

ALL STARS PROJECT, INC.

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2016

ALL STARS PROJECT, INC.

TABLE OF CONTENTS

Independent Auditor's Report

Exhibit

A - Statement of Financial Position

B - Statement of Activities

C - Statement of Functional Expenses

D - Statement of Cash Flows

Notes to Financial Statements

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, 2016, 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, 2016, 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.

Emphasis of Matter - Change in Accounting Principle

As further described in Notes 2 and 7 to the financial statements, All Stars Project, Inc. implemented Accounting Standards Update (ASU) No. 2015-03, simplifying the Presentation of Debt Issuance Costs. The financial statements for 2015 have been reclassified for this change in accounting principle. Our opinion is not modified with regard to this matter.

Report on Summarized Comparative Information

We have previously audited All Stars Project, Inc.'s December 31, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 16, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

May 11, 2017

ALL STARS PROJECT, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016
(With Summarized Financial Information
for December 31, 2015)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 2,796,445	\$ 3,355,949
Investments (Note 3)	2,171,365	2,031,939
Contributions receivable (Note 4)	1,876,968	957,252
Prepaid expenses and other assets	163,570	164,629
Beneficial interest in charitable remainder unitrust (Note 5)	260,237	258,336
Fixed assets - net (Note 6)	<u>11,003,774</u>	<u>11,741,223</u>
Total assets	<u>\$ 18,272,359</u>	<u>\$ 18,509,328</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 45,734	\$ 50,234
Accrued salaries and related expenses payable	694,287	793,817
Other liabilities	159,302	159,302
Deferred revenue	3,000	3,000
Accrued interest payable	35,311	36,424
Deferred rent	175,070	138,143
Mortgage payable (Note 7)	9,460,326	9,714,003
Loans payable (Note 8)	<u>480,176</u>	<u>560,000</u>
Total liabilities	<u>11,053,206</u>	<u>11,454,923</u>
Commitments and contingencies (Notes 9)		
Net assets (Exhibit B)		
Unrestricted		
Operating	2,753,284	4,181,108
Board designated	<u>250,000</u>	<u>250,000</u>
Total	3,003,284	4,431,108
Temporarily restricted (Note 10)	3,347,521	1,658,623
Permanently restricted (Note 14)	<u>868,348</u>	<u>964,674</u>
Total net assets	<u>7,219,153</u>	<u>7,054,405</u>
Total liabilities and net assets	<u>\$ 18,272,359</u>	<u>\$ 18,509,328</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

ALL STARS PROJECT, INC.

EXHIBIT B

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016
(With Summarized Financial Information
for the Year Ended December 31, 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2016</u>	<u>2015</u>
Revenues, gains (losses) and other support					
Contributions	\$ 753,667	\$ 7,617,608		\$ 8,371,275	\$ 8,331,674
Membership dues	58,401			58,401	52,470
All Stars ticket sales	14,163			14,163	10,947
Theatre ticket sales and subscriptions	70,353			70,353	103,738
In-kind donations (Note 15)	57,933			57,933	11,025
Special events	\$ 1,724,145				
Less direct cost of special events	<u>(358,599)</u>				
Net revenues from special events (Note 12)	1,365,546			1,365,546	1,454,036
Interest and dividends	41,002	20,147		61,149	124,964
Realized and unrealized gain (loss) on investments	48,462	81,932		130,394	(233,075)
Gain (loss) on beneficial interest in charitable remainder unitrust	1,901			1,901	(7,049)
Other revenues	11,059			11,059	4,610
Reclassification per donor intent	(235,841)	332,167	\$ (96,326)		
Net assets released from restrictions (Note 10)	<u>6,362,956</u>	<u>(6,362,956)</u>			
Total revenues, gains (losses) and other support	<u>8,549,602</u>	<u>1,688,898</u>	<u>(96,326)</u>	<u>10,142,174</u>	<u>9,853,340</u>

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ALL STARS PROJECT, INC.

EXHIBIT B

-2-

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016
(With Summarized Financial Information
for the Year Ended December 31, 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2016</u>	<u>2015</u>
Expenses (Exhibit C)					
Program services					
All Stars Talent Show Network/Youth on Stage	\$ 2,559,172			\$ 2,559,172	\$ 2,915,970
Development School for Youth	2,657,829			2,657,829	2,272,049
Castillo Theatre	790,214			790,214	873,858
Volunteerism and Education	1,023,796			1,023,796	887,173
Operation Conversation: Cops and Kids	490,731			490,731	339,324
Total program services	<u>7,521,742</u>			<u>7,521,742</u>	<u>7,288,374</u>
Supporting services					
Management and general	1,035,023			1,035,023	894,258
Fund raising	1,420,661			1,420,661	1,664,976
Total supporting services	<u>2,455,684</u>			<u>2,455,684</u>	<u>2,559,234</u>
Total expenses	<u>9,977,426</u>			<u>9,977,426</u>	<u>9,847,608</u>
Change in net assets (Exhibit D)	(1,427,824)	\$ 1,688,898	\$ (96,326)	164,748	5,732
Net assets - beginning of year	<u>4,431,108</u>	<u>1,658,623</u>	<u>964,674</u>	<u>7,054,405</u>	<u>7,048,673</u>
Net assets - end of year (Exhibit A)	<u>\$ 3,003,284</u>	<u>\$ 3,347,521</u>	<u>\$ 868,348</u>	<u>\$ 7,219,153</u>	<u>\$ 7,054,405</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016
(With Summarized Financial Information
for the Year Ended December 31, 2015)

	Program Services					Supporting Services			Direct Costs of Special Events	Total	
	All Stars Talent Show Network/ Youth on Stage	Development School for Youth	Castillo Theatre	Volunteerism and Education	Operation Conversation: Cops & Kids	Total Program Services	Management and General	Fund Raising		2016	2015
Salaries	\$ 1,253,560	\$ 1,500,966	\$ 273,430	\$ 392,484	\$ 285,624	\$ 3,706,064	\$ 415,319	\$ 735,368	\$	\$ 4,856,751	\$ 4,847,507
Payroll taxes and employee benefits	278,645	290,448	68,022	66,753	50,465	754,333	95,545	149,871		999,749	959,655
Total salaries and related expenses	1,532,205	1,791,414	341,452	459,237	336,089	4,460,397	510,864	885,239		5,856,500	5,807,162
Grants and donations	713	625		100		1,438	150	375		1,963	11,227
Professional fees	92,210	136,175	15,239	112,424	60,373	416,421	104,876	70,989		592,286	567,174
Production	66,297	85,655	45,749	36,259	13,323	247,283	2,682	90,028	\$ 100,661	440,654	296,153
Interest (Note 7)	128,850	58,544	97,696	73,252	3,938	362,280	43,181	40,499		445,960	456,370
Fees and charges							67,750	297		68,047	67,126
Insurance	68,039	42,945	19,029	34,897	4	164,914	16,096	16,372		197,382	219,141
Telephone	19,120	14,879	3,258	8,535	2,233	48,025	13,336	11,707		73,068	72,269
Database and computer services	46,218	11,308	4,042	9,942	1,804	73,314	12,914	9,377		95,605	90,000
Occupancy (Note 9)	131,866	114,873	28,648	76,834	3,404	355,625	68,624	42,208		466,457	460,976
Training and outreach	36,928	62,883	16,435	14,711	6,003	136,960	11,782	26,920	13,109	188,771	159,231
Advertising and design	20,945	21,814	9,186	9,440	689	62,074	35,240	21,505		118,819	102,396
Transportation and travel expenses	30,052	64,528	3,552	13,680	24,358	136,170	7,656	33,773		177,599	146,335
Equipment rental	5,657	3,200	1,463	1,845	642	12,807	4,002	1,976		18,785	21,009
Repairs and maintenance	48,804	22,065	35,383	28,305		134,557	11,444	14,581		160,582	165,971
Postage and shipping	6,294	5,250	2,360	1,900	399	16,203	9,922	12,283		38,408	36,316
Office	19,151	12,887	4,747	7,196	2,861	46,842	20,791	12,358		79,991	89,104
Catering	2,226	11,457	3,651	711	256	18,301	5	12,864	201,973	233,143	209,239
Printing	27,813	27,419	13,500	8,655	1,109	78,496	14,045	23,993		116,534	101,543
Space rental	20,305	8,475		4,568		33,348	181	6,547	42,856	82,932	176,588
Depreciation and amortization	248,425	150,767	140,131	113,977	33,109	686,409	74,442	77,884		838,735	838,010
Dues, subscriptions and conference fees	6,441	6,466	4,361	6,328		23,596	4,951	7,515		36,062	99,744
Miscellaneous	613	4,200	332	1,000	137	6,282	89	1,371		7,742	33,363
Total expenses	2,559,172	2,657,829	790,214	1,023,796	490,731	7,521,742	1,035,023	1,420,661	358,599	10,336,025	10,226,447
Less direct cost of special events									(358,599)	(358,599)	(378,839)
Total expenses (excluding direct expenses of special events) (Exhibit B)	\$ 2,559,172	\$ 2,657,829	\$ 790,214	\$ 1,023,796	\$ 490,731	\$ 7,521,742	\$ 1,035,023	\$ 1,420,661	\$ -	\$ 9,977,426	\$ 9,847,608

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT D

ALL STARS PROJECT, INC.
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 164,748	\$ 5,732
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	838,735	838,010
Amortization of debt issuance costs included in interest expense	22,131	21,196
Realized and unrealized (gain) loss on investments	(130,394)	233,075
Permanently restricted contributions		(300,719)
(Gain) loss on beneficial interest in charitable remainder unitrust	(1,901)	7,049
Decrease (increase) in assets		
Contributions receivable	(919,716)	(231,540)
Prepaid expenses and other assets	1,059	(45,182)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(4,500)	(10,873)
Accrued salaries and related expenses payable	(99,530)	51,511
Other liabilities		154,302
Deferred revenue		(4,407)
Accrued interest payable	(1,113)	(1,164)
Deferred rent	36,927	41,168
Net cash provided (used) by operating activities	<u>(93,554)</u>	<u>758,158</u>
Cash flows from investing activities		
Purchase of fixed assets	(101,286)	(78,056)
Purchase of investments	(2,553,985)	(1,423,459)
Proceeds from sale of investments	2,544,953	973,873
Net cash used by investing activities	<u>(110,318)</u>	<u>(527,642)</u>
Cash flows from financing activities		
Principal payments on loans payable	(79,824)	(80,000)
Principal payments on mortgage payable	(275,808)	(266,097)
Proceeds from permanently restricted contributions		300,719
Net cash used by financing activities	<u>(355,632)</u>	<u>(45,378)</u>
Net change in cash and cash equivalents	(559,504)	185,138
Cash and cash equivalents - beginning of year	<u>3,355,949</u>	<u>3,170,811</u>
Cash and cash equivalents - end of year	<u>\$ 2,796,445</u>	<u>\$ 3,355,949</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 424,942</u>	<u>\$ 436,338</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, 2016

NOTE 1 - NATURE OF ORGANIZATION

All Stars Project, Inc. (ASP) is a not-for-profit, 501(c)(3) organization that transforms the lives of youth and poor communities using the developmental power of performance, in partnership with caring adults. 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.

The All Stars Talent Show Network & Youth Onstage!

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, Bay Area, CA, Dallas, TX and Bridgeport, CT.

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.

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 and Jersey City, NJ, Chicago, IL, Bay Area, CA, Dallas, TX and Bridgeport, CT.

Castillo Theatre

The Castillo Theatre (Castillo) 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 3,500 volunteers involved annually.

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.

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ALL STARS PROJECT, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016****NOTE 1 - NATURE OF ORGANIZATION (continued)****Operation Conversation: Cops and Kids**

Cops and Kids is an innovative police-community relations program run by the All Stars Project in partnership with local police departments. The program uses performance, improvisation and conversation to help inner-city teenagers and police officers develop a positive relationship. A total of 3,474 police officers and youth have participated in these workshops.

ASP's primary source of support is contributions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements have been prepared on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America, as applicable to not-for-profit organizations.

Financial statement presentation - The classification of a not-for-profit organization's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

- (i) **Permanently restricted** - Net assets resulting from contributions and other inflows of assets whose use by ASP is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of ASP.
- (ii) **Temporarily restricted** - Net assets resulting from contributions and other inflows of assets whose use by ASP is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of ASP pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- (iii) **Unrestricted** - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations. Included in unrestricted is \$250,000 in a Board Designated Fund reserved by the Board for a future use not yet determined.

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ALL STARS PROJECT, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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. With respect to the statement of activities, the prior year information is not presented by net asset class. With respect to the statement of functional expenses, the prior year expenses by expense classification are presented in total rather than by functional category. 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, 2015, from which the summarized information was derived.

New Accounting Pronouncements

In April 2015, FASB issued Accounting Standards Update (ASU) No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. This update was issued as part of an initiative to reduce complexity in accounting standards. This amendment updates Subtopic 835-30, Interest - Imputation of Interest and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendments to this update are effective for financial statements issued for fiscal years beginning after December 15, 2015.

Cash and cash equivalents - Cash and cash equivalents include investments in money market funds. ASP considers highly liquid instruments with maturities of less than three months, when acquired, to be cash equivalents.

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.

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 doubtful accounts should be provided for contributions receivable. Such estimates are based on management's assessment of the aged basis of its contributions receivable, 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 in charitable remainder unitrust - The beneficial interest in charitable remainder unitrust is recorded at its actuarial present value.

Debt issuance costs - Debt issuance costs are reflected as a reduction of the carrying amount of the related debt and are amortized on the straight-line basis over the life of the associated debt. Amortization of debt issuance costs is included in interest expense.

Fixed assets - Fixed assets and leasehold improvements are capitalized at cost. Items with a cost in excess of \$1,000 per unit 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 and leasehold improvements are amortized over the term of the lease or the life of the asset, whichever is shorter, as follows:

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

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ALL STARS PROJECT, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Deferred revenue - Amounts received for special events, membership, ticket sales, and theatre subscriptions not yet earned or for events that have not yet occurred are recorded as deferred revenue. These deferred revenues are expected to be earned in the next fiscal year.

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.

Membership, ticket sales and theatre subscriptions - Membership and theatre subscriptions are recognized over the membership and subscription period. Revenue from ticket sales is recognized at the time the performance occurs.

Contributed services - There are approximately 3,500 volunteers who contribute approximately 252,000 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.

In-kind donations - ASP records donated services based on prevailing rates (fair value) for said services (see Note 15).

Advertising - Advertising costs are expensed as incurred.

Operating leases - Operating leases are straight-lined over the term of the lease. Deferred rent is recorded where there are material differences between the fixed payment and the rent expense.

Grant expense - Grants are recorded when awarded and are for a period not to extend beyond one year.

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

Fair Value Measurements 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 methodologies used for assets measured at fair value. There has been no change in the methodologies used at December 31, 2016 as compared to those used at December 31, 2015.

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

Mutual funds - Mutual funds are valued at the net asset value (NAV) of shares held by ASP at the end of the year.

Exchange-traded funds - Valued at the closing price reported on the active market on which the individual securities are traded.

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

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2013 and subsequent remain subject to examination by applicable taxing authorities. There was no unrelated business income for the year ended December 31, 2016.

Subsequent events - Subsequent events have been evaluated through May 11, 2017, which is the date the financial statements were available to be issued.

NOTE 3 - INVESTMENTS

Investments at fair value at December 31, 2016 consist of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Corporate bonds - domestic		\$ 950,749	\$ 950,749
Mutual funds - equities	\$ 1,092,846		1,092,846
Exchange-traded funds - equities	<u>127,770</u>		<u>127,770</u>
	<u>\$ 1,220,616</u>	<u>\$ 950,749</u>	<u>\$ 2,171,365</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 3%.

Contributions receivable are due as follows:

2017 and prior	\$ 949,745
2018	406,833
2019	298,333
2020	153,333
2021	<u>123,335</u>
	1,931,579
Less discount to present value	<u>(54,611)</u>
	<u>\$ 1,876,968</u>

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ALL STARS PROJECT, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016****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 actuarial present value of the beneficial interest in the charitable remainder unitrust at December 31, 2016 is \$260,237.

NOTE 6 - FIXED ASSETS

Fixed assets consist of the following at December 31, 2016:

Condominium	\$ 7,750,000
Condominium improvements	9,281,034
Leasehold improvements	1,338,034
Furniture, fixtures and equipment	331,600
Video and light equipment	230,647
Computer equipment	<u>244,786</u>
	19,176,101
Less accumulated depreciation and amortization	<u>(8,172,327)</u>
	<u>\$ 11,003,774</u>

Depreciation and amortization expense relating to fixed assets was \$838,735 for the year ended December 31, 2016.

NOTE 7 - MORTGAGE PAYABLE

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.

In November 2012, ASP refinanced the bonds with a tax-exempt mortgage loan payable from First Republic Bank through BuildNYC in the amount of \$10,720,000 at an interest rate of 3.95%. The loan matures November 2038. The balance as of December 31, 2016 was \$9,901,112. Interest expense for the year ended December 31, 2016 totaled \$428,290, including \$22,131 for amortization of debt issuance costs.

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 7 - MORTGAGE PAYABLE (continued)

The loan covenants require a debt service ratio of 1.20 to 1. In addition, cash and cash equivalents plus investments and the current portion of pledges, minus any outstanding and current portion of loans, must be at least \$1,750,000 starting in 2013. As of December 31, 2016, ASP was in compliance with these covenants.

The mortgage is collateralized by the condominium and contributions receivable.

ASP incurred \$553,272 of debt issuance costs in connection with the mortgage refinancing. These costs are being amortized over the term of the related mortgage. At December 31, 2016, the unamortized debt issuance costs were \$440,786.

Scheduled principal payments for the mortgage payable are as follows:

2017	\$ 288,245
2018	300,004
2019	312,241
2020	323,966
2021	338,193
Thereafter	<u>8,338,463</u>
Total	9,901,112
Less unamortized debt issuance costs	<u>(440,786)</u>
Net total	<u>\$ 9,460,326</u>

Change in accounting principle - In 2016, ASP adopted new requirements to present debt issuance costs as a reduction of the carrying amount of the related debt rather than as an asset. Under the new requirements, amortization of the debt issuance costs is reported as interest expense rather than as amortization expense. The effect of the change for 2016 and 2015 was to decrease mortgage payable by \$440,786 and \$462,917, respectively, and record interest expense of \$22,131 and \$21,196 in 2016 and 2015, respectively, instead of amortization expense.

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ALL STARS PROJECT, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016****NOTE 8 - LOANS PAYABLE**

In 2012, two loans were obtained from First Republic Bank, one for \$300,000 and the other for \$500,000. The interest rate on both loans was prime plus .5%. In October 2016, ASP renegotiated and extended the terms of the loans. The loans now bear interest at a fixed rate of 3.95% and mature in 2022. The total balance as of December 31, 2016 was \$480,176. The loans are secured by the condominium. Interest expense for the year ended December 31, 2016 totaled \$17,670. Scheduled principal payments are as follows:

2017	\$	81,004
2018		84,308
2019		87,749
2020		91,303
2021		95,051
Thereafter		<u>40,761</u>
	\$	<u>480,176</u>

NOTE 9 - OPERATING LEASES

ASP leases office space in Newark, San Francisco, Chicago and Bridgeport under various non-cancelable lease agreements through 2023. Rent expense for the year ended December 31, 2016 was \$290,250. The outstanding lease obligations are:

<u>Year</u>	<u>Amount</u>
2017	\$ 222,195
2018	181,636
2019	229,568
2020	234,160
2021	238,843
Thereafter	<u>284,761</u>
Total	\$ <u>1,391,163</u>

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2016 temporarily restricted net assets are available for the following purposes or periods:

Operation Conversation: Cops and Kids	\$ 24,187
Regional Youth/Culture	9,450
Education - other programs	220,713
All Stars Project of Dallas	386,664
All Stars Project of Chicago	781,208
All Stars Project of Bridgeport	97,053
Unappropriated endowment earnings	102,079
For periods after December 31, 2016	<u>1,726,167</u>
Total	<u>\$ 3,347,521</u>

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	\$ 370,966
Volunteerism and Education	124,356
Education - other programs	186,454
Development School for Youth	674,672
Castillo Theatre	232,273
Youth on Stage!	1,005
All Stars Project of the San Francisco Bay Area	398,750
All Stars Project of Chicago	1,072,168
All Stars Project of New Jersey	1,135,802
All Stars Project of Dallas	836,230
All Stars Project of Bridgeport	595,785
Passage of time	<u>734,495</u>
Total	<u>\$ 6,362,956</u>

NOTE 11 - CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject ASP to concentration of credit risk consist primarily of cash and cash equivalents. At various times, ASP has cash deposits at financial institutions, which exceed the Federal Deposit Insurance Corporation or the Securities Investor Protection Corporation insurance limits.

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 12 - SPECIAL EVENTS

	<u>Ticket Sales</u>	<u>Direct Expenses</u>	<u>Net Proceeds</u>
Bay Area benefit	\$ 99,700	\$ 28,542	\$ 71,158
Bridgeport benefit	48,650	35,805	12,845
Bridgeport golf event	49,300	23,442	25,858
Chicago luncheon	258,825	18,992	239,833
Cops & Kids benefit	30,850	4,411	26,439
Dallas benefit	154,670	40,412	114,258
National gala	527,175	144,057	383,118
NJ DSY dinner	218,300	23,516	194,784
NY DSY luncheon	330,500	39,422	291,078
Theatre gala	<u>6,175</u>	<u>-</u>	<u>6,175</u>
Total	<u>\$ 1,724,145</u>	<u>\$ 358,599</u>	<u>\$ 1,365,546</u>

NOTE 13 - ALLOCATION OF JOINT COSTS

In 2016, 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, public relations, and telemarketing. The costs of conducting those activities amounted to \$289,679 of joint costs, which are not specifically attributable to particular components of the activities. These joint costs were allocated as follows:

Program services	
All Stars Talent Show Network/Youth on Stage	\$ 34,604
Volunteerism and Education	523
Cops and Kids	1,241
Castillo Theatre	9,046
Development School for Youth	<u>93,609</u>
Total program services	139,023
Supporting services	
Fund raising	<u>150,656</u>
Total	<u>\$ 289,679</u>

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ALL STARS PROJECT, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016****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.

Interpretation of Relevant Law

The Board of Directors of ASP 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 governed by the NYPMIFA spending policy, which establishes a standard maximum prudent 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 maintain the principal endowment funds at the original amount designated by the donor while generating investment income to support the purposes designated by the donor. The investment policy to achieve this objective is to invest in various investment securities and interest-bearing accounts. Interest earned in relation to the endowment funds is recorded as restricted until appropriated.

Funds with Deficiencies

ASP does not have any funds with deficiencies.

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 14 - ENDOWMENT FUND (continued)

Endowment Net Asset Composition by Type of Fund as of December 31, 2016

As of December 31, 2016, the endowment net asset composition of \$868,348 consists of two permanently donor-restricted funds.

NJ Development School for Youth	\$ 100,000
General operating purposes	<u>768,348</u>
	<u>\$ 868,348</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2016

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 964,674	\$ 964,674
Reclassification per donor intent	-	(96,326)	(96,326)
Interest income	20,147	-	20,147
Realized and unrealized gain on investments	<u>81,932</u>	<u>-</u>	<u>81,932</u>
Endowment net assets, end of year	<u>\$ 102,079</u>	<u>\$ 868,348</u>	<u>\$ 970,427</u>

During 2016, \$96,326 was reclassified to unrestricted net assets per the donor request.

NOTE 15 - IN-KIND DONATIONS

The value of donated professional services, advertising and space rental included in revenues, gains (losses) and other support and the corresponding management and general, and direct cost of special events expenses are as follows:

Space Rental - direct cost of special events	\$ 10,000
Professional Services	15,933
Advertising	<u>32,000</u>
Total	<u>\$ 57,933</u>

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ALL STARS PROJECT, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016****NOTE 16 - RETIREMENT PLAN**

ASP currently offers a 403(b) retirement plan through TIAA-CREF for its full-time employees. Employees are eligible for this benefit upon date of hire. ASP matches employee contributions bi-annually. The match is 25% of the first \$2,000 of employee contributions and 10% of any additional employee contributions. ASP's expense was \$46,320 for the year ended December 31, 2016.