ST. MARY VILLA, INC.

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

LBMC MAKE A GOOD BUSINESS BETTER

ST. MARY VILLA, INC.

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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 statement of financial position as of June 30, 2016 and 2015, 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, 2016 and 2015, 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 February 16, 2017 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

LBMC, PC

Brentwood, Tennessee
February 16, 2017

ST. MARY VILLA, INC.

Statements of Financial Position

June 30, 2016 and 2015

Assets

		2016		2015
Current assets:				
Cash and cash equivalents	$	163,262	$	146,501
Accounts receivable, less allowance for doubtful accounts of $488 in 2015. None in 2016.		3,094		9,660
United Way grant receivable		176,902		176,902
Inventory		152		494
Prepaid expenses		627		1,206
Total current assets		344,037		334,763
Equipment and leasehold improvements, net		11,133		14,372
Beneficial interest in trusts		3,857,549		4,093,776
Total assets	$	4,212,719	$	4,442,911

Liabilities and Net Assets

		2016		2015
Current liabilities:				
Accounts payable and accrued expenses	$	92,752	$	120,736
Deferred revenue		10,258		14,087
Total liabilities		103,010		134,823
Net assets:				
Unrestricted:				
Unrestricted for operations		64,125		23,038
Designated for long-term growth		550,804		558,366
Designated for physical plant		11,133		14,372
Total unrestricted net assets		626,062		595,776
Temporarily restricted		967,098		1,031,429
Permanently restricted		2,516,549		2,680,883
Total net assets		4,109,709		4,308,088
Total liabilities and net assets	$	4,212,719	$	4,442,911

See accompanying notes to the financial statements.

ST. MARY VILLA, INC.

Statement of Activities

Year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Program service fees	$ 981,818	$ -	$ -	$ 981,818
Change in value - beneficial interest in trusts	(7,562)	(64,331)	(164,334)	(236,227)
Contributions and other	100,256	-	-	100,256
United Way services	-	176,902	-	176,902
Distributions from beneficial interests in trusts	204,640	-	-	204,640
USDA reimbursement	59,010	-	-	59,010
Interest income	1,213	-	-	1,213
Golf tournament	11,344	-	-	11,344
Net assets released from restrictions	176,902	(176,902)	-	-
Total revenues, gains and other support	1,527,621	(64,331)	(164,334)	1,298,956
Expenses:				
Salaries and wages	802,754	-	-	802,754
Employee benefits	194,760	-	-	194,760
Occupancy	152,982	-	-	152,982
Supplies and general expenses	119,910	-	-	119,910
Payroll taxes	63,298	-	-	63,298
Purchased services-cleaning	21,781	-	-	21,781
Professional services	113,789	-	-	113,789
Bad debt	5,431	-	-	5,431
Miscellaneous	6,478	-	-	6,478
Travel and meetings	3,795	-	-	3,795
Insurance	4,713	-	-	4,713
Depreciation and amortization	3,386	-	-	3,386
Postage and printing	618	-	-	618
Loss on disposal of assets	1,338	-	-	1,338
Marketing and public relations	1,610	-	-	1,610
Telephone	692	-	-	692
Total expenses	1,497,335	-	-	1,497,335
Revenues, gains and other support over (under) expenses	30,286	(64,331)	(164,334)	(198,379)
Net assets, beginning of year	595,776	1,031,429	2,680,883	4,308,088
Net assets, end of year	$ 626,062	$ 967,098	$ 2,516,549	$ 4,109,709

See accompanying notes to the financial statements.

ST. MARY VILLA, INC.

Statement of Activities

Year ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Program service fees	$ 1,032,872	$ -	$ -	$ 1,032,872
Change in value - beneficial interest in trusts	(12,799)	(41,678)	6,646	(47,831)
Contributions and other	81,080	-	-	81,080
United Way services	-	176,902	-	176,902
Distributions from beneficial interests in trusts	154,074	-	-	154,074
USDA reimbursement	61,058	-	-	61,058
Interest income	1,191	-	-	1,191
Net assets released from restrictions	176,902	(176,902)	-	-
Total revenues, gains and other support	1,494,378	(41,678)	6,646	1,459,346
Expenses:				
Salaries and wages	875,360	-	-	875,360
Employee benefits	210,003	-	-	210,003
Occupancy	147,301	-	-	147,301
Supplies and general expenses	96,662	-	-	96,662
Payroll taxes	66,724	-	-	66,724
Purchased services-cleaning	21,779	-	-	21,779
Professional services	66,507	-	-	66,507
Bad debt	7,069	-	-	7,069
Miscellaneous	5,676	-	-	5,676
Travel and meetings	3,831	-	-	3,831
Insurance	5,312	-	-	5,312
Depreciation and amortization	3,386	-	-	3,386
Postage and printing	1,421	-	-	1,421
Marketing and public relations	653	-	-	653
Telephone	999	-	-	999
Total expenses	1,512,683	-	-	1,512,683
Revenues, gains and other support over (under) expenses	(18,305)	(41,678)	6,646	(53,337)
Net assets, beginning of year	614,081	1,073,107	2,674,237	4,361,425
Net assets, end of year	$ 595,776	$ 1,031,429	$ 2,680,883	$ 4,308,088

See accompanying notes to the financial statements.

ST. MARY VILLA, INC.

Statements of Cash Flows

Years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ (198,379)	$ (53,337)
Adjustments to reconcile change in net assets to cash flows provided by operating activities:		
Depreciation	3,386	3,386
Bad debt expense	5,431	7,069
Change in value of beneficial interest in trusts	236,227	47,831
Loss on disposal of assets	1,338	-
(Increase) decrease in operating assets:		
Accounts receivable	1,135	16,983
Inventory	342	(304)
Prepaid expenses	579	(285)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(27,984)	(7,237)
Deferred revenue	(3,829)	14,087
Net cash provided by operating activities	18,246	28,193
Cash flows from investing activities - purchases of equipment	(1,485)	(4,955)
Increase in cash and cash equivalents	16,761	23,238
Cash and cash equivalents at beginning of year	146,501	123,263
Cash and cash equivalents at end of year	$ 163,262	$ 146,501

See accompanying notes to the financial statements.

(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 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:

Unrestricted net assets - Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Organization.

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. The Organization 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.

(b) 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.

(d) Equipment and Leasehold Improvements

Equipment and leasehold improvements are carried at cost. Depreciation and amortization 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 unrestricted net assets.

(e) Beneficial Interests 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 permanently restricted net assets for the MJ Smith Trust, temporarily restricted net assets for the Frank Givens Trust and unrestricted net assets for EACS.

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 18% of the total is distributed to the Organization.

The MJ Smith Trust is a perpetual trust held by a local 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 five percent 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.

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, 2016, 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.

The Organization files a U.S. Federal information tax return.

(h) Advertising

The Organization's advertising is non-direct, and the costs are expensed as incurred. The Organization incurred advertising expenses of $1,610 and $653 in 2016 and 2015, respectively.

(i) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

(j) Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2016 and February 16, 2017 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, 2015:

	2016	2015
Equipment	$ 154,834	179,663
Leasehold improvements	366,201	450,631
	521,035	630,294
Accumulated depreciation and amortization	(509,902)	(615,922)
	$ 11,133	$ 14,372

Depreciation and amortization expense for the years ended June 30, 2016 and 2015 amounted to $3,386 each year.

(5) Endowments

The Organization's endowments consist of beneficial interests in trusts 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 the Organization 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 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 as 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 TPMIFA. 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, 2016 and 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2014	$ 571,165	$ 896,205	$ 2,674,237	$ 4,141,607
Change in beneficial interest	(12,799)	(41,678)	6,646	(47,831)
Endowment net assets, June 30, 2015	558,366	854,527	2,680,883	4,093,776
Change in beneficial interest	(7,562)	(64,331)	(164,334)	(236,227)
Endowment net assets, June 30, 2016	$ 550,804	$ 790,196	$ 2,516,549	$ 3,857,549

The endowment funds are held in trusts and call for distributions throughout the year which are available for the Organization's unrestricted use. The distributions totaled $204,640 and $154,074 for the year ended June 30, 2016 and 2015, respectively. See Note 2(e) for further information about the individual trusts, their restrictions and spending policies.

(6) Fair Value Measurements

Financial Accounting Standards Board 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 actives 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 statement 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 net asset value is not 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, 2016 and 2015.

(7) Temporarily Restricted Net Assets

Temporarily restricted net assets 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.

(8) Retirement Plans

Defined 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 2016 and 2015, 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.

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, 2016 and 2015:

	2016	2015
Benefit obligation at end of plan year	$ (40,728)	$ (37,970)
Plan assets at fair value at end of plan year	39,801	39,913
Funded Status	$ (927)	$ 1,943

Benefit obligation: (in thousands)	
Balance at January 1, 2015	$ 37,970
Benefits paid	(1,688)
Benefits accrued	1,408
Interest	2,794
Other	244
Balance at January 1, 2016	$ 40,728

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 $50,293 and $50,578 in 2016 and 2015, respectively.

(9) 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 $82,897 and $65,055 and the reimbursable portion totaled $59,010 and $61,058 for the year ended June 30, 2016 and 2015, respectively. A schedule of grant activity for fiscal year 2016 and 2015 is as follows:

	Amount
Balance receivable at June 30, 2014	$ 4,661
Reimbursable Expenditures	61,058
Receipts	(60,521)
Balance receivable at June 30, 2015	5,198
Reimbursable Expenditures	59,010
Receipts	(60,273)
Balance receivable at June 30, 2016	$ 3,935

(10) Lease commitments

On July 1, 2016, the Organization relocated to a new facility and entered into a five year facility lease 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, 2016 is as follows:

	Amount
2017	$ 104,000
2018	114,000
2019	125,000
2020	131,000
2021	137,000
	$ 611,000

(11) 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 year ended June 30, 2016 and 2015 include:

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

	2016	2015
Contribution income	$ 30,000	$ 30,000
Occupancy expense	$ 128,031	$ 122,364

Significant transactions with Catholic Charities include:

	2016	2015
Contribution income	$ 30,937	$ 36,750
Amounts due to Catholic Charities	$ -	$ 36,520
Management fees	$ 77,515	$ 55,182

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. Subsequent to June 30, 2015, the Organization renegotiated its management services contract with Catholic Charities. As a result, Catholic Charities has majority voting rights in substantially all matters of the Organization.

(12) Subsequent event

On July 1, 2016, in connection with the relocation of the Organization's center (Note 10), the Organization entered into a line of credit and term loan agreement not to exceed $150,000 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. Borrowings on the line of credit bear interest at the Prime Rate minus 1%, with a minimum annual interest rate of 2.75%. The line of credit is unsecured but is bound by a negative pledge agreement on all assets of the Organization. The line of credit matures on June 30, 2018.

LBMC MAKE A GOOD BUSINESS BETTER

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*

INDEPENDENT AUDITORS' REPORT

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, 2016, 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 February 16, 2017.

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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and responses as 2016-01 and 2016-2.

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.

LBMC, PC

Brentwood, Tennessee
February 16, 2017

ST. MARY VILLA, INC.

Schedule of Findings and Responses

June 30, 2016

Financial Statement Findings

There were no findings related to the financial statement audit.

State Award Compliance Findings

Finding Number	Finding Title
2015-001	Income Eligibility Applications

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.

Condition: Through our testing of these reimbursements, we noted that while the Organization does require families to complete an income eligibility application upon a family's entrance to the program, we noted two instances (out of 15 tested) where the income verification documentation (such as the parent's W-2) was either not obtained or not retained with the family's application.

Effect: As a result of not obtaining or maintaining the support for income verification, participants in the program could receive an improper amount of assistance.

Auditors' Recommendation: The Organization should adopt procedures that require the income verification be obtained and attached to the family's application for each family receiving meal reimbursements under the USDA program. Additionally, a review process should be implemented where a separate individual from the person approving the applications performs a review of each application for completeness of the required documentation.

Response: The Organization will obtain income verification applications for all participating families on an annual basis, prospectively, as well as creating review controls of applications prior to approval.

Finding Number	Finding Title
2016-001	Incorrect Number of Meals Submitted

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 reimbursements based on the number of meals submitted by the Organization.

Condition: Through our testing of these reimbursements, we noted that the Organization's January Center Claim for Reimbursement Form overstated the number of meals by approximately 20 compared to the classroom meal reports.

Effect: The Organization may have submitted an incorrect number of meals to the State.

Auditors' Recommendation: The Organization should implement a process where an individual other than the preparer of the Center Claim for Reimbursement Form reviews the report prior to its submission to the State for reimbursement, including reconciling total lunches claimed to detail classroom reports.

Response: The Organization will establish a formal review process whereby the prepared Center Claim for Reimbursement Form is reviewed by an individual other than the preparer in order to ensure the correct number of meals are submitted for reimbursement, prospectively.

Finding Number	Finding Title
2016-002	Incorrect Assistance Level

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 reimbursements based on the number of meals submitted by the Organization.

Condition: Through our testing of these reimbursements, we noted two instances (out of 15 tested) where participants received the incorrect level of assistance based upon their level of income (one receiving a higher benefit while the other a lower level of benefit that their qualification).

Effect: Participants that are not assessed at the correct level of assistance could result in inaccurate reimbursements from the state.

Auditors' Recommendation: The Organization should implement a process where an individual other than the preparer of the Center Claim for Reimbursement Form reviews the report prior to its submission to the State for reimbursement for accuracy of information, including the classification of participant assistance levels.

Response: The Organization will establish a formal review process whereby the prepared Center Claim for Reimbursement Form is reviewed by an individual other than the preparer in order to ensure the accuracy of participant assistance levels, prospectively.

ST. MARY VILLA, INC.

Schedule of Prior Year Findings

June 30, 2016

Financial Statement Findings

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

State Award Compliance Findings

Finding Number	Finding Title	Status
2015-001	Income Verification Requirement	Repeated