

STARS NASHVILLE
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2011 AND 2010

STARS NASHVILLE

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October 27, 2011

Independent Auditors' Report

To the Board of Directors
STARS Nashville
Nashville, Tennessee

We have audited the accompanying statements of financial position of STARS Nashville (the Organization), a non-profit organization, as of June 30, 2011 and 2010, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of STARS Nashville as of June 30, 2011 and 2010, and the changes in its net assets and its cash flow for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Puryear, Hamilton, Hausman & Wood, P.C.

Franklin, Tennessee

STARS NASHVILLE

Statements of Financial Position

June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 55,276	\$ 87,866	\$ -	\$ 143,142
Investments	730,018	107,094	-	837,112
Accounts receivable	95,258	2,845	-	98,103
Unconditional promises to give	29,398	588,637	-	618,035
Grants receivable	171,738	-	-	171,738
Prepaid expenses	<u>11,757</u>	<u>-</u>	<u>-</u>	<u>11,757</u>
Total current assets	1,093,445	786,442	-	1,879,887
Land	335,000	-	-	335,000
Property and equipment, net of accumulated depreciation of \$227,455	117,097	-	-	117,097
Building, net of accumulated depreciation of \$200,690	2,930,075	-	-	2,930,075
Other assets, net of accumulated amortization of \$57,750	152,250	-	-	152,250
Investments	<u>-</u>	<u>-</u>	<u>167,150</u>	<u>167,150</u>
Total assets	<u>\$4,627,867</u>	<u>\$ 786,442</u>	<u>\$ 167,150</u>	<u>\$5,581,459</u>

Liabilities and Net Assets

Current liabilities:				
Accounts payable	\$ 90,523	\$ -	\$ -	\$ 90,523
Accrued wages and benefits	121,971	-	-	121,971
Unearned revenue	6,720	-	-	6,720
Current portion of bonds payable	13,427	-	-	13,427
Current portion of capitalized lease	<u>3,962</u>	<u>-</u>	<u>-</u>	<u>3,962</u>
Total current liabilities	236,603	-	-	236,603
Long-term portion of capitalized lease	16,200	-	-	16,200
Long-term portion of bonds payable	<u>197,216</u>	<u>-</u>	<u>-</u>	<u>197,216</u>
Total liabilities	450,019	-	-	450,019
Net assets	<u>4,177,848</u>	<u>786,442</u>	<u>167,150</u>	<u>5,131,440</u>
Total liabilities and net assets	<u>\$4,627,867</u>	<u>\$ 786,442</u>	<u>\$ 167,150</u>	<u>\$5,581,459</u>

See independent auditors' report and accompanying notes to financial statements.

STARS NASHVILLE**Statements of Financial Position (Continued)****June 30, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 397,148	\$ 141,771	\$ -	\$ 538,919
Investments	601,741	63,121	-	664,862
Accounts receivable	73,138	4,188	-	77,326
Unconditional promises to give	103,400	618,042	-	721,442
Grants receivable	134,079	-	-	134,079
Prepaid expenses	<u>10,280</u>	<u>-</u>	<u>-</u>	<u>10,280</u>
Total current assets	1,319,786	827,122	-	2,146,908
Land	335,000	-	-	335,000
Property and equipment, net of accumulated depreciation of \$212,878	131,877	-	-	131,877
Building, net of accumulated depreciation of \$120,414	3,010,351	-	-	3,010,351
Other assets, net of accumulated amortization of \$36,750	173,250	-	-	173,250
Investments	<u>-</u>	<u>-</u>	<u>167,150</u>	<u>167,150</u>
Total assets	<u>\$4,970,264</u>	<u>\$ 827,122</u>	<u>\$ 167,150</u>	<u>\$5,964,536</u>
<u>Liabilities and Net Assets</u>				
Current liabilities:				
Accounts payable	\$ 28,321	\$ -	\$ -	\$ 28,321
Accrued wages and benefits	157,539	-	-	157,539
Unearned revenue	50,420	-	-	50,420
Current portion of bonds payable	6,618	-	-	6,618
Current portion of capitalized lease	<u>6,185</u>	<u>-</u>	<u>-</u>	<u>6,185</u>
Total current liabilities	249,083	-	-	249,083
Long-term portion of bonds payable	<u>573,382</u>	<u>-</u>	<u>-</u>	<u>573,382</u>
Total liabilities	822,465	-	-	822,465
Net assets	<u>4,147,799</u>	<u>827,122</u>	<u>167,150</u>	<u>5,142,071</u>
Total liabilities and net assets	<u>\$4,970,264</u>	<u>\$ 827,122</u>	<u>\$ 167,150</u>	<u>\$5,964,536</u>

See independent auditors' report and accompanying notes to financial statements.

STARS NASHVILLE

Statements of Activities and Changes in Net Assets

For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Unrestricted net assets:		
Support and revenue:		
School contract fees	\$ 730,189	\$1,288,062
Contributions	382,238	505,558
Grants	495,659	337,152
Special events	264,266	121,619
Program service fees and funding	123,120	96,676
Interest and dividends	25,138	21,187
Net unrealized and realized gains (losses) on investments	91,025	54,961
Miscellaneous	<u>103,875</u>	<u>53,919</u>
Total unrestricted support and revenue	<u>2,215,510</u>	<u>2,479,134</u>
Net assets released from restrictions and reclassification:		
Expiration of time restrictions	626,201	688,591
Satisfaction of program restrictions	<u>153,581</u>	<u>866,380</u>
Total net assets released from restrictions and reclassification	<u>779,782</u>	<u>1,554,971</u>
Total unrestricted support, revenue, and other support	<u>2,995,292</u>	<u>4,034,105</u>
Expenses:		
Program services	2,329,040	2,450,101
Fundraising	254,251	236,933
Management and general	<u>381,952</u>	<u>453,172</u>
Total expenses	<u>2,965,243</u>	<u>3,140,206</u>
Increase (decrease) in unrestricted net assets	<u>30,049</u>	<u>893,899</u>
Temporarily restricted net assets:		
United Way Services	572,402	592,683
Contributions	82,162	153,650
Building contributions	40,565	734,397
Interest and dividends	4,806	3,589
Net unrealized and realized gains (losses) on investments	39,167	20,672
Net assets released from restrictions	<u>(779,782)</u>	<u>(1,554,971)</u>
Increase (decrease) in temporarily restricted net assets	<u>(40,680)</u>	<u>(49,980)</u>
Increase (decrease) in net assets	(10,631)	843,919
Net assets at beginning of year	<u>5,142,071</u>	<u>4,298,152</u>
Net assets at end of year	<u>\$ 5,131,440</u>	<u>\$5,142,071</u>

See independent auditors' report and accompanying notes to financial statements.

STARS NASHVILLE

Statements of Functional Expenses

For the Year Ended June 30, 2011

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>
Personnel expense	\$1,819,092	\$ 131,759	\$ 262,386	\$2,213,237
Professional fees	211,686	4,513	23,352	239,551
Audit expense	-	-	15,037	15,037
Supplies	33,252	950	4,731	38,933
Telephone	11,653	977	5,150	17,780
Postage	667	813	874	2,354
Occupancy	58,316	1,244	7,689	67,249
Equipment rental and maintenance	781	13	3,673	4,467
Printing and publications	3,955	11,341	1,128	16,424
Travel, meetings, and conferences	62,987	3,623	2,734	69,344
Insurance	5,698	121	10,607	16,426
Membership dues and awards	1,122	931	2,670	4,723
Interest expense	13,947	299	3,372	17,618
Special events	-	71,156	-	71,156
National dues	-	-	5,000	5,000
Investment fees	-	-	9,474	9,474
Miscellaneous expense	<u>4,783</u>	<u>259</u>	<u>2,636</u>	<u>7,678</u>
 Total expense before depreciation and amortization	 2,227,939	 227,999	 360,513	 2,816,451
 Depreciation of property and equipment and amortization of other assets	 <u>101,101</u>	 <u>26,252</u>	 <u>21,439</u>	 <u>148,792</u>
 Total expense	 <u>\$2,329,040</u>	 <u>\$ 254,251</u>	 <u>\$ 381,952</u>	 <u>\$2,965,243</u>
 Percent of total expense	 <u>78%</u>	 <u>9%</u>	 <u>13%</u>	 <u>100%</u>

See independent auditors' report and accompanying notes to financial statements.

STARS NASHVILLE**Statements of Functional Expenses (Continued)****For the Year Ended June 30, 2010**

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>
Personnel expense	\$ 2,099,637	\$ 130,044	\$ 308,509	\$ 2,538,190
Professional fees	63,111	4,007	34,184	101,302
Supplies	37,734	2,210	539	40,483
Telephone	10,359	832	5,059	16,250
Postage	1,291	1,120	1,430	3,841
Occupancy	39,050	2,317	13,326	54,693
Printing and publications	2,566	14,898	834	18,298
Travel, meetings, and conferences	49,700	603	4,203	54,506
Insurance	5,314	198	11,149	16,661
Membership dues and awards	245	597	3,331	4,173
Interest expense	46,382	2,686	11,021	60,089
Special events	-	50,898	-	50,898
National dues	-	-	5,000	5,000
Investment fees	-	-	8,836	8,836
Miscellaneous expense	<u>5,585</u>	<u>350</u>	<u>6,854</u>	<u>12,789</u>
 Total expense before depreciation and amortization	 2,360,974	 210,760	 414,275	 2,986,009
 Depreciation of property and equipment and amortization of other assets	 <u>89,127</u>	 <u>26,173</u>	 <u>38,897</u>	 <u>154,197</u>
 Total expense	 <u>\$ 2,450,101</u>	 <u>\$ 236,933</u>	 <u>\$ 453,172</u>	 <u>\$ 3,140,206</u>
 Percent of total expense	 <u>78%</u>	 <u>8%</u>	 <u>14%</u>	 <u>100%</u>

See independent auditors' report and accompanying notes to financial statements.

STARS NASHVILLE

Statements of Cash Flows

For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating activities:		
Increase (decrease) in net assets	\$ (10,631)	\$ 843,919
Adjustment to reconcile increase (decrease) in net assets to net cash provided by (used for) operating activities:		
Depreciation	127,792	138,447
Amortization	21,000	15,750
Net unrealized (gains) losses on investments	(95,571)	(41,218)
Net realized (gains) losses on investments	(34,621)	(34,415)
Changes in operating assets and liabilities:		
(Increase) decrease in unconditional promises to give - Unrestricted	74,002	109,454
(Increase) decrease in unconditional promises to give - Restricted	29,405	87,204
(Increase) decrease in accounts receivable - Unrestricted	(22,120)	709,082
(Increase) decrease in accounts receivable - Restricted	1,343	2,812
(Increase) decrease in grants receivable	(37,659)	(56,305)
(Increase) decrease in prepaid expenses	(1,477)	(411)
Increase (decrease) in accounts payable	62,202	(459,395)
Increase (decrease) in accrued wages and benefits	(35,568)	2,379
Increase (decrease) in unearned revenue	(43,700)	37,857
Net cash provided by (used for) operating activities	<u>34,397</u>	<u>1,355,160</u>
Investing activities:		
Purchase of property and equipment	(10,128)	-
(Purchases) sales of investments, net	(42,058)	(9,465)
Net cash provided by (used for) investing activities	<u>(52,186)</u>	<u>(9,465)</u>
Financing activities:		
Repayment of capitalized lease	(8,631)	(10,445)
Repayments on bonds	(369,357)	(1,020,000)
Net cash provided by (used for) financing activities	<u>(377,988)</u>	<u>(1,030,445)</u>
Increase (decrease) in cash and cash equivalents	(395,777)	315,250
Cash and cash equivalents at beginning of year	<u>538,919</u>	<u>223,669</u>
Cash and cash equivalents at end of year	<u>\$ 143,142</u>	<u>\$ 538,919</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 19,499</u>	<u>\$ 66,249</u>

Non-cash transaction:

During the year ended June 30, 2011, the Organization acquired office equipment of \$22,608 under capital lease obligations.

See independent auditors' report and accompanying notes to financial statements.

STARS NASHVILLE

Notes to Financial Statements

June 30, 2011 and 2010

(1) Summary of Significant Accounting Policies

(a) Organization

STARS Nashville (the Organization), formerly Center for Youth Issues - Nashville, Inc., was established in 1985 as a nonprofit organization to help students make healthy lifestyle choices and refrain from the use of alcohol, other drugs, and violence in Davidson County and in surrounding counties in Tennessee. The Organization also provides some services under the name Kids on the Block.

Effective June 30, 2011, the Organization added three new programs: Deaf and Hard of Hearing, Youth Intensive Outpatient Services, and Addiction Recovery Services. The addition of these services allows the Organization to offer a full continuum of care: prevention, intervention, and treatment.

(b) Accrual Basis

The financial statements of the Organization are prepared using the accrual basis of accounting, under which revenues are recognized when earned rather than when collected and expenses are recognized when incurred rather than when disbursed.

(c) Basis of Presentation

Financial statement presentation follows the recommendation of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-205, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. A description of the three net asset categories follows:

Unrestricted - Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted - Net assets whose use by the Organization is subject to donor-imposed restrictions that can be fulfilled by actions of

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the Organization pursuant to those restrictions or that expire by the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

Permanently Restricted - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

(d) Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(e) Use of Estimates

Management of the Organization has made a number of estimates and assumptions relating to the reporting of assets and liabilities and disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from these estimates.

(f) Cash Equivalents

For purposes of the Statements of Cash Flows, the Organization considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

(g) Fair Value Measurements

The Organization follows FASB ASC 820-10, *Fair Value Measurements*, with respect to its financial assets and liabilities. FASB ASC 820-10 defines fair value and establishes a framework for measuring fair value under generally accepted accounting principles. The key changes to current practice are: (1) the definition of fair value, which focuses on an exit price rather than on entry price; (2) the methods used to measure fair value, such as emphasis that fair value is a market-based measurement, not an entity-specific measurement, as well as the inclusion of an adjustment for risk, restrictions, and credit standing; and (3) the expanded disclosures about fair value measurements. FASB ASC 820-10 does not require any new fair value measurements. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value as follows:

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Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 - Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available; representing the Organization's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available. These inputs may be supported by little or no market activity.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety, is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Generally accepted accounting principles require disclosure of an estimate of fair value of certain financial instruments. The Organization's significant financial instruments are cash and cash equivalents, accounts receivable, unconditional promises to give, investments, and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

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(h) Investments

Investments consist of mutual funds and are carried at fair value at the reporting date using quoted prices in active markets for identical assets (Level 1). Unrealized gains and losses are recognized in the Statements of Activities and Changes in Net Assets. Gains and investment income whose restrictions are met in the same reporting period are shown as unrestricted support.

(i) Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional.

(j) Doubtful Accounts Receivable and Promises to Give

The Organization uses the allowance method to determine uncollectible accounts receivable and unconditional promises to give. Management's estimate of doubtful accounts is based on historical collection experience and a review of the current status of accounts receivable and promises to give. There is no allowance for doubtful accounts at June 30, 2011 and 2010. It is reasonably possible that management's estimate of the allowance for doubtful accounts could change. Receivables and promises to give are charged against the allowance when management believes the collectability of the receivable is unlikely. For the years ended June 30, 2011 and 2010, no bad debt expense was recognized. Accounts receivable are considered delinquent after ninety days. Late fees and interest are not assessed on delinquent accounts. It is not the policy of the Organization to place a customer on non-accrual status. At June 30, 2011 and 2010, \$15,294 and \$2,891 of accounts receivable, respectively, and \$0 and \$3,535 of promises to give, respectively, are greater than ninety days old.

(k) Property and Improvements

The Organization's property consists of land, building, and furniture, fixtures, and equipment.

Property and improvements are recorded at cost, or at appraised value if donated. Depreciation is computed by the straight-line method based on the estimated useful lives of the related assets. The Organization capitalizes items that are greater than or equal to \$1,000 and expense items under \$1,000. The Organization uses the direct expensing method to account for planned major maintenance activities.

In accordance with FASB ASC 360-10, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Organization reviews the carrying value of property, plant, and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be

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recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends, and prospects, as well as the effects of obsolescence, demand, competition, and other economic factors. No impairments have been recognized on any property at June 30, 2011 and 2010.

(l) Recognition of Donor Restrictions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. Such temporarily restricted revenues totaled \$739,102 and \$1,504,991 during the years ended June 30, 2011 and 2010, respectively, and are included in temporarily restricted revenues. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. There was no permanently restricted revenue for the years ended June 30, 2011 and 2010.

(m) Unearned Revenue

The Organization receives advance funds under certain school contracts. The funds are recorded as unearned revenue until the services are performed, at which time the Organization recognizes the funds as school contract fees.

(n) Income Taxes

The Organization has obtained a determination letter from the Internal Revenue Service effective July 1, 2000, which qualifies the Organization as a tax-exempt organization under Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from federal or state income taxes. The Organization is not classified as a private foundation.

The Organization follows FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, as it relates to uncertain tax positions. Any interest and penalties recognized associated with a tax position are classified in management and general expenses in the Organization's financial statements.

(o) Donated Services and Supplies

Certain contributed supplies and specialized services are recorded as support and expenses at fair market value when determinable, otherwise at

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values indicated by the donor. Volunteer services, which neither create nor enhance non-financial assets or do not require specialized skills, are not recognized as support.

(p) Reclassifications

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 presentation.

(q) Subsequent Events

The Organization has evaluated subsequent events through October 27, 2011, the date the financial statements were available to be issued.

(2) Investments

Investments are stated at fair value (Level 1) and are summarized at June 30, 2011 and 2010 as follows:

	2011		
	Cost	Fair Value	Carrying Value
Equity Funds	\$ 322,272	\$ 415,213	\$ 415,213
Debt Funds	317,322	322,021	322,021
Foreign Debt Funds	54,330	55,153	55,153
Other Funds	<u>183,563</u>	<u>211,875</u>	<u>211,875</u>
	<u>\$ 877,487</u>	<u>\$1,004,262</u>	<u>\$1,004,262</u>
	2010		
	Cost	Fair Value	Carrying Value
Equity Funds	\$ 300,455	\$ 316,867	\$ 316,867
Debt Funds	240,574	255,599	255,599
Foreign Debt Funds	81,777	89,601	89,601
Other Funds	<u>178,002</u>	<u>169,945</u>	<u>169,945</u>
	<u>\$ 800,808</u>	<u>\$ 832,012</u>	<u>\$ 832,012</u>

(Continued)

The amounts invested, market value, and yields at June 30, 2011 and 2010 are summarized as follows:

	<u>2011</u>	<u>2010</u>
Fair value	\$ 1,004,262	\$ 832,012
Cost	<u>(877,487)</u>	<u>(800,808)</u>
Unrealized gain (loss)	<u>\$ 126,775</u>	<u>\$ 31,204</u>
Investment income	\$ 29,944	\$ 24,776
Net unrealized gain (loss) on investments	95,571	41,218
Net realized gain (loss) on sale of investment	34,621	34,415
Trust fees	<u>(9,474)</u>	<u>(8,836)</u>
Net investment income	<u>\$ 150,662</u>	<u>\$ 91,573</u>

(3) Unconditional Promises to Give

Unconditional promises to give - unrestricted represents pledges for donations relating to the years ended June 30, 2011 and 2010 totaling \$29,398 and \$103,400, respectively, which are not funded until the subsequent year. Unconditional promises to give - restricted, which are not funded until a subsequent year and are temporarily restricted for use during a subsequent year, represent pledges for donations or grants as follows:

	<u>2011</u>	<u>2010</u>
United Way Services	\$ 571,294	\$ 590,834
Corporations and foundations	<u>17,343</u>	<u>27,208</u>
	<u>\$ 588,637</u>	<u>\$ 618,042</u>
Amounts due in:		
Less than one year	<u>\$ 588,637</u>	<u>\$ 618,042</u>

(4) Building, Property, and Equipment

The Organization purchased and renovated an office condominium unit and has partnered with the Oasis Center for fundraising purposes. The fundraising project is called the "Youth Opportunity Center". All funds are pledges raised and recorded by the Oasis Center. At June 30, 2011 and 2010, Oasis Center has contributed \$3,107,819 and \$3,067,253, respectively, to the Organization. The building project was completed in December 2008. The total building cost of \$3,130,765 includes \$98,342 of capitalized interest. There is \$28,587 and \$28,303 due from Oasis Center included in accounts receivable at June 30, 2011 and 2010, respectively, of which \$6,176 and \$10,197, respectively, related to the capital campaign and \$22,411 and \$18,106, respectively, related to the reimbursement of operating expenses and other amounts. There is \$21,425 and \$14,309 due to Oasis

(Continued)

Center included in accounts payable at June 30, 2011 and 2010, respectively, of which \$6,661 and \$14,309, respectively, is for reimbursement of operating expenses and \$14,764 at June 30, 2011 is related to the building.

At June 30, 2011 and 2010, the Organization's property is recorded as follows:

	Useful Lives		
	<u>(Years)</u>	<u>2011</u>	<u>2010</u>
Land		\$ 335,000	\$ 335,000
Building	39	3,130,765	3,130,765
Property and equipment	2 - 7	<u>344,552</u>	<u>344,755</u>
		3,810,317	3,810,520
Less - Accumulated depreciation		<u>(428,145)</u>	<u>(333,292)</u>
		<u>\$3,382,172</u>	<u>\$3,477,228</u>

Depreciation expense for the years ended June 30, 2011 and 2010 totaled \$127,792 and \$138,447, respectively.

(5) Other Assets

During 2009, the Organization purchased a golf club membership through donor gifts. The membership will assist the Organization with its annual fundraiser over the next ten years. A total membership cost of \$210,000 has been capitalized and is being amortized over a 10 year period. Amortization expense is being recorded using the straight-line method and totaled \$21,000 and \$15,750 for the years ended June 30, 2011 and 2010, respectively.

(6) Bonds Payable

On March 31, 2008, the Organization entered into a Loan Agreement (the Agreement) with the Industrial Development Board of the Metropolitan Government of Nashville and Davidson County (the Industrial Development Board) for financing the purchase of an office condominium unit and part of the cost of renovations (see Note 4). Under the terms of the Agreement, the Industrial Development Board issued \$3,000,000 Revenue Bonds (STARS Nashville Project) Series 2008 (the Bonds). The Industrial Development Board entered into a Bond Purchase Agreement with SunTrust Bank (the Bank) concurrently upon the execution of the Agreement to loan the proceeds of the Bonds to the Organization.

The Organization makes interest only monthly payments that began April 1, 2008 through March 1, 2011, at which time the principal must be paid down to \$1,000,000. During the years ended June 30, 2011 and 2010, the Organization made payments towards the principal totaling \$369,357 and \$1,020,000, respectively. Accrued interest of \$851 and \$2,732 is included in accounts payable

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at June 30, 2011 and 2010, respectively. Commencing April 1, 2011, monthly payments of interest and principal will be made based on a 15 year amortization schedule with the balance due on the earlier of the Bank's exercise of its right to call the Bonds beginning on March 1, 2016 and each succeeding March 1 thereafter, or on the maturity date of March 1, 2023. The interest rate is fixed at 4.85%. The agreement with the Bank also secures the Bonds with a deed of trust and fixtures of the Organization. The Organization was in compliance with a financial covenant required by the Industrial Development Board that commenced with the fiscal year ending June 30, 2011.

Maturities of the Bonds payable as of June 30, 2011 are summarized as follows:

2012	\$ 13,427
2013	13,427
2014	13,427
2015	13,427
2016	<u>156,935</u>
	<u>\$210,643</u>

(7) Pension Plan

The Organization has adopted a 401(k) profit sharing plan (the Plan), which covers employees who have completed 1,000 hours of service within twelve months of their commencement date, and employees vest immediately upon entering the Plan. The Organization makes non-elective safe-harbor contributions to each eligible participant in the amount of 3% of the employee's compensation for the Plan year. The Organization can make discretionary contributions to the Plan. Total expenses for the Plan for the years ended June 30, 2011 and 2010 were \$53,393 and \$53,639, respectively, and are included in the Statements of Functional Expenses in personnel expense.

(8) Temporarily Restricted Net Assets

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

	<u>2011</u>	<u>2010</u>
For use in the year ended June 30, 2012	\$ 647,463	\$ -
For use in the year ended June 30, 2011	-	626,201
Specific programs	29,385	135,300
Building	2,500	2,500
Endowment income not appropriated	<u>107,094</u>	<u>63,121</u>
	<u>\$ 786,442</u>	<u>\$ 827,122</u>

(Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors at June 30, 2011 and 2010 as follows:

	<u>2011</u>	<u>2010</u>
Building	\$ 40,566	\$ 802,729
Time restrictions	626,201	688,591
Specific programs	<u>113,015</u>	<u>63,651</u>
	<u>\$ 779,782</u>	<u>\$1,554,971</u>

(9) Permanently Restricted Net Assets

Net assets in the amount of \$167,150 at June 30, 2011 and 2010 are permanently restricted for an endowment fund. The interest is unrestricted but included in temporarily restricted net assets until appropriated.

The Organization's endowment consists of one fund established as a general endowment to support the mission of the Organization. There are no funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, if any, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

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Investment Return Objectives, Risk Parameters, and Strategies - The Organization has adopted investment policies, approved by the Board of Directors, that attempt to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well diversified asset mix. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed so as not to expose the fund to unacceptable levels of risk.

Spending Policy - The Organization has adopted a spending policy allowing accumulated earnings, plus 5% of the principal amount, to be used each year for fixed operating costs. Approval from the Board of Directors is required before any endowment funds are withdrawn.

Endowment net asset composition by type of fund as of June 30, 2011 with a comparative 2010 total is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>	<u>2010 Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 167,150	\$ 167,150	\$ 167,150
Amounts not appropriated	-	107,094	-	107,094	63,121
Total funds	<u>\$ -</u>	<u>\$ 107,094</u>	<u>\$ 167,150</u>	<u>\$ 274,244</u>	<u>\$ 230,271</u>

Changes in endowment net assets as of June 30, 2011 with a comparative 2010 total are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>	<u>2010 Total</u>
Endowment net assets, beginning of year	\$ -	\$ 63,121	\$ 167,150	\$ 230,271	\$ 206,010
Investment income (loss)	-	13,723	-	13,723	12,177
Net appreciation (depreciation)	-	30,250	-	30,250	12,084
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 107,094</u>	<u>\$ 167,150</u>	<u>\$ 274,244</u>	<u>\$ 230,271</u>

(10) Leases

The Organization capitalized the present value of an office equipment lease in the amount of approximately \$36,000 with related accumulated depreciation of approximately \$32,000 at June 30, 2010. During the year ended June 30, 2011, the old equipment was traded in for new equipment. The Organization capitalized the present value of an office equipment lease in the amount of approximately \$23,000 with related accumulated depreciation of approximately \$3,000 at June 30, 2011.

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Minimum future payments at June 30, 2011 under the lease are as follows:

2012	\$ 5,670
2013	5,670
2014	5,670
2015	5,670
2016	<u>1,890</u>
Minimum payments	24,570
Imputed interest	<u>4,408</u>
	<u>\$ 20,162</u>

The Organization leases office space in the Youth Opportunity Center (YOC) to several unrelated non-profit organizations. The YOC was developed specifically to align existing youth initiatives, resources, and expertise to increase the operating efficiency of the partner agencies. The lease terms call for these organizations to reimburse the Organization for only the costs of operating and maintaining the leased portion of the building based on the occupied square footage. The costs do not include interest or depreciation, but do include a 10% administrative fee. Lease terms vary from six months to two years, but none contain future minimum lease payments.

As a result of these arrangements, the Organization received approximately \$58,000 and \$35,000 in 2011 and 2010, respectively, which is included in miscellaneous income on the Statements of Activities and Changes in Net Assets. Related expenses exceed this income for 2011 and 2010.

(11) Related Party Transactions

The Organization paid annual dues of \$5,000 for the years ended June 30, 2011 and 2010 to Center for Youth Issues, Inc. (National), which is the Organization's national affiliate.

During the years ended June 30, 2011 and 2010, the Organization provided services to National totaling approximately \$10,000 and \$4,000, respectively.

(12) Compensated Absences

Employees of the Organization are entitled to paid vacation, sick days, and personal days off, depending on job classification, length of service, and other factors. Vacation and personal days not taken by the end of the Organization's fiscal year are forfeited. It is impracticable for the Organization to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. The Organization's policy is to recognize the costs of compensated absences when actually paid to employees.

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(13) Section 125 Plan

The Organization has adopted a cafeteria plan (the Plan) under Section 125 of the Internal Revenue Code, allowing a choice between cash and certain qualified benefits. Benefits are entirely funded through employee pre-tax deductions and employer contributions used to purchase elected benefits. Benefit options under the Plan consist of medical and dental insurance, which are provided through insurance policies for employees who work at least thirty hours a week, and a flexible spending account.

(14) Donated Services and Equipment

The Organization receives donated services from several unpaid volunteers assisting the Organization in various activities. No amounts have been recognized in the accompanying Statements of Activities and Changes in Net Assets because the criteria for recognition of such volunteer effort under FASB ASC 958, *Accounting for Contributions Received and Contributions Made*, have not been satisfied.

(15) Board Designated Restrictions

The Board has designated \$313,262 and \$264,257 of investments and cash and cash equivalents for the Building Reserve Fund, which is included in unrestricted net assets at June 30, 2011 and 2010, respectively.

(16) Concentrations of Credit Risk

A significant portion of the Organization's revenue is derived from individuals, organizations, corporations, schools, and foundations in middle Tennessee. The following organizations contributed more than 10% of total unrestricted support, revenue, and other support during 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Oasis Center	=	<u>18%</u>
Williamson County Board of Education	<u>11%</u>	<u>11%</u>

This support represents the Organization's pro-rata share of the contributions that were designated for the Youth Opportunity Center.

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(17) Risk on Uninsured Cash

At times during 2011 and 2010, the Organization maintained cash balances in excess of the Federal Deposit Insurance Corporation's maximum amount of \$250,000. There is a risk of loss in the event of a bank failure.

(18) Income Taxes

The Organization recognizes the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained assuming examination by tax authorities. Management has analyzed the Organization's tax positions and has concluded that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions taken on returns filed for the open tax years (years ended June 30, 2008, 2009, and 2010), or expected to be taken in the Organization's tax return for the year ended June 30, 2011. The Organization identified its major tax jurisdictions as the U.S. Federal and the State of Tennessee. However, the Organization is not currently under audit nor has the Organization been contacted by any of these jurisdictions. The Organization is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change in the next twelve months.

The Organization is subject to taxes on its unrelated business income. At June 30, 2011 and 2010, the Organization had net operating loss carryforwards for tax purposes of approximately \$192,000 and \$89,000, respectively, available to offset future unrelated business income. These carryforwards will begin to expire in 2027, if not previously utilized.

During the years ended June 30, 2011 and 2010, the Organization did not recognize any interest and penalties relating to taxes, nor were any accrued at June 30, 2011 or 2010.