

STARS NASHVILLE
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2008 AND 2007

STARS NASHVILLE

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June 30, 2008 and 2007

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December 15, 2008

Independent Auditors' Report

To the Board of Directors
STARS Nashville
Nashville, Tennessee

We have audited the accompanying statements of financial position of STARS Nashville (the Organization), a non-profit organization, as of June 30, 2008 and 2007, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of STARS Nashville as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years 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 15, 2008 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 an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Organization taken as a whole. The accompanying schedules of expenditures of federal awards included on pages 19 and 20 are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Puryear Hamilton, Hauman & Co., P.C.

STARS NASHVILLE**Statements of Financial Position****June 30, 2008**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 696,145	\$1,367,164	\$ -	\$ 2,063,309
Investments	622,436	-	-	622,436
Accounts receivable	18,996	-	-	18,996
Unconditional promises to give	15,340	984,138	-	999,478
Grants receivable	471,363	-	-	471,363
Prepaid expenses	<u>18,709</u>	<u>-</u>	<u>-</u>	<u>18,709</u>
Total current assets	1,842,989	2,351,302	-	4,194,291
Property and equipment, net of accumulated depreciation of \$139,965	69,794	-	-	69,794
Construction in progress	2,479,984	-	-	2,479,984
Investments	<u>-</u>	<u>-</u>	<u>167,150</u>	<u>167,150</u>
Total assets	<u>\$ 4,392,767</u>	<u>\$2,351,302</u>	<u>\$ 167,150</u>	<u>\$ 6,911,219</u>
<u>Liabilities and Net Assets</u>				
Current liabilities:				
Accounts payable	\$ 121,627	\$ -	\$ -	\$ 121,627
Accrued wages and benefits	162,538	-	-	162,538
Grants payable	5,744	4,172	-	9,916
Unearned revenue	13,521	-	-	13,521
Current portion of capitalized lease	<u>8,318</u>	<u>-</u>	<u>-</u>	<u>8,318</u>
Total current liabilities	311,748	4,172	-	315,920
Long-term portion of capitalized lease	16,630	-	-	16,630
Bonds payable	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>
Total liabilities	3,328,378	4,172	-	3,332,550
Net assets	<u>1,064,389</u>	<u>2,347,130</u>	<u>167,150</u>	<u>3,578,669</u>
Total liabilities and net assets	<u>\$ 4,392,767</u>	<u>\$2,351,302</u>	<u>\$ 167,150</u>	<u>\$ 6,911,219</u>

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

STARS NASHVILLE

Statements of Financial Position (Continued)

June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 79,361	\$ 183,602	\$ -	\$ 262,963
Investments	671,813	-	-	671,813
Accounts receivable	27,732	-	-	27,732
Unconditional promises to give	146,461	833,836	-	980,297
Grants receivable	441,988	-	-	441,988
Prepaid expenses	<u>19,037</u>	<u>-</u>	<u>-</u>	<u>19,037</u>
Total current assets	1,386,392	1,017,438	-	2,403,830
Property and equipment, net of accumulated depreciation of \$103,415	72,439	-	-	72,439
Investments	<u>-</u>	<u>-</u>	<u>167,150</u>	<u>167,150</u>
Total assets	<u>\$ 1,458,831</u>	<u>\$ 1,017,438</u>	<u>\$ 167,150</u>	<u>\$ 2,643,419</u>

Liabilities and Net Assets

Current liabilities:				
Accounts payable	\$ 50,035	\$ -	\$ -	\$ 50,035
Accrued wages and benefits	194,335	-	-	194,335
Grants payable	-	23,849	-	23,849
Unearned revenue	46,089	-	-	46,089
Current portion of capitalized lease	<u>6,625</u>	<u>-</u>	<u>-</u>	<u>6,625</u>
Total current liabilities	297,084	23,849	-	320,933
Long-term portion of capitalized lease	<u>24,948</u>	<u>-</u>	<u>-</u>	<u>24,948</u>
Total liabilities	322,032	23,849	-	345,881
Net assets	<u>1,136,799</u>	<u>993,589</u>	<u>167,150</u>	<u>2,297,538</u>
Total liabilities and net assets	<u>\$ 1,458,831</u>	<u>\$ 1,017,438</u>	<u>\$ 167,150</u>	<u>\$ 2,643,419</u>

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

STARS NASHVILLE

Statements of Activities and Changes in Net Assets

For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Unrestricted net assets:		
Support and revenue:		
School contract fees	\$ 1,325,729	\$1,444,068
Grants	708,994	640,306
Contributions	469,664	592,199
Program service fees and funding	226,745	214,740
Special events	130,340	120,638
Interest and dividends	61,597	36,116
Leadership retreat	716	5,135
Net unrealized and realized gains (losses) on investments	(58,203)	63,514
Miscellaneous	6,369	6,290
Total unrestricted support and revenue	<u>2,871,951</u>	<u>3,123,006</u>
Net assets released from restrictions:		
Expiration of time restrictions	619,986	687,795
Satisfaction of program restrictions	73,602	82,290
Total net assets released from restrictions	<u>693,588</u>	<u>770,085</u>
Total unrestricted support, revenue, and other support	<u>3,565,539</u>	<u>3,893,091</u>
Expenses:		
Program services	2,938,642	2,972,193
Fundraising	249,319	235,107
Management and general	449,988	379,705
Total expenses	<u>3,637,949</u>	<u>3,587,005</u>
Increase (decrease) in unrestricted net assets	<u>(72,410)</u>	<u>306,086</u>
Temporarily restricted net assets:		
United Way Services	598,202	507,123
Contributions	250,588	480,666
Program service fees and funding	-	5,800
Building contributions	1,198,339	-
Net assets released from restrictions	<u>(693,588)</u>	<u>(770,085)</u>
Increase (decrease) in temporarily restricted net assets	<u>1,353,541</u>	<u>223,504</u>
Increase (decrease) in net assets	1,281,131	529,590
Net assets at beginning of year	2,297,538	1,636,352
Net assets of Kids on the Block, merge effective September 1, 2006	<u>-</u>	<u>131,596</u>
Net assets at end of year	<u>\$ 3,578,669</u>	<u>\$2,297,538</u>

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

STARS NASHVILLE

Statements of Functional Expenses

For the Year Ended June 30, 2008

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>
Personnel expense	\$ 2,511,325	\$ 167,127	\$ 286,640	\$ 2,965,092
Professional fees	123,585	1,551	23,089	148,225
Audit expense	10,192	-	10,049	20,241
Supplies	88,574	1,695	(4,856)	85,413
Telephone	8,364	1,037	9,724	19,125
Postage	3,867	2,072	2,651	8,590
Occupancy	56,011	8,861	36,592	101,464
Printing and publications	20,995	17,893	237	39,125
Travel, meetings, and conferences	94,844	2,876	8,235	105,955
Insurance	4,029	-	10,559	14,588
Membership dues and awards	731	309	3,608	4,648
Interest expense	4,364	793	9,364	14,521
Special events	-	44,667	-	44,667
National dues	-	-	5,000	5,000
Investment fees	-	-	9,044	9,044
Miscellaneous expense	<u>8,958</u>	<u>438</u>	<u>6,305</u>	<u>15,701</u>
Total expense before depreciation	2,935,839	249,319	416,241	3,601,399
Depreciation of property and equipment	<u>2,803</u>	<u>-</u>	<u>33,747</u>	<u>36,550</u>
Total expense	<u>\$ 2,938,642</u>	<u>\$ 249,319</u>	<u>\$ 449,988</u>	<u>\$ 3,637,949</u>
Percent of total expense	<u>81%</u>	<u>7%</u>	<u>12%</u>	<u>100%</u>

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

STARS NASHVILLE

Statements of Functional Expenses (Continued)

For the Year Ended June 30, 2007

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>
Personnel expense	\$2,514,089	\$ 146,293	\$ 226,768	\$2,887,150
Professional fees	114,306	16,886	17,634	148,826
Audit expense	8,500	-	12,812	21,312
Legal fees	-	-	1,863	1,863
Supplies	68,927	718	4,659	74,304
Telephone	8,513	1,458	12,233	22,204
Postage	3,099	3,643	2,526	9,268
Occupancy	37,936	6,166	26,261	70,363
Printing and publications	24,354	11,487	1,766	37,607
Travel, meetings, and conferences	176,557	4,313	9,742	190,612
Insurance	1,152	-	9,070	10,222
Membership dues and awards	821	428	4,350	5,599
Interest expense	-	-	7,936	7,936
Special events	-	43,484	-	43,484
National dues	-	-	5,000	5,000
Investment fees	-	-	7,554	7,554
Miscellaneous expense	<u>13,939</u>	<u>231</u>	<u>3,121</u>	<u>17,291</u>
 Total expense before depreciation	 2,972,193	 235,107	 353,295	 3,560,595
 Depreciation of property and equipment	 <u>-</u>	 <u>-</u>	 <u>26,410</u>	 <u>26,410</u>
 Total expense	 <u>\$2,972,193</u>	 <u>\$ 235,107</u>	 <u>\$ 379,705</u>	 <u>\$3,587,005</u>
 Percent of total expense	 <u>83%</u>	 <u>7%</u>	 <u>10%</u>	 <u>100%</u>

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

STARS NASHVILLE

Statements of Cash Flows

For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating activities:		
Increase (decrease) in net assets	\$ 1,281,131	\$ 529,590
Adjustment to reconcile increase (decrease) in net assets to net cash provided by (used for) operating activities:		
Depreciation	36,550	26,410
Net unrealized (gains) losses on investments	61,321	(39,218)
Net realized gains on investments	(3,118)	(24,296)
Changes in operating assets and liabilities:		
(Increase) decrease in unconditional promises to give - Unrestricted	131,121	(31,774)
(Increase) decrease in unconditional promises to give - Restricted	(150,302)	(391,257)
(Increase) decrease in accounts receivable	8,736	(15,130)
(Increase) decrease in grants receivable	(29,375)	(281,711)
(Increase) decrease in prepaid expenses	328	(2,791)
Increase (decrease) in accounts payable	71,592	(7,539)
Increase (decrease) in accrued wages and benefits	(31,797)	(1,497)
Increase (decrease) in grants payable	(13,933)	2,758
Increase (decrease) in unearned revenue	(32,568)	46,089
Net cash provided by (used for) operating activities	<u>1,329,686</u>	<u>(190,366)</u>
Investing activities:		
Purchase of property and equipment	(33,905)	(24,518)
Construction in progress	(2,479,984)	-
(Purchases) sales of investments, net	(8,826)	(56,987)
Net cash provided by (used for) investing activities	<u>(2,522,715)</u>	<u>(81,505)</u>
Financing activities:		
Cash received from Kids on the Block merger	-	24,851
Repayment of capitalized leases	(6,625)	(5,276)
Proceeds from bond issue	3,000,000	-
Net cash provided by (used for) financing activities	<u>2,993,375</u>	<u>19,575</u>
Increase (decrease) in cash and cash equivalents	1,800,346	(252,296)
Cash and cash equivalents at beginning of year	<u>262,963</u>	<u>515,259</u>
Cash and cash equivalents at end of year	<u>\$ 2,063,309</u>	<u>\$ 262,963</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest (net of capitalized interest)	<u>\$ 2,396</u>	<u>\$ 7,936</u>

Non-cash transaction:

During the year ended June 30, 2007, a separate non-profit, Kids on the Block, ceased operations and transferred its net assets and activities to the Organization, effective September 1, 2006, and received temporarily restricted pledges of \$98,191, unrestricted pledges of \$3,372, prepaid expenses of \$2,899, property of \$5,834, accounts payable of \$3,409, and other accrued liabilities of \$142.

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

STARS NASHVILLE

Notes to Financial Statements

June 30, 2008 and 2007

(1) Summary of Significant Accounting Policies

(a) Organization

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

Effective August 1, 2006, the Alcohol and Drug Council divested itself of the Youth Alive and Free Program in an effort to more closely streamline their programs with their mission statement. The Board of Directors of the Organization agreed to take on the services and contracts of that program.

Effective September 1, 2006, the Kids on the Block (the KOB) organization dissolved and the operations were merged into the Organization. All assets, liabilities, and employees of the KOB were transferred to the Organization, with the exception of the KOB Executive Director. The Organization provides services using the KOB name. The Organization recorded the net assets at the transferred value which approximated fair value, as follows:

Cash	\$ 24,851
Pledges	101,563
Prepaid expenses	2,899
Property	5,834
Accounts payable and other accrued liabilities	<u>(3,551)</u>
Net assets	<u>\$ 131,596</u>

(b) Accrual Basis

The financial statements and the Schedules of Expenditures of Federal Awards 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.

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(c) **Basis of Presentation**

Financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations* (SFAS No. 117). Under SFAS No. 117, 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 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 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) **Promises to Give**

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

The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

(e) **Doubtful Accounts Receivable and Promises to Give**

An allowance for doubtful accounts is established through a provision for receivable losses charged to expense. Management's estimate of doubtful accounts is based on historical collection experience and a review of the current status of accounts receivable and promises to give. There is no allowance for doubtful accounts at June 30, 2008 and 2007. It is reasonably possible that management's estimate of the allowance for doubtful accounts could change. Receivables and promises to give are charged against the allowance when management believes the collectibility of the receivable is unlikely. For the years ended June 30, 2008 and 2007, no bad debt expense

(Continued)

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, 2008 and 2007, \$6,143 and \$365, respectively, of accounts receivable, and \$4,504 and \$8,871, respectively, of promises to give are greater than ninety days old.

(f) 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 \$2,047,129 and \$993,589 during the years ended June 30, 2008 and 2007, respectively, and are included in temporarily restricted revenues. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. There was no permanently restricted revenue for the years ended June 30, 2008 and 2007.

(g) 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.

(h) 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.

(i) Functional Allocation of Expenses

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

(j) 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)

(Continued)

and, accordingly, is exempt from federal or state income taxes. The Organization is not classified as a private foundation.

(k) Cash Equivalents

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

(l) Investments

Investments consist of mutual funds and are carried at their fair value. Unrealized gains and losses are included in the Statements of Activities. Gains and investment income whose restrictions are met in the same reporting period are shown as unrestricted support.

(m) 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.

(2) Investments

Investments are stated at fair value and are summarized at June 30 as follows:

	2008		
	Cost	Fair Value	Carrying Value
Mutual funds - Equity	\$ 103,764	\$104,422	\$104,422
Mutual funds - Fixed income	57,626	53,920	53,920
Mutual funds - Other	<u>569,479</u>	<u>631,244</u>	<u>631,244</u>
	<u>\$ 730,869</u>	<u>\$789,586</u>	<u>\$789,586</u>
	2007		
	Cost	Fair Value	Carrying Value
Mutual funds - Equity	\$ 89,490	\$107,321	\$107,321
Mutual funds - Fixed income	108,849	105,144	105,144
Mutual funds - Other	<u>520,586</u>	<u>626,498</u>	<u>626,498</u>
	<u>\$ 718,925</u>	<u>\$838,963</u>	<u>\$838,963</u>

(Continued)

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

	<u>2008</u>	<u>2007</u>
Market value	\$ 789,586	\$ 838,963
Cost	<u>(730,869)</u>	<u>(718,925)</u>
Unrealized gain	<u>\$ 58,717</u>	<u>\$ 120,038</u>
Investment income	\$ 61,597	\$ 36,116
Net realized gain on sale of investment	3,118	24,296
Trust fees	<u>(9,044)</u>	<u>(7,544)</u>
Realized net investment income	<u>\$ 55,671</u>	<u>\$ 52,868</u>

(3) Unconditional Promises to Give

Unconditional promises to give - unrestricted represents pledges for donations relating to the year ended June 30, 2008 and 2007 totaling \$15,340 and \$146,461, respectively, which are not funded until the subsequent year. Unconditional promises to give - restricted, which are not funded until a subsequent year and are temporarily restricted for use during a subsequent year, represent pledges for donations or grants as follows:

	<u>2008</u>	<u>2007</u>
United Way Services	\$ 597,262	\$ 526,764
Corporations and foundations	185,161	5,800
Individuals	<u>201,715</u>	<u>301,272</u>
	<u>\$ 984,138</u>	<u>\$ 833,836</u>
Amounts due in:		
Less than one year	\$ 899,478	\$ 980,297
One to five years	<u>100,000</u>	<u>-</u>
	<u>\$ 999,478</u>	<u>\$ 980,297</u>

(4) Property and Equipment

Property and equipment are carried at cost or, if contributed, at fair market value at the date of gift. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets, which range from two to seven years. At June 30, 2008 and 2007, property and equipment are recorded as follows:

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	<u>2008</u>	<u>2007</u>
Property and equipment	\$209,759	\$175,854
Less - Accumulated depreciation	<u>(139,965)</u>	<u>(103,415)</u>
	<u>\$ 69,794</u>	<u>\$ 72,439</u>

Depreciation expense totaled \$36,550 and \$26,410 for the years ended June 30, 2008 and 2007, respectively. The Organization capitalizes items that are greater than or equal to \$1,000 and expenses items under \$1,000.

(5) Construction in Progress

The Organization has purchased and is renovating 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 and pledges raised are recorded on Oasis Center's books. At June 30, 2008, Oasis Center has contributed \$1,198,339 to the Organization, of which \$164,073 is included in temporarily restricted unconditional promises to give. At June 30, 2008, \$2,479,984 has been capitalized as construction in progress, including \$29,249 of capitalized interest and including \$77,669 due to the Oasis Center included in accounts payable at June 30, 2008. The additional renovation costs are estimated to be approximately \$2,217,000 and the completion date is estimated to be late December 2008.

(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 5). Under the terms of the Agreement, the Industrial Development Board issued \$3,000,000 Revenue Bonds (STARS Nashville Project) Series 2008 (the Bonds). The Industrial Development Board entered into a Bond Purchase Agreement with SunTrust Bank (the Bank) concurrently upon the execution of the Agreement to loan the proceeds of the Bonds to the Organization.

The Organization makes interest only monthly payments that began April 1, 2008 and continue through March 1, 2011, at which time a principal payment of \$1,000,000 is due. Accrued interest of \$12,125 is included in accounts payable at June 30, 2008. Commencing April 1, 2011, monthly payments of interest and principal will be made based on a 15 year amortization schedule with the balance due on the earlier of the Bank's exercise of its right to call the Bonds beginning on March 1, 2016 and each succeeding March 1 thereafter, or on the maturity date of March 1, 2023. The interest rate is fixed at 4.85%. A financial covenant required by the Industrial Development Board does not commence until the fiscal year

(Continued)

ending 2011. The agreement with the Bank also secures the Bonds with a deed of trust and fixtures of the Organization.

Maturities of the Bonds payable as of June 30, 2008 are summarized as follows:

2009	\$ -
2010	-
2011	1,022,822
2012	94,101
2013	98,768
Thereafter	<u>1,784,309</u>
	<u>\$3,000,000</u>

(7) Pension Plan

The Organization has adopted a 401(k) profit sharing plan, which covers employees who have completed 1,000 hours of service within twelve months of their commencement date, and employees vest immediately upon entering the plan. The Organization makes non-elective safe-harbor contributions to each eligible participant in the amount of 3% of the employee's compensation for the plan year, as well as a 2% match. Total expenses for the 401(k) profit sharing plan for the years ended June 30, 2008 and 2007 were \$85,784 and \$79,413, respectively, and are included in the Statements of Functional Expenses in personnel expense. At June 30, 2008 and 2007, \$6,880 and \$7,356, respectively, was unfunded and, therefore, included in accrued wages and benefits.

(8) Temporarily Restricted Net Assets

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

	<u>2008</u>	<u>2007</u>
For use in the year ended June 30, 2009	\$ 755,313	\$ -
For use in the year ended June 30, 2008	-	619,987
Specific programs	93,478	73,602
Building	<u>1,498,339</u>	<u>300,000</u>
	<u>\$2,347,130</u>	<u>\$ 993,589</u>

(Continued)

(9) Permanently Restricted Net Assets

Net assets, in the amount of \$167,150 at June 30, 2008 and 2007, are permanently restricted for an endowment fund. The interest is unrestricted.

(10) Leases

The Organization leases its current office space under an operating lease, effective through March 31, 2009 and additional space under an operating sublease and an amendment effective September 17, 2007 through December 31, 2008. Lease expense for the years ended June 30, 2008 and 2007 totaled \$87,748 and \$67,357, respectively, and is included in occupancy expense on the Statements of Functional Expenses.

Minimum future payments at June 30, 2008 under the leases are as follows:

2009	<u>\$ 65,262</u>
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The Organization capitalized the present value of an office equipment lease in the amount of \$35,611 and related accumulated depreciation of \$17,806 and \$10,683 at June 30, 2008 and 2007, respectively.

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

2009	\$ 13,212
2010	13,212
2011	<u>6,606</u>
Minimum payments	33,030
Imputed interest	<u>(8,082)</u>
	24,948
Less - Current portion	<u>(8,318)</u>
Total	<u>\$ 16,630</u>

(11) Related Party Transactions

The Organization paid annual dues of \$5,000 for the years ended June 30, 2008 and 2007 to Center for Youth Issues, Inc. (National), which is the Organization's national affiliate.

During the years ended June 30, 2008 and 2007, the Organization provided services to National totaling \$2,849 and \$1,462, respectively, none of which is included in accounts receivable - unrestricted.

(Continued)

(12) Compensated Absences

Employees of the Organization are entitled to paid vacation, paid 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.

(13) Section 125 Plan

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

(14) Donated Services and Equipment

The Organization receives donated services from several unpaid volunteers assisting the Organization in various activities. No amounts have been recognized in the accompanying Statements of Activities and Changes in Net Assets because the criteria for recognition of such volunteer effort under Statement of Financial Accounting Standards No. 116 have not been satisfied.

(15) Board Designated Restrictions

The Board has designated \$266,769 and \$279,411 of investments for the Building Reserve Fund, which is included in unrestricted net assets at June 30, 2008 and 2007, respectively.

(16) Concentrations of Credit Risk

A significant portion of the Organization's revenue is derived from individuals, organizations, corporations, schools, and foundations in middle Tennessee. The following organization contributed more than 10% of total unrestricted support, revenue, and other support during 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Metro Davidson County Board of Education	<u>14%</u>	<u>11%</u>

(Continued)

(17) Risk on Uninsured Cash

At times, the Organization maintains cash balances in excess of the Federal Deposit Insurance Corporation's insured maximum amount of \$100,000. There is a risk of loss in the event of bank failure.

SUPPLEMENTARY INFORMATION
FOR FEDERAL AWARDS

STARS NASHVILLE

Schedules of Expenditures of Federal Awards

For the Years Ended June 30, 2008 and 2007

Year Ended June 30, 2008

<u>Federal Grantor/ Pass-Through Grantor/ Program Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services:			
Pass-Through Programs from:			
Metro Board of Health	93.959	*(District 5)	\$ 67,286
Metro Board of Health	93.959	*(District 8)	53,277
Metro Board of Health	93.959	*(District 11)	<u>65,133</u>
Total Pass-Through Programs from Metro Board of Health			<u>185,696</u>
Tennessee Department of Health	93.959	343.52-726-08	<u>59,478</u>
Meharry Medical College	93.93.136	060329PDJ04751-03	<u>178,608</u>
Tennessee Department of Children's Services	93.590	*(Davidson Co.)	17,774
	93.590	*(Mid-Cumberland)	<u>24,646</u>
Total Pass-Through Programs from Tennessee Department of Children's Services			<u>42,420</u>
Tennessee Department of Finance and Administration Bureau of Tenn Care	93.778	318.80-014	<u>115,529</u>
Total U.S. Department of Health and Human Services			<u>581,731</u>
U.S. Department of Justice:			
Pass-Through Program from:			
Tennessee Commission on Children and Youth	16.727	316.01-901-08	<u>53,703</u>
U.S. Department of Education:			
Pass-Through Program from:			
Tennessee Department of Education	84.186B	331.09-002-08	<u>73,560</u>
Total expenditures of federal awards			<u>\$ 708,994</u>

* No Pass-Through Entity Identifying Number on grant

See independent auditors' report.

STARS NASHVILLE

Schedules of Expenditures of Federal Awards (Continued)

For the Years Ended June 30, 2008 and 2007

Year Ended June 30, 2007

<u>Federal Grantor/ Pass-Through Grantor/ Program Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services:			
Pass-Through Programs from:			
Metro Board of Health	93.959	*(District 5)	\$ 78,435
Metro Board of Health	93.959	*(District 8)	78,384
Metro Board of Health	93.959	*(District 11)	<u>77,944</u>
Total Pass-Through Programs from Metro Board of Health			<u>234,763</u>
Tennessee Department of Health	93.959	343.44-308-07	<u>71,731</u>
Total Pass-Through Programs from Metro Board of Health and Tennessee Department of Health			<u>306,494</u>
Meharry Medical College	93.93.136	1U49CE001091-01	<u>127,952</u>
Tennessee Department of Children's Services	93.590	*(Davidson Co.)	15,265
	93.590	*(Mid-Cumberland)	<u>9,981</u>
Total Pass-Through Programs from Tennessee Department of Children's Services			<u>25,246</u>
Tennessee Department of Finance and Administration Bureau of Tenn Care	93.778	318.80-014	<u>15,264</u>
Total U.S. Department of Health and Human Services			<u>474,956</u>
U.S. Department of Justice:			
Pass-Through Program from:			
Tennessee Commission on Children and Youth	16.727	316.01-001	<u>32,771</u>
U.S. Department of Education:			
Pass-Through Program from:			
Tennessee Department of Education	84.186B	331.09-017-07	<u>132,792</u>
Total expenditures of federal awards			<u>\$ 640,519</u>

* No Pass-Through Entity Identifying Number on grant

See independent auditors' report.



December 15, 2008

**Independent Auditors' 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 years ended June 30, 2008 and 2007, and have issued our report thereon dated December 15, 2008. We conducted our audits 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

In planning and performing our audits, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. We consider the deficiency described in the accompanying Schedules of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting (Finding No. 2008-1 and No. 2007-1).

The Organization's response to the finding identified in our audits is described in the accompanying Schedules of Findings and Questioned Costs. We did not audit the Organization's response and, accordingly, we express no opinion on it.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described in the accompanying Schedules of Findings and Questioned Costs is a material weakness.

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 grants, 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 audits 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 certain matters that we reported to management in a separate letter dated December 15, 2008.

This report is intended solely for the information and use of the Board of Directors, 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.

