266,876
Thereafter	<u>2,689,128</u>
Total minimum payments	4,033,568
Less amount representing interest	<u>(1,833,568)</u>
	<u>\$ 2,200,000</u>
Total bonds payable	<u>\$ 11,480,000</u>

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 7 - CAPITAL LEASE (continued)

Series A Bonds are secured by a letter of credit that incorporates the same terms as the Series A Bonds, which expires on January 16, 2013.

The loan requires a debt service reserve fund. The balance was \$4,081 at December 31, 2008 and \$1,867,805 at December 31, 2007.

NOTE 8 - OPERATING LEASES

ASP leases office space in Newark, San Francisco, Chicago, and temporarily in New York. The lease for the New York office space expired in 2008, the lease for the San Francisco office space expires in 2009, and the leases for the office space in Chicago and Newark expires in 2010. Rent expense for the years ended December 31, 2008 and 2007 was \$183,940 and \$188,593, respectively. The outstanding lease obligations are:

2009	\$	73,497
2010		<u>54,348</u>
	\$	<u>127,845</u>

NOTE 9 - NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods:

	<u>2008</u>	<u>2007</u>
New Jersey Flamm Center	\$ 919,315	\$ 590,528
Fortunoff scholarships	312	7,812
Philadelphia All Stars	37,513	53,876
Regional Youth/Culture	473	6,722
Chicago All Stars	61,751	47,089
Scott Flamm Memorial	7,196	17,196
New Jersey All Stars		97,973
Bay Area Computers		2,180
Bay Area All Stars		23,629
For periods after December 31	<u>176,854</u>	<u>244,988</u>
Total	<u>\$ 1,203,414</u>	<u>\$ 1,091,993</u>

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 9 - NET ASSETS (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Fortunoff scholarships	\$ 7,500
Bay Area computers	2,180
Philadelphia All Stars	16,363
Regional Youth/Culture	18,647
Scott Flamm Memorial	10,000
New Jersey All Stars	526,660
Bay Area All Stars	261,903
Chicago All Stars	169,158
New Jersey Flamm Center	29,369
International campaign	42,500
Passage of time	<u>68,134</u>
 Total	 <u>\$ 1,152,414</u>

For 2008 and 2007, permanently restricted net assets of \$100,000 are restricted to provide income to support NJ Development School for Youth.

NOTE 10 - CONCENTRATIONS

Financial instruments which potentially subject ASP to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits. Management believes that credit risk related to these accounts is minimal.

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 11 - LOAN PAYABLE

In 2008, ASP obtained a \$500,000 loan from JP Morgan Chase Bank. The balance as of December 31, 2008 is \$500,000. The interest rate (Note Rate) is equal to the greater of (a) .5% per annum below the prime rate, or (b) 1% per annum. In the event of default, the interest would be charged at 3% per annum above the Note Rate. The interest rate at December 31, 2008 is 2.75%. The loan is collateralized by a \$500,000 certificate of deposit. Scheduled principal payments are as follows:

2009	\$ 117,647
2010	117,647
2011	117,647
2012	117,647
2013	<u>29,412</u>
	<u>\$ 500,000</u>

NOTE 12 - SPECIAL EVENTS

	<u>Gross Proceeds</u>	<u>Direct Expenses</u>	<u>Net Proceeds</u>
National Gala	\$ 680,759	\$ 147,822	\$ 532,937
Bay Area Benefit	49,800	27,567	22,233
NY DSY luncheon	183,500	31,994	151,506
NJ DSY dinner	170,280	23,570	146,710
Grand Opening	40,356	8,350	32,006
Otto awards	11,845	3,200	8,645
Theatre gala	<u>18,570</u>	<u>6,100</u>	<u>12,470</u>
Total	<u>\$ 1,155,110</u>	<u>\$ 248,603</u>	<u>\$ 906,507</u>

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 13 - ALLOCATION OF JOINT COSTS

In 2008, ASP conducted activities that included requests for contributions, as well as program and management and general components. Those activities included direct mail campaigns, special events and telemarketing. The costs of conducting those activities included a total of \$297,132 of joint costs, which are not specifically attributable to particular components of the activities. These joint costs were allocated as follows:

Fund raising	\$ 127,589
All Stars Talent Show Network	82,602
Volunteerism and education	11,158
Development School for Youth	50,691
Production of Youth by Youth	257
Castillo Theatre	11,527
Youth on Stage	5,788
Management and general	<u>7,520</u>
Total	\$ <u>297,132</u>

NOTE 14 - BEQUEST

In 2008, ASP received a distribution of \$162,482 from the estate of Joel Press. The value of additional distributions has not been determined.

NOTE 15 - RELATED-PARTY TRANSACTION

A member of the Board is the owner of a company that provides architectural services for ASP. The total fees paid were \$65,436 in 2008.

NOTE 16 - ENDOWMENT FUNDS**General**

ASP's endowment consists of an individual donor-restricted endowment fund established for the NJ Development School for Youth. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 16 - ENDOWMENT FUNDS (continued)

Interpretation of Relevant Law

The Board of Directors of ASP have interpreted the State Prudent Management Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, ASP classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

Return Objectives, Strategies Employed and Spending Policy

The objective of ASP is to maintain the principal endowment funds at the original amount designated by the donor. The investment policy to achieve this objective is to invest in low-risk securities. Interest earned in relation to the endowment funds is recorded as temporarily restricted income and released from restriction upon expenditure for the program for which the endowment fund was established.

Funds with Deficiencies

ASP does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund as of December 31, 2008

Endowment net asset composition of \$100,000 consists of permanently donor-restricted funds.

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE 16 - ENDOWMENT FUNDS (continued)

Changes in Endowment Net Assets for the Year Ended December 31, 2008

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year		\$ 100,000	\$ 100,000
Investment income	\$ 1,122		1,122
Appropriation of endowment assets for expenditure	<u>(1,122)</u>	<u> </u>	<u>(1,122)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>

NOTE 17 - SUBSEQUENT INVESTMENT INFORMATION - UNAUDITED

As of February 28, 2009, the value of investments was approximately \$1,200,000.