

ALL STARS PROJECT, INC.

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2017

ALL STARS PROJECT, INC.

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**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, 2017, 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, 2017, 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 All Stars Project, Inc.'s December 31, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 11, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

April 25, 2018

ALL STARS PROJECT, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017
(With Summarized Financial Information
for December 31, 2016)

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | \$ 2,369,916 | \$ 2,796,445 |
| Investments, at fair value (Notes 3) | 2,402,197 | 1,053,017 |
| Current portion of contributions receivable (Note 4) | 835,598 | 949,745 |
| Prepaid expenses and other current assets | <u>103,310</u> | <u>109,770</u> |
| Total current assets | 5,711,021 | 4,908,977 |
| Other assets | | |
| Contributions receivable, less current portion (Note 4) | 52,690 | 53,800 |
| Beneficial interest in charitable remainder unitrust (Note 5) | 1,236,199 | 927,223 |
| Property and equipment - net (Note 6) | 10,922,714 | 11,003,774 |
| Investments, at fair value, net of current portion (Notes 3) | <u>1,118,348</u> | <u>1,118,348</u> |
| Total assets | <u>\$ 19,040,972</u> | <u>\$ 18,272,359</u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 43,119 | \$ 45,734 |
| Accrued salaries and related expenses payable | 859,219 | 694,287 |
| Other liabilities | 4,780 | 159,302 |
| Deferred revenue | 27,900 | 3,000 |
| Accrued interest payable | 34,055 | 35,311 |
| Current portion of mortgage payable (Note 7) | 300,004 | 288,245 |
| Current portion of loans payable (Note 8) | <u>84,308</u> | <u>81,004</u> |
| Total current liabilities | 1,353,385 | 1,306,883 |
| Deferred rent | | |
| Mortgage payable, net of current portion (Note 7) | 207,670 | 175,070 |
| Loans payable, net of current portion (Note 8) | <u>8,894,256</u> | <u>9,172,081</u> |
| Total liabilities | <u>10,770,165</u> | <u>11,053,206</u> |
| Net assets (Exhibit B) | | |
| Unrestricted | | |
| Operations | 4,629,640 | 2,753,284 |
| Board designated (Note 14) | <u>250,000</u> | <u>250,000</u> |
| Total unrestricted | 4,879,640 | 3,003,284 |
| Temporarily restricted (Note 10) | 2,522,819 | 3,347,521 |
| Permanently restricted (Note 14) | <u>868,348</u> | <u>868,348</u> |
| Total net assets | <u>8,270,807</u> | <u>7,219,153</u> |
| Total liabilities and net assets | <u>\$ 19,040,972</u> | <u>\$ 18,272,359</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, 2017
 (With Summarized Financial Information
 for the Year Ended December 31, 2016)

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> | |
|--|---------------------|-----------------------------------|-----------------------------------|-------------------|-------------------|
| | | | | <u>2017</u> | <u>2016</u> |
| Revenues, gains and other support | | | | | |
| Contributions | \$ 3,349,970 | \$ 5,131,317 | | \$ 8,481,287 | \$ 8,429,676 |
| All Stars ticket sales | 14,865 | | | 14,865 | 14,163 |
| Theatre ticket sales and subscriptions | 52,694 | | | 52,694 | 70,353 |
| In-kind donations (Note 2) | | | | | 57,933 |
| Donation of real property (Note 15) | 710,000 | | | 710,000 | |
| Special events (Note 12) | \$ 1,704,377 | | | | |
| Less direct cost of special events | <u>(306,215)</u> | | | | |
| Net revenues from special events | 1,398,162 | | | 1,398,162 | 1,365,546 |
| Interest and dividends | 63,984 | 43,126 | | 107,110 | 61,149 |
| Realized and unrealized gain on investments | 39,230 | 102,809 | | 142,039 | 130,394 |
| Gain on beneficial interest in charitable remainder unitrust | 22,970 | | | 22,970 | 1,901 |
| Other revenues | 25,165 | | | 25,165 | 11,059 |
| Net assets released from restrictions (Note 10) | <u>6,101,954</u> | <u>(6,101,954)</u> | | | |
| Total revenues, gains and other support | <u>11,778,994</u> | <u>(824,702)</u> | | <u>10,954,292</u> | <u>10,142,174</u> |

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ALL STARS PROJECT, INC.

EXHIBIT B

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STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017
(With Summarized Financial Information
for the Year Ended December 31, 2016)

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> | |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|---------------------|
| | | | | <u>2017</u> | <u>2016</u> |
| Expenses (Exhibit C) | | | | | |
| Program services | | | | | |
| All Stars Talent Show Network/Youth on Stage | \$ 1,992,703 | | | \$ 1,992,703 | \$ 2,559,172 |
| Development School for Youth | 2,839,977 | | | 2,839,977 | 2,657,829 |
| Castillo Theatre | 751,434 | | | 751,434 | 790,214 |
| Volunteerism and Education | 838,975 | | | 838,975 | 1,023,796 |
| Operation Conversation: Cops and Kids | <u>1,086,753</u> | | | <u>1,086,753</u> | <u>490,731</u> |
| Total program services | <u>7,509,842</u> | | | <u>7,509,842</u> | <u>7,521,742</u> |
| Supporting services | | | | | |
| Management and general | 965,830 | | | 965,830 | 1,035,023 |
| Fund raising | <u>1,426,966</u> | | | <u>1,426,966</u> | <u>1,420,661</u> |
| Total supporting services | <u>2,392,796</u> | | | <u>2,392,796</u> | <u>2,455,684</u> |
| Total expenses | <u>9,902,638</u> | | | <u>9,902,638</u> | <u>9,977,426</u> |
| Change in net assets (Exhibit D) | 1,876,356 | \$ (824,702) | | 1,051,654 | 164,748 |
| Net assets - beginning of year | <u>3,003,284</u> | <u>3,347,521</u> | \$ 868,348 | <u>7,219,153</u> | <u>7,054,405</u> |
| Net assets - end of year (Exhibit A) | <u>\$ 4,879,640</u> | <u>\$ 2,522,819</u> | <u>\$ 868,348</u> | <u>\$ 8,270,807</u> | <u>\$ 7,219,153</u> |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017
(With Summarized Financial Information
for the Year Ended December 31, 2016)

| | Program 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 | | 2017 | 2016 |
| | | | | | | | | | | | |
| Salaries | \$ 1,003,623 | \$ 1,505,368 | \$ 269,435 | \$ 418,840 | \$ 474,604 | \$ 3,671,870 | \$ 519,482 | \$ 746,777 | \$ | \$ 4,938,129 | \$ 4,856,751 |
| Payroll taxes and employee benefits | 222,707 | 307,963 | 67,566 | 87,545 | 106,450 | 792,231 | 92,826 | 139,735 | | 1,024,792 | 999,749 |
| Total salaries and related expenses | 1,226,330 | 1,813,331 | 337,001 | 506,385 | 581,054 | 4,464,101 | 612,308 | 886,512 | | 5,962,921 | 5,856,500 |
| Grants and donations | 21,334 | | | | | 21,334 | | | | 21,334 | 1,963 |
| Professional fees | 60,799 | 158,458 | 15,629 | 127,400 | 92,155 | 454,441 | 91,835 | 56,294 | | 602,570 | 592,286 |
| Production | 54,291 | 69,041 | 21,902 | 6,125 | 19,915 | 171,274 | 1,349 | 91,007 | \$ 33,352 | 296,982 | 440,654 |
| Interest | 99,566 | 88,870 | 88,355 | 34,822 | 60,083 | 371,696 | 28,855 | 29,377 | | 429,928 | 445,960 |
| Fees and charges | 2,291 | 2,497 | 987 | 574 | 589 | 6,938 | 64,625 | 1,191 | | 72,754 | 68,047 |
| Insurance | 38,302 | 54,269 | 11,167 | 17,850 | 21,257 | 142,845 | 11,874 | 21,975 | | 176,694 | 197,382 |
| Telecommunications | 16,113 | 22,292 | 6,707 | 4,396 | 7,669 | 57,177 | 3,273 | 7,836 | | 68,286 | 73,068 |
| Database and computer services | 18,900 | 24,427 | 8,298 | 6,016 | 8,409 | 66,050 | 2,902 | 10,366 | | 79,318 | 95,605 |
| Occupancy | 111,827 | 173,169 | 25,910 | 20,518 | 58,934 | 390,358 | 15,582 | 52,510 | | 458,450 | 466,457 |
| Training and outreach | 19,172 | 31,979 | 8,570 | 9,058 | 19,833 | 88,612 | 15,450 | 26,479 | | 130,541 | 188,771 |
| Advertising and design | 6,149 | 14,241 | 3,046 | 4,781 | 2,403 | 30,620 | 9,915 | 32,522 | | 73,057 | 118,819 |
| Transportation and travel expenses | 17,803 | 60,733 | 7,260 | 7,562 | 31,126 | 124,484 | 7,210 | 35,388 | | 167,082 | 177,599 |
| Equipment rental | 5,857 | 7,799 | 2,533 | 2,905 | 3,594 | 22,688 | 1,001 | 4,952 | | 28,641 | 18,785 |
| Repairs and maintenance | 31,474 | 30,657 | 35,065 | 11,515 | 24,609 | 133,320 | 8,409 | 11,029 | | 152,758 | 160,582 |
| Postage and shipping | 2,033 | 3,511 | 948 | 247 | 2,342 | 9,081 | 13,871 | 23,521 | | 46,473 | 38,408 |
| Office | 17,630 | 28,486 | 11,340 | 6,240 | 21,045 | 84,741 | 10,378 | 13,911 | | 109,030 | 79,991 |
| Catering | 2,600 | 4,638 | 1,075 | 3,330 | 1,447 | 13,090 | 1,171 | 15,094 | 214,917 | 244,272 | 233,143 |
| Printing | 16,235 | 20,570 | 3,771 | 2,210 | 5,456 | 48,242 | 14,072 | 17,192 | | 79,506 | 116,534 |
| Space rental | 11,744 | 6,711 | | 5,714 | 2,100 | 26,269 | 16 | 8,990 | 57,946 | 93,221 | 82,932 |
| Depreciation and amortization | 201,498 | 207,932 | 151,792 | 56,829 | 116,309 | 734,360 | 36,844 | 66,677 | | 837,881 | 838,735 |
| Dues, subscriptions and conference fees | 8,100 | 11,166 | 9,151 | 3,794 | 4,878 | 37,089 | 2,159 | 12,614 | | 51,862 | 36,062 |
| Miscellaneous | 2,655 | 5,200 | 927 | 704 | 1,546 | 11,032 | 12,731 | 1,529 | | 25,292 | 7,742 |
| Total expenses | 1,992,703 | 2,839,977 | 751,434 | 838,975 | 1,086,753 | 7,509,842 | 965,830 | 1,426,966 | 306,215 | 10,208,853 | 10,336,025 |
| Less direct cost of special events | | | | | | | | | (306,215) | (306,215) | (358,599) |
| Total expenses (excluding direct expenses of special events) (Exhibit B) | \$ 1,992,703 | \$ 2,839,977 | \$ 751,434 | \$ 838,975 | \$ 1,086,753 | \$ 7,509,842 | \$ 965,830 | \$ 1,426,966 | \$ - | \$ 9,902,638 | \$ 9,977,426 |

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, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Cash flows from operating activities | | |
| Change in net assets (Exhibit B) | \$ 1,051,654 | \$ 164,748 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities | | |
| Loss on disposal of property and equipment | 676 | |
| Donated real property | (710,000) | |
| Depreciation and amortization | 837,881 | 838,735 |
| Amortization of debt issuance costs included in interest expense | 22,131 | 22,131 |
| Gain on beneficial interest in charitable remainder trust | | (1,901) |
| Realized and unrealized gain on investments | (142,039) | (130,394) |
| Decrease (increase) in assets | | |
| Contributions receivable | (194,829) | (919,716) |
| Beneficial interest in charitable remainder unitrust | 260,237 | |
| Prepaid expenses and other assets | 7,570 | 1,059 |
| Increase (decrease) in liabilities | | |
| Accounts payable and accrued expenses | (2,615) | (4,500) |
| Accrued salaries and related expenses payable | 164,932 | (99,530) |
| Other liabilities | (154,522) | |
| Deferred revenue | 24,900 | |
| Accrued interest payable | (1,256) | (1,113) |
| Deferred rent | 32,600 | 36,927 |
| Net cash provided (used) by operating activities | <u>1,197,320</u> | <u>(93,554)</u> |
| Cash flows from investing activities | | |
| Purchase of fixed assets | (47,497) | (101,286) |
| Purchase of investments | (4,127,348) | (2,553,985) |
| Proceeds from the sale of investments | 2,920,207 | 2,544,953 |
| Net cash used by investing activities | <u>(1,254,638)</u> | <u>(110,318)</u> |
| Cash flows from financing activities | | |
| Principal payments on loans payable | (81,014) | (79,824) |
| Principal payments on mortgage payable | (288,197) | (275,808) |
| Net cash used by financing activities | <u>(369,211)</u> | <u>(355,632)</u> |
| Net change in cash and cash equivalents | (426,529) | (559,504) |
| Cash and cash equivalents - beginning of year | <u>2,796,445</u> | <u>3,355,949</u> |
| Cash and cash equivalents - end of year | <u>\$ 2,369,916</u> | <u>\$ 2,796,445</u> |
| Supplemental disclosure of cash flow information | | |
| Cash paid during the year for interest | <u>\$ 409,053</u> | <u>\$ 424,942</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, 2017

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 connecting kids to communities. ASTSN involves young people, ages 5 to 25 in performing and producing hip-hop talent shows in their neighborhoods. They are cheered on by audience of family, neighbors, volunteers and donors. This experience is transformative for all. ASTSN is produced in New York, NY, Newark, NJ, Chicago, IL, Bay Area, CA, and Dallas, TX.

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, and Dallas, TX.

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.

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ALL STARS PROJECT, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017****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.

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 approximately 3,500 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.

Reclassification - Membership dues and contributions in 2016, which were previously reported separately, are now being shown on one line as contributions. In addition, the statement of financial position presentation was changed to a classified statement of financial position.

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.

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ALL STARS PROJECT, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

- (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 Endowment Fund reserved by the Board for future long term purposes not yet determined.

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, 2016, from which the summarized information was derived.

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, 2017

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.

Property and equipment - Property and equipment are recorded 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:

| | |
|-----------------------------------|--------------|
| Building | 40 years |
| 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, 2017****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Asset impairment - ASP evaluates long-term assets for impairment whenever events or changes in circumstances would indicate that the carrying value of an asset may not be recoverable. Long-lived assets would be deemed to be impaired if the carrying value of the assets is in excess of its fair value. There were no asset impairments for the year ended December 31, 2017.

Deferred revenue - Amounts received for special events, 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.

Theatre ticket sales and subscriptions - Theatre subscriptions are recognized over the 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 that require specialized skills and would typically need to be purchased if they had not been contributed based on prevailing rates (fair value) for said services. There were no material in-kind donated services for the year ended December 31, 2017.

Donations of real property - ASP records donated real property at fair market value at the time of the donation as determined by an independent appraisal.

Advertising - Advertising costs are expensed as incurred.

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ALL STARS PROJECT, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Deferred rent - Operating leases are reported on the straight line basis over the term of the leases. The difference between the straight-line rent expense and the required lease payments, as well as any unamortized lease incentives, is reflected as deferred rent when material.

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

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 have been no changes in the methodologies used at December 31, 2017 as compared to those used at December 31, 2016.

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.

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

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. Furthermore, while ASP believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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, 2014 and subsequent remain subject to examination by applicable taxing authorities. There was no unrelated business income for the year ended December 31, 2017.

Subsequent events - Subsequent events have been evaluated through April 25, 2018, which is the date the financial statements were available to be issued.

NOTE 3 - INVESTMENTS

Investments at fair value at December 31, 2017 consist of the following:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Total</u> |
|----------------------------------|---------------------|---------------------|---------------------|
| Corporate bonds - domestic | | \$ 1,855,245 | \$ 1,855,245 |
| Mutual funds - equities | \$ 1,448,549 | | 1,448,549 |
| Exchange-traded funds - equities | <u>216,751</u> | | <u>216,751</u> |
| | <u>\$ 1,665,300</u> | <u>\$ 1,855,245</u> | <u>\$ 3,520,545</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%.

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 4 - CONTRIBUTIONS RECEIVABLE (continued)

Contributions receivable are due as follows:

| | |
|--------------------------------|---------------------|
| 2018 and prior | \$ 835,598 |
| 2019 | 542,222 |
| 2020 | 397,222 |
| 2021 | <u>367,222</u> |
| | 2,142,264 |
| Less discount to present value | <u>(70,467)</u> |
| | \$ <u>2,071,797</u> |

NOTE 5 - BENEFICIAL INTEREST IN CHARITABLE REMAINDER UNITRUST

ASP was 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%. During the year ended December 31, 2017, all parties to the charitable remainder unitrust settled the trust balances with the trustees, and ASP received the proceeds based on the calculated actuarial value of the beneficial interest in the charitable remainder unitrust at the time of the settlement.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2017:

| | |
|--|----------------------|
| Land | \$ 225,000 |
| Building | 485,000 |
| Condominium | 7,750,000 |
| Condominium improvements | 9,292,934 |
| Leasehold improvements | 1,341,993 |
| Furniture, fixtures and equipment | 332,684 |
| Video and light equipment | 230,647 |
| Computer equipment | <u>224,118</u> |
| | 19,882,376 |
| Less accumulated depreciation and amortization | <u>(8,959,662)</u> |
| | \$ <u>10,922,714</u> |

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 6 - PROPERTY AND EQUIPMENT (continued)

Depreciation and amortization expense relating to property and equipment was \$837,881 for the year ended December 31, 2017.

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, 2017 was \$9,612,915. Interest expense for the year ended December 31, 2017 totaled \$412,176, including \$22,131 for amortization of debt issuance costs.

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, 2017, 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, 2017, the unamortized debt issuance costs were \$418,655.

Scheduled principal payments for the mortgage payable are as follows:

| | |
|--------------------------------------|---------------------|
| 2017 | \$ 300,004 |
| 2018 | 312,241 |
| 2019 | 323,966 |
| 2020 | 338,193 |
| 2021 | 351,989 |
| Thereafter | <u>7,986,522</u> |
| Total | 9,612,915 |
| Less unamortized debt issuance costs | <u>(418,655)</u> |
| Net total | <u>\$ 9,194,260</u> |

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ALL STARS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

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, 2017 was \$399,162. The loans are secured by the condominium. Interest expense for the year ended December 31, 2017 totaled \$17,752. Scheduled principal payments are as follows:

| | |
|------|-------------------|
| 2018 | \$ 84,308 |
| 2019 | 87,749 |
| 2020 | 91,303 |
| 2021 | 95,051 |
| 2022 | <u>40,751</u> |
| | <u>\$ 399,162</u> |

NOTE 9 - OPERATING LEASES

ASP leases office space in Newark, San Francisco, and Chicago under various non-cancelable lease agreements through 2023. Rent expense for the year ended December 31, 2017 was \$290,250. The outstanding lease obligations are:

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------------|
| 2018 | \$ 228,500 |
| 2019 | 232,158 |
| 2020 | 234,160 |
| 2021 | 238,843 |
| 2022 | 243,620 |
| Thereafter | <u>41,141</u> |
| Total | <u>\$ 1,218,422</u> |

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ALL STARS PROJECT, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017****NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS**

At December 31, 2017 temporarily restricted net assets are available for the following purposes or periods:

| | |
|-------------------------------------|-------------------------|
| Education - other programs | \$ 40,316 |
| All Stars Project of Chicago | 308,078 |
| Chicago Center expansion | 512,813 |
| Unappropriated endowment earnings | 216,014 |
| For periods after December 31, 2017 | <u>1,445,598</u> |
| Total | <u>\$ 2,522,819</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 | \$ 503,743 |
| All Stars Talent Show Network | 33,192 |
| Volunteerism and Education | 5,051 |
| Education - other programs | 297,897 |
| Development School for Youth | 858,544 |
| Castillo Theatre | 175,266 |
| Youth on Stage! | 1,000 |
| All Stars Project of the San Francisco Bay Area | 431,053 |
| All Stars Project of Chicago | 1,116,932 |
| Chicago Center expansion | 106,472 |
| All Stars Project of New Jersey | 670,030 |
| All Stars Project of Dallas | 870,725 |
| All Stars Project of Bridgeport | 119,480 |
| Appropriation of endowment earnings | 32,000 |
| Passage of time | <u>880,569</u> |
| Total | <u>\$ 6,101,954</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, 2017

NOTE 12 - SPECIAL EVENTS

| | <u>Ticket Sales</u> | <u>Direct Expenses</u> | <u>Net Proceeds</u> |
|---------------------|---------------------|------------------------|---------------------|
| Bay Area benefit | \$ 105,750 | \$ 19,871 | \$ 85,879 |
| Chicago benefit | 344,527 | 20,027 | 324,500 |
| Cops & Kids benefit | 58,000 | 5,393 | 52,607 |
| Dallas benefit | 207,124 | 29,595 | 177,529 |
| National gala | 367,214 | 143,649 | 223,565 |
| NJ DSY dinner | 275,762 | 23,425 | 252,337 |
| NY DSY luncheon | <u>346,000</u> | <u>64,255</u> | <u>281,745</u> |
| Total | <u>\$ 1,704,377</u> | <u>\$ 306,215</u> | <u>\$ 1,398,162</u> |

NOTE 13 - ALLOCATION OF JOINT COSTS

In 2017, ASP conducted activities that included requests for contributions, as well as program components. Those activities included special events and marketing. The costs of conducting those activities amounted to \$224,358 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 | \$ 26,619 |
| Cops and Kids | 773 |
| Development School for Youth | <u>71,959</u> |
| Total program services | 99,351 |
| Supporting services | |
| Fund raising | <u>125,007</u> |
| Total | <u>\$ 224,358</u> |

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ALL STARS PROJECT, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017****NOTE 14 - ENDOWMENT FUNDS****General**

ASP's two endowment funds include funds designated by the Board of Directors, 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. Investment income earned in relation to the permanently restricted endowment funds is recorded as restricted until appropriated. Investment income earned on the board designated endowment fund is recorded as unrestricted.

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, 2017

NOTE 14 - ENDOWMENT FUNDS (continued)

Endowment Net Asset Composition by Type of Fund as of December 31, 2017

As of December 31, 2017, the endowment net asset composition of \$1,334,362 consists of the following:

| | Unrestricted - Board Designated | Temporarily Restricted | Permanently Restricted | Total |
|--|--|-----------------------------------|-----------------------------------|---------------------|
| Donor restricted endowment funds: | | | | |
| NJ Development School for Youth | \$ - | \$ 690 | \$ 100,000 | \$ 100,690 |
| General operating purposes | <u>-</u> | <u>215,324</u> | <u>768,348</u> | <u>983,672</u> |
| Total donor restricted endowment funds | - | 216,014 | 868,348 | 1,084,362 |
| Funds without donor restriction | <u>250,000</u> | <u>-</u> | <u>-</u> | <u>250,000</u> |
| Endowment net assets, end of year | <u>\$ 250,000</u> | <u>\$ 216,014</u> | <u>\$ 868,348</u> | <u>\$ 1,334,362</u> |

Changes in Endowment Net Assets for the Year Ended December 31, 2017

| | Unrestricted - Board Designated | Temporarily Restricted | Permanently Restricted | Total |
|---|--|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets, beginning of year | \$ 250,000 | \$ 102,079 | \$ 868,348 | \$ 1,220,427 |
| Interest and dividends | 10,782 | 43,126 | - | 53,908 |
| Realized and unrealized gain on investments | 25,702 | 102,809 | - | 128,511 |
| Appropriation of Endowment assets for expenditure | <u>(36,484)</u> | <u>(32,000)</u> | <u>-</u> | <u>(68,484)</u> |
| Endowment net assets, end of year | <u>\$ 250,000</u> | <u>\$ 216,014</u> | <u>\$ 868,348</u> | <u>\$ 1,334,362</u> |

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ALL STARS PROJECT, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017****NOTE 15 - DONATION OF REAL PROPERTY**

In 2017, ASP received a donation of real property (land and building) with a fair market value of \$710,000 at the date of donation. This property is included in property and equipment on ASP's statement of financial position. This property will be used by All Stars Project, Inc. to operate some of its programs.

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 \$48,712 for the year ended December 31, 2017.