

STARS NASHVILLE
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2012

STARS NASHVILLE

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December 5, 2012

Independent Auditors' Report

To the Board of Directors
STARS Nashville
Nashville, Tennessee

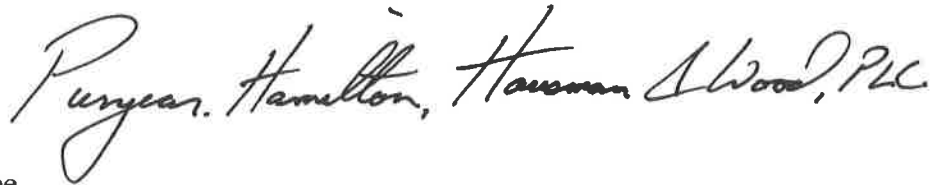
We have audited the accompanying statement of financial position of STARS Nashville (the Organization), a non-profit organization, as of June 30, 2012, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides 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, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2012 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Organization taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Puryear, Hamilton, Hausman & Wood, P.C." The signature is written in dark ink and is positioned above the printed name of the firm.

Franklin, Tennessee

STARS NASHVILLE**Statement of Financial Position****June 30, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 88,142	\$ 153,615	\$ -	\$ 241,757
Investments	687,793	105,543	-	793,336
Inventory	1,561	-	-	1,561
Accounts receivable	121,422	-	-	121,422
Unconditional promises to give	2,960	633,431	-	636,391
Grants receivable	172,732	-	-	172,732
Prepaid expenses	<u>12,959</u>	<u>-</u>	<u>-</u>	<u>12,959</u>
Total current assets	1,087,569	892,589	-	1,980,158
Land	335,000	-	-	335,000
Property and equipment, net of accumulated depreciation of \$273,959	83,812	-	-	83,812
Building, net of accumulated depreciation of \$280,966	2,849,799	-	-	2,849,799
Other assets, net of accumulated amortization of \$78,750	131,250	-	-	131,250
Investments	<u>-</u>	<u>-</u>	<u>167,150</u>	<u>167,150</u>
Total assets	<u>\$4,487,430</u>	<u>\$ 892,589</u>	<u>\$ 167,150</u>	<u>\$5,547,169</u>
<u>Liabilities and Net Assets</u>				
Current liabilities:				
Accounts payable	\$ 81,475	\$ -	\$ -	\$ 81,475
Accrued wages and benefits	123,383	-	-	123,383
Unearned revenue	31,340	-	-	31,340
Current portion of capitalized lease	4,347	-	-	4,347
Current portion of bonds payable	<u>13,427</u>	<u>-</u>	<u>-</u>	<u>13,427</u>
Total current liabilities	253,972	-	-	253,972
Long-term portion of capitalized lease	11,853	-	-	11,853
Long-term portion of bonds payable	<u>8,790</u>	<u>-</u>	<u>-</u>	<u>8,790</u>
Total liabilities	274,615	-	-	274,615
Net assets	<u>4,212,815</u>	<u>892,589</u>	<u>167,150</u>	<u>5,272,554</u>
Total liabilities and net assets	<u>\$4,487,430</u>	<u>\$ 892,589</u>	<u>\$ 167,150</u>	<u>\$5,547,169</u>

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

STARS NASHVILLE

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2012

Unrestricted net assets:	
Support and revenue:	
School contract fees	\$ 683,363
Contributions	652,128
Grants	636,082
Special events	176,239
Program service fees and funding	120,192
Consulting income	50,431
Interest and dividends	23,461
Net unrealized and realized gains (losses) on investments	(12,330)
Miscellaneous	<u>58,622</u>
Total unrestricted support and revenue	<u>2,388,188</u>
Net assets released from restrictions and reclassification:	
Expiration of time restrictions	647,463
Satisfaction of program restrictions	<u>215,259</u>
Total net assets released from restrictions and reclassification	<u>862,722</u>
Total unrestricted support, revenue, and other support	<u>3,250,910</u>
Expenses:	
Program services	2,624,916
Fundraising	255,011
Management and general	<u>336,015</u>
Total expenses	<u>3,215,942</u>
Increase (decrease) in unrestricted net assets	<u>34,968</u>
Temporarily restricted net assets:	
United Way Services	578,962
Contributions	205,582
Building contributions	185,875
Interest and dividends	4,921
Net unrealized and realized gains (losses) on investments	(6,472)
Net assets released from restrictions	<u>(862,722)</u>
Increase (decrease) in temporarily restricted net assets	<u>106,146</u>
Increase (decrease) in net assets	141,114
Net assets at beginning of year	<u>5,131,440</u>
Net assets at end of year	<u>\$5,272,554</u>

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

STARS NASHVILLE

Statement of Functional Expenses

For the Year Ended June 30, 2012

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>
Personnel expense	\$1,974,670	\$ 135,963	\$ 215,250	\$2,325,883
Professional fees	312,362	9,625	20,242	342,229
Audit expense	6,260	-	16,542	22,802
Supplies	31,649	9,206	6,392	47,247
Telephone	14,502	1,081	5,170	20,753
Postage	998	2,267	(249)	3,016
Occupancy	54,957	1,940	8,202	65,099
Equipment rental and maintenance	662	22	3,479	4,163
Printing and publications	22,708	21,229	508	44,445
Travel, meetings, and conferences	93,311	3,355	5,673	102,339
Insurance	5,859	128	10,258	16,245
Membership dues and awards	766	877	2,923	4,566
Interest expense	3,735	136	2,282	6,153
Special events	15	41,025	-	41,040
National dues	-	-	5,000	5,000
Investment fees	-	-	8,094	8,094
Miscellaneous expense	<u>4,698</u>	<u>224</u>	<u>4,165</u>	<u>9,087</u>
 Total expense before depreciation and amortization	 2,527,152	 227,078	 313,931	 3,068,161
 Depreciation of property and equipment and amortization of other assets	 <u>97,764</u>	 <u>27,933</u>	 <u>22,084</u>	 <u>147,781</u>
 Total expense	 <u>\$2,624,916</u>	 <u>\$ 255,011</u>	 <u>\$ 336,015</u>	 <u>\$3,215,942</u>
 Percent of total expense	 <u>82%</u>	 <u>8%</u>	 <u>10%</u>	 <u>100%</u>

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

STARS NASHVILLE

Statement of Cash Flows

For the Year Ended June 30, 2012

Operating activities:

Increase (decrease) in net assets	\$ 141,114
Adjustment to reconcile increase (decrease) in net assets to net cash provided by (used for) operating activities:	
Depreciation	126,781
Amortization	21,000
Net unrealized (gains) losses on investments	37,413
Net realized (gains) losses on investments	(18,611)
Changes in operating assets and liabilities:	
(Increase) decrease in inventory	(1,561)
(Increase) decrease in unconditional promises to give - Unrestricted	26,438
(Increase) decrease in unconditional promises to give - Restricted	(44,794)
(Increase) decrease in accounts receivable - Unrestricted	(26,164)
(Increase) decrease in accounts receivable - Restricted	2,845
(Increase) decrease in grants receivable	(994)
(Increase) decrease in prepaid expenses	(1,202)
Increase (decrease) in accounts payable	(9,048)
Increase (decrease) in accrued wages and benefits	1,412
Increase (decrease) in unearned revenue	<u>24,620</u>
Net cash provided by (used for) operating activities	<u>279,249</u>

Investing activities:

Purchase of property and equipment	(13,220)
(Purchases) sales of investments, net	<u>24,974</u>
Net cash provided by (used for) investing activities	<u>11,754</u>

Financing activities:

Repayment of capitalized lease	(3,962)
Repayments on bonds	<u>(188,426)</u>
Net cash provided by (used for) financing activities	<u>(192,388)</u>

Increase (decrease) in cash and cash equivalents	98,615
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Cash and cash equivalents at beginning of year	<u>143,142</u>
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Cash and cash equivalents at end of year	<u>\$ 241,757</u>
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Supplemental disclosure of cash flow information:

Cash paid during the year for interest	<u>\$ 5,297</u>
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See independent auditors' report and accompanying notes to financial statements.

STARS NASHVILLE

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

(a) Organization

STARS Nashville (the Organization) was established in 1985 as a nonprofit organization and exists to serve schools and communities in Middle Tennessee by providing prevention, intervention and treatment services that address bullying, substance abuse, violence, and social and emotional barriers to success. The Organization provides some services under the name Kids on the Block.

STARS is listed on the U.S. Department of Health and Human Services Substance Abuse and Mental Health Services Administration's (SAMHSA) National Registry of Evidence-based Programs and Practices (NREPP).

(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 the Organization pursuant to those restrictions or that expire by the

(Continued)

passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement 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 Statement 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 Statement 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 current practice includes: (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:

(Continued)

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 and grants receivable, unconditional promises to give, investments, and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

(h) Investments

Investments consist of mutual funds and are measured on a recurring basis 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

(Continued)

Statement 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) Unconditional Promises to Give

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

(j) Accounts Receivable and Unconditional 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 unconditional promises to give. There is no allowance for doubtful accounts at June 30, 2012. It is reasonably possible that management's estimate of the allowance for doubtful accounts could change. Receivables and unconditional promises to give are charged against the allowance when management believes the collectability of the receivable is unlikely. For the year ended June 30, 2012, 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, 2012, \$17,321 of accounts receivable, and none of unconditional promises to give, 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 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

(Continued)

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, 2012.

(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 \$968,868 during the year ended June 30, 2012, 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 year ended June 30, 2012.

(m) Grant Revenue

Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants. Grant revenue from federal agencies is subject to independent audit under the Office of Management and Budget Circular A-133 and review by grantor agencies. The review could result in the disallowance of expenditures under the terms of grant or reductions of future grant funds. Based on prior experience, the Organization's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of the Organization.

(n) 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.

(o) 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. Unrelated business taxable income generated by the Organization is primarily related to certain consulting and rental activities.

(Continued)

The Organization follows the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under the asset and liability method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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.

(p) Donated Services and Supplies

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

(q) New Accounting Pronouncement

In May 2011, the FASB issued an Accounting Standards Update (ASU) to develop common requirements for measuring fair value and for disclosing information about fair value measurements in U.S. GAAP and International Financial Reporting Standards (IFRS). The amendments are intended to improve the comparability of fair value measurements presented and disclosed in the financial statements prepared in accordance with U.S. GAAP and IFRS. The ASU is effective during interim or annual periods beginning after December 15, 2011. The Organization will evaluate the implication of this ASU and its impact on the financial statements.

(r) Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation.

(s) Subsequent Events

The Organization has evaluated subsequent events through December 5, 2012, the date the financial statements were available to be issued.

(Continued)

(2) Investments

Investments are stated at fair value (Level 1) and are summarized at June 30, 2012 as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Equity Funds	\$309,908	\$ 374,296	\$ 374,296
Debt Funds	311,256	324,427	324,427
Foreign Debt Funds	53,745	55,125	55,125
Other Funds	<u>196,215</u>	<u>206,638</u>	<u>206,638</u>
	<u>\$871,124</u>	<u>\$ 960,486</u>	<u>\$ 960,486</u>

The amounts invested, market value, and yields at June 30, 2012 are summarized as follows:

Fair value	\$ 960,486
Cost	<u>(871,124)</u>
Unrealized gain (loss)	<u>\$ 89,362</u>
Investment income	\$ 28,382
Net unrealized gain (loss) on investments	(37,413)
Net realized gain (loss) on sale of investment	18,611
Trust fees	<u>(8,094)</u>
Net investment income	<u>\$ 1,486</u>

(3) Unconditional Promises to Give

Unconditional promises to give - unrestricted totaled \$2,960, and represents pledges for donations relating to the year ended June 30, 2012 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:

United Way Services	\$ 573,431
Foundation	<u>60,000</u>
	<u>\$ 633,431</u>
Amounts due in:	
Less than one year	<u>\$ 633,431</u>

(Continued)

(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. As of June 30, 2012, Oasis Center has contributed \$3,293,694 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 \$24,964 due from Oasis Center included in accounts receivable at June 30, 2012, of which \$5,752 related to the capital campaign and \$19,212 related to the reimbursement of operating expenses and other amounts. There is \$11,370 due to Oasis Center included in accounts payable at June 30, 2012, of which \$11,266 is for reimbursement of operating expenses and \$104 is related to the Capital Campaign.

At June 30, 2012, the Organization's property is recorded as follows:

	Useful Lives (Years)	
Land		\$ 335,000
Building	39	3,130,765
Property and equipment	2 - 7	<u>357,771</u>
		3,823,536
Less - Accumulated depreciation		<u>(554,925)</u>
		<u><u>\$3,268,611</u></u>

Depreciation expense for the year ended June 30, 2012 totaled \$126,781.

(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 for the year ended June 30, 2012.

(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

(Continued)

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 made interest only monthly payments that began April 1, 2008 through March 1, 2011, at which time the principal was required to be paid down to \$1,000,000. Commencing April 1, 2011, monthly payments of interest and principal were 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%. During the year ended June 30, 2012, the Organization made additional payments towards the principal totaling \$175,000. Accrued interest of \$90 is included in accounts payable at June 30, 2012. The agreement with the Bank also secures the Bonds with a deed of trust and fixtures of the Organization, which have a carrying value of \$3,268,611 at June 30, 2012. The Organization was in compliance with a financial covenant required by the Industrial Development Board that commenced with the fiscal year ending June 30, 2012.

Maturities of the Bonds payable as of June 30, 2012 are summarized as follows:

2013	\$ 13,427
2014	<u>8,790</u>
	<u>\$ 22,217</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 matching safe-harbor contributions to each eligible and contributing participant in the amount of 100% of the first 3% of the employee's compensation, then 50% between 3% and 5% 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 year ended June 30, 2012 were \$41,626, and are included in the Statement of Functional Expenses in personnel expense.

(8) Temporarily Restricted Net Assets

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

(Continued)

For use in the year ended June 30, 2013	\$ 616,676
Specific programs	167,870
Building	2,500
Endowment income not appropriated	<u>105,543</u>
	<u>\$ 892,589</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors at June 30, 2012 as follows:

Building	\$ 185,875
Time restrictions	647,463
Specific programs	<u>29,384</u>
	<u>\$ 862,722</u>

(9) Permanently Restricted Net Assets

Net assets in the amount of \$167,150 at June 30, 2012 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

(Continued)

and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

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, 2012 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted				
endowment funds	\$ -	\$ -	\$ 167,150	\$ 167,150
Amounts not appropriated	-	105,543	-	105,543
Total funds	\$ -	\$ 105,543	\$ 167,150	\$ 272,693

Changes in endowment net assets as of June 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets,				
beginning of year	\$ -	\$ 107,094	\$ 167,150	\$ 274,244
Investment income (loss)	-	10,043	-	10,043
Net appreciation (depreciation)	-	(11,594)	-	(11,594)
Endowment net assets,				
end of year	\$ -	\$ 105,543	\$ 167,150	\$ 272,693

(10) Leases

The Organization capitalized the present value of an office equipment lease in the amount of approximately \$23,000 with related accumulated depreciation of approximately \$7,700 at June 30, 2012.

(Continued)

Minimum future payments at June 30, 2012 under the lease are as follows:

2013	\$ 5,670
2014	5,670
2015	5,670
2016	<u>1,890</u>
Minimum payments	18,900
Imputed interest	<u>(2,700)</u>
	<u>\$ 16,200</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 \$42,400 in 2012, which is included in miscellaneous income on the Statement of Activities and Changes in Net Assets. Related expenses exceed this income for 2012.

(11) 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, 2009 through 2011), or expected to be taken in the Organization's tax return for the year ended June 30, 2012. 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, 2012, the Organization had net operating loss carryforwards for tax purposes of approximately \$130,000 for Federal and \$41,000 for State available to offset future unrelated business income. These carryforwards will begin to expire in 2027, if not previously utilized.

(Continued)

Although the Organization has generated net operating losses from unrelated business income relating to its leasing and consulting activities, the deferred tax asset has been netted against a 100% valuation allowance since there is no indication of future income at this time as follows:

Deferred tax asset:	
Net operating carryforwards - Federal	\$ 20,000
Net operating carryforwards - State	3,000
Valuation allowance	<u>(23,000)</u>
Net deferred tax asset	<u>\$ -</u>

During the year ended June 30, 2012, the Organization did not recognize any interest and penalties relating to taxes, nor were any accrued at June 30, 2012.

(12) Related Party Transactions

The Organization paid annual dues of \$5,000 for the year ended June 30, 2012 to Center for Youth Issues, Inc. (National), which is the Organization's national affiliate.

During the year ended June 30, 2012, the Organization provided services to National totaling approximately \$7,300.

(13) 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.

(14) 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.

(Continued)

(15) 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 Statement 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.

(16) Board Designated Restrictions

The Board has designated \$311,519 of investments and cash and cash equivalents for the Building Reserve Fund, which is included in unrestricted net assets at June 30, 2012.

(17) Concentrations of Credit Risk

A significant portion of the Organization's revenue is derived from individuals, organizations, schools, and foundations in middle Tennessee and grants from the State of Tennessee. The following organizations contributed more than 10% of total unrestricted support, revenue, and other support during 2012:

Williamson County Board of Education	<u>12%</u>
Tennessee Department of Mental Health	<u>11%</u>

(18) Risk on Uninsured Cash

At times during 2012, 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.

Investments are subject to market risk, the risk inherent in a fluctuating market. The broker/dealer that is the custodian of the Organization's securities is covered by the Securities Investor Protection Corporation (SIPC), which provides limited protection to investors. SIPC coverage is limited to specified investor-owned securities (notes, bonds, mutual funds, investment company securities, and registered securities) held by an insolvent SIPC member at the time a supervising trustee is appointed. The SIPC also protects against unauthorized trading in the Organization's security account. SIPC coverage is limited to \$500,000 per customer, including \$250,000 for cash that is on deposit as the result of a security transaction. The SIPC protection does not insure against market risk.

SUPPLEMENTARY INFORMATION

STARS NASHVILLE

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

<u>Federal Grantor/ Pass-through Grantor Agency</u>	<u>Program Name</u>	<u>CFDA No.</u>	<u>Pass-through Contract Number</u>	<u>Grants (Receivable)/ Deferred Beginning of Year</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Grants (Receivable)/ Deferred End of Year</u>
U.S. Department of Justice:							
Through TN Commission on Children and Youth	Enforcing Underage Drinking Laws	16.727	DG-08-21213-00	\$ (12,176)	\$ 12,176	\$ -	\$ -
U.S. Department of Education:							
Through TN Department of Education	Youth and Adolescent Violence Prevention	84.184B	GR-1235264-01	(118,026)	227,106	109,080	-
	Youth and Adolescent Violence Prevention	84.184Y	GR-1235264-01	-	-	123,229	(123,229)
	Subtotal U.S Department of Education and 84.184			(118,026)	227,106	232,309	(123,229)
U.S. Department of Health and Human Services:							
Through TN Department of Mental Health and Developmental Disabilities	Block Grants for Prevention and Treatment of Substance Abuse	93.959	GR-1236741	-	42,893	50,000	(7,107)
	Block Grants for Prevention and Treatment of Substance Abuse	93.959	GR-1236505	(30,859)	271,078	279,328	(39,109)
	Block Grants for Prevention and Treatment of Substance Abuse	93.959	DP-1234959	-	35,200	38,395	(3,195)
	Subtotal 93.959			(30,859)	349,171	367,723	(49,411)
Through TN Department of Children's Services	Child Abuse Prevention Services	93.590	GR-1029471	(10,677)	46,635	36,050	(92)
	Subtotal U.S. Department of Health and Human Services:			(41,536)	395,806	403,773	(49,503)
	Total Federal awards			\$ (171,738)	\$ 635,088	\$ 636,082	\$ (172,732)

Note to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Accounting

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Not-For-Profit Organizations*, wherein certain types of expenditures are not allowed or are limited as to reimbursement.



December 5, 2012

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To The Board of Directors
STARS Nashville
Nashville, Tennessee

We have audited the financial statements of STARS Nashville (the Organization), a non-profit organization, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs, that we consider to be a significant deficiency in internal control over financial reporting (Finding No. 2012-1). A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

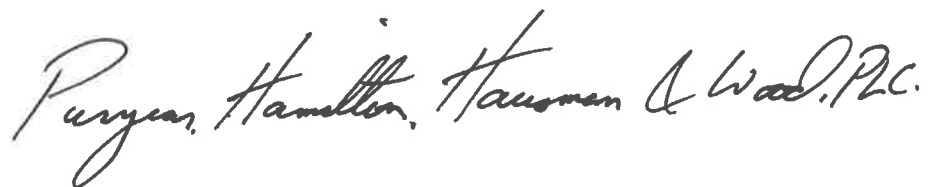
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted a certain matter that we reported to management of the Organization in a separate letter dated December 5, 2012.

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, the finance committee, management, others within the Organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Puryan, Hamilton, Hausman & Wood, P.C.".



December 5, 2012

**Independent Auditors' Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program
and on Internal Control Over Compliance
in Accordance With OMB Circular A-133**

To the Board of Directors
STARS Nashville
Nashville, Tennessee

Compliance

We have audited STARS Nashville's (the Organization), a non-profit organization, compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2012. The Organization's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that

our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

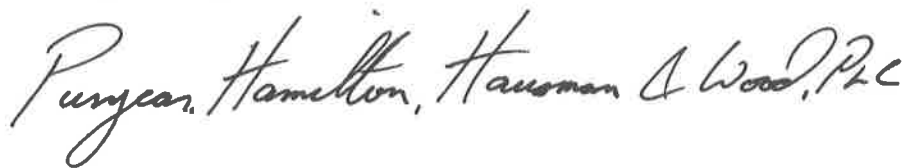
Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, the finance committee, management, others within the Organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Puryear, Hamilton, Hausman & Wood, P.C.".

STARS NASHVILLE

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

Section I Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Significant deficiencies identified that
are not considered to be material
weakness(es)?

 X yes _____ no

Noncompliance material to financial
statements noted?

_____ yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ yes X no

Significant deficiencies identified that
are not considered to be material
weakness(es)?

_____ yes X none reported

Type of auditors' report issued on
compliance for major programs:

Unqualified

Any audit findings disclosed that are
required to be reported in accordance
with section 510(a) of Circular A-133?

_____ yes X no

Identification of major programs:

CFDA Number(s)

93.959

Name of Federal Program or Cluster

Block Grants for Prevention and Treatment
of Substance Abuse

STARS NASHVILLE

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2012

Section I Summary of Auditors' Results (continued)

Federal Awards (continued)

Dollar threshold used to distinguish
between type A and type B programs:
Auditee qualified as low-risk auditee?

	\$300,000	
_____	yes	_____ <u>X</u> no

Section II Financial Statement Findings

Finding No. 2012-1

- **Criteria or specific requirement:** The Organization should prepare its own financial statements and related notes.
- **Condition:** The Organization does not prepare its own financial statements and related notes.
- **Context:** The Organization does not prepare its own financial statements and related notes.
- **Effect:** The Organization's financial reporting process is incomplete.
- **Cause:** Same as above.
- **Recommendation:** The Organization should prepare its own financial statements and related notes.
- **Views of Management:** Management of the Organization does not believe it to be cost effective for the Organization to draft the annual financial reports. The Organization does closely review, approve, and take responsibility for the annual financial reports, but will continue to rely on the auditors to draft all financial statements and related notes.

Section III Federal Award Findings and Questioned Costs

No matters were reported.