

ALL STARS PROJECT, INC.

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2012

ALL STARS PROJECT, INC.

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Independent Auditor's Report

**Board of Directors
All Stars Project, Inc.**

Report on the Financial Statements

We have audited the accompanying financial statements of All Stars Project, Inc., which comprise the statement of financial position as of December 31, 2012, 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.

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, 2012, 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.

Report on Summarized Comparative Information

We have previously audited the All Stars Project, Inc.'s December 31, 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 22, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

April 10, 2013

ALL STARS PROJECT, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 2,523,211	\$ 2,063,179
Certificate of deposit		148,000
Investments (Note 3)	1,768,536	2,347,776
Contributions receivable (Note 4)	321,258	597,858
Prepaid expenses and security deposit	155,246	169,953
Beneficial interest in charitable remainder unitrust (Note 5)	223,357	205,829
Fixed assets - net (Note 6)	<u>14,469,714</u>	<u>13,941,539</u>
Total assets	<u>\$ 19,461,322</u>	<u>\$ 19,474,134</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 75,057	\$ 188,542
Construction payable	425,241	
Accrued salaries and related expenses payable	601,464	558,599
Deferred revenue	11,216	9,657
Accrued interest payable	42,192	100,763
Rent payable	61,988	
Capital lease (Note 7)		10,650,000
Mortgage payable (Note 7)	10,720,000	
Loan payable (Note 11)	<u>800,000</u>	<u>147,059</u>
Total liabilities	<u>12,737,158</u>	<u>11,654,620</u>
Net assets (Exhibit B)		
Unrestricted		
Operating	3,069,053	3,221,852
Plant	<u>3,324,473</u>	<u>3,291,539</u>
Total unrestricted	6,393,526	6,513,391
Temporarily restricted (Note 9)	215,638	1,206,123
Permanently restricted (Note 14)	<u>115,000</u>	<u>100,000</u>
Total net assets	<u>6,724,164</u>	<u>7,819,514</u>
Total liabilities and net assets	<u>\$ 19,461,322</u>	<u>\$ 19,474,134</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT B

ALL STARS PROJECT, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2012
 (With Summarized Financial Information
 for the Year Ended December 31, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	2012	2012	2012	2011
Revenues, gains and other support				
Contributions	\$ 2,803,456	\$ 2,594,831	\$ 15,000	\$ 5,413,287
Membership dues	121,040			121,040
All Stars ticket sales	25,438			25,438
Theatre ticket sales	118,011			118,011
Theatre subscriptions	3,168			3,168
In-kind donations (Note 15)	164,925			164,925
Special events	\$ 1,588,154			
Less direct cost of special events	(299,832)			
Net revenues from special events (Note 12)	1,288,322	1,288,322		901,156
Product sales	1,383			728
Interest and dividends	6,159			20,408
Realized and unrealized gain (loss) on investments	(151)			277
Gain on beneficial interest in charitable remainder unitrust	17,528			7,085
Other revenues	2,419			866
Net assets released from restrictions (Note 9)	3,585,316	(3,585,316)		
Total revenues, gains and other support	8,137,014	(990,485)	15,000	7,035,887

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ALL STARS PROJECT, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2012
(With Summarized Financial Information
for the Year Ended December 31, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	2012	2012	2012	2011
Expenses (Exhibit C)				
Program services				
All Stars Talent Show Network	1,815,117		\$ 1,815,117	\$ 1,680,372
Development School for Youth	1,501,175		1,501,175	1,311,064
Castillo Theatre	938,882		938,882	891,836
Volunteerism and Education	858,590		858,590	773,362
Youth on Stage	587,957		587,957	557,615
Total program services	5,701,721		5,701,721	5,214,249
Supporting services				
Management and general	685,520		685,520	566,110
Fund raising	1,266,487		1,266,487	1,214,659
Total supporting services	1,952,007		1,952,007	1,780,769
Total expenses	7,653,728		7,653,728	6,995,018
Change in net assets before other changes	483,286	\$ (990,485)	\$ 15,000	40,869
Loss on disposal of fixed asset	(3,810)		(3,810)	
Loss on unamortized mortgage costs (Note 7)	(599,341)		(599,341)	
Change in net assets (Exhibit D)	(119,865)	(990,485)	15,000	40,869
Net assets - beginning of year	6,513,391	1,206,123	100,000	7,719,514
Net assets - end of year (Exhibit A)	6,393,526	215,638	115,000	7,819,514

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2012
(With Summarized Financial Information
for the Year Ended December 31, 2011)

	Program Services						Management and General	Fund Raising	Direct Costs of Special Events	Total	
	All Stars Talent Show Network	Development School for Youth	Castillo Theatre	Volunteerism and Education	Youth on Stage	Total Program Services				2012	2011
Salaries	\$ 836,592	\$ 827,049	\$ 377,000	\$ 276,833	\$ 322,760	\$ 2,640,234	\$ 279,284	\$ 760,424		\$ 3,679,942	\$ 3,297,780
Payroll taxes and employee benefits	174,034	163,198	75,820	48,300	73,814	535,166	58,729	129,911		723,806	635,187
Total salaries and related expenses	1,010,626	990,247	452,820	325,133	396,574	3,175,400	338,013	890,335		4,403,748	3,932,967
Grants	12,241		100		100	12,441				12,441	10,960
Professional fees	63,618	63,705	19,008	115,738	16,624	278,693	84,391	55,907		418,991	389,358
Production	72,497	45,091	47,476	17,506	6,918	189,488	477	34,497	\$ 92,886	317,348	256,252
Interest	66,125	41,131	74,982	56,580	31,242	270,060	16,363	28,118		314,541	319,902
Credit service and bank charges							73,841			73,841	71,406
Insurance	39,301	34,523	15,636	25,846	9,131	124,437	13,782	15,680		153,899	136,615
Telephone	20,455	11,985	4,593	10,182	2,106	49,321	13,885	13,317		76,523	80,553
Database and computer services	9,820	6,315	2,363	4,272	1,669	24,439	6,479	6,667		37,585	27,722
Occupancy	94,101	53,479	35,466	54,959	13,194	251,199	47,940	24,046		323,185	261,562
Training and outreach	28,290	17,226	9,417	8,652	4,497	68,082	6,454	11,450		85,986	107,401
Advertising and design	19,858	15,709	17,781	4,247	3,166	60,761	500	11,080		72,341	74,169
Transportation	38,022	37,433	3,828	28,451	1,641	109,375	1,517	15,800		126,692	101,573
Equipment rental	25,383	10,943	4,110	9,464	1,862	51,762	6,567	14,124		72,453	49,650
Repairs and maintenance	28,073	16,939	32,338	23,141	12,728	113,219	8,235	12,311		133,765	143,648
Postage and shipping	14,652	4,336	3,566	1,439	767	24,760	1,833	9,787	2,000	38,380	37,584
Office	22,199	12,643	5,078	10,261	1,709	51,890	12,749	10,287		74,926	62,240
Catering	2,367	1,559	306	6,141	489	10,862	1,529	2,483	183,546	198,420	201,882
Printing	36,354	23,576	25,980	7,575	5,529	99,014	2,633	21,736		123,383	125,218
Space rental	36,326	3,789	184	6,220	316	46,835	72	303	21,400	68,610	51,908
Depreciation and amortization	155,398	99,222	172,198	128,869	74,937	630,624	41,742	67,345		739,711	717,812
Dues, subscriptions and conference fees	14,446	6,984	9,271	11,923	1,813	44,437	3,413	18,342		66,192	54,359
Miscellaneous	4,965	4,340	2,381	1,991	945	14,622	3,105	2,872		20,599	17,986
Total expenses	1,815,117	1,501,175	938,882	858,590	587,957	5,701,721	685,520	1,266,487	299,832	7,953,560	7,232,727
Less direct cost of special events									(299,832)	(299,832)	(237,709)
Total expenses (excluding direct expenses of special events) (Exhibit A)	\$ 1,815,117	\$ 1,501,175	\$ 938,882	\$ 858,590	\$ 587,957	\$ 5,701,721	\$ 685,520	\$ 1,266,487	\$ -	\$ 7,653,728	\$ 6,995,018

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, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ (1,095,350)	\$ 40,869
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Donated stock	(102,012)	(369,820)
Depreciation and amortization	739,711	717,812
Realized and unrealized loss (gain) on investments	151	(277)
Permanently restricted contributions	(15,000)	
Loss on unamortized mortgage costs	599,341	
Loss on disposal of fixed asset	3,810	
Gain on beneficial interest in charitable remainder unitrust	(17,528)	(7,085)
Decrease (increase) in assets		
Contributions receivable	276,600	(406,641)
Prepaid expenses and security deposit	14,707	(43,840)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(113,485)	131,922
Accrued salaries and related expenses payable	42,865	(64,596)
Deferred revenue	1,559	965
Accrued interest payable	(58,571)	(2,781)
Rent payable	61,988	
Net cash provided (used) by operating activities	<u>338,786</u>	<u>(3,472)</u>
Cash flows from investing activities		
Purchase of fixed assets	(1,445,796)	(84,185)
Purchase of investments	(1,584,877)	(3,064,583)
Proceeds from sale of investments	2,265,978	3,169,820
Proceeds from sale of certificate of deposit	148,000	
Net cash provided (used) by investing activities	<u>(616,695)</u>	<u>21,052</u>
Cash flows from financing activities		
Proceeds from loan payable	800,000	
Principal payments on loans payable	(147,059)	(117,647)
Proceeds from mortgage payable	10,720,000	
Principal payments on capital lease	(10,650,000)	(175,000)
Proceeds from permanently restricted contributions	15,000	
Net cash provided (used) by financing activities	<u>737,941</u>	<u>(292,647)</u>
Net change in cash and cash equivalents	460,032	(275,067)
Cash and cash equivalents - beginning of year	<u>2,063,179</u>	<u>2,338,246</u>
Cash and cash equivalents - end of year	<u>\$ 2,523,211</u>	<u>\$ 2,063,179</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 373,112</u>	<u>\$ 322,683</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, 2012

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, NY, Newark, NJ, Chicago, IL, and the Bay Area, CA.

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 and 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, NY, Newark, NJ, Chicago, IL, and the Bay Area, CA.

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.

Volunteerism and Education

The Talented Volunteers program creates opportunities for hundreds of adults to get involved in virtually every aspect of All Stars Project's programs and operations. There are approximately 875 volunteers involved annually.

Operation Conversation: Cops and Kids is a series of dialogues and performance-based workshops that help police and inner-city youth improve and develop their relationship. A total of 1,732 police officers and youth have participated in these workshops.

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 1 - NATURE OF ORGANIZATION (continued)

Volunteerism and Education (continued)

University X (UX) is a university style development institution for all ages. Classes take place at ASP headquarters, corporate boardrooms, backstage at Broadway theaters, in neighborhoods and at schools.

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.

ASP's primary sources of support are contributions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

Use of estimates - The preparation of financial statements in accordance 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.

Summarized financial information - 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, 2011, from which the summarized information was derived.

Cash and cash equivalents - Cash and cash equivalents include investments in money market funds. These investments are also cash equivalents for purposes of the statement of cash flows, as ASP considers all highly liquid instruments purchased with maturities of less than three months when acquired to be cash equivalents.

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Certificate of deposit - The certificate of deposit is considered investment for purposes of cash flow reporting.

Investments - Investments are recorded at fair value. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in ASP's financial statements.

Contributions receivable - 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 present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted 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.

Allowance for doubtful accounts - 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, subsequent collections and historical information. Contributions receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. Management determined that it was unnecessary to provide an allowance in the current year.

Beneficial interest - The beneficial interest in charitable remainder unitrust is recorded at its actuarial present value.

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

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

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred revenue - Amounts received in advance for special events are deferred to future periods. These advances are expected to be earned in the next fiscal year.

Net assets - 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.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as temporarily or permanently 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 - Program fees consist of membership dues, ticket sales, and theatre subscriptions, which are reported at the estimated net realizable amounts from individuals and organizations.

Contributed services - There are approximately 875 volunteers who contribute approximately 110,000 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.

Functional allocation of expenses - 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.

Advertising - Advertising costs are expensed as incurred.

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements and Disclosures

Fair Value Measurements and Disclosures (ASC Topic 820) establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that ASP has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- 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.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodology used for assets measured at fair value. There has been no change in the methodology used at December 31, 2012 as compared to those used at December 31, 2011.

Money market funds, common stock and U.S. Government bonds - Valued at the closing price reported on the active market on which the individual securities are traded.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

Uncertainty in income taxes - ASP has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2009 and subsequent remain subject to examination by applicable taxing authorities.

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events - Subsequent events have been evaluated through April 10, 2013, which is the date the financial statements were available to be issued.

NOTE 3 - INVESTMENTS

	2012 Fair Value - Level 1	2011 Fair Value - Level 1
	<u> </u>	<u> </u>
Common stock	\$ 1,040	
Money market funds	566,215	\$ 1,197,732
U.S. Government bonds	<u>1,201,281</u>	<u>1,150,044</u>
	<u>\$ 1,768,536</u>	<u>\$ 2,347,776</u>

NOTE 4 - CONTRIBUTIONS RECEIVABLE

All contributions receivable have been recorded at present value. Receivables that are due in more than one year have been discounted to their present value using a discount rate of 5% for those recognized prior to 2011. Contributions receivable made in 2011 and after have been discounted at a rate of 3%.

Contributions receivable are due as follows:

2013	\$ 229,520
2014	60,500
2015	<u>35,500</u>
	325,520
Less discount to present value	<u>(4,262)</u>
	<u>\$ 321,258</u>

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 5 - BENEFICIAL INTEREST IN CHARITABLE REMAINDER UNITRUST

ASP is a 50 percent beneficiary of 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 donor, for as long as the donor shall live, 7.5% of the net assets of the trust as valued annually. The present value of the beneficial interest in the charitable remainder unitrust at December 31, 2012 and 2011 is \$223,357 and \$205,829, respectively.

NOTE 6 - FIXED ASSETS

	<u>2012</u>	<u>2011</u>
Condominium	\$ 7,750,000	\$ 7,750,000
Condominium improvements	9,716,423	9,949,703
Leasehold improvements	2,040	2,040
Furniture, fixtures and equipment	425,089	387,721
Video equipment	89,788	89,788
Computer equipment	279,701	249,670
Construction in progress	<u>1,190,273</u>	<u>7,410</u>
	19,453,314	18,436,332
Less accumulated depreciation and amortization	<u>(4,983,600)</u>	<u>(4,494,793)</u>
	<u>\$ 14,469,714</u>	<u>\$ 13,941,539</u>

NOTE 7 - DEBT FINANCING

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 assigned to the Series A bond was issued for renovations. The New York City Industrial Development Agency sold and assigned its leasehold interest in the condominium to ASP. The balance as of December 31, 2011 was \$10,650,000, which was repaid in 2012.

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 7 - DEBT FINANCING (continued)

The costs associated with the original debt have been expensed and reflected as a loss on unamortized mortgage costs.

The lease covenants required a debt service ratio of 1.25 to 1; and a minimum cash balance and investments of \$1,000,000 in 2012 and 2011. In addition, cash plus investments and the current portion of pledges, minus any outstanding line of credit, must be \$1,750,000 for 2012 and 2011. All lease covenants have been met in 2012 and 2011.

The bonds were collateralized by the condominium and contributions receivable.

In November 2012, ASP refinanced the bonds with a mortgage loan payable from First Republic Bank in the amount of \$10,720,000 at an interest rate of 3.95%. The loan matures in November 2038.

The loan covenants required a debt service ratio of 1.20 to 1. In addition, cash plus investments and the current portion of pledges, minus any outstanding line of credit, must be \$1,750,000 starting in 2013.

The loan was collateralized by the condominium and contributions receivable.

Scheduled principal payments for the mortgage payable are as follows:

2013	\$	21,338
2014		255,706
2015		266,136
2016		275,847
2017		288,245
Thereafter		<u>9,612,728</u>
	\$	<u>10,720,000</u>

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 8 - OPERATING LEASES

ASP leases office space in Newark, San Francisco and Chicago. The lease for the office space in Newark expires in 2023. The lease for the office space in Chicago expires in 2014. The lease for the office space in San Francisco expires in 2013. Rent expense for the years ended December 31, 2012 and 2011 was \$158,534 and \$97,597, respectively. The outstanding lease obligations are:

<u>Year</u>	<u>Amount</u>
2013	\$ 183,082
2014	185,427
2015	144,585
2016	148,827
2017	153,153
Thereafter	<u>1,167,398</u>
Total	<u>\$ 1,982,472</u>

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2012</u>	<u>2011</u>
New Jersey All Stars		\$ 227,481
New Jersey Flamm Center		766,503
Philadelphia All Stars		5,340
Regional Youth/Culture	\$ 2,400	675
For periods after December 31	<u>213,238</u>	<u>206,124</u>
Total	<u>\$ 215,638</u>	<u>\$ 1,206,123</u>

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 9 - TEMPORARILY RESTRICTED 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.

Operation Conversation: Cops and Kids	\$ 72,500
Bay Area All Stars	318,808
Chicago All Stars	562,720
New Jersey All Stars	1,838,855
New Jersey Flamm Center	766,503
Philadelphia All Stars	5,340
Regional Youth/Culture	13,476
Passage of time	<u>7,114</u>
Total	<u>\$ 3,585,316</u>

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.

NOTE 11 - LOAN PAYABLE

In 2008, ASP obtained a \$500,000 loan from JP Morgan Chase Bank. The balance of \$147,059 of the loan was repaid in 2012. Two new loans were obtained from First Republic Bank, one for \$300,000 and the other for \$500,000. Both loans mature in November 2017, at which time a lump-sum payment of \$152,500 will be due for the \$300,000 loan and a lump-sum payment of \$254,166 will be due for the \$500,000 loan. The interest rates on both loans are prime plus .5%. The interest rate at December 31, 2012 was 3.75%. The balance as of December 31, 2012 was \$800,000. Scheduled principal payments are as follows:

2013	\$ 80,000
2014	80,000
2015	80,000
2016	80,000
2017	<u>480,000</u>
	<u>\$ 800,000</u>

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 12 - SPECIAL EVENTS

	<u>Ticket Sales</u>	<u>Direct Expenses</u>	<u>Net Proceeds</u>
Bay area benefit	\$ 121,950	\$ 19,911	\$ 102,039
Illinois luncheon	259,080	22,743	236,337
National gala	698,939	188,889	510,050
NJ DSY dinner	249,400	20,217	229,183
NY DSY luncheon	232,250	44,072	188,178
Theatre gala	<u>26,535</u>	<u>4,000</u>	<u>22,535</u>
Total	<u>\$ 1,588,154</u>	<u>\$ 299,832</u>	<u>\$ 1,288,322</u>

NOTE 13 - ALLOCATION OF JOINT COSTS

In 2012, 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 \$181,323 of joint costs, which are not specifically attributable to particular components of the activities. These joint costs were allocated as follows:

All Stars Talent Show Network	\$ 37,392
Castillo Theatre	2,919
Development School for Youth	51,711
Fund raising	82,927
Management and general	408
Volunteerism and education	3,166
Youth on Stage	<u>2,800</u>
Total	<u>\$ 181,323</u>

NOTE 14 - ENDOWMENT FUND

General

ASP's endowment consists of a donor-restricted endowment fund established for the NJ Development School for Youth and a donor-restricted endowment for operations. 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, 2012

NOTE 14 - ENDOWMENT FUND (continued)

Interpretation of Relevant Law

The Board of Directors of ASP has adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the "historic dollar value" standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. ASP is now governed by the NYPMIFA spending policy, which establishes a maximum spending limit of 7% of the average of its previous five years' balance. 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 standards of prudence prescribed by NYPMIFA.

Return Objectives, Strategies Employed and Spending Policy

The objective of ASP is to generate income with minimal risk while maintaining 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. Investment income earned in relation to the endowment funds is recorded as unrestricted income, because it is being expended in the same period in which it is being earned.

Funds with Deficiencies

ASP does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund as of December 31, 2012

The endowment net asset composition of \$115,000 consists of permanently donor-restricted funds. The income on the \$100,000 is expendable for the NJ Development School for Youth. The income on the \$15,000 is expendable for general operating purposes. During 2012, there was no interest earned on the funds.

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets, beginning of year		\$ 100,000
Contributions		<u>15,000</u>
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>115,000</u>

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ALL STARS PROJECT, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2012****NOTE 15 - IN-KIND DONATIONS**

ASP received in-kind architectural services with a value of \$164,925, which was used in the construction of the NJ Flamm Center.