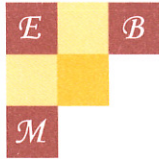


**SAINT MARY VILLA, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2011 AND 2010**

**SAINT MARY VILLA, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2011 AND 2010**

TABLE OF CONTENTS

	PAGE
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 – 11
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>	12 - 13



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, 2011 and 2010, 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, 2011 and 2010, 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 September 12, 2011, 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

September 12, 2011

SAINT MARY VILLA, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

ASSETS

	2011	2010
Current assets:		
Cash and cash equivalents (note 3)	\$ 79,144	\$ 198,017
Accounts receivable, net of allowance for doubtful accounts of \$9,129 in 2011 and \$9,416 in 2010 (note 8)	66,240	71,746
Pledges receivable (note 2)	224,402	374,403
Inventory	170	238
Prepaid expense	1,130	236
Total current assets	<u>371,086</u>	<u>644,640</u>
Equipment and leasehold improvements, net (note 4)	158,452	175,151
Investments (note 5)	491,934	419,271
Beneficial interest in perpetual trust (note 5)	<u>2,440,406</u>	<u>2,046,727</u>
Total assets	<u><u>\$ 3,461,878</u></u>	<u><u>\$ 3,285,789</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses	<u>\$ 156,524</u>	<u>\$ 156,195</u>
Total liabilities	<u>156,524</u>	<u>156,195</u>
Net assets:		
Unrestricted:		
Unrestricted for operations	21,094	46,999
Designated for long-term growth	491,934	419,271
Equity in physical plant	<u>158,452</u>	<u>175,151</u>
Total unrestricted net assets	671,480	641,421
Temporarily restricted (note 2)	193,468	441,446
Permanently restricted (note 5)	<u>2,440,406</u>	<u>2,046,727</u>
Total net assets	<u>3,305,354</u>	<u>3,129,594</u>
Total liabilities and net assets	<u><u>\$ 3,461,878</u></u>	<u><u>\$ 3,285,789</u></u>

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

SAINT MARY VILLA, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2011 AND 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2011	Total 2010
Revenues, gains and other support:					
Program service fees	\$ 1,589,499	\$ -	\$ -	\$ 1,589,499	\$ 1,529,235
Contributions and other	115,855	6,566	-	122,421	346,790
United Way Services	4,189	186,902	-	191,091	196,447
Investment income, net (note 5)	137,245	-	(7,484)	129,761	174,327
Net unrealized gains on investments (note 5)	81,089	-	401,163	482,252	142,184
USDA reimbursement (note 8)	101,358	-	-	101,358	84,022
Net assets released from restrictions	441,446	(441,446)	-	-	-
Total revenues, gains and other support	2,470,681	(247,978)	393,679	2,616,382	2,473,005
Expenses:					
Salaries and wages	1,270,941	-	-	1,270,941	1,190,626
Supplies and general expenses	328,536	-	-	328,536	312,397
Occupancy (notes 9 and 10)	315,809	-	-	315,809	268,967
Employee benefits (note 7)	255,072	-	-	255,072	216,149
Payroll taxes	93,498	-	-	93,498	88,840
Purchased services-cleaning	52,869	-	-	52,869	43,045
Bad debt	34,770	-	-	34,770	20,923
Depreciation (note 4)	20,833	-	-	20,833	7,388
Professional services	14,971	-	-	14,971	11,876
Miscellaneous	14,879	-	-	14,879	8,966
Benefits paid to others - flood	10,000	-	-	10,000	-
Travel and meetings	9,731	-	-	9,731	3,728
Telephone	6,858	-	-	6,858	7,392
Insurance	6,542	-	-	6,542	6,433
Postage and printing	4,212	-	-	4,212	4,245
Marketing and public relations	1,101	-	-	1,101	2,398
Total expenses	2,440,622	-	-	2,440,622	2,193,373
Revenues, gains and other support over (under) expenses	30,059	(247,978)	393,679	175,760	279,632
Net assets, beginning of year	641,421	441,446	2,046,727	3,129,594	2,849,962
Net assets, end of year	\$ 671,480	\$ 193,468	\$ 2,440,406	\$ 3,305,354	\$ 3,129,594

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

SAINT MARY VILLA, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Cash flows from operating activities:		
Increase in net assets	\$ 175,760	\$ 279,632
Adjustments to reconcile change in net assets		
to net cash provided by (used in) operating activities:		
Depreciation	20,833	7,388
Net unrealized and realized gains on investments	(466,342)	(171,241)
(Increase) decrease in accounts receivable	5,506	(11,354)
(Increase) decrease in pledges receivable	150,001	(62,500)
Decrease in inventory	68	493
Increase in prepaid expense	(894)	-
Increase in accounts payable and accrued expenses	329	11,211
	<u>(114,739)</u>	<u>53,629</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Purchases of equipment and leasehold improvements	<u>(4,134)</u>	<u>(141,714)</u>
Net cash used in investing activities	<u>(4,134)</u>	<u>(141,714)</u>
Net decrease in cash and cash equivalents	(118,873)	(88,085)
Cash and cash equivalents, beginning of year	<u>198,017</u>	<u>286,102</u>
Cash and cash equivalents, end of year	<u><u>\$ 79,144</u></u>	<u><u>\$ 198,017</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, 2011 AND 2010**

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 two child care facilities for the general public located at 30 White Bridge Road and 3112 Nolensville 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. SMV 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.

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 fifteen 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.

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

SMV's advertising is non-direct, and the costs are expensed as incurred. SMV incurred \$1,101 and \$2,398 of advertising expense in 2011 and 2010, respectively.

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, 2011 and September 12, 2011, 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:

	2011	2010
United Way Services funding for the next fiscal year	\$ 186,902	\$ 186,902
Grants for operational and capital expenditures to be used in next fiscal year	6,566	50,000
Mission and Ministry funding for operational and capital expenditures to be used in next fiscal year	-	204,544
	<u>\$ 193,468</u>	<u>\$ 441,446</u>

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent funds on deposit with the Diocese of Nashville. The deposits earned interest of \$1,198 in fiscal year 2011 and \$2,206 in fiscal year 2010. 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.

NOTE 4 - EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following:

	2011	2010
Equipment	\$ 234,851	\$ 233,592
Leasehold improvements	<u>611,950</u>	<u>609,075</u>
	846,801	842,667
Less: Accumulated depreciation	<u>(688,349)</u>	<u>(667,516)</u>
Equipment and leasehold improvements, net	<u>\$ 158,452</u>	<u>\$ 175,151</u>

Depreciation expense for the years ended June 30, 2011 and 2010 amounted to \$20,833 and \$7,388, 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, 2011, the mutual fund consists of stocks, fixed income investments, cash and short-term investments. Fair values and unrealized gains are summarized as follows:

	2011	2010
<u>Unrestricted:</u>		
Cost, beginning of year	\$ 447,658	\$ 453,695
Reinvested earnings	9,936	9,323
Distributions	<u>(18,361)</u>	<u>(15,360)</u>
Cost, end of year	439,233	447,658
Unrealized gains (losses), end of year	<u>52,701</u>	<u>(28,387)</u>
Fair value, end of year	<u>\$ 491,934</u>	<u>\$ 419,271</u>

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 5 - INVESTMENTS (CONTINUED)

Investment return from unrestricted investments is summarized as follows:

	2011	2010
Investment income	\$ 9,936	\$ 9,323
Unrealized gains	<u>81,089</u>	<u>41,447</u>
Total unrestricted investment return	<u>\$ 91,025</u>	<u>\$ 50,770</u>

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, 2011, the trust consisted of 2.72% cash and cash equivalents, 29.65% fixed income securities, 63.41% stocks and other investments and 4.22% tangible assets.

	2011	2010
Cost, beginning of year	\$ 2,034,238	\$ 1,999,144
Reinvested earnings, net	10,580	53,427
Investment fees	<u>(18,064)</u>	<u>(18,333)</u>
Cost, end of year	2,026,754	2,034,238
Unrealized gains, end of year	<u>413,652</u>	<u>12,489</u>
Fair value, end of year	<u>\$ 2,440,406</u>	<u>\$ 2,046,727</u>

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

	2011	2010
Investment income, net	\$ (7,484)	\$ 35,094
Unrealized gains	<u>401,163</u>	<u>100,737</u>
Total permanently restricted trust income (loss)	<u>\$ 393,679</u>	<u>\$ 135,831</u>

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 5 - INVESTMENTS (CONTINUED)

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 \$126,111 and \$127,704 for the years ended June 30, 2011 and 2010, respectively.

NOTE 6 - FAIR VALUE MEASUREMENTS

SMV implemented Financial Accounting Standards (FASB) ASC 820, *Fair Value Measurements* in the current year. Among other things, FASB ASC 820 establishes a three-level valuation hierarchy for disclosures 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 measurement.

Fair values of assets and liabilities measured on a recurring basis at June 30, 2011 are as follows:

	Fair Value	In Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2011:</u>				
Available-for-sale securities	\$ 2,932,340	\$ 2,208,683	\$ 723,657	\$ -

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 7 - 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 2011 is 5%. 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 \$71,204 in 2011 and \$68,348 in 2010.

NOTE 8 - U.S. DEPARTMENT OF AGRICULTURE GRANT

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 \$256,937 and the reimbursable portion totaled \$99,728 for the year ended June 30, 2011. A schedule of grant activity for fiscal year 2010 is as follows:

Balance receivable at June 30, 2010	\$ 7,198
Receipts	(99,728)
Expenditures	<u>101,358</u>
Balance receivable at June 30, 2011	<u>\$ 8,828</u>

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 9 - SIGNIFICANT TRANSACTIONS WITH OTHER CATHOLIC ENTITIES

2011 **2010**

Significant transactions with the Governance and Services Offices of the Diocese of Nashville include:

Interest income	\$ 1,198	\$ 2,206
Endowment for the Advancement of Catholic Schools investment return	186,601	186,601
Retirement plan costs	71,204	68,348

Significant transactions with the Catholic Charities include:

Contribution income	\$ 63,603	\$ 91,677
Occupancy expense	245,610	246,766
Telephone expense	4,505	4,538
Postage expense	1,240	985
Miscellaneous expense	520	560
Maintenance	141	921
Equipment purchases	-	6,913
Amounts due to Catholic Charities	210	-

Catholic Charities 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 in 2010. As of June 30, 2011, Catholic Charities still owes SMV a balance of \$37,500 on this pledge.

Significant transactions with Mary Queen of Angels include:

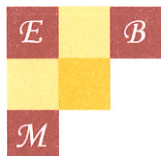
Food and beverage expense	\$ 251,254	\$ 262,644
Health insurance claims	8,204	10,556
Miscellaneous expense	1,327	-
Computer maintenance	381	189
Amounts due to Mary Queen of Angels	21,478	22,999

NOTE 10 - LEASE COMMITMENT

SMV leases facilities under an operating lease agreement that expires in October 2012. Lease payments amounted to \$41,247 for the year ended June 30, 2011.

Future minimum lease payments required under the operating lease in effect at June 30, 2011 is as follows:

<u>Year Ending June 30,</u>	
2012	\$ 54,996
2013	13,749
Total	<u>\$ 68,745</u>



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, 2011, and have issued our report thereon dated September 12, 2011. 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 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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.

**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)**

This report is intended for the information of the Board of Trustees, 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, Betye & Montgomery, PLLC

September 12, 2011