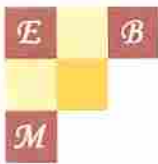


**SAINT MARY VILLA, INC.  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED JUNE 30, 2008 AND 2007**

SAINT MARY VILLA, INC.  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED JUNE 30, 2008 AND 2007

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*Edmondson, Betzler & Montgomery, PLLC*  
(Certified Public Accountants)

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of Saint Mary Villa, Inc. (a Tennessee not-for-profit corporation, "SMV"), as of June 30, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of SMV's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of June 30, 2007 were audited by other auditors whose report dated August 22, 2007, expressed an unqualified opinion on those statements.

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 of America. 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 that 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 Saint Mary Villa, Inc. as of June 30, 2008, and the change 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 August 27, 2008, 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 grants, 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 important for assessing the results of our audit.

*Edmondson, Betzler & Montgomery, PLLC*

August 27, 2008

SAINT MARY VILLA, INC.  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2008 AND 2007

ASSETS

	2008	2007
Current assets:		
Cash and cash equivalents (note 3)	\$ 230,802	\$ 291,588
Accounts receivable, net of allowance for doubtful accounts of \$9,972 in 2008 and \$22,587 in 2007 (note 8)	45,128	38,985
Pledges receivable (note 2)	331,902	98,343
Inventory	748	272
Prepaid expense	<u>236</u>	<u>2,966</u>
Total current assets	608,816	432,154
 Equipment and leasehold improvements, net (note 4)	 13,362	 10,729
 Investments (note 5)	 465,798	 525,768
 Beneficial interest in perpetual trust (note 5)	 <u>2,399,308</u>	 <u>2,601,396</u>
 Total assets	 <u><u>\$ 3,487,284</u></u>	 <u><u>\$ 3,570,047</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses	<u>\$ 115,209</u>	<u>\$ 107,360</u>
 Total liabilities	 <u>115,209</u>	 <u>107,360</u>
Net assets:		
Unrestricted:		
Unrestricted for operations	121,705	145,615
Designated for long-term growth	465,798	525,768
Equity in physical plant	13,362	10,729
Designated for future program development	<u>-</u>	<u>17,709</u>
 Total unrestricted net assets	 600,865	 699,821
 Temporarily restricted (note 2)	 371,902	 161,470
 Permanently restricted (note 5)	 <u>2,399,308</u>	 <u>2,601,396</u>
 Total net assets	 <u><u>3,372,075</u></u>	 <u><u>3,462,687</u></u>
 Total liabilities and net assets	 <u><u>\$ 3,487,284</u></u>	 <u><u>\$ 3,570,047</u></u>

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

SAINT MARY VILLA, INC.  
STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2008 AND 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2008	Total 2007
Revenues, gains and other support:					
Program service fees	\$ 1,423,378	\$ -	\$ -	\$ 1,423,378	\$ 1,404,431
Contributions and other	136,565	250,000	-	386,565	241,655
United Way Services	5,518	181,902	-	187,420	102,330
USDA reimbursement (note 8)	92,339	-	-	92,339	96,061
Management fees	480	-	-	480	480
Investment income (loss) (note 5)	110,173	-	(202,088)	(91,915)	485,709
Net assets released from restrictions	221,470	(221,470)	-	-	-
Total revenues, gains and other support	1,989,923	210,432	(202,088)	1,998,267	2,330,666
Expenses:					
Salaries and wages	1,139,131	-	-	1,139,131	1,076,963
Supplies and general expenses	263,461	-	-	263,461	234,567
Occupancy (note 7)	262,532	-	-	262,532	256,345
Employee benefits (notes 6)	202,797	-	-	202,797	172,278
Payroll taxes	81,987	-	-	81,987	78,741
Purchased services-cleaning	41,045	-	-	41,045	41,045
Bad debt	26,343	-	-	26,343	59,625
Professional services	24,758	-	-	24,758	16,378
Other miscellaneous	10,019	-	-	10,019	8,146
Insurance	9,001	-	-	9,001	6,070
Telephone	7,631	-	-	7,631	7,531
Postage and printing	6,678	-	-	6,678	5,543
Travel and meetings	6,211	-	-	6,211	4,513
Repairs and maintenance	3,163	-	-	3,163	26,267
Depreciation (note 4)	3,080	-	-	3,080	4,098
Marketing and public relations	1,042	-	-	1,042	1,189
Total expenses	2,088,879	-	-	2,088,879	1,999,299
Revenues, gains and other support over (under) expenses	(98,956)	210,432	(202,088)	(90,612)	328,367
Net assets, beginning of year	699,821	161,470	2,601,396	3,462,687	3,134,320
Net assets, end of year	\$ 600,865	\$ 371,902	\$ 2,399,308	\$ 3,372,075	\$ 3,462,687

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

SAINT MARY VILLA, INC.  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ (90,612)	\$ 328,367
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,080	4,098
Non cash contributions of equipment	(5,400)	-
Net unrealized and realized (gains) losses on investments	262,058	(308,734)
(Increase) decrease in accounts receivable	(6,143)	35,913
Increase in pledges receivable	(233,559)	-
(Increase) decrease in inventory	(476)	442
(Increase) decrease in prepaid expense	2,730	(804)
Increase (decrease) in accounts payable and accrued expenses	<u>7,849</u>	<u>(191)</u>
Net cash provided (used) by operating activities	<u>(60,473)</u>	<u>59,091</u>
Cash flows from investing activities:		
Purchases of equipment	<u>(313)</u>	<u>(8,890)</u>
Net cash used in investing activities	<u>(313)</u>	<u>(8,890)</u>
Net increase (decrease) in cash and cash equivalents	(60,786)	50,201
Cash and cash equivalents, beginning of year	<u>291,588</u>	<u>241,387</u>
Cash and cash equivalents, end of year	<u><u>\$ 230,802</u></u>	<u><u>\$ 291,588</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, 2008 AND 2007

**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 a 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.

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 twelve 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.

Advertising

SMV's advertising is non-direct, and the costs are expensed as incurred. SMV incurred \$1,042 and \$1,189 of advertising expense in 2008 and 2007, respectively.

SAINT MARY VILLA, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

NOTE 2 - TEMPORARILY RESTRICTED NET ASSETS

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

	2008	2007
United Way Services funding for the next year	\$ 181,902	\$ 98,343
Grants for operational and capital expenditures to be used in next fiscal year	<u>190,000</u>	<u>63,127</u>
	<u>\$ 371,902</u>	<u>\$ 161,470</u>

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent funds on deposit with the Diocese of Nashville. The deposits earned interest of \$12,012 in fiscal year 2008 and \$15,181 in fiscal year 2007. 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, 2008 AND 2007

**NOTE 4 - EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

Equipment and leasehold improvements consist of the following:

	2008	2007
Equipment	\$ 201,727	\$ 196,014
Leasehold improvements	<u>466,643</u>	<u>466,643</u>
	668,370	662,657
Less: Accumulated depreciation	<u>(655,008)</u>	<u>(651,928)</u>
Equipment and leasehold improvements, net	<u>\$ 13,362</u>	<u>\$ 10,729</u>

Depreciation expense for the years ended June 30, 2008 and 2007 amounted to \$3,080 and \$4,098, respectively.

**NOTE 5 - INVESTMENTS**

Investments are stated at fair value and consist of shares in a mutual 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, 2008, the mutual fund consists of stocks, fixed income investments, cash and short-term investments. Fair values and unrealized gains are summarized as follows:

	2008	2007
<u>Unrestricted:</u>		
Cost, beginning of year	\$ 441,533	\$ 437,467
Realized gains and reinvested earnings	32,728	26,389
Distributions	<u>(23,097)</u>	<u>(22,323)</u>
Cost, end of year	451,164	441,533
Unrealized gains (losses), end of year	<u>(14,634)</u>	<u>84,235</u>
Fair value, end of year	<u>\$ 465,798</u>	<u>\$ 525,768</u>

Investment return from unrestricted investments is summarized as follows:

	2008	2007
Interest income	\$ 17,830	\$ 13,309
Net realized gains	14,898	13,080
Unrealized gains (losses)	<u>(69,601)</u>	<u>47,021</u>
Total unrestricted investment return	<u>\$ (36,873)</u>	<u>\$ 73,410</u>

SAINT MARY VILLA, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2008 AND 2007

NOTE 5 - INVESTMENTS (CONTINUED)

Permanently Restricted – Beneficial Interest in Perpetual Trust:

SMV is a 50% beneficiary of a perpetual trust held by a local bank. SMV has no investment or ownership control of the assets in the trust. Investments are stated at fair value. At June 30, 2008, the trust consisted of 5.4% cash and cash equivalents, 34.1% fixed income securities and 60.5% stocks and other investments.

	2008	2007
Cost, beginning of year	\$ 2,197,948	\$ 2,122,437
Realized gains (losses) and earnings retained	<u>(18,885)</u>	<u>75,511</u>
Cost, end of year	2,179,063	2,197,948
Unrealized gains, end of year	<u>220,245</u>	<u>403,448</u>
Fair value, end of year	<u>\$ 2,399,308</u>	<u>\$ 2,601,396</u>

Trust income from this permanently restricted investment is summarized as follows:

	2008	2007
Interest income and net realized gains	\$ 73,467	\$ 164,310
Unrealized gains (losses)	<u>(183,203)</u>	<u>182,137</u>
Total permanently restricted trust income (loss)	<u>\$ (109,736)</u>	<u>\$ 346,447</u>

SMV is a beneficiary of the income of the M.J. Smith Trust, a testamentary trust. Under this trust, 50% of the total trust income is for children's services of Saint Mary Villa, Inc., and 50% for the Most Reverend Edward U. Kmiec, Bishop, Roman Catholic Diocese of Nashville and his successors in office, for the use and benefit of Saint Mary Villa, Inc. SMV receives 100% of the income of the trust designed for children's services.

In May 1994, SMV began receiving income under the Frank M. Givens Trust, a testamentary trust. Under this trust, SMV receives one-third of the residual income available after the trust has met its obligations to provide for the needs of an individual beneficiary. During 2006, the sole living beneficiary of the trust passed away. As a result, SMV now receives one-third of the entire income available. The trust income is designated for children's services of Saint Mary Villa, Inc.

Total unrestricted trust income from the aforementioned testamentary trusts was \$134,768 and \$139,712 for the years ended June 30, 2008 and 2007, respectively.

**SAINT MARY VILLA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

**NOTE 6 - 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 coverages 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 2008 is 4%. 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 \$55,590 in 2008 and \$50,854 in 2007.

**NOTE 7 - SIGNIFICANT TRANSACTIONS WITH OTHER CATHOLIC ENTITIES**

	2008	2007
Significant Transactions with the Governance and Services Offices of the Diocese of Nashville include:		
Interest income	\$ 12,012	\$ 15,181
Endowment for the Advancement of Catholic Schools investment return	(238,695)	306,117
Retirement plan costs	55,590	50,854

**SAINT MARY VILLA, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2008 AND 2007**

**NOTE 7 - SIGNIFICANT TRANSACTIONS WITH OTHER CATHOLIC ENTITIES  
(CONTINUED)**

	2008	2007
Significant Transactions with the Catholic Charities include:		
Contribution income	\$ 75,000	\$ 84,880
Occupancy expense	242,581	237,860
Telephone expense	3,809	4,008
Copier expense	3,895	2,743
Postage expense	1,054	1,211
Amounts due to Catholic Charities	354	375

Catholic Charities has pledged \$150,000 that they received from a grant to SMV for use in the preparation of child care facilities at Our Lady of Guadalupe Church. Child care services will be provided to an estimated 56 additional children at Our Lady of Guadalupe Church. As of August 27, 2008, SMV was taking bids from contractors on site preparation with no formal agreements having been reached.

Significant Transactions with Mary Queen of Angels include:

Food and beverage expense	\$ 234,407	\$ 177,159
Amounts due to Mary Queen of Angels	16,342	22,610

On August 1, 2008, SMV and Mary Queen of Angels, Inc. collaborated on a shared deductible plan for their respective employees. The term of this agreement shall extend from August 1, 2008 to July 31, 2009. SMV will reimburse Mary Queen of Angels for its portion of the shared deductible plan expenses.

**NOTE 8 - U.S. DEPARTMENT OF AGRICULTURE GRANT – AGREEMENT  
#03-47-59971-00-8**

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. Food costs included in supplies and general expenses amounted to \$217,520 and the reimbursable portion totaled \$84,291 for the year ended June 30, 2008. A schedule of grant activity for fiscal year 2008 is as follows:

Balance receivable at June 30, 2007	\$ 7,272
Receipts	(84,291)
Expenditures	<u>92,339</u>
Balance receivable at June 30, 2008	<u>\$ 15,320</u>