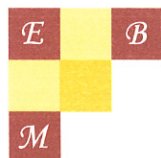


**SAINT MARY VILLA, INC.  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED JUNE 30, 2012 AND 2011**

**SAINT MARY VILLA, INC.  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED JUNE 30, 2012 AND 2011**

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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, 2012 and 2011, 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, 2012 and 2011, 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 19, 2012, 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 19, 2012

**SAINT MARY VILLA, INC.  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2012 AND 2011**

**ASSETS**

	<b>2012</b>	<b>2011</b>
Current assets:		
Cash and cash equivalents (note 2)	\$ 45,893	\$ 79,144
Accounts receivable, net of allowance for doubtful accounts of \$4,746 in 2012 and \$9,129 in 2011 (note 8)	34,250	66,240
Pledges receivable (note 6)	186,902	224,402
Inventory	731	170
Prepaid expense	789	1,130
Total current assets	<u>268,565</u>	<u>371,086</u>
Equipment and leasehold improvements, net (note 3)	27,205	158,452
Investments (note 4)	470,689	491,934
Beneficial interest in perpetual trust (note 4)	<u>2,309,814</u>	<u>2,440,406</u>
Total assets	<u><u>\$ 3,076,273</u></u>	<u><u>\$ 3,461,878</u></u>

**LIABILITIES AND NET ASSETS**

Current liabilities:		
Accounts payable and accrued expenses	<u>\$ 161,697</u>	<u>\$ 156,524</u>
Total liabilities	<u>161,697</u>	<u>156,524</u>
Net assets:		
Unrestricted:		
Unrestricted for operations	(80,034)	21,094
Designated for long-term growth	470,689	491,934
Equity in physical plant	<u>27,205</u>	<u>158,452</u>
Total unrestricted net assets	417,860	671,480
Temporarily restricted (note 6)	186,902	193,468
Permanently restricted (note 4)	<u>2,309,814</u>	<u>2,440,406</u>
Total net assets	<u>2,914,576</u>	<u>3,305,354</u>
Total liabilities and net assets	<u><u>\$ 3,076,273</u></u>	<u><u>\$ 3,461,878</u></u>

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

**SAINT MARY VILLA, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012	Total 2011
Revenues, gains and other support:					
Program service fees	\$ 1,425,478	\$ -	\$ -	\$ 1,425,478	\$ 1,589,499
Contributions and other	194,381	-	-	194,381	160,144
United Way Services	4,314	186,902	-	191,216	191,091
USDA reimbursement (note 8)	106,317	-	-	106,317	101,358
Distributions from perpetual trust	88,387	-	-	88,387	88,387
Net unrealized gains on investments (note 4)	19,336	-	-	19,336	81,089
Golf tournament	11,175	-	-	11,175	-
Investment income, net (notes 2 & 4)	9,966	-	-	9,966	11,135
Loss on disposal of assets	(122,999)	-	-	(122,999)	-
Change in value - beneficial interest in perpetual trust	-	-	(130,592)	(130,592)	393,679
Net assets released from restrictions	193,468	(193,468)	-	-	-
Total revenues, gains and other support	1,929,823	(6,566)	(130,592)	1,792,665	2,616,382
Expenses:					
Salaries and wages	1,185,539	-	-	1,185,539	1,270,941
Supplies and general expenses	285,459	-	-	285,459	328,536
Occupancy (note 9)	266,701	-	-	266,701	315,809
Employee benefits (note 7)	217,393	-	-	217,393	255,072
Payroll taxes	89,402	-	-	89,402	93,498
Purchased services-cleaning	47,520	-	-	47,520	52,869
Bad debt	31,154	-	-	31,154	34,770
Depreciation (note 3)	15,684	-	-	15,684	20,833
Professional services	14,915	-	-	14,915	14,971
Miscellaneous	12,908	-	-	12,908	14,879
Insurance	7,412	-	-	7,412	6,542
Postage and printing	3,380	-	-	3,380	4,212
Travel and meetings	2,875	-	-	2,875	9,731
Telephone	2,461	-	-	2,461	6,858
Marketing and public relations	640	-	-	640	1,101
Benefits paid to others - flood	-	-	-	-	10,000
Total expenses	2,183,443	-	-	2,183,443	2,440,622
Revenues, gains and other support over (under) expenses	(253,620)	(6,566)	(130,592)	(390,778)	175,760
Net assets, beginning of year	671,480	193,468	2,440,406	3,305,354	3,129,594
Net assets, end of year	\$ 417,860	\$ 186,902	\$ 2,309,814	\$ 2,914,576	\$ 3,305,354

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

**SAINT MARY VILLA, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (390,778)	\$ 175,760
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	15,684	20,833
Loss on disposal of assets	122,999	-
Unrealized gains on investments	(19,336)	(81,089)
Change in value of beneficial interest in perpetual trust	130,592	(393,679)
Decrease in accounts receivable	31,990	5,506
Decrease in pledges receivable	37,500	150,001
(Increase) decrease in inventory	(561)	68
(Increase) decrease in prepaid expense	341	(894)
Increase in accounts payable and accrued expenses	5,173	329
	<u>(66,396)</u>	<u>(123,165)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Purchases of equipment and leasehold improvements	(7,436)	(4,133)
Purchase of investments	(9,436)	(9,936)
Proceeds from sale of investments	50,017	18,361
	<u>33,145</u>	<u>4,292</u>
Net cash provided by investing activities		
Net decrease in cash and cash equivalents	(33,251)	(118,873)
Cash and cash equivalents, beginning of year	<u>79,144</u>	<u>198,017</u>
Cash and cash equivalents, end of year	<u><u>\$ 45,893</u></u>	<u><u>\$ 79,144</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, 2012 AND 2011**

**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 one child care facility for the general public located at 30 White Bridge Road, Nashville, Tennessee. SMV closed its child care facility located at 3112 Nolensville Road, Nashville, Tennessee as of January 31, 2012.

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, 2012 AND 2011**

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

Advertising

SMV's advertising is non-direct, and the costs are expensed as incurred. SMV incurred \$640 and \$1,101 of advertising expense in 2012 and 2011, 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.

Prior Year Financial Statements

Certain reclassifications have been made to the prior year financial statements in order to conform to the current year presentation.

Events Occurring After Reporting Date

SMV has evaluated events and transactions that occurred after June 30, 2012 through the date of the issued financial statements. During this period, there were no material recognizable subsequent events that required recognition in our disclosures to the June 30, 2012 financial statements.

**NOTE 2 - CASH AND CASH EQUIVALENTS**

Cash and cash equivalents represent funds on deposit with the Diocese of Nashville. The deposits earned interest of \$530 fiscal year 2012 and \$1,199 in fiscal year 2011. 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, 2012 AND 2011**

**NOTE 3 - EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

Equipment and leasehold improvements consist of the following:

	2012	2011
Equipment	\$ 180,813	\$ 234,851
Leasehold improvements	<u>453,507</u>	<u>611,950</u>
	634,320	846,801
Less: Accumulated depreciation	<u>(607,115)</u>	<u>(688,349)</u>
	<u>\$ 27,205</u>	<u>\$ 158,452</u>

Depreciation expense for the years ended June 30, 2012 and 2011 amounted to \$15,684 and \$20,833, respectively.

**NOTE 4 - ENDOWMENTS**

SMV's endowments consist of funds established for the purpose of ensuring its future operations. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of SMV has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the Organization

**SAINT MARY VILLA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 4 - ENDOWMENTS (CONTINUED)**

Investments and Beneficial Interest in Perpetual Trust

Investments of unrestricted funds are stated at fair value and consist of shares in a 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, 2012, the fund consists of a mutual fund, cash and short-term investments.

SMV is a 50% beneficiary of the M.J. Smith Trust, a perpetual trust held by a local bank. SMV has no investment or ownership control of the assets in the trust. At June 30, 2012, the trust consisted of 3.6% cash and cash equivalents, 31.1% fixed income securities, 61.8% stocks and other investments and 3.5% tangible assets.

Changes in endowment net assets for the years ended June 30, 2012 and 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2010	\$ 419,271	\$ -	\$ 2,046,727	\$ 2,465,998
Investment return:				
Investment income	9,936	-	80,903	90,839
Net appreciation	81,089	-	401,163	482,252
Distributions	<u>(18,362)</u>	<u>-</u>	<u>(88,387)</u>	<u>(106,749)</u>
Endowment net assets, June 30, 2011	491,934	-	2,440,406	2,932,340
Investment return:				
Investment income	9,436	-	106,245	115,681
Net appreciation (depreciation)	19,336	-	(148,450)	(129,114)
Distributions	<u>(50,017)</u>	<u>-</u>	<u>(88,387)</u>	<u>(138,404)</u>
Endowment net assets, June 30, 2012	<u>\$ 470,689</u>	<u>\$ -</u>	<u>\$ 2,309,814</u>	<u>\$ 2,780,503</u>

Return Objectives, Risk Parameter and Spending Policy

Unrestricted funds

This endowment fund, originally funded with \$417,640, is held by a trustee and the trust agreement calls for a distribution of five percent of the fund's fair market value which is available annually for the Organization's use.

Beneficial Interest in Perpetual Trust

This endowment fund is held in perpetual trust and calls for distributions throughout the year which are available for the Organization's use. The distributions totaled \$88,387 for the years ended June 30, 2012 and 2011.

**SAINT MARY VILLA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 5 - 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, 2012 and 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)
June 30, 2012:				
Cash and money funds	\$ 86,353	\$ 86,353	\$ -	\$ -
Marketable equity securities	1,976,948	1,976,948	-	-
Corporate and international bond funds	483,713	-	483,713	-
Governmental bonds	233,489	-	233,489	-
	<u>\$ 2,780,503</u>	<u>\$ 2,063,301</u>	<u>\$ 717,202</u>	<u>\$ -</u>
June 30, 2011:				
Cash and money funds	\$ 68,056	\$ 68,056	\$ -	\$ -
Marketable equity securities	2,140,627	2,140,627	-	-
Corporate and international bond funds	520,020	-	520,020	-
Governmental bonds	203,637	-	203,637	-
	<u>\$ 2,932,340</u>	<u>\$ 2,208,683</u>	<u>\$ 723,657</u>	<u>\$ -</u>

**SAINT MARY VILLA, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes or periods:

	2012	2011
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	<u>-</u>	<u>6,566</u>
	<u>\$ 186,902</u>	<u>\$ 193,468</u>

**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 2012 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 \$61,823 in 2012 and \$71,204 in 2011.

**NOTE 8 - U.S. DEPARTMENT OF AGRICULTURE GRANT**

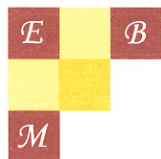
Balance receivable at June 30, 2011	\$ 8,828
Expenditures	106,317
Receipts	<u>(108,021)</u>
Balance receivable at June 30, 2012	\$ 7,124

## 2012 2011

Interest income	\$ 530	\$ 1,198
Endowment for the Advancement of Catholic Schools investment return	28,772	91,025
Contribution income	50,000	-
Occupancy expense	242,250	-
Retirement plan costs	61,823	71,204

Contribution income	\$ 65,100	\$ 63,603
Occupancy expense	-	245,610
Telephone expense	-	4,505
Insurance	5,500	-
Postage expense	563	1,240
Miscellaneous expense	738	520
Maintenance	-	141
Amounts due to Catholic Charities	20,085	210





*Edmondson, Betzler & Montgomery, PLLC*  
(Certified Public Accountants)

**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, 2012, and have issued our report thereon dated September 19, 2012. 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**

Management of Saint Mary Villa is responsible for establishing and maintaining effective 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.

**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, Betler & Montgomery, PLLC*

September 19, 2012