

STARS NASHVILLE
FINANCIAL STATEMENTS
JUNE 30, 2015

(With Independent Auditor's Report Thereon)

STARS NASHVILLE
FINANCIAL STATEMENTS
JUNE 30, 2015

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PATTERSON, HARDEE & BALLENTINE, P.C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
STARS Nashville
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of STARS Nashville (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of STARS Nashville as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-matter

As discussed in Note 18 to the financial statements, the previously issued financial statements have been restated to correct certain errors. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2015, on our consideration of STARS Nashville'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering STARS Nashville's internal control over financial reporting and compliance.

Patterson Hande & Bellenton

December 9, 2015

STARS NASHVILLE
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

ASSETS

Current Assets:		
Cash	\$	268,154
Investments		832,093
Accounts receivable		70,450
Grant receivables		87,858
Unconditional promises to give		4,256
Prepaid expenses		<u>20,792</u>
Total current assets	\$	1,283,603
Property and Equipment - net		2,955,770
Assets Whose Use is Limited:		
Cash and cash equivalents		205,100
Investments		345,008
Unconditional promises to give		809,703
Membership rights - net of amortization of \$141,750		<u>68,250</u>
Total assets whose use is limited		<u>1,428,061</u>
	\$	<u><u>5,667,434</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$	56,174
Accrued expenses		162,214
Deferred revenue		12,585
Current portion of capitalized lease obligation		<u>1,854</u>
Total current liabilities	\$	<u>232,827</u>
Net Assets:		
Unrestricted:		
Undesignated		3,612,307
Board-designated		<u>394,239</u>
Total unrestricted net assets		4,006,546
Restricted Net Assets:		
Temporarily restricted		1,260,911
Permanently restricted		<u>167,150</u>
Total restricted net assets		<u>1,428,061</u>
Total net assets		<u>5,434,607</u>
	\$	<u><u>5,667,434</u></u>

See accompanying notes to financial statements.

STARS NASHVILLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Public Support and Revenue:				
School contract fees	\$ 1,159,537	\$ -	\$ -	\$ 1,159,537
Contributions	505,400	920,827	-	1,426,227
Grants	627,059	-	-	627,059
Special events	253,694	20,000	-	273,694
Program service fees and funding	178,723	-	-	178,723
Consulting income	79,173	-	-	79,173
Investment income - net	23,646	8,947	-	32,593
Miscellaneous	49,466	-	-	49,466
Net assets released from restrictions	<u>858,185</u>	<u>(858,185)</u>	<u>-</u>	<u>-</u>
 Total public support and revenue	 <u>3,734,883</u>	 <u>91,589</u>	 <u>-</u>	 <u>3,826,472</u>
 Expenses:				
Program services:				
Youth Services	2,970,839	-	-	2,970,839
Supporting services:				
Management and general	356,020	-	-	356,020
Fundraising	<u>394,282</u>	<u>-</u>	<u>-</u>	<u>394,282</u>
 Total expenses	 <u>3,721,141</u>	 <u>-</u>	 <u>-</u>	 <u>3,721,141</u>
 Increase in net assets	 13,742	 91,589	 -	 105,331
 Net assets- beginning of year, as previously reported	 4,082,054	 1,080,072	 167,150	 5,329,276
 Prior period adjustment	 (89,250)	 89,250	 -	 -
 Net assets - beginning of year	 <u>3,992,804</u>	 <u>1,169,322</u>	 <u>167,150</u>	 <u>5,329,276</u>
 Net assets - end of year	 <u>\$ 4,006,546</u>	 <u>\$ 1,260,911</u>	 <u>\$ 167,150</u>	 <u>\$ 5,434,607</u>

See accompanying notes to financial statements.

STARS NASHVILLE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>
	<u>Youth Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Salaries	\$ 2,158,601	\$ 218,198	\$ 161,032	\$ 2,537,831
Employee taxes and fringe benefits	381,277	38,419	28,482	448,178
Total payroll and related expenses	2,539,878	256,617	189,514	2,986,009
Associational fees	30,776	4,039	1,504	36,319
Depreciation and amortization	70,204	15,120	24,291	109,615
Equipment rental and maintenance	728	3,876	30	4,634
Insurance	9,690	11,666	252	21,608
Interest expense	-	439	-	439
Membership dues and awards	3,991	3,519	742	8,252
Miscellaneous	6,864	3,577	1,354	11,795
National dues	-	5,000	-	5,000
Occupancy	31,078	4,492	1,728	37,298
Postage	1,613	1,173	762	3,548
Printing and publications	31,587	513	16,484	48,584
Professional fees	101,939	32,329	29,738	164,006
Special events	-	-	110,401	110,401
Supplies	44,791	8,991	5,108	58,890
Telephone	16,122	2,112	745	18,979
Training	11,954	944	4,926	17,824
Travel, meetings, and conferences	69,624	1,613	6,703	77,940
	<u>\$ 2,970,839</u>	<u>\$ 356,020</u>	<u>\$ 394,282</u>	<u>\$ 3,721,141</u>

See accompanying notes to financial statements.

STARS NASHVILLE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

Cash Flows From Operating Activities:		
Increase in net assets		\$ 105,331
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	\$ 109,615	
Realized gain on investments	(12,108)	
Unrealized gains on investments	(1,492)	
Changes in:		
Accounts receivable	8,194	
Grant receivable	(43,948)	
Unconditional promises to give	(1,330)	
Prepaid expenses	(8,173)	
Inventory	1,436	
Assets whose use is limited	(95,788)	
Accounts payable	7,712	
Accrued expenses	34,830	
Deferred revenue	(4,598)	
Total adjustments	<u>(5,650)</u>	<u>(5,650)</u>
Net cash provided by operating activities		99,681
Cash Flows From Investing Activities:		
Purchase of property and equipment	<u>(12,799)</u>	
Net cash used in investing activities		(12,799)
Cash Flows From Financing Activities:		
Payments on capitalized lease	<u>(5,231)</u>	
Net cash used in financing activities		<u>(5,231)</u>
Net increase in cash		81,651
Cash - beginning of year, as restated		<u>186,503</u>
Cash - end of year		<u><u>\$ 268,154</u></u>

Supplemental Cash Flow Information

Interest paid during the year ended June 30, 2015, was \$439.

STARS NASHVILLE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

In these notes, the terms "Organization", "we", "us" or "our" mean STARS Nashville. We are a nonprofit organization and exist 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. We also provide some services under the name Kids on the Block.

We are 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).

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, our net assets and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may, or will be, met by our actions and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by us. Generally, the donors of these assets permit us to use all or part of the income earned and any related investments for general or specific purposes.

Cash Equivalents

For the purposes of the Statement of Cash Flows, we consider all unrestricted cash and investment instruments purchased with an original maturity date of ninety days or less from the date of issuance to be a cash equivalent. As of June 30, 2015, we had no cash equivalents.

Property and Equipment

Property and equipment is recorded at cost, or, if donated, at the estimated fair market value at the date of donation. Our capitalization policy is to capitalize any expenditure over \$1,000 for property and equipment. Depreciation is provided utilizing the straight-line method over the estimated useful lives of the respective assets. Expenditures for repairs and maintenance are charged to expense as incurred.

Functional Allocation of Expenses

The costs of providing program services and supporting services have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising

Advertising is expensed as incurred.

STARS NASHVILLE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - Summary of Significant Accounting Policies (continued)

Income Taxes

We are a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code and are classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements. We do not believe there are any uncertain tax positions. Further, we do not believe that we have any unrelated business income, which would be subject to federal taxes. We are not subject to examination by U.S. federal or state taxing authorities for years before 2012. See Note 19.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Fair Values of Financial Instruments

The carrying values of current assets and current liabilities, as well as the assets that whose use is limited, approximate fair values due to short maturities of these instruments.

Accounts Receivable and Unconditional Promises to Give

We use the allowance method to determine uncollectible accounts receivable and unconditional promises to give. Our estimate of doubtful accounts is based on historical collection experience and a review of the current status of accounts receivable and unconditional promise to give. There was no allowance for doubtful accounts at June 30, 2015. It is reasonably possible that our 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.

Unconditional promises to give (pledges) are recognized as contribution revenue when the donor's commitment is received. Pledges with payments due to us in future periods are recorded as increases in temporarily restricted or permanently restricted net assets at the estimated present value of future cash flows, net of an allowance for estimated uncollectible promises.

In contrast to unconditional promises as described above, conditional promises are not recorded until donor contingencies are substantially met.

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.

STARS NASHVILLE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - Summary of Significant Accounting Policies (continued)

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 to review by grantor agencies. The review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, we believe that costs ultimately disallowed, if any, would not materially affect our financial position.

Deferred Revenue

We receive advance funds under certain school contracts. The funds are recorded as deferred revenue until the services are performed, at which time we recognize the funds as school contract fees. As of June 30, 2015, we had deferred revenue relating to school contracts of \$12,585.

Compensated Absences

Our employees 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 our fiscal year are forfeited. It is impracticable for us to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. Our policy is to recognize the costs of compensated absences when actually paid to employees.

NOTE 2 – Unconditional Promises to Give

Unconditional promises to give consisted of the following at June 30, 2015:

Due in less than one year	\$ 813,959
Due in one to five years	<u>-</u>
	813,959
Less: discounts to net present value	-
Less: allowance for doubtful accounts	<u>-</u>
Net Unconditional Promises to Give	<u>\$ 813,959</u>

Unconditional promises to give at June 30, 2015, are shown in the financial statements as follows:

Unconditional promises to give	\$ 4,256
Asset whose use is limited: unconditional promises to give	<u>809,703</u>
Net unconditional promises to give	<u>\$ 813,959</u>

STARS NASHVILLE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 - Investments

Investments consisted of the following at June 30, 2015:

	<u>Market Value</u>	<u>Cost</u>
Equity Funds	\$ 371,680	\$ 233,190
Debt Funds	435,214	427,511
Foreign Debt Funds	204,608	196,320
Other Funds	<u>165,599</u>	<u>151,104</u>
	<u>\$ 1,177,101</u>	<u>\$ 1,008,125</u>

Investment income (loss) consisted of the following for the year ended June 30, 2015:

Interest and dividend income	\$ 29,169
Realized gain - net	12,108
Unrealized gain - net	1,492
Investment fees	<u>(10,176)</u>
Investment income - net	<u>\$ 32,593</u>

NOTE 4 - Fair Value Measurements

We use a framework for measuring fair value and disclosing fair values. We define fair value at the price which would be received to sell an asset in an orderly transaction between market participants at the measurement date. We use this framework for all assets and liabilities measured and reported on a fair value basis and enable the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Each asset and liability carried at fair value is classified into one of the following categories:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities
- Level 2 - Observable market based inputs or unobservable inputs corroborated by market data
- Level 3 - Unobservable inputs not corroborated by market data.

The following table summarizes our financial assets measured at fair value on a recurring basis segregated by level of valuation inputs within the fair value hierarchy utilized to measure fair value as of June 30, 2015:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equity Funds	\$ 371,680	\$ 371,680	\$ -	\$ -
Debt Funds	435,214	435,214	-	-
Foreign Debt Funds	204,608	204,608	-	-
Other Funds	<u>165,599</u>	<u>165,599</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,177,101</u>	<u>\$ 1,177,101</u>	<u>\$ -</u>	<u>\$ -</u>

There were no transfers between Level 1, Level 2, and Level 3 investments during the year ended June 30, 2015.

STARS NASHVILLE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5 - Property and Equipment

Property and equipment consisted of the following at June 30, 2015:

Land	\$ 335,000
Buildings and improvements	3,130,765
Furniture and equipment	<u>370,571</u>
	3,836,336
Less accumulated depreciation	<u>(880,566)</u>
Net property and equipment	<u>\$ 2,955,770</u>

NOTE 6 - Membership Rights

During 2008, we entered into a membership purchase agreement with the Golf Club of Tennessee (the "Club") and paid \$210,000 for membership rights. We received a restricted contribution to finance the membership, which allows for 10 years of annual fundraising golf tournaments at the Club and the right to unlimited use of the Club's facilities for the cultivation and solicitation of donors. We have no equity or ownership or any other property interest in the Club. We are amortizing the cost of the membership rights over the term of the agreement. For the year ended June 30, 2015, we reported amortization expense of \$21,000. Amortization expense will be \$21,000 each year for the years 2016 through 2018, respectively, and \$5,250 for the year 2019. See Note 9 for inclusion of membership rights, net of amortization. The membership agreement does not have renewal or extension terms.

NOTE 7 – Accrued Expenses

Accrued expenses consisted of the following at June 30, 2015:

Accrued Wages and Benefits	\$ 149,917
Hechts Ticket Sales	8,929
Other accrued expenses	<u>3,368</u>
	<u>\$ 162,214</u>

NOTE 8 – Board Designated Net Assets

The Board has designated \$394,239 of investments and cash and cash equivalents for the Building Reserve Fund, which is included in unrestricted net assets at June 30, 2015.

STARS NASHVILLE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 9 - Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at June 30, 2015:

Building	\$ 14,400
Endowment income not appropriated	177,858
Specific programs	13,368
Time restricted donations	177,332
Time restricted unconditional promises to give	809,703
Membership rights - net of amortization	68,250
	\$ 1,260,911

NOTE 10 – Permanently Restricted Net Assets

At June 30, 2015, permanently restricted net assets consisted of \$167,150 for an endowment fund. See Note 11.

NOTE 11 - Endowment Funds

Our endowment consists of funds established by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. Our permanently restricted endowment funds are based on the spending policies described below which follow the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and the State of Tennessee's State Uniform Prudent Management of Institutional Funds Act (SUPMIFA).

Financial accounting standards provide guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of UPMIFA. Financial accounting standards also require additional disclosures about our endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not we are subject to UPMIFA.

Interpretation of applicable law - The Board of Directors has interpreted UPMIFA as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, we classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) 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 us in a manner consistent with the standard of prudence prescribed by UPMIFA.

Investment Return Objectives, Risk Parameters, and Strategies – We have 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 – We have 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.

STARS NASHVILLE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 11 - Endowment Funds (continued)

A schedule of endowment net asset composition by type of fund as of June 30, 2015, follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds	\$ _____	\$ 177,858	\$ 167,150	\$ 345,008

NOTE 12 - Changes in Endowment Fund Net Assets

A schedule of changes in endowment net assets follows for the year ended December 31:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2014	\$ -	\$ 168,909	\$ 167,150	\$ 336,059
Investment income, net	-	6,536	-	6,536
Net appreciation (realized and unrealized)	-	2,413	-	2,413
Endowment net assets, June 30, 2015	\$ -	\$ 177,858	\$ 167,150	\$ 345,008

NOTE 13 - Leases

We capitalized the present value of an office equipment lease in the amount of approximately \$23,000 with related accumulated depreciation of approximately \$21,000 as of June 30, 2015.

A schedule of future minimum lease payments required under our noncancelable capital lease as of June 30, 2015, follows:

Year Ending, <u>June 30</u>	
2016	\$ <u>1,854</u>

We lease 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 us 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 one year.

We also barter with two medical professionals for professional services in exchange for office space under one year lease agreements.

As a result of these arrangements, we received \$34,125 for the year ended June 30, 2015, which is included in miscellaneous income in the Statement of Activities.

STARS NASHVILLE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 - Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist of cash and cash equivalents, and various grant, contract and contributions receivables. Grant, receivables, and unconditional promises to give represent concentrations of credit risk to the extent they are receivable from concentrated sources.

Three donors represent 98% of total grants receivable at June 30, 2015. Approximately 90% of all unconditional promises to give are due from local United Way organizations at June 30, 2015. At June 30, 2015, approximately two donors represent 58% of accounts receivable and two vendors represent 73% of accounts payable.

We maintain cash accounts at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation up to statutory limits.

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 protection to investors in certain circumstances such as fraud or failure of the institution. Coverage is limited to \$500,000, including up to \$250,000 in cash. The SIPC does not insure against market risk.

NOTE 15 - Employee Benefit Plan

We 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. We make matching safe-harbor contributions to each eligible and contributing participant in the amount of 100% of the first 3% of the participant's compensation, then 50% between 3% and 5% of the participant's compensation for the Plan year. We can make discretionary contributions to the Plan. For the year ended June 30, 2015, we contributed \$43,142 to the plan, which is included in employee taxes and fringe benefits on the Statement of Functional Expenses.

NOTE 16 – Section 125 Plan

We 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.

NOTE 17 - Related Parties

We pay annual dues of \$5,000 to the Center for Youth Issues, Inc. (National), which is our national affiliate. During the year ended June 30, 2015, we provided services to National totaling \$5,887.

STARS NASHVILLE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 18 – Prior Period Adjustment

A prior period adjustment at the beginning of the fiscal year was made to correct errors in previously reported unrestricted and temporarily restricted net assets. The effect of the restatement was a decrease to unrestricted net assets by \$89,250 and an increase to temporarily restricted net assets by \$89,250.

For proper presentation on the Statement of Cash Flows, cash as of June 30, 2014 was restated by \$151,425. The adjustment was made to move non-operating cash to assets whose use is limited.

NOTE 19 – Income Taxes

We are subject to taxes on our unrelated business income. At June 30, 2015, we had a net operating loss carryforward for tax purposes of approximately \$122,019 for federal tax purposes and approximately \$32,244 for state tax purposes available to offset future unrelated business income. These carryforwards will begin to expire in 2026, if not utilized before then.

Although we have generated net operating losses from unrelated business income relating to its debt-financed leasing and consulting activities until the current year, the deferred tax asset has been netted against a 100% valuation allowance since there is no indication of material future income at this time.

During the year ended June 30, 2015, we did not recognize any interest and penalties relating to taxes, nor were any accrued at June 30, 2015.

NOTE 20 - Subsequent Events

We have evaluated events subsequent to the year ending June 30, 2015. As of December 9, 2015, the date that the financial statements were available to be issued, no events subsequent to the balance sheet date are considered necessary to be included in the financial statements for the period ended June 30, 2015.

SUPPLEMENTARY INFORMATION

STARS Nashville
Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2015

Federal Grantor Pass-Through Grantor Grant Program Title	CFDA Number	Contract Number	Expenditures
<u>Federal Awards</u>			
U.S. Department of Education			
Passed through the TN Department of Education Center for Safe and Supportive Schools	84.184	33553	\$ 228,692
Total Program 84.184			228,692
U.S. Department of Health and Human Services			
Passed through the TN Department of Mental Health and Substance Abuse Services Student Assistance/Deaf & Hard of Hearing	93.959	DGA 41158_2014-2015_020	239,978
Passed through the TN Department of Mental Health and Substance Abuse Services Intensive Out Patient TX	93.959	42159	100,373
Passed through the TN Department of Mental Health and Substance Abuse Services TN Addictions Recovery Program	93.959	DGA 41161_2014-2015_059	24,000
Total Program 93.959			364,351
U.S. Department of Justice			
Passed through TN Commission on Children and Youth Girls Intensive Out Patient	16.540	44538	34,016
Total Program 16.540			34,016
TOTAL FEDERAL AWARDS			627,059

NOTE: This schedule was prepared on a modified accrual basis in accordance with the format prescribed by the Tennessee Comptroller of the Treasury Division of Local Government Audit.



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S 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 of
STARS Nashville
Nashville, Tennessee

We have audited, in accordance with the 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, the financial statements of STARS Nashville (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 9, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered STARS Nashville's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of STARS Nashville's internal control. Accordingly, we do not express an opinion on the effectiveness of STARS Nashville's internal control.

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 a 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether STARS Nashville's financial statements are free from 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Patterson Harder & Bellantone

December 9, 2015



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of
STARS Nashville
Nashville, Tennessee

Report on Compliance for Each Major Federal Program

We have audited STARS Nashville compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of STARS Nashville's major federal program for the year ended June 30, 2015. STARS Nashville's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for STARS Nashville's major federal program based on our audit of the types of compliance requirements referred to above. 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 STARS Nashville'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 on compliance for the major federal program. However, our audit does not provide a legal determination of STARS Nashville's compliance.

Opinion on Each Major Federal Program

In our opinion, STARS Nashville complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of STARS Nashville is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered STARS Nashville's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 STARS Nashville'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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Patterson Handley & Ballentine

December 9, 2015

STARS NASHVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's reports issued:	<i>Unqualified</i>
Internal control over financial reporting:	<u>YES</u> <u>NO</u>
Material weakness identified?	<u>X</u>
Significant deficiency identified that are not considered to be material weakness?	None reported
Noncompliance material to financial statements noted?	<u>X</u>

Federal Awards

Type of auditor's reports issued on compliance for major programs:	<i>Unqualified</i>
Internal control over major programs:	<u>YES</u> <u>NO</u>
Material weakness identified?	<u>X</u>
Significant deficiency identified that are not considered to be material weakness?	None reported
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of the OMB Circular A-133?	<u>X</u>

Identification of Major Programs

<u>CFDA Number:</u>	<u>Name of Federal Program or Cluster:</u>
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	<u>YES</u> <u>NO</u>
	<u>X</u>

Section II - Financial Statement Finding

No matters are being reported.

Section III - Federal Award Findings and Questioned Costs

No matters are being reported.

STARS NASHVILLE
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Financial Statement Findings:

Finding Number	Finding Title	Status
2014-001	Financial Statement Preparation	Corrected