

**SAINT MARY VILLA, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2005 AND 2004**

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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. (a Tennessee not-for-profit corporation, the "Organization"), as of June 30, 2005 and 2004, 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 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, 2005 and 2004, 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 November 9, 2005, 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

November 9, 2005

SAINT MARY VILLA, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2005 AND 2004

ASSETS

	2005	2004
Current assets:		
Cash and cash equivalents (note 3)	\$ 153,388	\$ 178,320
Accounts receivable, net of allowance for doubtful accounts of \$79,490 in 2005 and \$5,000 in 2004	49,552	70,955
United Way receivable (note 2)	98,343	105,325
Inventory	312	418
Total current assets	<u>301,595</u>	<u>355,018</u>
Equipment and leasehold improvements, net (note 4)	14,009	26,789
Investments (note 5)	472,034	466,597
Beneficial interest in perpetual trust (note 5)	<u>2,247,072</u>	<u>2,196,133</u>
Total assets	<u><u>\$ 3,034,710</u></u>	<u><u>\$ 3,044,537</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses (note 9)	<u>\$ 136,093</u>	<u>\$ 65,640</u>
Total liabilities	<u>136,093</u>	<u>65,640</u>
Net assets:		
Unrestricted:		
Unrestricted for operations	49,449	166,343
Designated for long-term growth	472,034	466,597
Equity in physical plant	14,009	26,789
Designated for future program development	<u>17,710</u>	<u>17,710</u>
Total unrestricted net assets	<u>553,202</u>	<u>677,439</u>
Temporarily restricted (note 2)	98,343	105,325
Permanently restricted (note 5)	<u>2,247,072</u>	<u>2,196,133</u>
Total net assets	<u>2,898,617</u>	<u>2,978,897</u>
Total liabilities and net assets	<u><u>\$ 3,034,710</u></u>	<u><u>\$ 3,044,537</u></u>

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

SAINT MARY VILLA, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2005 AND 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2005	Total 2004
Revenues, gains and other support:					
Program service fees	\$ 1,246,979	\$ -	\$ -	\$ 1,246,979	\$ 1,298,659
United Way Services	13,985	98,343	-	112,328	115,410
USDA reimbursement (note 10)	82,334	-	-	82,334	86,329
M.J. Smith trust income (notes 5, 6 and 9)	110,500	-	50,939	161,439	136,653
Frank Givens trust income (note 6)	37,021	-	-	37,021	28,740
Interest income (notes 3 and 9)	3,970	-	-	3,970	2,330
EACS investment return (notes 5 and 9)	27,186	-	-	27,186	62,580
Contributions and other	111,713	-	-	111,713	125,615
Net assets released from restrictions:					
United Way Services funding for the year	105,325	(105,325)	-	-	-
Total revenues, gains and other support	<u>1,739,013</u>	<u>(6,982)</u>	<u>50,939</u>	<u>1,782,970</u>	<u>1,856,316</u>
Expenses:					
Salaries and wages	1,016,288	-	-	1,016,288	1,030,275
Employee benefits (notes 8 and 9)	162,615	-	-	162,615	175,901
Payroll taxes	69,119	-	-	69,119	77,984
Supplies and general expenses	198,640	-	-	198,640	199,438
Occupancy (note 9)	241,889	-	-	241,889	220,783
Purchased services-cleaning	41,210	-	-	41,210	38,870
Professional services	8,333	-	-	8,333	12,833
Telephone	8,024	-	-	8,024	8,758
Postage	1,291	-	-	1,291	1,395
Printing	7,173	-	-	7,173	4,027
Travel and meetings	3,059	-	-	3,059	3,602
Miscellaneous (note 7)	18,339	-	-	18,339	19,582
Bad debt	74,490	-	-	74,490	-
Depreciation (note 4)	12,780	-	-	12,780	14,361
Total expenses	<u>1,863,250</u>	<u>-</u>	<u>-</u>	<u>1,863,250</u>	<u>1,807,809</u>
Revenues, gains and other support over (under) expenses	(124,237)	(6,982)	50,939	(80,280)	48,507
Net assets, beginning of year	<u>677,439</u>	<u>105,325</u>	<u>2,196,133</u>	<u>2,978,897</u>	<u>2,930,390</u>
Net assets, end 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>

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

SAINT MARY VILLA, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
Cash flows from operating activities:		
Change in net assets	\$ (80,280)	\$ 48,507
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	12,780	14,361
Net unrealized and realized gains on investments	(56,376)	(76,570)
(Increase) decrease in accounts receivable	21,403	11,020
Decrease in United Way receivable	6,982	9,850
(Increase) decrease in inventory	106	(103)
Increase (decrease) in accounts payable and accrued expenses	<u>70,453</u>	<u>(37,448)</u>
Net cash used in operating activities	<u>(24,932)</u>	<u>(30,383)</u>
Cash flows from investment activities:		
Purchases of equipment and leasehold improvements	<u>-</u>	<u>(1,049)</u>
Net cash used in investing activities	<u>-</u>	<u>(1,049)</u>
Net decrease in cash and cash equivalents	(24,932)	(31,432)
Cash and cash equivalents, beginning of year	<u>178,320</u>	<u>209,752</u>
Cash and cash equivalents, end of year	<u><u>\$ 153,388</u></u>	<u><u>\$ 178,320</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, 2005 AND 2004**

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 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

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 \$4,352 and \$12,469 of advertising expense in 2005 and 2004, respectively.

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS, (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004

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.

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:

	2005	2004
United Way Services funding for the next year	<u>\$ 98,343</u>	<u>\$ 105,325</u>

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent funds on deposit with the Diocese of Nashville. The deposits earned interest of \$3,970 in fiscal year 2005 and \$2,330 in fiscal year 2004. 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)
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 4 - EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following:

	2005	2004
Equipment	\$ 185,447	\$ 185,447
Leasehold improvements	<u>466,643</u>	<u>466,643</u>
	652,090	652,090
Less: Accumulated depreciation	<u>(638,081)</u>	<u>(625,301)</u>
Equipment and leasehold improvements, net	<u>\$ 14,009</u>	<u>\$ 26,789</u>

Depreciation expense for the years ended June 30, 2005 and 2004, amounted to \$12,780 and \$14,361, 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, 2005, the mutual fund consists of stocks, fixed income investments, cash and short-term investments. Fair values and unrealized gains are summarized as follows:

	2005	2004
<u>Unrestricted:</u>		
Cost, beginning of year	\$ 466,597	\$ 448,410
Realized gains and reinvested earnings	21,850	8,723
Distributions	<u>(21,750)</u>	<u>(20,663)</u>
Cost, end of year	466,697	436,470
Unrealized gains, end of year	<u>5,337</u>	<u>30,127</u>
Fair value, end of year	<u>\$ 472,034</u>	<u>\$ 466,597</u>

Investment return from unrestricted investments is summarized as follows:

	2005	2004
Interest income	\$ 10,886	\$ 9,635
Net realized gains (losses)	10,964	(912)
Unrealized gains	<u>5,337</u>	<u>30,127</u>
Total unrestricted investment return	<u>\$ 27,187</u>	<u>\$ 38,850</u>

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS, (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004

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, 2005, the trust consisted of 8.5% cash and cash equivalents, 37.0% fixed income securities and 54.5% stocks and other investments.

	2005	2004
Cost, beginning of year	\$ 1,999,107	\$ 1,997,444
Realized gains and earnings retained	<u>94,283</u>	<u>1,663</u>
Cost, end of year	2,093,390	1,999,107
Unrealized gains, end of year	<u>153,682</u>	<u>197,026</u>
Fair value, end of year	<u>\$ 2,247,072</u>	<u>\$ 2,196,133</u>

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

	2005	2004
Interest income and net realized gains	\$ 204,783	\$ 103,663
Unrealized gains (loss)	<u>(43,344)</u>	<u>32,990</u>
Total permanently restricted trust income	<u>\$ 161,439</u>	<u>\$ 136,653</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, the Organization receives one-third of the residual income available after the trust has met its' obligations to provide for the needs of an individual beneficiary. The trust income is designated for children's services of Saint Mary Villa, Inc.

Total unrestricted trust income from the aforementioned testamentary trusts was \$147,521 and \$130,740 for the years ended June 30, 2005 and 2004, respectively.

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS, (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 7 - MISCELLANEOUS EXPENSES

Miscellaneous expenses are composed of the following:

	2005	2004
Marketing and public relations	\$ 4,352	\$ 12,469
Insurance	8,213	4,883
Equipment maintenance	490	85
Other miscellaneous	<u>5,284</u>	<u>2,145</u>
	<u>\$ 18,339</u>	<u>\$ 19,582</u>

NOTE 8 - EMPLOYEE BENEFITS

The Organization 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 2005 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 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. The Organization 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 \$51,336 in 2005 and \$51,884 in 2004.

SAINT MARY VILLA, INC.
NOTES TO FINANCIAL STATEMENTS, (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 9 - TRANSACTIONS WITH OTHER CATHOLIC ENTITIES

	2005	2004
Transactions with the Diocese of Nashville include:		
Interest income	\$ 3,970	\$ 2,330
Investment return	94,538	62,693
Trust income	110,500	102,000
Retirement plan costs	51,336	51,884
Transactions with the Catholic Charities include:		
Contribution income	\$ 45,986	\$ 10,000
Occupancy expense	206,890	200,520
Telephone expense	2,375	4,606
Copier expense	1,594	1,615
Postage expense	1,553	-
Amounts due to Catholic Charities	17,209	-
Transactions with Mary Queen of Angels include:		
Food and beverage expense	\$ 112,568	\$ 329
Amounts due to Mary Queen of Angels	13,122	-

**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 in supplies and general expenses amounted to \$172,729 and the reimbursable portion totaled \$74,648 for the year ended June 30, 2005. A schedule of grant activity for fiscal year 2005 is as follows:

Balance receivable at June 30, 2004	\$ 6,549
Receipts	82,334
Expenditures	<u>(74,648)</u>
Balance receivable at June 30, 2005	<u>\$ 14,235</u>

**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, 2005, and have issued our report thereon dated November 9, 2005. 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.

November 9, 2005