

**SAINT MARY VILLA, INC.  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED JUNE 30, 2006 AND 2005**

**SAINT MARY VILLA, INC.  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED JUNE 30, 2006 AND 2005**

**TABLE OF CONTENTS**

	<b>PAGE</b>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5 – 10
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and other matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	11

# BLANKENSHIP CPA GROUP, PLLC

MEMBER FIRM OF THE BLANKENSHIP GROUP OF COMPANIES

## 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, 2006 and 2005, 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 audits 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, 2006 and 2005, and the changes 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 August 31, 2006, 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 should be classified in assessing the results of our audit.

*Blankenship CPA Group, PLLC*

August 31, 2006

**SAINT MARY VILLA, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2006 AND 2005**

**ASSETS**

	<b>2006</b>	<b>2005</b>
Current assets:		
Cash and cash equivalents (note 3)	\$ 241,387	\$ 153,388
Accounts receivable, net of allowance for doubtful accounts of \$5,900 in 2006 and \$79,490 in 2005	74,898	49,552
United Way receivable (note 2)	98,343	98,343
Inventory	714	312
Prepaid expense	2,162	-
Total current assets	417,504	301,595
Equipment and leasehold improvements, net (note 4)	5,937	14,009
Investments (note 5)	474,682	472,034
Beneficial interest in perpetual trust (note 5)	2,343,748	2,247,072
Total assets	\$ 3,241,871	\$ 3,034,710

**LIABILITIES AND NET ASSETS**

Current liabilities:		
Accounts payable and accrued expenses	\$ 107,551	\$ 136,093
Total liabilities	107,551	136,093
Net assets:		
Unrestricted:		
Unrestricted for operations	123,901	49,449
Designated for long-term growth	474,682	472,034
Equity in physical plant	5,937	14,009
Designated for future program development	17,709	17,710
Total unrestricted net assets	622,229	553,202
Temporarily restricted (note 2)	168,343	98,343
Permanently restricted (note 5)	2,343,748	2,247,072
Total net assets	3,134,320	2,898,617
Total liabilities and net assets	\$ 3,241,871	\$ 3,034,710

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

**SAINT MARY VILLA, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2006	Total 2005
Revenues, gains and other support:					
Program service fees	\$ 1,416,189	\$ -	\$ -	\$ 1,416,189	\$ 1,246,979
United Way Services	7,328	98,343	-	105,671	112,328
USDA reimbursement (note 8)	80,900	-	-	80,900	82,334
Investment income (note 5)	150,662	-	96,676	247,338	229,616
Contributions and other	136,998	70,000	-	206,998	111,713
Management fees	400	-	-	400	-
Net assets released from restrictions:					
United Way Services funding for the year	98,343	(98,343)	-	-	-
Total revenues, gains and other support	<u>1,890,820</u>	<u>70,000</u>	<u>96,676</u>	<u>2,057,496</u>	<u>1,782,970</u>
Expenses:					
Salaries and wages	965,177	-	-	965,177	1,016,288
Occupancy (note 7)	247,875	-	-	247,875	241,889
Supplies and general expenses	199,997	-	-	199,997	198,640
Employee benefits (notes 6)	174,974	-	-	174,974	162,615
Payroll taxes	71,130	-	-	71,130	69,119
Bad debt	52,049	-	-	52,049	74,490
Purchased services-cleaning	41,045	-	-	41,045	41,210
Professional services	21,828	-	-	21,828	8,333
Depreciation (note 4)	9,748	-	-	9,748	12,780
Other miscellaneous	9,579	-	-	9,579	5,284
Telephone	8,730	-	-	8,730	8,024
Postage and printing	6,215	-	-	6,215	8,464
Travel and meetings	4,309	-	-	4,309	3,059
Insurance	4,045	-	-	4,045	8,213
Equipment maintenance	3,687	-	-	3,687	490
Marketing and public relations	1,405	-	-	1,405	4,352
Total expenses	<u>1,821,793</u>	<u>-</u>	<u>-</u>	<u>1,821,793</u>	<u>1,863,250</u>
Revenues, gains and other support over (under) expenses	69,027	70,000	96,676	235,703	(80,280)
Net assets, beginning of year	<u>553,202</u>	<u>98,343</u>	<u>2,247,072</u>	<u>2,898,617</u>	<u>2,978,897</u>
Net assets, end of year	<u>\$ 622,229</u>	<u>\$ 168,343</u>	<u>\$ 2,343,748</u>	<u>\$ 3,134,320</u>	<u>\$ 2,898,617</u>

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

**SAINT MARY VILLA, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<b>2006</b>	<b>2005</b>
Cash flows from operating activities:		
Change in net assets	\$ 235,703	\$ (80,280)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	9,748	12,780
Non cash contributions of equipment	(900)	-
Net unrealized and realized gains on investments	(99,324)	(56,376)
(Increase) decrease in accounts receivable	(25,346)	21,403
Decrease in United Way receivable	-	6,982
(Increase) decrease in inventory	(402)	106
Increase in prepaid expense	(2,162)	-
Increase (decrease) in accounts payable and accrued expenses	<u>(28,542)</u>	<u>70,453</u>
Net cash provided by (used in) operating activities	<u>88,775</u>	<u>(24,932)</u>
Cash flows from investment activities:		
Purchases of equipment and leasehold improvements	<u>(776)</u>	<u>-</u>
Net cash used in investing activities	<u>(776)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	87,999	(24,932)
Cash and cash equivalents, beginning of year	<u>153,388</u>	<u>178,320</u>
Cash and cash equivalents, end of year	<u><u>\$ 241,387</u></u>	<u><u>\$ 153,388</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, 2006 AND 2005**

**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 \$1,405 and \$4,352 of advertising expense in 2006 and 2005, respectively.

**SAINT MARY VILLA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

**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:

	2006	2005
United Way Services funding for the next year	\$ 98,343	\$ 98,343
Grant for operational expenses to be used by December 31, 2006	26,073	-
Grant for capital expenditures to be used by December 31, 2006	<u>43,927</u>	<u>-</u>
	<u>\$ 168,343</u>	<u>\$ 98,343</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 \$7,658 in fiscal year 2006 and \$3,970 in fiscal year 2005. 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, 2006 AND 2005**

**NOTE 4 - EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

Equipment and leasehold improvements consist of the following:

	2006	2005
Equipment	\$ 187,124	\$ 185,447
Leasehold improvements	<u>466,643</u>	<u>466,643</u>
	653,767	652,090
Less: Accumulated depreciation	<u>(647,830)</u>	<u>(638,081)</u>
 Equipment and leasehold improvements, net	 <u>\$ 5,937</u>	 <u>\$ 14,009</u>

Depreciation expense for the years ended June 30, 2006 and 2005 amounted to \$9,748 and \$12,780, 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, 2006, the mutual fund consists of stocks, fixed income investments, cash and short-term investments. Fair values and unrealized gains are summarized as follows:

	2006	2005
<u>Unrestricted:</u>		
Cost, beginning of year	\$ 436,570	\$ 436,470
Realized gains and reinvested earnings	22,223	21,850
Distributions	<u>(21,326)</u>	<u>(21,750)</u>
 Cost, end of year	 437,467	 436,570
Unrealized gains, end of year	<u>37,215</u>	<u>35,464</u>
 Fair value, end of year	 <u>\$ 474,682</u>	 <u>\$ 472,034</u>

Investment return from unrestricted investments is summarized as follows:

	2006	2005
Interest income	\$ 11,362	\$ 10,886
Net realized gains	10,861	10,964
Unrealized gains	<u>1,751</u>	<u>5,337</u>
 Total unrestricted investment return	 <u>\$ 23,974</u>	 <u>\$ 27,187</u>

**SAINT MARY VILLA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

**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, 2006, the trust consisted of 6.0% cash and cash equivalents, 28.7% fixed income securities and 65.3% stocks and other investments.

	2006	2005
Cost, beginning of year	\$ 2,093,390	\$ 1,999,107
Realized gains and earnings retained	<u>29,047</u>	<u>94,283</u>
Cost, end of year	2,122,437	2,093,390
Unrealized gains, end of year	<u>221,311</u>	<u>153,682</u>
Fair value, end of year	<u>\$ 2,343,748</u>	<u>\$ 2,247,072</u>

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

	2006	2005
Interest income and net realized gains	\$ 133,247	\$ 204,783
Unrealized gains (losses)	<u>67,629</u>	<u>(43,344)</u>
Total permanently restricted trust income	<u>\$ 200,876</u>	<u>\$ 161,439</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 \$119,029 and \$147,521 for the years ended June 30, 2006 and 2005, respectively.

**SAINT MARY VILLA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

**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 2006 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 \$55,125 in 2006 and \$51,336 in 2005

**SAINT MARY VILLA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

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

**2006**
**2005**  
 Significant Transactions with the Governance and Services Offices of the  
 Diocese of Nashville include:

Interest income	\$ 7,658	\$ 3,970
Endowment for the Advancement of Catholic Schools investment return	140,225	94,538
Trust income	102,000	110,500
Retirement plan costs	55,125	51,336

Significant Transactions with the Catholic Charities include:

Contribution income	\$ 55,060	\$ 45,986
Occupancy expense	229,585	206,890
Telephone expense	5,375	2,375
Copier expense	1,889	1,594
Postage expense	1,215	1,553
Amounts due to Catholic Charities	-	17,209

Significant Transactions with Mary Queen of Angels include:

Food and beverage expense	\$ 113,122	\$ 112,568
Amounts due to Mary Queen of Angels	14,790	13,122

**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 \$171,299 and the reimbursable portion totaled \$81,317 for the year ended June 30, 2006. A schedule of grant activity for fiscal year 2006 is as follows:

Balance receivable at June 30, 2005	\$ 14,235
Receipts	80,900
Expenditures	<u>(81,317)</u>
Balance receivable at June 30, 2006	<u>\$13,818</u>

**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, 2006, and have issued our report thereon dated August 31, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

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.

August 31, 2006