# All Stars Project, Inc.

Independent Auditor's Report and Financial Statements

December 31, 2018

BKD
CPAs & Advisors

# All Stars Project, Inc.
## December 31, 2018

## Contents

# Independent Auditor's Report

Board of Directors
All Stars Project, Inc.
New York, New York

We have audited the accompanying financial statements of All Stars Project, Inc., which comprise the statement of financial position as of December 31, 2018, 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, 2018, 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*

As described in *Note 13* to the financial statements, in 2018, All Stars Project, Inc. adopted ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities.* Our opinion is not modified with respect to this matter.

BKD, LLP

New York, New York
May 2, 2019

# All Stars Project, Inc.
## Statement of Financial Position
## December 31, 2018

| | |
|---|---|
| **Assets** | |
| **Current** | |
| Cash and cash equivalents | $ 1,859,548 |
| Short-term investments | 2,418,149 |
| Contributions receivable | 1,352,819 |
| Prepaid expenses and other current assets | 112,932 |
| Total current assets | 5,743,448 |
| Other assets | 66,556 |
| Contributions receivable, less current portion | 3,199,834 |
| Property and equipment, net | 10,091,179 |
| Long-term investments | 1,153,366 |
| Total assets | $ 20,254,383 |
| **Liabilities and Net Assets** | |
| **Current Liabilities** | |
| Accounts payable and accrued expenses | $ 8,023 |
| Accrued salaries and related expenses payable | 584,881 |
| Other liabilities | 4,723 |
| Deferred revenue | 2,900 |
| Accrued interest payable | 30,711 |
| Current portion of mortgage payable | 312,241 |
| Current portion of loans payable | 87,748 |
| Total current liabilities | 1,031,227 |
| Deferred rent | 213,357 |
| Mortgage payable, net | 8,606,240 |
| Loans payable | 227,097 |
| Total liabilities | 10,077,921 |
| **Net Assets** | |
| Without donor restrictions | |
| Undesignated | 3,690,655 |
| Designated by the Board for endowment | 265,938 |
| Total net assets without donor restrictions | 3,956,593 |
| With donor restrictions | |
| Perpetual in nature | 893,348 |
| Purpose restrictions | 1,359,447 |
| Time-restricted for future periods | 3,967,074 |
| Total net assets with donor restrictions | 6,219,869 |
| Total net assets | 10,176,462 |
| Total liabilities and net assets | $ 20,254,383 |

# All Stars Project, Inc.

## Statement of Activities

## Year Ended December 31, 2018

| | | Without Donor Restriction | With Donor Restriction | Total |
|---|---|---|---|---|
| **Revenues, Gains and Other Support** | | | | |
| Contributions | | $ 2,250,230 | $ 8,501,524 | $ 10,751,754 |
| All Stars ticket sales | | 7,958 | - | 7,958 |
| Theatre ticket sales and subscriptions | | 117,660 | - | 117,660 |
| In-kind donations | | 65,150 | - | 65,150 |
| Special events | $ 1,709,840 | | | |
| Less direct cost of special events | (348,891) | | | |
| Net revenues from special events | | 1,360,949 | - | 1,360,949 |
| Investment loss, net | | (32,548) | (89,190) | (121,738) |
| Other revenues | | 22,241 | - | 22,241 |
| Net assets released from restrictions | | 5,535,835 | (5,535,835) | - |
| Total revenues, gains and other support | | 9,327,475 | 2,876,499 | 12,203,974 |
| **Expenses** | | | | |
| Program services | | | | |
| All Stars Talent Show Network/Youth on Stage | | 1,864,287 | - | 1,864,287 |
| Development School for Youth | | 3,069,893 | - | 3,069,893 |
| Castillo Theatre | | 772,376 | - | 772,376 |
| Volunteerism and Education | | 987,598 | - | 987,598 |
| Operation Conversation: Cops and Kids | | 1,133,659 | - | 1,133,659 |
| Total program services | | 7,827,813 | - | 7,827,813 |
| Supporting services | | | | |
| Management and general | | 879,358 | - | 879,358 |
| Fund raising | | 1,591,148 | - | 1,591,148 |
| Total supporting services | | 2,470,506 | - | 2,470,506 |
| Total expenses | | 10,298,319 | - | 10,298,319 |
| **Change in Net Assets** | | (970,844) | 2,876,499 | 1,905,655 |
| **Net Assets, Beginning of Year** | | 4,927,437 | 3,343,370 | 8,270,807 |
| **Net Assets, End of Year** | | $ 3,956,593 | $ 6,219,869 | $ 10,176,462 |

# All Stars Project, Inc.

## Statement of Functional Expenses

## Year Ended December 31, 2018

| | Program Services | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | Direct Costs of Special Events | Total |
| Salaries | $ 962,372 | $ 1,653,653 | $ 303,838 | $ 532,301 | $ 453,928 | $ 3,906,092 | $ 393,368 | $ 770,173 | $ - | $ 5,069,633 |
| Payroll taxes and employee benefits | 210,733 | 344,500 | 74,613 | 110,049 | 109,880 | 849,775 | 68,850 | 151,560 | - | 1,070,185 |
| Total salaries and related expenses | 1,173,105 | 1,998,153 | 378,451 | 642,350 | 563,808 | 4,755,867 | 462,218 | 921,733 | - | 6,139,818 |
| Grants and donations | 15,200 | - | - | - | - | 15,200 | - | - | - | 15,200 |
| Professional fees | 40,822 | 158,906 | 9,228 | 90,975 | 75,088 | 375,019 | 164,487 | 104,958 | - | 644,464 |
| Production | 36,018 | 50,196 | 32,442 | 24,216 | 6,289 | 149,161 | 1,820 | 54,145 | 61,605 | 266,731 |
| Interest | 86,646 | 82,089 | 80,204 | 31,430 | 87,908 | 368,277 | 21,169 | 25,404 | - | 414,850 |
| Fees and charges | 8,443 | 9,467 | 1,914 | 2,161 | 2,238 | 24,223 | 69,028 | 4,601 | - | 97,852 |
| Insurance | 36,838 | 58,429 | 15,176 | 19,022 | 22,411 | 151,876 | 12,731 | 23,015 | - | 187,622 |
| Telecommunications | 15,260 | 24,396 | 7,442 | 5,032 | 13,159 | 65,289 | 3,920 | 9,571 | - | 78,780 |
| Computer and information technology | 25,619 | 28,826 | 9,984 | 5,939 | 12,467 | 82,835 | 5,552 | 44,321 | - | 132,708 |
| Occupancy | 98,628 | 179,698 | 23,101 | 19,503 | 65,938 | 386,868 | 17,402 | 56,169 | - | 460,439 |
| Training and outreach | 18,568 | 34,104 | 12,421 | 20,505 | 5,559 | 91,157 | 10,425 | 20,696 | - | 122,278 |
| Promotional materials and advertising | 11,460 | 27,135 | 5,473 | 7,545 | 3,016 | 54,629 | 5,925 | 56,148 | - | 116,702 |
| Transportation and travel expenses | 20,878 | 69,987 | 1,229 | 15,472 | 26,305 | 133,871 | 10,953 | 48,395 | - | 193,219 |
| Equipment rental | 6,942 | 10,573 | 2,589 | 5,075 | 4,223 | 29,402 | 1,633 | 7,821 | - | 38,856 |
| Repairs and maintenance | 38,323 | 47,331 | 35,667 | 12,895 | 43,838 | 178,054 | 11,077 | 15,019 | - | 204,150 |
| Postage and shipping | 2,370 | 7,049 | 545 | 208 | 990 | 11,162 | 12,413 | 26,385 | - | 49,960 |
| Office expense | 23,953 | 38,855 | 8,378 | 9,624 | 14,724 | 95,534 | 14,679 | 18,357 | - | 128,570 |
| Catering | 2,407 | 13,232 | 804 | 4,148 | 1,359 | 21,950 | 2,760 | 51,733 | 284,615 | 361,058 |
| Printing | 20,825 | 16,563 | 7,977 | 3,830 | 3,114 | 52,309 | 3,457 | 27,197 | - | 82,963 |
| Space rental | 6,158 | 7,899 | 32 | 4,164 | 240 | 18,493 | 164 | 358 | 2,671 | 21,686 |
| Depreciation and amortization | 171,494 | 200,829 | 134,286 | 57,163 | 178,652 | 742,424 | 41,992 | 63,579 | - | 847,995 |
| Dues, subscriptions and conference fees | 2,505 | 2,716 | 4,782 | 5,549 | 1,297 | 16,849 | 2,097 | 10,054 | - | 29,000 |
| Miscellaneous | 1,825 | 3,460 | 251 | 792 | 1,036 | 7,364 | 3,456 | 1,489 | - | 12,309 |
| Total expenses | 1,864,287 | 3,069,893 | 772,376 | 987,598 | 1,133,659 | 7,827,813 | 879,358 | 1,591,148 | 348,891 | 10,647,210 |
| Less direct cost of special events | - | - | - | - | - | - | - | - | (348,891) | (348,891) |
| Total expenses (excluding direct expenses of special events) | $ 1,864,287 | $ 3,069,893 | $ 772,376 | $ 987,598 | $ 1,133,659 | $ 7,827,813 | $ 879,358 | $ 1,591,148 | $ - | $ 10,298,319 |

# All Stars Project, Inc.
## Statement of Cash Flows
## Year Ended December 31, 2018

| | |
|---|---|
| **Operating Activities** | |
| Change in net assets | $ 1,905,655 |
| Items not requiring (providing) operating cash flows | |
| Depreciation and amortization | 847,995 |
| Amortization of debt issuance costs included in interest expense | 22,131 |
| Net realized and unrealized losses on investments | 271,589 |
| Endowment contribution perpetual in nature | (25,000) |
| Changes in | |
| Contributions receivable | (2,480,856) |
| Prepaid expenses and other assets | (23,488) |
| Accounts payable and accrued expenses | (35,096) |
| Accrued salaries and related expenses payable | (274,338) |
| Other liabilities | (57) |
| Deferred revenue | (25,000) |
| Accrued interest payable | (3,344) |
| Deferred rent | 5,687 |
| Net cash provided by operating activities | 185,878 |
| **Investing Activities** | |
| Purchase of property and equipment | (16,460) |
| Purchase of investments | (5,350,656) |
| Proceeds from the sale of investments | 5,028,097 |
| Net cash used in investing activities | (339,019) |
| **Financing Activities** | |
| Endowment contributions perpetual in nature | 25,000 |
| Principal payments on loans payable | (84,317) |
| Principal payments on mortgage payable | (297,910) |
| Net cash used in financing activities | (357,227) |
| **Net Change in Cash and Cash Equivalents** | (510,368) |
| **Cash and Cash Equivalents, Beginning of Year** | 2,369,916 |
| **Cash and Cash Equivalents, End of Year** | $ 1,859,548 |
| **Supplemental Cash Flows Information** | |
| Cash paid during the year for interest | $ 396,063 |

## Note 1: Nature of Operations and Summary of Significant Accounting Policies

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

Youth Onstage! provides young performers ages 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 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, San Francisco, Bay Area, CA, and Dallas, TX.

### *Education and Afterschool Development Initiatives*

Afterschool Development Initiatives (ADI) is a set of activities, conversations, writing, and research that is advancing and further shaping afterschool as a field, discipline, and strategy that is distinct from the foundation and practices of school-based and traditional education. ADI will create and pursue opportunities to promote and market breakthrough prospective on measuring development and growth in youth in partnership with Southern Methodist University and others, create and pursue strategic partnership and connections that scale ASP's performance based development approach and programs, influence academic programs, and develop fellowship programs for frontline practitioners/active stakeholders in afterschool development group nationally.

University X (UX) is a free, university-style school for continuing development. It has classes, workshops and field trips that are open to people of all ages.

The Talented Volunteers program creates opportunities for hundreds of adults to get involved in virtually every aspect of ASP's programs and operations. There are approximately 3,500 volunteers involved annually.

### *The Castillo Theatre*

The Castillo Theatre (Castillo) brings challenging, thought-provoking theatre for young people and adults in 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.

### *Operation Conversation: Cops & Kids*

Operation Conversation: Cops & Kids is an innovative police-community relations program run by ASP 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. Approximately 500 police officers and youth have participated in these workshops.

ASP's primary source of support is contributions.

### *Use of Estimates*

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) 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.

### *Cash and Cash Equivalents*

ASP considers highly liquid instruments with maturities of less than three months, when acquired, to be cash equivalents.

At December 31, 2018, cash equivalents consisted primarily of money market accounts.

At December 31, 2018, ASP's cash accounts exceeded federally insured limits by approximately $1,375,000.

### *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 market fluctuations, and that such changes could materially affect the amounts reported in ASP's financial statements.

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

ASP maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

### *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 at December 31, 2018.

### *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 term 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 $3,000 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 |

### *Asset Impairment*

ASP evaluates long-lived 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 was no indication of any asset impairments for the year ended December 31, 2018.

### *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.

### *Net Assets*

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

### *Contributions*

Contributions are provided to ASP either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

| Nature of the Gift | Value Recognized |
|---|---|
| *Conditional gifts, with or without restriction* | |
| Gifts that depend on ASP overcoming a donor imposed barrier to be entitled to the funds | Not recognized until the gift becomes unconditional, *i.e.*, the donor imposed barrier is met |
| *Unconditional gifts, with or without restriction* | |
| Received at date of gift – cash and other assets | Fair value |
| Received at date of gift – property, equipment and long-lived assets | Estimated fair value |

| | |
|---|---|
| Expected to be collected within one year | Net realizable value |
| Collected in future years | Initially reported at fair value determined using the discounted present value of estimated future cash flows technique |

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.  Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as revenue with donor restrictions and then released from restriction.

### *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.

### *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.  For the year ended December 31, 2018, $65,150 was received in in-kind donations.

### *Functional Allocation of Expenses*

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Those expenses include salaries and related expenses of administrative and clerical staff, depreciation and amortization, interest, insurance, certain database and computer services, professional services, travel, trainings and seminar, as well as facilities costs. Occupancy, occupancy related and facilities costs for office space is based on estimates of time and efforts, occupancy costs for mixed use facilities is based on square footage of the space and the estimated usage. Certain costs of the database and technology are allocated based on utilization of specific technology. Other costs are allocated based on ratios of time and effort and of all departments and programs benefiting from costs incurred.

### *Advertising*

Advertising costs are expensed as incurred.

### *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 of Investments*

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, 2018 as compared to those used at December 31, 2017.

*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.

*Stocks, 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.

### *Income Taxes*

ASP is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, ASP is subject to federal income tax on any unrelated business taxable income.

ASP files tax returns in the U.S. federal jurisdiction.

### *Subsequent Events*

Subsequent events have been evaluated through May 2, 2019, which is the date the financial statements were available to be issued.

### *Revisions*

Beginning of the year net assets have been revised for an immaterial error, increasing net assets without donor restrictions by $47,797 and decreasing net assets with donor restrictions by the same amount. The revisions had no impact on total net assets.

# All Stars Project, Inc.
## Notes to Financial Statements
## December 31, 2018

### Note 2: Investments

Investments at fair value at December 31, 2018 consist of the following:

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| Corporate bonds - domestic | $ - | $ 1,546,640 | $ 1,546,640 |
| Stocks - equities | 7,191 | | 7,191 |
| Mutual funds - equities | 1,278,399 | - | 1,278,399 |
| Exchange-traded funds - equities | 739,287 | - | 739,287 |
| | $ 2,024,877 | $ 1,546,640 | $ 3,571,517 |

### Note 3: 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:

| | |
|---|---|
| 2019 | $ 1,352,819 |
| 2020 | 1,077,222 |
| 2021 | 1,012,656 |
| 2022 | 595,000 |
| 2023 | 375,000 |
| Thereafter | 375,000 |
| | 4,787,697 |
| Less unamortized discount | (235,044) |
| | $ 4,552,653 |

### Note 4: Property and Equipment

Property and equipment consist of the following at December 31, 2018:

| | |
|---|---|
| Land | $ 225,000 |
| Building | 485,000 |
| Condominium | 7,750,000 |
| Condominium improvements | 9,304,049 |
| Leasehold improvements | 1,348,421 |
| Furniture, fixtures and equipment | 331,600 |
| Video and light equipment | 230,648 |
| Computer equipment | 224,118 |
| | 19,898,836 |
| Less accumulated depreciation and amortization | (9,807,657) |
| | $ 10,091,179 |

Depreciation and amortization expense relating to property and equipment was $847,995 for the year ended December 31, 2018.

### Note 5: 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, 2018 was $9,315,005. Interest expense for the year ended December 31, 2018 totaled $400,365, 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 short and long-term investments, which can be converted to cash within 60 days, and the current portion of pledges, minus any outstanding and current portion of loans, must be at least $1,750,000 at the end of each quarter and year-end starting in 2013. As of December 31, 2018, 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, 2018, the unamortized debt issuance costs were $396,524.

Scheduled principal payments for the mortgage payable are as follows:

| | |
|---|---|
| 2019 | $ 312,241 |
| 2020 | 323,966 |
| 2021 | 338,193 |
| 2022 | 351,989 |
| 2023 | 366,347 |
| Thereafter | 7,622,269 |
| Total | 9,315,005 |
| Less unamortized debt issuance costs | (396,524) |
| Net total | $ 8,918,481 |

## Note 6: 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, 2018 was $314,845. The loans are secured by the condominium. Interest expense for the year ended December 31, 2018 totaled $14,485. Scheduled principal payments are as follows:

| | |
|---|---|
| 2019 | $ 87,748 |
| 2020 | 91,303 |
| 2021 | 95,051 |
| 2022 | 40,743 |
| | $ 314,845 |

## Note 7: Operating Leases

ASP leases office space in Newark, San Francisco, and Chicago under various noncancelable lease agreements through 2023. Rent expense for the year ended December 31, 2018 was $280,000. Future minimum lease payments at December 31, 2018 were:

| Year | Amount |
|---|---|
| 2019 | $ 299,828 |
| 2020 | 242,358 |
| 2021 | 238,843 |
| 2022 | 243,620 |
| 2023 | 41,141 |
| Total | $ 1,065,790 |

## Note 8: Net Assets With Donor Restrictions

At December 31, 2018 net assets with donor restrictions are available for the following purposes or periods:

| | |
|---|---|
| Subject to expenditure for specified purpose | |
| Afterschool Development Initiative | $ 649,985 |
| All Stars Project of Chicago | 275,493 |
| Chicago Center expansion | 386,196 |
| Subject to the passage of time | |
| Promises to give that are not restricted by donors but are unavailable for expenditure until due | 3,967,074 |
| Endowments | |
| Subject to appropriation and expenditure when a specified event occurs | |
| NJ Development School for Youth | 100,000 |
| Available for general operating purposes | 793,348 |
| Subject to ASP endowment spending policy and appropriation | |
| NJ Development School for Youth | 5,348 |
| Available for general operating purposes | 42,425 |
| Total | $ 6,219,869 |

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 | $ 394,823 |
| All Stars Talent Show Network | 75,500 |
| Afterschool Development Initiative | 350,015 |
| Volunteerism and Education | 6,884 |
| Education - other programs | 40,316 |
| Development School for Youth | 776,851 |
| Castillo Theatre | 156,623 |
| All Stars Project of the San Francisco Bay Area | 313,193 |
| All Stars Project of Chicago | 1,123,762 |
| Chicago Center expansion | 223,338 |
| All Stars Project of New Jersey | 694,518 |
| All Stars Project of Dallas | 689,070 |
| Appropriation of endowment earnings | 31,254 |
| Passage of time | 659,688 |
| Total | $ 5,535,835 |

## Note 9: Liquidity and Availability

ASP's financial assets available within one year of the balance sheet date for general expenditure are as follows:

| | |
|---|---|
| Cash and cash equivalents | $ 1,859,548 |
| Less endowment/quasi endowment | (53,286) |
| Cash and cash equivalents without donor restriction | 1,806,262 |
| Short-term investments | 2,418,151 |
| Current portion of contributions receivable | 1,352,819 |
| Other investments | 40,000 |
| Total | $ 5,617,232 |

ASP manages its liquidity following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term expenditures and operating needs and maintaining sufficient liquidity to provide reasonable assurance that long-term obligations will be discharged. ASP monitors liquidity and cash flows on an ongoing basis to ensure an appropriate amount of cash and cash equivalents are available to meet current claim payment and expenditure needs.

ASP has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. ASP's endowment fund consists of donor restricted endowment and board-designated endowment *(Note 11)*. Income from donor-restricted endowment is restricted until appropriated by ASP's board for expenditure. $40,000 of unappropriated endowment earnings are expected to be used for operations within the next year. Board designated endowment and income on board designated endowment are not restricted. ASP does not intend to spend from its board designated endowment; however, the entire board designated endowment is available for general expenditures.

## Note 10: Allocation of Joint Costs

In 2018, 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 $245,788 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 | $ 24,719 |
| Volunteerism and Education | 997 |
| Cops and Kids | 1,128 |
| Development School for Youth | 82,107 |
| Total program services | 108,951 |
| Supporting services | |
| Management and general | 180 |
| Fund raising | 136,657 |
| Total | $ 245,788 |

## Note 11: 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, when reviewing its donor-restricted endowment funds, ASP considers a fund to be "underwater" if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. ASP has interpreted NYPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

### *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 donor restricted until appropriated.

### *Underwater Endowments*

Underwater endowment funds are funds for which the fair value of the fund at the reporting date is less than either the original gift amount or the amount required to be maintained by the donor or by law that extends donor restrictions. ASP is able to draw down up to 4% per year of the fair market value of the endowment fund per donors' wishes. At December 31, 2018, there are no underwater endowments.

### *Endowment Net Asset Composition by Type of Fund as of December 31, 2018*

As of December 31, 2018, the endowment net asset composition of $1,207,059 consists of the following:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Donor restricted endowment funds: | | | |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | | | |
| NJ Development School for Youth | $ - | $ 100,000 | $ 100,000 |
| General operating purposes | - | 793,348 | 793,348 |
| Board designated endowment fund | 250,000 | - | 250,000 |
| Total corpus of the endowment funds | 250,000 | 893,348 | 1,143,348 |
| Net investment gains | 32,684 | 111,027 | 143,711 |
| Release of income into operations | (16,746) | (63,254) | (80,000) |
| Endowment net assets, end of year | $ 265,938 | $ 941,121 | $ 1,207,059 |

### *Changes in Endowment Net Assets for the Year Ended December 31, 2018*

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Endowment net assets, beginning of year | $ 299,644 | $ 1,036,565 | $ 1,336,209 |
| Investment return, net | (24,960) | (89,190) | (114,150) |
| Contributions | - | 25,000 | 25,000 |
| Appropriation of endowment assets for expenditures | (8,746) | (31,254) | (40,000) |
| Endowment net assets, end of year | $ 265,938 | $ 941,121 | $ 1,207,059 |

### Note 12: 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 $51,694 for the year ended December 31, 2018.

### Note 13: Change in Accounting Principle

In 2018, ASP adopted ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

***Statement of Financial Position***

- The statement of financial position distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

***Statement of Activities***

- Expenses are reported by both nature and function in one location.

***Notes to the Financial Statements***

- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.
- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position.

## Note 14: Future Changes in Accounting Principle

### *Revenue Recognition*

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018 and any interim periods within annual reporting periods that begin after December 15, 2019. ASP is in the process of evaluating the impact the amendment will have on the financial statements.

### *Grants and Contributions*

The Financial Accounting Standards Board released ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* to clarify existing guidance on determining whether a transaction with a resource provider, e.g., the receipt of funds under a government grant or contract, is a contribution or an exchange transaction. The guidance requires all organizations to evaluate whether the resource provider is receiving commensurate value in a transfer of assets transaction, and whether contributions are conditional or unconditional. If commensurate value is received by the resource provider, the transaction would be accounted for as an exchange transaction by applying Topic 606, *Revenue from Contracts with Customers*, or other topics. The standard clarifies that a resource provider is not synonymous with the general public. Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider. If commensurate value is not received by the resource provider, i.e., the transaction is non-exchange, the recipient organization would record the transaction as a contribution under Topic 958 and determine whether the contribution is conditional or unconditional.

FASB expects that the new standard could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current generally accepted accounting principles. Because of this, it believes the clarifying guidance about whether a contribution is conditional or unconditional, which affects the timing of revenue recognition, is important. Both the recipient and resource provider would equally apply the guidance. The standard will be effective for reporting periods beginning on or after December 15, 2018. ASP is in the process of evaluating the impact the amendment will have on the financial statements.

### *Accounting for Leases*

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2020. ASP is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.