

**SAINT MARY VILLA, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

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BLANKENSHIP CPA GROUP, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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., as of June 30, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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, 2004 and 2003, 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 September 3, 2004, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Blankenship CPA Group, PLLC

September 3, 2004

SAINT MARY VILLA, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2004 AND 2003

ASSETS

	2004	2003
Current assets:		
Cash (note 3)	\$ 178,320	\$ 209,752
Accounts receivable, net of allowance for doubtful accounts of \$5,000 in 2004 and 2003	70,955	81,975
United Way receivable (note 2)	105,325	115,175
Inventory	418	315
Total current assets	<u>355,018</u>	<u>407,217</u>
Equipment and leasehold improvements, net (note 4)	26,789	40,101
Investments (note 5)	466,597	424,680
Beneficial interest in perpetual trust (note 5)	2,196,133	2,161,480
Total assets	<u><u>\$ 3,044,537</u></u>	<u><u>\$ 3,033,478</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses	<u>\$ 65,640</u>	<u>\$ 103,088</u>
Total liabilities	<u>65,640</u>	<u>103,088</u>
Net assets:		
Unrestricted:		
Unrestricted for operations	166,343	171,244
Designated for long-term growth	466,597	424,680
Equity in physical plant	26,789	40,101
Designated for future program development	17,710	17,710
Total unrestricted net assets	<u>677,439</u>	<u>653,735</u>
Temporarily restricted (note 2)	105,325	115,175
Permanently restricted (note 5)	2,196,133	2,161,480
Total net assets	<u>2,978,897</u>	<u>2,930,390</u>
Total liabilities and net assets	<u><u>\$ 3,044,537</u></u>	<u><u>\$ 3,033,478</u></u>

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

SAINT MARY VILLA, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2004	Total 2003
Revenues, gains and other support:					
Program service fees	\$ 1,298,659	\$ -	\$ -	\$ 1,298,659 ✓	\$ 1,172,820 ✓
United Way Services	10,085	105,325	-	115,410 ✓	129,435 ✓
USDA reimbursement (note 10)	86,329	-	-	86,329 ✓	93,195 ✓
M.J. Smith trust income (notes 5, 6 and 9)	102,000	-	34,653	136,653	123,471
Frank Givens trust income (note 6)	28,740	-	-	28,740	56,877 ✓
Interest income (notes 3 and 9)	2,330	-	-	2,330	1,369 ✓
EACS investment return (notes 5 and 9)	62,580	-	-	62,580	17,994 ✓
Contributions and other	125,615	-	-	125,615	90,426
Net assets released from restrictions:					
United Way Services funding for the year	115,175	(115,175)	-	-	-
Total revenues, gains and other support	1,831,513	(9,850)	34,653	1,856,316	1,685,587 ✓
Expenses:					
Salaries and wages	1,030,275	-	-	1,030,275	1,057,298
Employee benefits (notes 8 and 9)	175,901	-	-	175,901	146,093
Payroll taxes	77,984	-	-	77,984	78,916
Supplies and general expenses	199,438	-	-	199,438	215,020
Occupancy (note 9)	220,783	-	-	220,783	186,079
Purchased services-cleaning	38,870	-	-	38,870	33,126
Professional services	12,833	-	-	12,833	8,272
Telephone	8,758	-	-	8,758	8,890
Postage	1,395	-	-	1,395	1,313
Printing	4,027	-	-	4,027	2,296
Travel and meetings	3,602	-	-	3,602	4,089
Miscellaneous (note 7)	19,582	-	-	19,582	21,615
Bad debt	-	-	-	-	62,453
Depreciation (note 4)	14,361	-	-	14,361	21,396
Total expenses	1,807,809	-	-	1,807,809	1,846,856 ✓
Revenues, gains and other support over (under) expenses	23,704	(9,850)	34,653	48,507	(161,269)
Net assets, beginning of year	653,735	115,175	2,161,480	2,930,390	3,091,659
Net assets, end of year	\$ 677,439	\$ 105,325	\$ 2,196,133	\$ 2,978,897	\$ 2,930,390

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

SAINT MARY VILLA, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
Cash flows from operating activities:		
Change in net assets	\$ 48,507	\$ (161,269)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	14,361	21,396
Net unrealized and realized gains on investments	(76,570)	(34,883)
Decrease in accounts receivable	11,020	5,251
(Increase) decrease in United Way receivable	9,850	(1,590)
(Increase) decrease in inventory	(103)	585
Increase (decrease) in accounts payable and accrued expenses	<u>(37,448)</u>	<u>11,359</u>
Net cash used in operating activities	<u>(30,383)</u>	<u>(159,151)</u>
Cash flows from investment activities:		
Purchases of equipment and leasehold improvements	(1,049)	(3,855)
Proceeds from redemption of investment securities	<u>-</u>	<u>210,767</u>
Net cash provided by (used in) investing activities	<u>(1,049)</u>	<u>206,912</u>
Net increase (decrease) in cash	(31,432)	47,761
Cash, beginning of year	<u>209,752</u>	<u>161,991</u>
Cash, end of year	<u><u>\$ 178,320</u></u>	<u><u>\$ 209,752</u></u>

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

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Saint Mary Villa, Inc. (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 the 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

The Organization operates a child care facility for the general public located at 30 White Bridge Road, Nashville, Tennessee.

Basis of Presentation

The Organization 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

The Organization 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

The Organization's advertising is non-direct, and the costs are expensed as incurred. The Organization incurred \$12,469 and \$13,186 of advertising expense in 2004 and 2003, respectively.

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS, (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Federal Income Taxes

The Organization 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.

Reclassification

Certain amounts from the prior year have been reclassified to conform with current year presentation. The reclassification had no effect on the change in net assets reported for the years ended June 30, 2004 and 2003, respectively.

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:

	2004	2003
United Way Services funding for the next year	\$ <u>105,325</u>	\$ <u>115,175</u>

NOTE 3 - CASH

Cash represents funds on deposit with the Diocese of Nashville. The deposits earned interest of \$2,330 in fiscal year 2004 and \$1,369 in fiscal year 2003. Cash and cash equivalents during the year may exceed Federal Deposit Insurance Corporation ("FDIC") limits. The Organization 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)
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 4 - EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following:

	2004	2003
Equipment	\$ 185,447	\$ 184,698
Leasehold improvements	<u>466,643</u>	<u>466,343</u>
	652,090	651,041
Less: Accumulated depreciation	<u>625,301</u>	<u>610,940</u>
Equipment and leasehold improvements, net	\$ <u>26,789</u>	\$ <u>40,101</u>

Depreciation expense for the years ended June 30, 2004 and 2003, amounted to \$14,361 and \$21,396, 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) and the Roman Catholic Diocese of Nashville. 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, 2004, the mutual fund consists of stocks, fixed income investments, cash and short-term investments. Fair values and unrealized gains are summarized as follows:

	2004	2003
<u>Unrestricted:</u>		
Cost, beginning of year	\$ 448,410	\$ 660,257
Realized gains and reinvested earnings	8,723	14,906
Distributions	<u>(20,663)</u>	<u>(226,753)</u>
Cost, end of year	436,470	448,410
Unrealized gains (losses), end of year	<u>30,127</u>	<u>(23,730)</u>
Fair value, end of year	\$ <u>466,597</u>	\$ <u>424,680</u>

Investment return from unrestricted investments is summarized below:

	2004	2003
Interest income	\$ 9,635	\$ 16,126
Net realized losses	(912)	(1,220)
Unrealized gain	<u>53,857</u>	<u>3,088</u>
Total unrestricted investment return	\$ <u>62,580</u>	\$ <u>17,994</u>

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS, (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 5 - INVESTMENTS, (CONTINUED)

Permanently Restricted – Beneficial Interest in Perpetual Trust:

The Organization is a 50% beneficiary of a perpetual trust held by a local bank. The Organization has no investment or ownership control of the assets in the trust. Investments are stated at fair value. At June 30, 2004, the trust consisted of 3.4% cash and cash equivalents, 58.6% fixed income securities and 38% stocks and other investments.

	2004	2003
Cost, beginning of year	\$ 1,997,444	\$ 2,078,130
Realized gain and earnings retained	<u>1,663</u>	<u>(80,686)</u>
Cost, end of year	1,999,107	1,997,444
Unrealized gain, end of year	<u>197,026</u>	<u>164,036</u>
Fair value, end of year	\$ <u>2,196,133</u>	\$ <u>2,161,480</u>

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

	2004	2003
Interest income and net realized gains	\$ 103,663	\$ 23,062
Unrealized gains	<u>32,990</u>	<u>100,409</u>
Total permanently restricted trust income	\$ <u>136,653</u>	\$ <u>123,471</u>

NOTE 6 – TRUST INCOME

The Organization 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. The Organization receives 100% of the income of the trust designed for children's services.

In May 1994, the Organization began receiving income under the Frank M. Givens Trust, a testamentary trust. Under this trust, one-third of the total trust income is designated for children's services of Saint Mary Villa, Inc.

Total unrestricted trust income from the aforementioned testamentary trusts was \$130,740 and \$160,625 for the years ended June 30, 2004 and 2003, respectively.

**SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS, (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 7 - MISCELLANEOUS EXPENSES

Miscellaneous expenses are composed of the following:

	2004	2003
Marketing/public relations	\$ 12,469	\$ 13,186
Pre-school accident insurance	1,875	1,877
Equipment maintenance	85	680
Other miscellaneous	<u>5,153</u>	<u>5,872</u>
	<u>\$ 19,582</u>	<u>\$ 21,615</u>

NOTE 8 - EMPLOYEE BENEFITS

Effective August 1, 1993, the Organization has adopted a cafeteria plan per Internal Revenue Code Section 125. Employees of the Organization 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 participated in the following Diocese of Nashville pension plans:

Defined Benefit Pension Plan

The noncontributory defined benefit 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 2004 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

The Organization has a defined contribution 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. The Villa 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 \$51,884 in 2004 and \$41,842 in 2003.

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS, (CONTINUED)
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 9 - TRANSACTIONS WITH RELATED ENTITIES

Transactions with the Diocese of Nashville include:

	2004	2003
Amounts due from Diocese	\$ -	\$ 9,322
Interest income	2,330	1,369
Investment return	62,693	26,753
Trust income	102,000	103,748
Occupancy expense	199,534	163,903
Retirement plan costs	51,884	41,842

The Organization occupies its building space from the Diocese of Nashville and reimburse those costs under an operating lease.

**NOTE 10 - U.S. DEPARTMENT OF AGRICULTURE GRANT – AGREEMENT
#03-47-59971-00-8**

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 USDA and 7 CFR Child Care Food Program Regulations. Food costs included as supplies and general expenses amounted to \$174,507 and the reimbursable portion totaled \$78,010 for the year ended June 30, 2004. A schedule of grant activity for fiscal year 2004 is as follows:

Balance receivable at June 30, 2003	\$ 14,868
Receipts	(86,329)
Expenditures	<u>78,010</u>
Balance receivable at June 30, 2004	\$ <u>6,549</u>

BLANKENSHIP CPA GROUP, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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, 2004, and have issued our report thereon dated September 3, 2004. 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.

Compliance

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 that are required to be reported under Government Auditing Standards.

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 assurance 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 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 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.

This report is intended for the information of the finance committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Blankenship CPA Group, PLLC

September 3, 2004