STARS NASHVILLE

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

JUNE 30, 2007

STARS NASHVILLE

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June 30, 2007

PH H&W PURYEAR HAMILTON HAUSMAN & WOOD, PLC
CERTIFIED PUBLIC ACCOUNTANTS

201 Fourth Avenue North · Suite 1050 · PO Box 190663 · Nashville, Tennessee 37129-0663
Phone 615/259-9038 · Fax 615/242-9462

December 19, 2007

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, 2007, and the related statements of activities and changes in net assets, functional expenses, and cash flows 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, 2007, 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 19, 2007 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 audit.

James E. Hamilton, CPA · Jeffrey J. Hausman, CPA · Ronald T. Wood, CPA · Jami A. Pope, CPA

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 included on page 17 is 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 is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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, Hausman & Wood, PLC

STARS NASHVILLE

Statement of Financial Position

June 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 79,361	$ 183,602	$ -	$ 262,963
Investments	671,813	-	-	671,813
Trade receivables	27,732	-	-	27,732
Unconditional promises to give	146,461	833,836	-	980,297
Grants receivable	441,988	-	-	441,988
Prepaid expenses	19,037	-	-	19,037
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	-	-	167,150	167,150
Total assets	$1,458,831	$1,017,438	$ 167,150	$2,643,419
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	6,625	-	-	6,625
Total current liabilities	297,084	23,849	-	320,933
Long-term portion of capitalized lease	24,948	-	-	24,948
Total liabilities	322,032	23,849	-	345,881
Net assets	1,136,799	993,589	167,150	2,297,538
Total liabilities and net assets	$1,458,831	$1,017,438	$ 167,150	$2,643,419

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, 2007

Unrestricted net assets:	
Support and revenue:	
School contract fees	$ 1,444,068
Grants	640,306
Contributions	592,199
Program service fees and funding	214,740
Special events	120,638
Net unrealized and realized gains (losses) on investments	63,514
Interest and dividends	36,116
Leadership retreat	5,135
Miscellaneous	6,290
Total unrestricted support and revenue	3,123,006
Net assets released from restrictions:	
Expiration of time restrictions	687,795
Satisfaction of program restrictions	82,290
Total net assets released from restrictions	770,085
Total unrestricted support, revenue, and other support	3,893,091
Expenses:	
Program services	2,972,193
Fundraising	235,107
Management and general	379,705
Total expenses	3,587,005
Increase (decrease) in unrestricted net assets	306,086
Temporarily restricted net assets:	
United Way Services	507,123
Contributions	480,666
Program service fees and funding	5,800
Net assets released from restrictions	(770,085)
Increase (decrease) in temporarily restricted net assets	223,504
Increase (decrease) in net assets	529,590
Net assets at beginning of year	1,636,352
Net assets of Kids on the Block, merged effective September 1, 2006	131,596
Net assets at end of year	$ 2,297,538

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

STARS NASHVILLE

Statement of Functional Expenses

For the Year Ended June 30, 2007

	Program Services	Fundraising	Management and General	Total
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	13,939	231	3,121	17,291
Total expense before depreciation	2,972,193	235,107	353,295	3,560,595
Depreciation of property and equipment	-	-	26,410	26,410
Total expense	$ 2,972,193	$ 235,107	$ 379,705	$ 3,587,005
Percent of total expense	83%	7%	10%	100%

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

STARS NASHVILLE

Statement of Cash Flows

For the Year Ended June 30, 2007

Operating activities:	
Increase (decrease) in net assets	$ 529,590
Adjustment to reconcile increase (decrease) in net assets to net cash provided by (used for) operating activities:	
Depreciation	26,410
Net unrealized gains on investments	(39,218)
Net realized gains on investments	(24,296)
Changes in operating assets and liabilities:	
(Increase) decrease in unconditional promises to give - Unrestricted	(31,774)
(Increase) decrease in unconditional promises to give - Restricted	(391,257)
(Increase) decrease in trade receivables	(15,130)
(Increase) decrease in grants receivable	(281,711)
(Increase) decrease in prepaid expenses	(2,791)
Increase (decrease) in accounts payable	(7,539)
Increase (decrease) in accrued wages and benefits	(1,497)
Increase (decrease) in grants payable	2,758
Increase (decrease) in unearned revenue	46,089
Net cash provided by (used for) operating activities	(190,366)
Investing activities:	
Purchase of property and equipment	(24,518)
(Purchases) sales of investments, net	(56,987)
Net cash provided by (used for) investing activities	(81,505)
Financing activities:	
Cash received from Kids on the Block merger	24,851
Repayment of capitalized leases	(5,276)
Net cash provided by (used for) financing activities	19,575
Increase (decrease) in cash and cash equivalents	(252,296)
Cash and cash equivalents at beginning of year	515,259
Cash and cash equivalents at end of year	$ 262,963
Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	$ 7,936

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.

(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.

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

(b) Accrual Basis

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

(Continued)

(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, 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 year ended June 30, 2007, no bad debt expense was

(Continued)

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, 2007, $365 of accounts receivable and $8,871 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 $993,589 during the year ended June 30, 2007, 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, 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 Statement 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) and, accordingly, is exempt from federal or state income taxes. The Organization is not classified as a private foundation.

(Continued)

(k) **Cash Equivalents**

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

(l) **Investments**

Investments consist of mutual funds and are carried at their fair value.

(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) **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, 2007, property and equipment are recorded as follows:

Property and equipment	$175,854
Less - Accumulated depreciation	(103,415)
	$ 72,439

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

(3) **Leases**

The Organization leases its current office space under an operating lease, effective February 1, 2004 through March 31, 2009. Lease expense for the year ended June 30, 2007 totaled $67,357.

(Continued)

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

2008	$ 82,978
2009	50,292
	$ 133,270

The Organization capitalized the present value of an office equipment lease in the amount of $24,520 and related accumulated depreciation of $2,573

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

2008	$ 13,212
2009	13,212
2010	13,212
2011	6,606
Minimum payments	46,242
Imputed interest	(14,669)
	31,573
Less - Current portion	(6,625)
Total	$ 24,948

(4) Unconditional Promises to Give

Unconditional promises to give - unrestricted represents pledges for donations relating to the year ended June 30, 2007 totaling $146,461, 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	$526,764
Corporations and foundations	5,800
Individuals	301,272
	$833,836

Amounts due in:	
Less than one year	$980,297

(Continued)

(5) Pension Plan

On September 1, 2002, the Organization 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 vest immediately. 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 year ended June 30, 2007 were $79,413 and are included in the Statement of Functional Expenses in personnel expense. At June 30, 2007, $7,356 was unfunded and, therefore, included in accrued wages and benefits.

(6) Temporarily Restricted Net Assets

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

For use in the year ended June 30, 2008	$619,987
Specific programs	373,602
	$993,589

(7) Permanently Restricted Net Assets

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

(8) Investments

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

	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	520,586	626,498	626,498
	$ 718,925	$838,963	$838,963

(Continued)

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

Market value	$838,963
Carrying value - Cost	(718,925)
Unrealized gain	$120,038
Investment income	$ 36,116
Net realized gain on sale of investment	24,296
Trust fees	(7,544)
Realized net investment income	$ 52,868

(9) Related Party Transactions

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

During the year ended June 30, 2007, the Organization provided services to National totaling $1,462, none of which is included in trade receivables - unrestricted.

(10) 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.

(11) 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 Statement of Financial Accounting Standards No. 116 have not been satisfied.

(Continued)

(12) 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 2007:

Metro Davidson County Board of Education	11%

(13) Board Designated Restrictions

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

(14) Section 125 Plan

Effective February 1, 2004, the Organization 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.

(15) 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.

(16) Subsequent Event

The Organization is currently negotiating with a developer to purchase and renovate 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 and at the closing of the unit, Oasis Center will make a contribution to the Organization. The Organization has signed a letter of intent with a financial institution which would provide up to $2,450,000 of bond financing. Repayment would be interest only for three years, through completion of the capital campaign. At completion, monthly payments of principal and interest will be made on a maximum outstanding bond balance of $1,000,000 over a fifteen year amortization. The bond will be secured by a 1st Deed of Trust on the office condominium units and assignment of pledges from the capital campaign. Interest will be on either a

(Continued)

variable rate based on 83% of 30-day LIBOR plus 1.30% or fixed at the institution's 8-year cost of funds plus 1.00% divided by the Federal Tax Exempt Factor. Also, the Organization will be required to maintain certain financial covenants under the terms of the bond financing.

SUPPLEMENTARY INFORMATION

PURYEAR HAMILTON
HAUSMAN & WOOD, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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December 19, 2007

Report on Supplementary Information

To the Board of Directors
STARS Nashville
Nashville, Tennessee

Our report on our audit of the financial statements of STARS Nashville as of June 30, 2007 is presented in the preceding section of this report. The audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The following financial information on page 17 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken a whole.

Puryear, Hamilton, Hausman & Wood, PLC

James E. Hamilton, CPA • Jeffrey J. Hausman, CPA • Ronald T. Wood, CPA • Jami A. Pope, CPA

STARS NASHVILLE

Statements of Activities and Changes in Net Assets (Comparative)

For the Years Ended June 30, 2007 and 2006

	2007	2006
Unrestricted net assets:		
Support and revenue:		
School contract fees	$ 1,444,068	$1,201,915
Grants	640,306	318,230
Contributions	592,199	190,373
Program service fees and funding	214,740	262,196
Special events	120,638	60,390
Net unrealized and realized gains (losses) on investments	63,514	27,475
Interest and dividends	36,116	42,671
Leadership retreat	5,135	14,390
Miscellaneous	6,290	602
Total unrestricted support and revenue	3,123,006	2,118,242
Net assets released from restrictions:		
Expiration of time restrictions	687,795	541,876
Satisfaction of program restrictions	82,290	133,602
Total net assets released from restrictions	770,085	675,478
Total unrestricted support, revenue, and other support	3,893,091	2,793,720
Expenses:		
Program services	2,972,193	2,306,033
Fundraising	235,107	185,022
Management and general	379,705	287,696
Total expenses	3,587,005	2,778,751
Increase (decrease) in unrestricted net assets	306,086	14,969
Temporarily restricted net assets:		
United Way Services	507,123	397,791
Contributions	480,666	228,123
Program service fees and funding	5,800	45,980
Net assets released from restrictions	(770,085)	(675,478)
Increase (decrease) in temporarily restricted net assets	223,504	(3,584)
Increase (decrease) in net assets	529,590	11,385
Net assets at beginning of year	1,636,352	1,624,967
Net assets of Kids on the Block, merged effective September 1, 2006	131,596	-
Net assets at end of year	$ 2,297,538	$1,636,352

See report on supplementary information.

STARS NASHVILLE

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2007

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

* No Pass-Through Entity Identifying Number on grant

See independent auditors' report.

PURYEAR HAMILTON
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CERTIFIED PUBLIC ACCOUNTANTS

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December 19, 2007

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 year ended June 30, 2007, and have issued our report thereon dated December 19, 2007. 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

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.

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.

James E. Hamilton, CPA · Jeffrey J. Hausman, CPA · Ronald T. Wood, CPA · Jami A. Pope, CPA

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 Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting (Finding No. 2007-1).

The Organization's response to the finding 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.

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 Schedule 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 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*.

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.

Runyan, Hamilton, Hausman & Wood, PLC