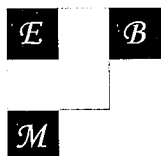


**SAINT MARY VILLA, INC.  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED JUNE 30, 2010 AND 2009**

**SAINT MARY VILLA, INC.  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED JUNE 30, 2010 AND 2009**

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# 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, 2010 and 2009, 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, 2010 and 2009, 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 15, 2010, 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 15, 2010

**SAINT MARY VILLA, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2010 AND 2009**

**ASSETS**

	2010	2009
Current assets:		
Cash and cash equivalents (note 3)	\$ 198,017	\$ 286,102
Accounts receivable, net of allowance for doubtful accounts of \$9,416 in 2010 and \$9,082 in 2009 (note 8)	71,746	60,392
Pledges receivable (note 2)	374,403	311,903
Inventory	238	731
Prepaid expense	236	236
Total current assets	<u>644,640</u>	<u>659,364</u>
Equipment and leasehold improvements, net (note 4)	175,151	40,825
Investments (note 5)	419,271	383,861
Beneficial interest in perpetual trust (note 5)	<u>2,046,727</u>	<u>1,910,896</u>
Total assets	<u><u>\$ 3,285,789</u></u>	<u><u>\$ 2,994,946</u></u>

**LIABILITIES AND NET ASSETS**

Current liabilities:		
Accounts payable and accrued expenses	<u>\$ 156,195</u>	<u>\$ 144,984</u>
Total liabilities	<u>156,195</u>	<u>144,984</u>
Net assets:		
Unrestricted:		
Unrestricted for operations	4,946	40,513
Designated for long-term growth	419,271	383,861
Equity in physical plant	<u>175,151</u>	<u>40,825</u>
Total unrestricted net assets	599,368	465,199
Temporarily restricted (note 2)	483,499	473,867
Permanently restricted (note 5)	<u>2,046,727</u>	<u>1,910,896</u>
Total net assets	<u>3,129,594</u>	<u>2,849,962</u>
Total liabilities and net assets	<u><u>\$ 3,285,789</u></u>	<u><u>\$ 2,994,946</u></u>

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

**SAINT MARY VILLA, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2010	Total 2009
Revenues, gains and other support:					
Program service fees	\$ 1,529,235	\$ -	\$ -	\$ 1,529,235	\$ 1,425,027
Contributions and other	146,790	200,000	-	346,790	370,696
United Way Services	9,545	186,902	-	196,447	168,103
Investment income (loss) (note 5)	139,233	-	35,094	174,327	(26,916)
Net unrealized gains (losses) on investments (note 5)	41,447	-	100,737	142,184	(392,961)
USDA reimbursement (note 8)	84,022	-	-	84,022	86,640
Management fees	-	-	-	-	240
Net assets released from restrictions	377,270	(377,270)	-	-	-
Total revenues, gains and other support	<u>2,327,542</u>	<u>9,632</u>	<u>135,831</u>	<u>2,473,005</u>	<u>1,630,829</u>
Expenses:					
Salaries and wages	1,190,626	-	-	1,190,626	1,175,899
Supplies and general expenses	312,397	-	-	312,397	301,573
Occupancy (note 7)	268,967	-	-	268,967	264,630
Employee benefits (note 6)	216,149	-	-	216,149	196,285
Payroll taxes	88,840	-	-	88,840	85,438
Purchased services-cleaning	43,045	-	-	43,045	41,245
Bad debt	20,923	-	-	20,923	22,815
Professional services	11,876	-	-	11,876	19,239
Miscellaneous	8,966	-	-	8,966	7,494
Telephone	7,392	-	-	7,392	6,838
Depreciation (note 4)	7,388	-	-	7,388	5,120
Insurance	6,433	-	-	6,433	6,414
Postage and printing	4,245	-	-	4,245	6,432
Travel and meetings	3,728	-	-	3,728	10,471
Marketing and public relations	2,398	-	-	2,398	2,480
Repairs and maintenance	-	-	-	-	570
Total expenses	<u>2,193,373</u>	<u>-</u>	<u>-</u>	<u>2,193,373</u>	<u>2,152,943</u>
Revenues, gains and other support over (under) expenses	134,169	9,632	135,831	279,632	(522,113)
Net assets, beginning of year	<u>465,199</u>	<u>473,867</u>	<u>1,910,896</u>	<u>2,849,962</u>	<u>3,372,075</u>
Net assets, end of year	<u>\$ 599,368</u>	<u>\$ 483,499</u>	<u>\$ 2,046,727</u>	<u>\$ 3,129,594</u>	<u>\$ 2,849,962</u>

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

**SAINT MARY VILLA, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 279,632	\$ (522,113)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	7,388	5,120
Net unrealized and realized (gains) losses on investments	(171,241)	570,347
Increase in accounts receivable	(11,354)	(15,264)
(Increase) decrease in pledges receivable	(62,500)	19,999
Decrease in inventory	493	17
Increase in accounts payable and accrued expenses	<u>11,211</u>	<u>29,775</u>
Net cash provided by operating activities	<u>53,629</u>	<u>87,881</u>
Cash flows from investing activities:		
Purchases of equipment and leasehold improvements	<u>(141,714)</u>	<u>(32,581)</u>
Net cash used in investing activities	<u>(141,714)</u>	<u>(32,581)</u>
Net increase (decrease) in cash and cash equivalents	(88,085)	55,300
Cash and cash equivalents, beginning of year	<u>286,102</u>	<u>230,802</u>
Cash and cash equivalents, end of year	<u>\$ 198,017</u>	<u>\$ 286,102</u>

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

**SAINT MARY VILLA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

**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 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.

Advertising

SMV's advertising is non-direct, and the costs are expensed as incurred. SMV incurred \$2,398 and \$2,480 of advertising expense in 2010 and 2009, respectively.

**SAINT MARY VILLA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

**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.

Events Occurring After Reporting Date

SMV has evaluated events and transactions that occurred between June 30, 2010 and September 15, 2010, 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:

	2010	2009
Mission and Ministry funding for operational and capital expenditures to be used in next fiscal year	\$ 246,597	\$ 276,964
United Way Services funding for the next fiscal year	186,902	161,903
Grants for operational and capital expenditures to be used in next fiscal year	50,000	35,000
	<u>\$ 483,499</u>	<u>\$ 473,867</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 \$2,206 in fiscal year 2010 and \$3,852 in fiscal year 2009. 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, 2010 AND 2009**

**NOTE 4 - EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

Equipment and leasehold improvements consist of the following:

	2010	2009
Equipment	\$ 233,592	\$ 227,657
Leasehold improvements	609,075	466,643
Construction-in-progress	<u>-</u>	<u>6,653</u>
	842,667	700,953
Less: Accumulated depreciation	<u>(667,516)</u>	<u>(660,128)</u>
Equipment and leasehold improvements, net	<u>\$ 175,151</u>	<u>\$ 40,825</u>

Depreciation expense for the years ended June 30, 2010 and 2009 amounted to \$7,388 and \$5,120, 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, 2010, the mutual fund consists of stocks, fixed income investments, cash and short-term investments. Fair values and unrealized gains are summarized as follows:

	2010	2009
<u>Unrestricted:</u>		
Cost, beginning of year	\$ 453,695	\$ 451,164
Realized gains and reinvested earnings	9,323	12,759
Distributions	<u>(15,360)</u>	<u>(10,228)</u>
Cost, end of year	447,658	453,695
Unrealized losses, end of year	<u>(28,387)</u>	<u>(69,834)</u>
Fair value, end of year	<u>\$ 419,271</u>	<u>\$ 383,861</u>

Investment return from unrestricted investments is summarized as follows:

	2010	2009
Interest income	\$ 9,323	\$ 12,759
Unrealized gains (losses)	<u>41,447</u>	<u>(84,468)</u>
Total unrestricted investment return	<u>\$ 50,770</u>	<u>\$ (71,709)</u>

**SAINT MARY VILLA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

**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, 2010, the trust consisted of 4.74% cash and cash equivalents, 38.88% fixed income securities, 52.84% stocks and other investments and 3.54% tangible assets.

	2010	2009
Cost, beginning of year	\$ 1,999,144	\$ 2,179,063
Realized gains (losses) and earnings retained	<u>35,094</u>	<u>(179,919)</u>
Cost, end of year	2,034,238	1,999,144
Unrealized gains (losses), end of year	<u>12,489</u>	<u>(88,248)</u>
Fair value, end of year	<u>\$ 2,046,727</u>	<u>\$ 1,910,896</u>

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

	2010	2009
Income and net realized gains (losses)	\$ 35,094	\$ (90,539)
Unrealized gains (losses)	<u>100,737</u>	<u>(308,493)</u>
Total permanently restricted trust income (loss)	<u>\$ 135,831</u>	<u>\$ (399,032)</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 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 \$127,704 and \$130,988 for the years ended June 30, 2010 and 2009, respectively.

**SAINT MARY VILLA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

**NOTE 5 - INVESTMENTS (CONTINUED)**

Fair Value Measurements

SMV implemented Financial Accounting Standards Board (FASB) Statement 157, Fair Value Measurements in the current year. Among other things, FASB 157 establishes a three-level valuation hierarchy for disclosure 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 measurements.

Fair values of assets and liabilities measured on a recurring basis at June 30, 2010 are as follows:

		In Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<u>Fair Value</u>			
<u>June 30, 2010:</u>				
Available-for sale securities	<u>\$ 2,465,998</u>	<u>\$ 1,670,148</u>	<u>\$ 795,850</u>	<u>\$ -</u>

**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 2010 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.

**SAINT MARY VILLA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

**NOTE 6 - EMPLOYEE BENEFITS (CONTINUED)**

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 \$68,348 in 2010 and \$57,340 in 2009.

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

	2010	2009
Significant Transactions with the Governance and Services Offices of the Diocese of Nashville include:		

Interest income	\$ 2,206	\$ 3,852
Endowment for the Advancement of Catholic Schools investment return	186,601	(554,717)
Retirement plan costs	68,348	57,340

Significant Transactions with the Catholic Charities include:

Contribution income	\$ 91,677	\$ 75,000
Occupancy expense	246,766	244,679
Equipment purchases	6,913	-
Telephone expense	4,538	3,879
Postage expense	985	1,025
Maintenance	921	690
Miscellaneous expense	560	560
Copier expense	-	3,227
Amounts due to Catholic Charities	-	83

Catholic Charities has 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. Child care services will be provided to an estimated 48 additional children at Our Lady of Guadalupe Church, a ministry of Saint Edward Parish.

Significant Transactions with Mary Queen of Angels include:

Food and beverage expense	\$ 262,644	\$ 211,331
Health insurance claims	10,556	5,246
Computer maintenance	189	-
Amounts due to Mary Queen of Angels	22,999	20,319

**SAINT MARY VILLA, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2010 AND 2009**

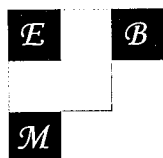
**NOTE 8 - U.S. DEPARTMENT OF AGRICULTURE GRANT – AGREEMENT  
#03-47-59971-00-8**

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 \$244,745 and the reimbursable portion totaled \$84,273 for the year ended June 30, 2010. A schedule of grant activity for fiscal year 2010 is as follows:

Balance receivable at June 30, 2009	\$ 7,449
Receipts	(84,273)
Expenditures	<u>84,022</u>
Balance receivable at June 30, 2010	<u>\$ 7,198</u>

**NOTE 9 - SUBSEQUENT EVENT**

SMV opened a second child care facility at Our Lady of Guadalupe Church, a ministry of Saint Edward Parish, to the public on July 6, 2010. Child care services will be provided to an estimated 48 additional children.



# *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, 2010, and have issued our report thereon dated September 15, 2010. 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.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

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

**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)**

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.

*Edmonche, Bethel & Montgomery, PLLC*

September 15, 2010