

**SAINT MARY VILLA, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2014 AND 2013**

**SAINT MARY VILLA, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2014 AND 2013**

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1 – 2
FINANCIAL STATEMENTS:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6 – 12
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 <i>Government Auditing Standards</i>	13 - 14

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Saint Mary Villa, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Saint Mary Villa, Inc. (a Tennessee not-for-profit corporation, "SMV"), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years 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 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 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 Saint Mary Villa, Inc. as of June 30, 2014 and 2013, and the change 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2014, on our consideration of SMV's internal control over financial reporting and 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* in considering SMV's internal control over financial reporting and compliance.

September 26, 2014

SAINT MARY VILLA, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

ASSETS

	2014	2013
Current assets:		
Cash and cash equivalents	\$ 123,263	\$ 148,664
Accounts receivable, net of allowance for doubtful accounts of \$5,414 in 2014 and \$5,715 in 2013	33,714	47,167
Pledges receivable	176,902	176,902
Inventory	190	380
Prepaid expense	922	1,066
Total current assets	<u>334,991</u>	<u>374,179</u>
Equipment and leasehold improvements, net	12,802	14,811
Investments	571,165	518,066
Beneficial interest in perpetual trust	<u>2,674,237</u>	<u>2,407,463</u>
Total assets	<u><u>\$ 3,593,195</u></u>	<u><u>\$ 3,314,519</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses	<u>\$ 127,975</u>	<u>\$ 151,669</u>
Total liabilities	<u>127,975</u>	<u>151,669</u>
Net assets:		
Unrestricted:		
Unrestricted for operations	30,114	44,108
Designated for long-term growth	571,165	518,066
Equity in physical plant	<u>12,802</u>	<u>14,811</u>
Total unrestricted net assets	614,081	576,985
Temporarily restricted	176,902	178,402
Permanently restricted	<u>2,674,237</u>	<u>2,407,463</u>
Total net assets	<u>3,465,220</u>	<u>3,162,850</u>
Total liabilities and net assets	<u><u>\$ 3,593,195</u></u>	<u><u>\$ 3,314,519</u></u>

The accompanying notes are an integral part of these financial statements.

SAINT MARY VILLA, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2014 AND 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014	Total 2013
Revenues, gains and other support:					
Program service fees	\$ 1,091,067	\$ -	\$ -	\$ 1,091,067	\$ 1,281,414
Change in value - beneficial interest in perpetual trust	-	-	266,774	266,774	97,649
Contributions and other	189,656	-	-	189,656	277,579
United Way Services	3,999	176,902	-	180,901	182,540
Distributions from perpetual trust	117,152	-	-	117,152	140,819
USDA reimbursement	65,137	-	-	65,137	89,159
Net unrealized gains on investments	62,836	-	-	62,836	61,552
Investment income, net	16,849	-	-	16,849	9,467
Golf tournament	12,870	-	-	12,870	18,205
Loss on disposal of assets	-	-	-	-	(6,029)
Net assets released from restrictions	178,402	(178,402)	-	-	-
Total revenues, gains and other support	1,737,968	(1,500)	266,774	2,003,242	2,152,355
Expenses:					
Salaries and wages	989,619	-	-	989,619	1,033,659
Employee benefits	229,771	-	-	229,771	207,882
Occupancy	186,354	-	-	186,354	260,965
Supplies and general expenses	108,951	-	-	108,951	219,619
Payroll taxes	72,705	-	-	72,705	77,000
Purchased services-cleaning	35,287	-	-	35,287	41,045
Professional services	21,849	-	-	21,849	14,210
Bad debt	19,085	-	-	19,085	9,656
Miscellaneous	11,099	-	-	11,099	8,834
Travel and meetings	9,639	-	-	9,639	7,517
Insurance	5,947	-	-	5,947	6,673
Depreciation	5,219	-	-	5,219	10,285
Postage and printing	3,001	-	-	3,001	3,553
Marketing and public relations	1,317	-	-	1,317	751
Telephone	1,029	-	-	1,029	2,432
Total expenses	1,700,872	-	-	1,700,872	1,904,081
Revenues, gains and other support over (under) expenses	37,096	(1,500)	266,774	302,370	248,274
Net assets, beginning of year	576,985	178,402	2,407,463	3,162,850	2,914,576
Net assets, end of year	\$ 614,081	\$ 176,902	\$ 2,674,237	\$ 3,465,220	\$ 3,162,850

The accompanying notes are an integral part of these financial statements.

SAINT MARY VILLA, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Cash flows from operating activities:		
Increase in net assets	\$ 302,370	\$ 248,274
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	5,219	10,285
Loss on disposal of assets	-	6,029
Unrealized gains on investments	(62,836)	(61,552)
Change in value of beneficial interest in perpetual trust	(266,774)	(97,649)
(Increase) decrease in accounts receivable	13,453	(12,917)
Decrease in pledges receivable	-	10,000
Decrease in inventory	190	351
(Increase) decrease in prepaid expense	144	(277)
Decrease in accounts payable and accrued expenses	(23,694)	(10,028)
Net cash provided by (used in) operating activities	<u>(31,928)</u>	<u>92,516</u>
Cash flows from investing activities:		
Purchases of equipment	(3,210)	(3,920)
Purchase of investments	(15,502)	(8,712)
Proceeds from sale of investments	<u>25,239</u>	<u>22,887</u>
Net cash provided by investing activities	<u>6,527</u>	<u>10,255</u>
Net increase (decrease) in cash and cash equivalents	(25,401)	102,771
Cash and cash equivalents, beginning of year	<u>148,664</u>	<u>45,893</u>
Cash and cash equivalents, end of year	<u><u>\$ 123,263</u></u>	<u><u>\$ 148,664</u></u>

The accompanying notes are an integral part of these financial statements.

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Saint Mary Villa, Inc. ("SMV") is presented to assist in understanding SMV's financial statements. The financial statements and notes are representations of SMV's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Nature of Operations

SMV operates one child care facility for the general public located at 30 White Bridge Road, Nashville, Tennessee.

Basis of Presentation

SMV is required to report information regarding its financial position and activities according to three classes of net assets, unrestricted, temporarily restricted and permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. SMV follows the policy of reporting donor-imposed restricted contributions whose restrictions are met in the same year as revenues in the unrestricted net asset class.

Equipment and Leasehold Improvements

Equipment and leasehold improvements are carried at cost. Depreciation is provided using the straight-line method at rates based on estimated useful lives ranging from five to fifteen years, with no estimated salvage value.

Investments

SMV carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

SMV's advertising is non-direct, and the costs are expensed as incurred. SMV incurred \$1,317 and \$751 of advertising expense in 2014 and 2013, respectively.

Federal Income Taxes

SMV is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Prior Year Financial Statements

Certain reclassifications have been made to the prior year financial statements in order to conform to the current year presentation.

Events Occurring After Reporting Date

SMV has evaluated events and transactions that occurred after June 30, 2014 through the date of the issued financial statements. During this period, there were no material recognizable subsequent events that required recognition in our disclosures to the June 30, 2014 financial statements.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent funds on deposit with the Diocese of Nashville. The deposits earned interest of \$1,347 fiscal year 2014 and \$755 in fiscal year 2013. Cash and cash equivalents during the year may exceed Federal Deposit Insurance Corporation ("FDIC") limits. SMV has not experienced any losses and management believes it is not exposed to any significant credit risk related to cash.

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 3 - EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following:

	2014	2013
Equipment	\$ 174,705	\$ 171,495
Leasehold improvements	<u>450,632</u>	<u>450,632</u>
	625,337	622,127
Less: Accumulated depreciation	<u>(612,535)</u>	<u>(607,316)</u>
	<u>\$ 12,802</u>	<u>\$ 14,811</u>

Depreciation expense for the years ended June 30, 2014 and 2013 amounted to \$5,219 and \$10,285, respectively.

NOTE 4 - ENDOWMENTS

SMV's endowments consist of funds established for the purpose of ensuring its future operations. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of SMV has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the Organization

**SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

NOTE 4 - ENDOWMENTS (CONTINUED)

Investments and Beneficial Interest in Perpetual Trust

Investments of unrestricted funds are stated at fair value and consist of shares in a fund with the Endowment for the Advancement of Catholic Schools (EACS). The assets are held by a trustee and the trust agreement calls for a distribution of five percent of the fund's fair market value. At June 30, 2014, the fund consists of a mutual fund, cash and short-term investments.

SMV is a 50% beneficiary of the M.J. Smith Trust, a perpetual trust held by a local bank. SMV has no investment or ownership control of the assets in the trust. At June 30, 2014, the trust consisted of 1.2% cash and cash equivalents, 18.9% fixed income securities, 77.8% stocks and other investments and 2.1% tangible assets.

Changes in endowment net assets for the years ended June 30, 2014 and 2013 are as follows:

	Unrestricted	Permanently Restricted	Total
Endowment net assets, June 30, 2012	\$ 470,689	\$ 2,309,814	\$ 2,780,503
Investment return:			
Investment income	8,712	127,311	136,023
Net appreciation (depreciation)	61,552	111,157	172,709
Distributions	<u>(22,887)</u>	<u>(140,819)</u>	<u>(163,706)</u>
Endowment net assets, June 30, 2013	518,066	2,407,463	2,925,529
Investment return:			
Investment income	15,502	120,566	136,068
Net appreciation	62,836	263,360	326,196
Distributions	<u>(25,239)</u>	<u>(117,152)</u>	<u>(142,391)</u>
Endowment net assets, June 30, 2014	<u>\$ 571,165</u>	<u>\$ 2,674,237</u>	<u>\$ 3,245,402</u>

Return Objectives, Risk Parameter and Spending Policy

Unrestricted funds

This endowment fund, originally funded with \$417,640, is held by a trustee and the trust agreement calls for a distribution of five percent of the fund's fair market value which is available annually for the Organization's use.

Beneficial Interest in Perpetual Trust

This endowment fund is held in perpetual trust and calls for distributions throughout the year which are available for the Organization's use. The distributions totaled \$117,152 and \$140,819 for the years ended June 30, 2014 and 2013, respectively.

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 5 - FAIR VALUE MEASUREMENTS

SMV implemented Financial Accounting Standards (FASB) ASC 820, *Fair Value Measurements* in the current year. Among other things, FASB ASC 820 establishes a three-level valuation hierarchy for disclosures of fair value measurements defined as Level 1 – inputs for quoted market prices for identical assets or liabilities in active markets; Level 2 – inputs include quoted market prices for similar assets and liabilities in active markets and inputs that are observable either directly or indirectly and; Level 3 – inputs that are unobservable and significant to the fair value measurement.

Fair values of assets and liabilities measured on a recurring basis at June 30, 2014 and 2013 are as follows:

	Fair Value	In Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2014:				
Cash and money funds	\$ 32,834	\$ 32,834	\$ -	\$ -
Marketable equity securities	2,711,223	2,711,223	-	-
Corporate and international bond funds	281,416	281,416	-	-
Governmental bonds	219,929	219,929	-	-
	<u>\$ 3,245,402</u>	<u>\$ 3,245,402</u>	<u>\$ -</u>	<u>\$ -</u>
June 30, 2013:				
Cash and money funds	\$ 55,701	\$ 55,701	\$ -	\$ -
Marketable equity securities	2,211,261	2,211,261	-	-
Corporate and international bond funds	383,148	383,148	-	-
Governmental bonds	275,419	275,419	-	-
	<u>\$ 2,925,529</u>	<u>\$ 2,925,529</u>	<u>\$ -</u>	<u>\$ -</u>

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

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

	2014	2013
United Way Services funding for the next fiscal year	\$ 176,902	\$ 176,902
Grant for specific program to be used in next fiscal year	<u>-</u>	<u>1,500</u>
	<u>\$ 176,902</u>	<u>\$ 178,402</u>

NOTE 7 - EMPLOYEE BENEFITS

SMV has a Sec. 125 cafeteria plan. Employees working more than 30 hours a week may elect to participate in medical, dental, and life insurance coverage at a 5% contributory basis. The contribution percentage is prorated for employees working less than 30 hours a week. Disability insurance coverage is available on a noncontributory basis. These employees may obtain dependent coverage for the above services at their own expense. The plan also includes a Dependent Care Assistance Program. With the implementation of the cafeteria plan, the employees' payments for coverage and dependent care are made on a pre-tax basis. Regular and part-time employees working at least 800 hours per year participated in the following Diocese of Nashville pension plans:

Defined Benefit Pension Plan

The noncontributory defined benefit pension plan is funded based on the required contribution each year determined by the Diocesan Lay Retirement Board of Trust and is calculated as a percentage of eligible employees' salaries. The required contribution for 2013 is 5%. Participants vest in all employer contributions to the Plan as follows: after three years of service 20%, increasing 20% for each year of additional service until participants are fully vested after seven years of service.

Lay Employee Retirement Savings Plan

SMV has a defined contribution retirement savings plan as a supplement to the defined benefit pension plan. This plan is funded based on a percentage of eligible employees' salaries as determined by the Diocesan Lay Retirement Board of Trust. SMV matches employee contributions on a dollar for dollar basis to a maximum of 3% of salary, provided an employee contributes 3%. Participants are 100% vested in their contributions and the employers' matching contribution.

Contributions to both retirement plans amounted to \$57,459 in 2014 and \$58,041 in 2013.

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 8 - U.S. DEPARTMENT OF AGRICULTURE GRANT

SMV receives reimbursement from the U.S. Department of Agriculture ("USDA") for the Child Care Food Program (CFDA #10.558) in accordance with policy directives issued by USDA and 7 CFR Child Care Food Program Regulations. Total food costs included in supplies and general expenses amounted to \$65,077 and the reimbursable portion totaled \$57,433 for the year ended June 30, 2014. A schedule of grant activity for fiscal year 2014 is as follows:

Balance receivable at June 30, 2013	\$ 5,957
Expenditures	56,137
Receipts	<u>(57,433)</u>
Balance receivable at June 30, 2014	<u>\$ 4,661</u>

NOTE 9 - SIGNIFICANT TRANSACTIONS WITH OTHER CATHOLIC ENTITIES

2014 **2013**

Significant transactions with the Governance and Services Offices of the Diocese of Nashville include:

Interest income	\$ 1,347	\$ 755
Endowment for the Advancement of Catholic Schools investment return	78,337	70,264
Occupancy expense	161,403	241,014
Insurance	4,500	5,500
Retirement plan costs	57,459	58,041

Significant transactions with the Catholic Charities include:

Contribution income	\$ 66,250	\$ 62,700
Postage expense	578	744
Miscellaneous expense	440	400
Amounts due to Catholic Charities	11,136	20,085

Significant transactions with Mary Queen of Angels include:

Health insurance claims	\$ 8,050	\$ 9,744
Computer maintenance	836	-
Food and beverage expense	-	172,229
Amounts due to Mary Queen of Angels	-	14,858

**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 Trustees of
Saint Mary Villa, Inc.

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 Saint Mary Villa, Inc. which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 26, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Saint Mary Villa Inc.'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 Saint Mary Villa, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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.

**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 (CONTINUED)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Saint Mary Villa, Inc.'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 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 Saint Mary Villa Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Saint Mary Villa Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

September 26, 2014

September 26, 2014

To the Board of Trustees of
Saint Mary Villa, Inc.

We have audited the financial statements of Saint Mary Villa, Inc. for the year ended June 30, 2014, and have issued our report thereon dated September 26, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 14, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Saint Mary Villa, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the allowance for doubtful accounts is based on past experience with customers of the Organization. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the useful lives of depreciable assets is based on estimation of the expected lives of these fixed assets. We evaluated the key factors and assumptions used to develop the useful lives of depreciable assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 26, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Trustees and management of Saint Mary Villa, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Edmondson, Betzler & Montgomery, PLLC