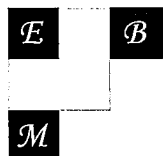


**SAINT MARY VILLA, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2009 AND 2008**

**SAINT MARY VILLA, INC.
FINANCIAL STATEMENTS
AND
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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 statements of financial position of Saint Mary Villa, Inc. (a Tennessee not-for-profit corporation, "SMV"), as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years 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 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Saint Mary Villa, Inc. as of June 30, 2009 and 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2009, 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

December 2, 2009

SAINT MARY VILLA, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008

ASSETS

	2009	2008
Current assets:		
Cash and cash equivalents (note 3)	\$ 286,102	\$ 230,802
Accounts receivable, net of allowance for doubtful accounts of \$9,082 in 2009 and \$9,972 in 2008 (note 8)	60,392	45,128
Pledges receivable (note 2)	311,903	331,902
Inventory	731	748
Prepaid expense	236	236
Total current assets	<u>659,364</u>	<u>608,816</u>
Equipment and leasehold improvements, net (note 4)	40,825	13,362
Investments (note 5)	383,861	465,798
Beneficial interest in perpetual trust (note 5)	<u>1,910,896</u>	<u>2,399,308</u>
Total assets	<u><u>\$ 2,994,946</u></u>	<u><u>\$ 3,487,284</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses	<u>\$ 144,984</u>	<u>\$ 115,209</u>
Total liabilities	<u>144,984</u>	<u>115,209</u>
Net assets:		
Unrestricted:		
Unrestricted for operations	40,513	121,705
Designated for long-term growth	383,861	465,798
Equity in physical plant	<u>40,825</u>	<u>13,362</u>
Total unrestricted net assets	465,199	600,865
Temporarily restricted (note 2)	473,867	371,902
Permanently restricted (note 5)	<u>1,910,896</u>	<u>2,399,308</u>
Total net assets	<u>2,849,962</u>	<u>3,372,075</u>
Total liabilities and net assets	<u><u>\$ 2,994,946</u></u>	<u><u>\$ 3,487,284</u></u>

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

SAINT MARY VILLA, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2009 AND 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2009	Total 2008
Revenues, gains and other support:					
Program service fees	\$ 1,425,027	\$ -	\$ -	\$ 1,425,027	\$ 1,423,378
Contributions and other	185,696	185,000	-	370,696	386,565
United Way Services	6,200	161,903	-	168,103	187,420
USDA reimbursement (note 8)	86,640	-	-	86,640	92,339
Management fees	240	-	-	240	480
Investment income (loss) (note 5)	153,003	-	(179,919)	(26,916)	184,530
Net unrealized losses on investments (note 5)	(84,468)	-	(308,493)	(392,961)	(276,445)
Net assets released from restrictions	244,938	(244,938)	-	-	-
Total revenues, gains and other support	2,017,276	101,965	(488,412)	1,630,829	1,998,267
Expenses:					
Salaries and wages	1,175,899	-	-	1,175,899	1,139,131
Supplies and general expenses	301,573	-	-	301,573	263,461
Occupancy (note 7)	264,630	-	-	264,630	262,532
Employee benefits (note 6)	196,285	-	-	196,285	202,797
Payroll taxes	85,438	-	-	85,438	81,987
Purchased services-cleaning	41,245	-	-	41,245	41,045
Bad debt	22,815	-	-	22,815	26,343
Professional services	19,239	-	-	19,239	24,758
Travel and meetings	10,471	-	-	10,471	6,211
Miscellaneous	7,494	-	-	7,494	10,019
Telephone	6,838	-	-	6,838	7,631
Postage and printing	6,432	-	-	6,432	6,678
Insurance	6,414	-	-	6,414	9,001
Depreciation (note 4)	5,120	-	-	5,120	3,080
Marketing and public relations	2,480	-	-	2,480	1,042
Repairs and maintenance	570	-	-	570	3,163
Total expenses	2,152,942	-	-	2,152,942	2,088,879
Revenues, gains and other support over (under) expenses	(135,666)	101,965	(488,412)	(522,113)	(90,612)
Net assets, beginning of year	600,865	371,902	2,399,308	3,372,075	3,462,687
Net assets, end of year	\$ 465,199	\$ 473,867	\$ 1,910,896	\$ 2,849,962	\$ 3,372,075

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

SAINT MARY VILLA, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ (522,113)	\$ (90,612)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	5,120	3,080
Non cash contributions of equipment	-	(5,400)
Net unrealized and realized losses on investments	570,348	262,058
Increase in accounts receivable	(15,264)	(6,143)
(Increase) decrease in pledges receivable	19,999	(233,559)
(Increase) decrease in inventory	17	(476)
Decrease in prepaid expense	-	2,730
Increase in accounts payable and accrued expenses	<u>29,775</u>	<u>7,849</u>
Net cash provided by (used in) operating activities	<u>87,881</u>	<u>(60,473)</u>
Cash flows from investing activities:		
Purchases of equipment	<u>(32,581)</u>	<u>(313)</u>
Net cash used in investing activities	<u>(32,581)</u>	<u>(313)</u>
Net increase (decrease) in cash and cash equivalents	55,300	(60,786)
Cash and cash equivalents, beginning of year	<u>230,802</u>	<u>291,588</u>
Cash and cash equivalents, end of year	<u><u>\$ 286,102</u></u>	<u><u>\$ 230,802</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, 2009 AND 2008

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 \$2,480 and \$1,042 of advertising expense in 2009 and 2008, respectively.

**SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008**

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.

Events Occurring After Reporting Date

SMV has evaluated events and transactions that occurred between June 30, 2009 and December 2, 2009, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 2 - TEMPORARILY RESTRICTED NET ASSETS

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

	2009	2008
Mission and Ministry funding for operational and capital expenditures to be used in next fiscal year	\$ 276,964	\$ 150,000
United Way Services funding for the next fiscal year	161,903	181,902
Grants for operational and capital expenditures to be used in next fiscal year	35,000	40,000
	<u>\$ 473,867</u>	<u>\$ 371,902</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 \$3,852 in fiscal year 2009 and \$12,012 in fiscal year 2008. 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, 2009 AND 2008

NOTE 4 - EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following:

	2009	2008
Equipment	\$ 227,657	\$ 201,727
Leasehold improvements	466,643	466,643
Construction-in-progress	<u>6,653</u>	<u>-</u>
	700,953	668,370
Less: Accumulated depreciation	<u>(660,128)</u>	<u>(655,008)</u>
Equipment and leasehold improvements, net	<u>\$ 40,825</u>	<u>\$ 13,362</u>

Depreciation expense for the years ended June 30, 2009 and 2008 amounted to \$5,120 and \$3,080, 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, 2009, the mutual fund consists of stocks, fixed income investments, cash and short-term investments. Fair values and unrealized gains are summarized as follows:

	2009	2008
<u>Unrestricted:</u>		
Cost, beginning of year	\$ 451,164	\$ 441,533
Realized gains and reinvested earnings	12,759	32,728
Distributions	<u>(10,228)</u>	<u>(23,097)</u>
Cost, end of year	453,695	451,164
Unrealized gains (losses), end of year	<u>(69,834)</u>	<u>(14,634)</u>
Fair value, end of year	<u>\$ 383,861</u>	<u>\$ 465,798</u>

Investment return from unrestricted investments is summarized as follows:

	2009	2008
Interest income	\$ 12,759	\$ 17,830
Net realized gains	-	14,898
Unrealized gains (losses)	<u>(84,468)</u>	<u>(69,601)</u>
Total unrestricted investment return	<u>\$ (71,709)</u>	<u>\$ (36,873)</u>

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008

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, 2009, the trust consisted of 12.6% cash and cash equivalents, 32.2% fixed income securities and 55.2% stocks and other investments.

	2009	2008
Cost, beginning of year	\$ 2,179,063	\$ 2,197,948
Realized gains (losses) and earnings retained	<u>(179,919)</u>	<u>(18,885)</u>
Cost, end of year	1,999,144	2,179,063
Unrealized gains (losses), end of year	<u>(88,248)</u>	<u>220,245</u>
Fair value, end of year	<u>\$ 1,910,896</u>	<u>\$ 2,399,308</u>

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

	2009	2008
Income and net realized gains (losses)	\$ (90,539)	\$ 73,467
Unrealized gains (losses)	<u>(308,493)</u>	<u>(183,203)</u>
Total permanently restricted trust income (loss)	<u>\$ (399,032)</u>	<u>\$ (109,736)</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 David R. Choby, 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 \$130,988 and \$134,768 for the years ended June 30, 2009 and 2008, respectively.

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 5 - INVESTMENTS (CONTINUED)

Fair Value Measurements

SMV implemented Financial Accounting Standards Board (FASB) Statement 157, Fair Value Measurements in the current year. Among other things, FASB 157 establishes a three-level valuation hierarchy for disclosure 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 measurements.

Fair values of assets and liabilities measured on a recurring basis at June 30, 2009 are as follows:

		In Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<u>Fair Value</u>			
<u>June 30, 2009:</u>				
Available-for sale securities	<u>\$ 2,294,757</u>	<u>\$ 1,295,014</u>	<u>\$ 999,743</u>	<u>\$ -</u>

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 2009 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.

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 6 - EMPLOYEE BENEFITS (CONTINUED)

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 \$57,340 in 2009 and \$55,590 in 2008.

NOTE 7 - SIGNIFICANT TRANSACTIONS WITH OTHER CATHOLIC ENTITIES

	2009	2008
Significant Transactions with the Governance and Services Offices of the Diocese of Nashville include:		

Interest income	\$ 3,852	\$ 12,012
Endowment for the Advancement of Catholic Schools investment return	(554,717)	(238,695)
Retirement plan costs	57,340	55,590

Significant Transactions with the Catholic Charities include:

Contribution income	\$ 75,000	\$ 75,000
Occupancy expense	244,679	242,581
Telephone expense	3,879	3,809
Copier expense	3,227	3,895
Postage expense	1,025	1,054
Maintenance	690	-
Miscellaneous expense	560	-
Amounts due to Catholic Charities	83	354

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, a ministry of Saint Edward Parish. Child care services will be provided to an estimated 50 additional children at Our Lady of Guadalupe Church, a ministry of Saint Edward parish.

Significant Transactions with Mary Queen of Angels include:

Food and beverage expense	\$ 211,331	\$ 234,407
Health insurance claims	5,246	-
Amounts due to Mary Queen of Angels	20,319	16,342

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008

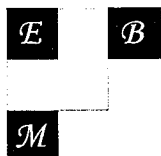
**NOTE 8 - U.S. DEPARTMENT OF AGRICULTURE GRANT – AGREEMENT
#03-47-59971-00-8**

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 \$230,525 and the reimbursable portion totaled \$94,510 for the year ended June 30, 2009. A schedule of grant activity for fiscal year 2009 is as follows:

Balance receivable at June 30, 2008	\$ 15,320
Receipts	(94,510)
Expenditures	<u>86,640</u>
Balance receivable at June 30, 2009	<u>\$ 7,450</u>

NOTE 9 - COMMITMENT

SMV entered into a contractual agreement with a company on September 15, 2009 that will provide construction services for improvements to the child care facilities at Our Lady of Guadalupe Church, a ministry of Saint Edward parish. The total contract for providing these services is \$121,627. As of December 2, 2009, SMV has not been billed for any services rendered on this agreement.



Edmondson, Betzler & Montgomery, PLLC

(Certified Public Accountants)

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of Saint Mary Villa, Inc. as of and for the year ended June 30, 2009, and have issued our report thereon dated December 2, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Saint Mary Villa, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**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 (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.

This report is intended for the information of the finance committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Edmondson, Betzer & Montgomery, PLLC

December 2, 2009