

ST. MARY VILLA, INC.

Financial Statements and Supplementary Information

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
St. Mary Villa, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of St. Mary Villa, Inc. (the "Organization") which comprise the statements of financial position as of June 30, 2019 and 2018, 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.

Auditors' 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 audits 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 auditors' 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 St. Mary Villa, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance 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 REPORT DATE, 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 solely 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 effectiveness of the Organization's 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 the Organization's internal control over financial reporting and compliance.

Brentwood, Tennessee
REPORT DATE

ST. MARY VILLA, INC.

Statements of Financial Position

June 30, 2019 and 2018

Assets

	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 11,659	\$ 21,811
Accounts receivable	37,671	23,027
United Way grant receivable	176,000	176,000
Prepaid expenses and other current assets	<u>599</u>	<u>775</u>
Total current assets	225,929	221,613
Equipment and leasehold improvements, net	120,678	139,827
Beneficial interest in trusts	<u>4,035,565</u>	<u>4,060,765</u>
Total assets	<u>\$ 4,382,172</u>	<u>\$ 4,422,205</u>

Liabilities and Net Assets

Current liabilities:		
Line of credit	\$ 148,592	\$ 148,736
Accounts payable and accrued expenses	89,177	72,340
Deferred revenue	<u>4,118</u>	<u>6,957</u>
Total current liabilities	241,887	228,033
Deferred rent	<u>24,219</u>	<u>27,724</u>
Total liabilities	<u>266,106</u>	<u>255,757</u>
Net assets:		
Without donor restrictions:		
Unrestricted for operations	(216,177)	(210,144)
Designated for long-term growth	432,788	471,982
Designated for physical plant	<u>120,678</u>	<u>139,827</u>
Total assets without donor restrictions	337,289	401,665
Assets with donor restrictions	<u>3,778,777</u>	<u>3,764,783</u>
Total net assets	<u>4,116,066</u>	<u>4,166,448</u>
Total liabilities and net assets	<u>\$ 4,382,172</u>	<u>\$ 4,422,205</u>

See accompanying notes to the financial statements.

ST. MARY VILLA, INC.

Statement of Activities

Year ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Program service fees	\$ 858,483	\$ -	\$ 858,483
Change in value - beneficial interest in trusts	(39,194)	13,994	(25,200)
Distributions from beneficial interest in trusts	232,818	-	232,818
Contributions and other	49,298	-	49,298
United Way services	-	176,000	176,000
USDA reimbursement	45,775	-	45,775
Interest income	495	-	495
Net assets released from restrictions	<u>176,000</u>	<u>(176,000)</u>	<u>-</u>
Total revenues, gains and other support	<u>1,323,675</u>	<u>13,994</u>	<u>1,337,669</u>
Expenses:			
Program	157,867	-	157,867
Management	<u>1,230,184</u>	<u>-</u>	<u>1,230,184</u>
Total expenses	<u>1,388,051</u>	<u>-</u>	<u>1,388,051</u>
Revenues, gains and other support over (under) expenses	(64,376)	13,994	(50,382)
Net assets, beginning of year	<u>401,665</u>	<u>3,764,783</u>	<u>4,166,448</u>
Net assets, end of year	<u>\$ 337,289</u>	<u>\$ 3,778,777</u>	<u>\$ 4,116,066</u>

See accompanying notes to the financial statements.

ST. MARY VILLA, INC.

Statement of Activities

Year ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Program service fees	\$ 755,119	\$ -	\$ 755,119
Change in value - beneficial interest in trusts	24,254	97,036	121,290
Distributions from beneficial interest in trusts	177,062	-	177,062
Contributions and other	78,124	-	78,124
United Way services	-	176,000	176,000
USDA reimbursement	28,656	-	28,656
Interest income	788	-	788
Net assets released from restrictions	<u>176,000</u>	<u>(176,000)</u>	<u>-</u>
Total revenues, gains and other support	<u>1,240,003</u>	<u>97,036</u>	<u>1,337,039</u>
Expenses:			
Program	1,165,327	-	1,165,327
Management	<u>133,741</u>	<u>-</u>	<u>133,741</u>
Total expenses	<u>1,299,068</u>	<u>-</u>	<u>1,299,068</u>
Revenues, gains and other support over (under) expenses	(59,065)	97,036	37,971
Net assets, beginning of year	<u>460,730</u>	<u>3,667,747</u>	<u>4,128,477</u>
Net assets, end of year	<u>\$ 401,665</u>	<u>\$ 3,764,783</u>	<u>\$ 4,166,448</u>

See accompanying notes to the financial statements.

ST. MARY VILLA, INC.

Statements of Cash Flows

Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ <u>(50,382)</u>	\$ <u>37,971</u>
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	19,149	19,159
Bad debt expense	14,095	55
Change in value of beneficial interest in trusts	25,200	(121,290)
 (Increase) decrease in operating assets:		
Accounts receivable	(28,739)	4,357
Prepaid expenses and other current assets	176	(228)
 Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	16,837	(64,158)
Deferred revenue	(2,839)	(7,731)
Deferred rent	<u>(3,505)</u>	<u>9,518</u>
Total adjustments	<u>40,374</u>	<u>(160,318)</u>
Net cash used by operating activities	(10,008)	(122,347)
 Cash flows from investing activities -		
purchase of equipment and leasehold improvements	-	(600)
 Cash flows from financing activities - repayments of line of credit	<u>(144)</u>	<u>(1,264)</u>
Decrease in cash and cash equivalents	(10,152)	(124,211)
 Cash and cash equivalents at beginning of year	<u>21,811</u>	<u>146,022</u>
Cash and cash equivalents at end of year	<u>\$ 11,659</u>	<u>\$ 21,811</u>

See accompanying notes to the financial statements.

Notes to the Financial Statements

June 30, 2019 and 2018

(1) Nature of Activities

St. Mary Villa, Inc. (the "Organization") is a Tennessee not-for-profit organization. The Organization's mission is to support families by providing affordable, quality day care, after school care and educational programs in a safe, healthy, nurturing and multi-cultural environment, promoting intellectual, physical, social and moral development of the child. The Organization operates one full-time child care facility with after-school care available at three additional locations. The Organization is governed by a board of trustees that is approved by the Corporate Members of the Diocese of Nashville, Tennessee.

(2) Summary of Significant Accounting Policies

This summary of significant accounting policies of the Organization is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization'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 ("GAAP") and have been consistently applied in the preparation of the financial statements.

(a) Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions. The Board of Trustees (the "Board") has authority to designate unrestricted funds for specified purposes. Such designations do not represent donor restrictions and may be terminated at the Board's discretion.

Assets with donor restrictions - Assets subject to donor-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time and assets subject to donor-imposed restrictions that they be maintained permanently by the Organization.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. The Organization follows the policy of reporting donor-imposed restricted contributions whose restrictions are met in the same year as revenues from net assets without donor restrictions.

Notes to the Financial Statements

June 30, 2019 and 2018

(b) Cash Equivalents

The Organization maintains cash balances on deposit with Catholic Community Investment and Loan, Inc. ("CCIL"). CCIL is a not-for-profit public benefit and charitable corporation established to loan funds to parishes and entities subject to the canonical jurisdiction of the Bishop of Nashville as well as to invest pooled deposits. These cash balances are not insured; however, the Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash and cash equivalents.

The Organization considers all highly liquid investments with original maturities of less than three months to be cash equivalents.

(c) Accounts Receivable and Credit Policies

The Organization reports accounts receivable, net of an allowance for doubtful accounts, at the amount which represents management's estimate of the amount that ultimately will be realized. The Organization reviews the adequacy of its allowance for uncollectible accounts on an ongoing basis, using historical payment trends, as well as review of specific accounts, and makes adjustments in the allowance as necessary. Management of the Organization determined no allowance was necessary at June 30, 2019 and 2018.

(d) Equipment and Leasehold Improvements

Equipment and leasehold improvements are carried at cost. Depreciation of equipment 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. Donated equipment is recorded at estimated market value at the date of the gift. Leasehold improvements are amortized over the shorter of their estimated useful lives or the respective lease term.

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When property is retired or sold, the cost and the related accumulated depreciation or amortization are removed from the accounts, and the resulting gain or loss is included in net assets without donor restrictions.

(e) Beneficial Interest in Trusts

The Organization is a beneficiary of the MJ Smith Family Foundation Trust ("MJ Smith Trust"), the Endowment for the Advancement of Catholic Schools ("EACS"), and the Frank Givens Trust (collectively, the "Trusts"). The assets of the Trusts are not in the possession of the Organization. The Organization has legally enforceable rights and claims to such assets, including the sole right to income related to its interest in the Trusts. Distributions received from the Trusts are unrestricted. The change in the beneficial interest in trusts is reported as changes in net assets with donor restrictions for the MJ Smith Trust and the Frank Givens Trust and as changes in net assets without donor restrictions for EACS.

Notes to the Financial Statements

June 30, 2019 and 2018

EACS is an endowed perpetual trust comprised of assets held by a trustee. The trust agreement calls for a quarterly distribution of interest, dividends, and capital gains, both realized and unrealized, as determined by the trustee and its advisors of which a percentage of the total is distributed to the Organization.

The MJ Smith Trust is a perpetual trust held by a bank. The Organization has no investment or ownership control of the assets in the trust. Distributions from this trust are determined annually based on the related trust document.

The Frank Givens Trust includes assets held by a trustee and is scheduled to terminate on March 28, 2059 at which time the Organization will receive one-third of the value of the assets held in the trust. The trustee is authorized to make annual distributions equal to a percentage determined by the trustee annually of the net fair market value of the principal of the trust, with such value determined by averaging the net fair market value of the principal of the assets held in the Frank Givens Trust on the close of the last business day of each of the immediately preceding three calendar years. The Organization is entitled to one-third of the annual distributions from the Frank Givens Trust.

(f) Revenue Recognition

Deposits received for services fees are shown as deferred revenues until earned. Day care program revenue and related fees are recognized as income as the day care services are provided.

Cash contributions are recognized as revenue when received.

(g) Income Taxes

The Organization is a not-for-profit corporation and is exempt from federal income taxes under the provisions of Internal Revenue Code ("IRC") Section 501(c)(3), and, accordingly, no provision for income taxes is included in the financial statements. The Organization is further exempt from filing certain returns as it is considered an integrated auxiliary of a church.

An uncertain tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Organization does not believe there are any material uncertain tax positions and, accordingly, it has not recognized any asset or liability for unrecognized tax benefits.

As of June 30, 2019 and 2018, the Organization has accrued no interest and no penalties related to uncertain tax positions. It is the Organization's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

Notes to the Financial Statements

June 30, 2019 and 2018

(h) Recently adopted accounting pronouncement

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The Organization adopted ASU 2016-14 in fiscal year 2019, and the provisions have been applied retrospectively. Total net assets did not change as a result of adoption of this ASU and the primary impact relates to enhanced disclosures.

(i) New accounting pronouncement, not yet adopted

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), ("ASU 2014-09") which will eliminate the transaction and industry-specific revenue recognition guidance under current GAAP and replace it with a principles-based approach. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09, as amended, is effective for the Organization beginning July 1, 2019 and the Organization has not yet made a determination of the transition approach to be utilized for ASU 2014-09.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 is intended to clarify (1) when transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of contribution accounting guidance, or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional. ASU No. 2018-08 is effective for the Organization's fiscal year beginning July 1, 2019 for transactions in which the Organization's serves as a resource recipient, and for its fiscal year beginning July 1, 2020, for transactions in which the Organization serves as a resource provider. Early adoption is permitted.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, as amended, which requires lessees to recognize substantially all leases on-balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use ("ROU") model that requires a lessee to recognize a ROU asset and lease liability on the consolidated statement of financial position for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the consolidated statement of activities and changes in net assets. The guidance is effective for the Organization's fiscal year beginning July 1, 2021.

Notes to the Financial Statements

June 30, 2019 and 2018

Management of the Organization is currently assessing the impact that ASU 2014-09, ASU 2016-02, and 2018-08 will have on its financial statements and related disclosures.

(j) Functional allocation of expenses

The categories of expenses reported in the financial statements are attributed to both program and management functions. These expenses require allocation on a reasonable basis that is consistently applied. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services based upon various allocation methods. General and administrative expenses include those expenses that are not directly identifiable with any other specific functions but provide for the overall support and direction of the Organization.

(k) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the 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.

(l) Events Occurring After Reporting Date

Management of the Organization has evaluated events and transactions that occurred between June 30, 2019 and REPORT DATE which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Cash and Cash Equivalents

The Organization generally maintains cash on deposit at banks in excess of federally insured amounts. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash.

(4) Equipment and Leasehold Improvements

Equipment and leasehold improvements consist of the following as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 23,432	23,432
Leasehold improvements	<u>169,106</u>	<u>169,106</u>
	192,538	192,538
Accumulated depreciation and amortization	<u>(71,860)</u>	<u>(52,711)</u>
	\$ <u>120,678</u>	\$ <u>139,827</u>

Notes to the Financial Statements

June 30, 2019 and 2018

(5) Endowments

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

Interpretation of Relevant Law

The Board has interpreted the Tennessee Prudent Management of Institutional Funds Act ("TPMIFA") 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 assets with donor restrictions (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. In accordance with TPMIFA, 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

Changes in endowment net assets for the year ended June 30, 2019 and 2018 are as follows:

	Without donor <u>Restrictions</u>	With donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2017	\$ 447,728	\$ 3,491,747	\$ 3,939,475
Change in beneficial interest	<u>24,254</u>	<u>97,036</u>	<u>121,290</u>
Endowment net assets, June 30, 2018	471,982	3,588,783	4,060,765
Change in beneficial interest	<u>(39,194)</u>	<u>13,994</u>	<u>(25,200)</u>
Endowment net assets, June 30, 2019	\$ <u>432,788</u>	\$ <u>3,602,777</u>	\$ <u>4,035,565</u>

The endowment funds are held in trusts that provide for distributions throughout the year, which are available for the Organization's unrestricted use. The distributions totaled \$232,818 and \$177,062 for the years ended June 30, 2019 and 2018, respectively. See Note 2(e) for further information about the individual trusts, their restrictions and spending policies.

Notes to the Financial Statements

June 30, 2019 and 2018

(6) Fair Value Measurements

FASB Accounting Standards Codification Topic 820, *Fair Value Measurement*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Given the inability to compute the present value of the perpetual income stream from certain trusts, the beneficial interest in trusts has been recorded on the statements of financial position at the fair value of the underlying assets of each trust using information obtained from third party sources, including detail listings of holdings from the Trusts. The Trusts consist primarily of marketable equity securities, mutual funds, corporate and international bond funds and governmental bonds. The value of the Trusts are not based on a publicly-quoted price in an active market (Level 2). The Organization did not have any fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2019 and 2018.

(7) Line of Credit

The Organization has a \$150,000 line of credit with CCIL and had borrowings under the line of \$148,592 and \$148,736 at June 30, 2019 and 2018, respectively. The line of credit bears interest at the Wall Street Journal's published prime rate minus 1% with a minimum annual interest rate of 2.75% (4.50% at June 30, 2019). The Organization provided CCIL with a negative pledge on all assets which requires CCIL's consent prior to pledging its assets in order to secure additional debt. The line of credit is scheduled to mature on June 30, 2020 and is subject to certain financial covenants. The Organization was in compliance with the covenants at June 30, 2019. On July 1, 2019, the line of credit was converted to a note payable with a fixed rate of 2.86% with payments of principal and interest due in monthly installments of \$750 through June 30, 2022 at which time the remaining principal balance is due.

(8) Assets with donor restrictions

Net assets with donor restrictions consist of grants from United Way that are restricted to use during the next fiscal year and the Organization's beneficial interest in the Frank Givens Trust which is restricted until the trust's termination on March 28, 2059.

Notes to the Financial Statements

June 30, 2019 and 2018

(9) Retirement PlansDefined Benefit Plan

The Organization participates in a non-contributory defined benefit pension plan which 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. During 2019 and 2018, the Organization contributed 5% of the eligible employees' compensation to the plan each year. 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.

Management has determined that the defined benefit pension plan qualifies for treatment as a multi-employer plan under generally accepted accounting principles. Participation in multi-employer pension plans is different from single employer pension plans in the following ways: 1) assets contributed to the multi-employer plan by one employer may be used to provide benefits of employment to other participating employers, 2) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers, and 3) if the Organization stops participating in its multi-employer pension plan, it may be required to pay the plan an amount based on the underfunded status of the entire plan.

The following table sets forth the benefit obligations, fair value of plan assets, and funded status (in thousands) of the noncontributory pension plan in which the Organization is a participant as of January 1, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Benefit obligation at end of plan year	\$ (51,582)	\$ (47,356)
Plan assets at fair value at end of plan year	<u>47,269</u>	<u>50,221</u>
Funded Status	\$ <u>(4,313)</u>	\$ <u>2,865</u>

Lay Employee Retirement Savings Plan

The Organization participates in a defined contribution retirement savings plan as a supplement to the defined benefit pension plan. Participants in the defined contribution retirement savings plan are permitted to contribute 100% of their compensation subject to certain IRC limitations. For those employees participating in the defined contribution retirement savings plan, the Organization contributes a 100% match of 3% of the participating employee's compensation. Participants are 100% vested in their contributions and the employers' matching contribution.

Contributions to both retirement plans amounted to \$40,406 and \$39,847 in 2019 and 2018, respectively.

ST. MARY VILLA, INC.

Notes to the Financial Statements

June 30, 2019 and 2018

(10) U.S. Department of Agriculture Grant

The Organization 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 the USDA and 7 CFR USDA Uniform Federal Assistance Regulations. Total food costs included in supplies and general expenses amounted to \$59,675 and \$61,493 and the reimbursable portion totaled \$45,775 and \$28,656 for the year ended June 30, 2019 and 2018, respectively. A schedule of grant activity for fiscal year 2019 and 2018 is as follows:

	<u>Amount</u>
Balance receivable at June 30, 2017	\$ -
Reimbursable Expenditures	28,656
Receipts	<u>(25,379)</u>
Balance receivable at June 30, 2018	3,277
Reimbursable Expenditures	45,775
Receipts	<u>(24,263)</u>
Balance receivable at June 30, 2019	\$ <u>24,789</u>

(11) Functional expenses

A summary of the Organization's expenses by natural and functional classification for 2019 and 2018 are as follows:

	<u>2019</u>		
	<u>Program expenses</u>	<u>Management expenses</u>	<u>Total</u>
Salaries and wages	\$ 30,845	\$ 644,539	\$ 675,384
Employee benefits	8,744	182,597	191,341
Occupancy	-	211,880	211,880
Supplies and general expenses	-	99,370	99,370
Payroll taxes	2,327	48,597	50,924
Purchase services-cleaning	-	23,475	23,475
Professional services	74,550	9,000	83,550
Bad debt	14,095	-	14,095
Miscellaneous	2,704	-	2,704
Travel and meetings	-	6,008	6,008
Insurance	-	4,038	4,038
Depreciation and amortization	19,149	-	19,149
Postage and printing	83	-	83
Interest expense	5,370	-	5,370
Marketing and public relations	<u>-</u>	<u>680</u>	<u>680</u>
Total	\$ <u>157,867</u>	\$ <u>1,230,184</u>	\$ <u>1,388,051</u>

ST. MARY VILLA, INC.

Notes to the Financial Statements

June 30, 2019 and 2018

	2018		
	<u>Program expenses</u>	<u>Management expenses</u>	<u>Total</u>
Salaries and wages	\$ 611,483	\$ 29,263	\$ 640,746
Employee benefits	163,795	7,844	171,639
Occupancy	209,811	-	209,811
Supplies and general expenses	91,216	-	91,216
Payroll taxes	45,873	2,197	48,070
Purchase services-cleaning	23,475	-	23,475
Professional services	7,285	65,292	72,577
Bad debt	-	55	55
Miscellaneous	-	5,048	5,048
Travel and meetings	7,236	-	7,236
Insurance	4,538	-	4,538
Depreciation and amortization	-	19,159	19,159
Postage and printing	-	147	147
Interest expense	-	4,736	4,736
Marketing and public relations	615	-	615
Total	<u>\$ 1,165,327</u>	<u>\$ 133,741</u>	<u>\$ 1,299,068</u>

(12) Liquidity and availability

At June 30, 2019, the Organization has cash of \$11,659 and accounts receivable of \$37,671 available for general expenditures within one year of the statement of financial position date. Also at June 30, 2019, the Organization has availability in its line of credit of \$1,408. Additionally, the corpus of EACS (\$417,640 as of June 30, 2019) could be invaded in an extraordinary circumstance, if approved by EACS' board.

(13) Lease commitments

The Organization utilizes facilities under a sub-use agreement with Catholic Charities of Tennessee, Inc. ("Catholic Charities"), which includes an option for the Organization to extend the lease for an additional five-year period.

A summary of approximate future minimum payments under this lease as of June 30, 2019 is as follows:

	<u>Amount</u>
2020	\$ 131,000
2021	<u>138,000</u>
	<u>\$ 269,000</u>

ST. MARY VILLA, INC.

Notes to the Financial Statements

June 30, 2019 and 2018

(14) Transactions with the Catholic Diocese of Nashville and Related Organizations

Significant transactions with related parties not disclosed elsewhere in the financial statements as of and for the years ended June 30, 2019 and 2018 include:

Significant transactions with Governance and Services Office of the Catholic Diocese of Nashville:

	<u>2019</u>	<u>2018</u>
Contribution income	\$ <u>30,000</u>	\$ <u>30,000</u>

Significant transactions with CCIL include:

	<u>2019</u>	<u>2018</u>
Interest expense on line of credit	\$ <u>5,370</u>	\$ <u>4,736</u>

Significant transactions with Catholic Charities include:

	<u>2019</u>	<u>2018</u>
Contribution income	\$ <u>22,355</u>	\$ <u>22,355</u>
Sub-use expense	\$ <u>122,206</u>	\$ <u>122,206</u>
Shared costs	\$ <u>74,602</u>	\$ <u>71,548</u>
Management fees	\$ <u>36,000</u>	\$ <u>36,000</u>

The Organization has a management contract with Catholic Charities. Under the terms of this contract, Catholic Charities provides for certain administrative support, including operational, finance and accounting, human resource and general administrative services. Fees for such services are included in management fees above. Due to the renegotiated management services agreement, Catholic Charities has majority voting rights in substantially all matters of the Organization.

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*

The Board of Trustees of
St. 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 St. Mary Villa, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2019, 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 REPORT DATE.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 the Organization'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as 2019-001.

The Organization's Response to the Finding

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Brentwood, Tennessee
REPORT DATE

Schedule of Findings and Responses

June 30, 2019

Financial Statement Findings

There were no findings related to the financial statement audit.

Compliance Findings

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2019-001	Meal Reimbursement Categorization	Uncorrected

Condition: We noted one family qualified for meal reimbursement based on income; however, the Organization did not designate that family for meal reimbursement.

Criteria: The United States Department of Agriculture ("USDA") provides assistance to low income families through its Child and Adult Care Food Program, by either fully or partially reimbursing meal expenses. The USDA issues annual income eligibility guidelines for free and reduced price meals, which are used to determine which families qualify for reimbursement, based upon both total household size and income.

Cause: The Organization's process for family categorization failed to detect and correct one instance of miscategorization.

Effect: The Organization's failure to properly designate a family for reimbursement resulted in missed opportunities for reimbursement of meals by the USDA.

Recommendation: The Organization should document the categorization and the review of categorization of families for reimbursement for each family with a student attending the Organization.

Response: The Organization agrees with the auditors' recommendations and will document categorization and review of categorization of all families with a student receiving reimbursements to ensure proper categorization.

ST. MARY VILLA, INC.

Schedule of Prior Year Findings

June 30, 2018

Financial Statement Findings

There were no prior findings related to the financial statement audit.

Compliance Findings

There were no prior findings related to compliance testing.

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