YOUTH VILLAGES, INC. AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009 and 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Youth Villages, Inc. and Affiliate
Memphis, Tennessee

We have audited the accompanying consolidated statements of financial position of Youth Villages, Inc. and Affiliate as of June 30, 2009 and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of Youth Villages, Inc. and Affiliate'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. 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 Youth Villages, Inc. and Affiliate as of June 30, 2009 and 2008, and the results of its activities 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 December 10, 2009 on our consideration of Youth Villages, Inc. and Affiliate's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Youth Villages, Inc. and Affiliate taken as a whole. The consolidating statements as described in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Organization. The accompanying schedule of expenditures of federal and state awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*," and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Watkins Uiberall, PLLC

Memphis, Tennessee
December 10, 2009

YOUTH VILLAGES, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2009 and 2008

Assets

	2009	2008
Current Assets		
Cash	$ 25,368,475	$ 18,901,880
Receivables:		
Pledges, current portion	5,051,973	1,686,182
Grantor agencies	17,960,360	12,339,097
Private contract and insurance	-	2,230,524
Other	14,694	-
Investment in marketable securities	38,183,653	44,923,040
Prepaid expenses	770,487	495,083
Total current assets	87,349,642	80,575,806
Property and equipment, net	40,708,255	34,694,878
Other Assets		
Pledges receivable, net of current portion	2,860,650	2,156,014
Bond issue costs, net	20,062	27,862
Other	2,876,470	2,212,058
Total other assets	5,757,182	4,395,934
Total assets	$ 133,815,079	$ 119,666,618

The accompanying notes are an integral part of the consolidated financial statements.

Liabilities and Net Assets

	2009	2008
Current Liabilities		
Accounts payable	$ 2,733,848	$ 3,106,268
Accrued salaries and compensated absences	5,595,872	4,690,840
Accrued retirement plan contributions	1,194,772	1,318,022
Accrued and withheld taxes	611,164	554,356
Accrued other expenses	724,519	530,164
Current portion of long-term debt	210,917	210,917
Total current liabilities	11,071,092	10,410,567
Long-Term Liabilities		
Note payable	-	210,916
Bonds payable	3,200,000	3,700,000
Total long-term liabilities	3,200,000	3,910,916
Total liabilities	14,271,092	14,321,483
Net Assets		
Unrestricted		
Board designated	2,315,800	2,011,001
Unrestricted	105,762,054	93,723,780
Temporarily restricted net assets	11,466,133	9,610,354
Total net assets	119,543,987	105,345,135
Total liabilities and net assets	$ 133,815,079	$ 119,666,618

YOUTH VILLAGES, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2009 and 2008

	2009	2008
Unrestricted Net Assets		
Support and Revenue		
State of Tennessee pass-through programs	$ 34,822,241	$ 36,302,111
Tenncare	19,882,081	15,150,181
Private insurance and Medicaid	41,955,393	31,012,163
Grants	5,380,518	5,210,336
USDA	490,422	462,427
United Way	236,784	284,526
Donations and pledges	13,845,530	7,444,661
Special events	50,174	-
Investments	1,730,662	2,587,775
Net loss on investments	(9,474,193)	(5,107,876)
Miscellaneous income	80,567	64,626
	109,000,179	93,410,930
Net assets released from restrictions	7,451,807	1,619,927
Total support and revenues	116,451,986	95,030,857
Expenses		
Program services	87,906,227	75,507,561
Management and general	14,934,908	11,431,846
Fundraising	1,267,778	1,182,747
Total expenses	104,108,913	88,122,154
Change in unrestricted net assets	12,343,073	6,908,703
Temporarily Restricted Net Assets		
Donations and pledges	9,307,586	3,935,845
Net assets released from restrictions	(7,451,807)	(1,619,927)
Change in temporarily restricted net assets	1,855,779	2,315,918
Change in net assets	14,198,852	9,224,621
Net assets - beginning of year	105,345,135	96,120,514
Net assets - end of year	$ 119,543,987	$ 105,345,135

The accompanying notes are an integral part of the consolidated financial statements.

YOUTH VILLAGES, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows Provided By (Used For) Operating Activities:		
Change in net assets	$ 14,198,852	$ 9,224,621
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,005,105	2,402,491
Amortization	7,800	16,261
Unrealized loss on investments	9,473,901	5,092,678
Realized loss on investments	292	15,198
Loss on disposal of property and equipment	48,364	4,841
Changes in Assets and Liabilities:		
Receivables	(7,475,860)	(5,570,634)
Prepaid expenses	(275,404)	(54,681)
Accounts payable	(372,420)	806,418
Accrued salaries and compensated balances	905,032	322,561
Accrued retirement plan contributions	(123,250)	234,142
Accrued and withheld taxes	56,808	76,859
Accrued other expenses	194,355	359
Total adjustments	5,444,723	3,346,493
Net cash provided by operating activities	19,643,575	12,571,114
Cash Flows From (Used For) Investing Activities:		
Purchase of property and equipment	(9,163,046)	(8,653,941)
Proceeds from the sale of property and equipment	96,200	17,212
Investment in securities	(5,663,805)	(3,331,423)
Proceeds from sales of securities	2,928,999	233,786
Increase in sundry assets	(664,412)	(342,056)
Net cash used for investing activities	(12,466,064)	(12,076,422)

The accompanying notes are an integral part of the consolidated financial statements.

YOUTH VILLAGES, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows From (Used For) Financing Activities:		
Proceeds from issuance of long-term debt	-	421,833
Retirements of long-term debt	(710,916)	(500,000)
Net cash used for financing activities	(710,916)	(78,167)
Net increase in cash and cash equivalents	6,466,595	416,525
Cash and cash equivalents at beginning of the year	18,901,880	18,485,355
Cash and cash equivalents at end of the year	$ 25,368,475	$ 18,901,880
Supplemental Disclosure of Cash Flows Information:		
Cash paid during year for interest	$ 32,039	$ 111,249

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

Youth Villages, Inc. and Affiliate is a not-for-profit corporation designed to offer a comprehensive continuum of care to children and youth who are in need due to life circumstances including but not limited to emotional disturbance, mental illness, serious problem behaviors, and histories of abuse and neglect. The Organization recognizes that just as life circumstances can produce a broad spectrum of needs, an equally diverse array of services is required to meet those needs utilizing evidence and research based practices whenever possible. The programs offered vary in location from residential services to transitional living and intensity from intensive residential treatment to volunteer based mentoring.

The most restrictive level of care offered by the Organization is the Residential Treatment programs which provide treatment in a secured residential setting to the most seriously troubled youth. All residential treatment allows for educational, social and recreational opportunities. Children are accepted into the residential programs when they are unable to be successful in their homes or in other placements such as foster care. Residential campuses are located in Tennessee and serve children from Tennessee as well as many other states including Alabama, Arkansas, Washington D.C., Mississippi, North Carolina, Texas, Florida, Colorado, Massachusetts, Wyoming and Virginia. Payments for residential services are provided through contracts and/or through private insurance carriers as services are rendered.

The Group Home programs are less restrictive than residential programs, allowing children to attend public schools when possible and more community outings while still living in supervised small homes. Locations for group homes are in Memphis and Nashville, Tennessee.

The Foster Home program provides settings for children with the opportunity to live and function as part of an individual family fully integrated within the community. These services are provided in Alabama, Mississippi, and Tennessee.

The Organization’s largest program is the Intercept program which provides intensive in-home services to youth and their families to prevent the child from being place out the home. Intercept also works with families to remove barriers so that children can return home from placements such as hospitals, residential treatment centers, and foster care. Multisystemic Therapy (MST) program also provides intensive treatment in the home utilizing the nationally recognized MST model. This model serves youth presenting serious anti-social behaviors, often involving the juvenile justice systems, who are at high risk of placement out of the home.

Adoptions program allows many children in foster care to be adopted by their foster parents. The Intercept program also provides intensive in-home services to help stabilize adoptive homes in some state foster care systems.

As children grow into young adults, the Organization recognized their changing needs by developing the Transitional Living program to work one-on-one with young adults, many of whom are in state foster care, to help establish independence. Job skills, budgeting, continuing education and independent living skills help to lay a solid foundation for a successful move into adulthood. In addition, the Mentoring program pairs adult volunteers with young adults to provide additional support and guidance.

The Organization's Specialized Crisis Services provide emergency psychiatric support and recommendations for all children living in Tennessee. This unique program sends staff into the home or the child's placement to assist in providing immediate support and guidance to ensure appropriate placement decisions which includes avoiding unnecessary placements into psychiatric hospitals by providing immediate support in the home setting.

Youth Villages Foundation, Inc. is a not-for-profit corporation organized on July 1, 1996 to provide financial and support services for and operate in conjunction with Youth Villages, Inc.

Basis of Presentation

The financial statements include the accounts of Youth Village, Inc. and Youth Villages Foundation, Inc. ("Organization"). The intercompany balances and transactions have been eliminated.

Method of Accounting

The Organization uses the accrual basis of accounting and follows the reporting practices as set forth by the American Institute of Certified Public Accountants and the Comptroller of the Treasury of the State of Tennessee for voluntary health and welfare organizations.

Use of Estimates

The presentation 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurement

Effective July 1, 2008, the Organization adopted the provision of the Financial Accounting Standards Board's Statement No. 157, *Fair Value Measurement*, which defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into the following three broad levels:

- Level 1 – Quoted prices in active markets for identical assets or liabilities the Organization has the ability to assess.

- Level 2 – Inputs (other than quoted prices with level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Inputs which are unobservable for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

For assets and liabilities that are measured at fair value on a recurring basis, this statement requires disclosure of information that enables financial statement users to assess the inputs used to develop those measurements.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2009:

Assets at Fair Value as of June 30, 2009

	Level 1	Level 2	Level 3	Total
Mutual funds	$ 25,755,358	$ -	$ -	$ 25,755,358
Equity securities	1,341,453	-	-	1,341,453
Private equity funds and limited partnerships	-	-	4,066,345	4,066,345
Hedged funds	-	-	6,586,950	6,586,950
Other	-	-	433,547	433,547
Total assets at fair value	$ 27,096,811	$ -	$ 11,086,842	$ 38,183,653

The table below sets forth a summary of changes in the fair value of the Organization's level 3 assets for the year ended June 30, 2009.

	Level 3 Assets Year Ended June 30, 2009 Private Equity Funds and Ltd Partnerships	Hedged Funds	Other
Balance, beginning of year	$ 7,352,749	$ 7,135,263	$ 401,056
Unrealized gains/(losses) relating to instruments still held at the reporting date	(1,428,118)	(548,313)	(87,509)
Purchases, sales, issuances and settlements (net)	(1,858,286)	-	120,000
Balance, end of year	$ 4,066,345	$ 6,586,950	$ 433,547

Credit Risk

The Organization's credit risk primarily relates to cash and cash equivalents and investments. The Organization maintains cash balances at a bank. Those accounts are insured by the Federal Deposit Insurance Corporation up to an aggregate of $250,000 and by the investment company up to an aggregate of $150,000,000.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less. For purposes of financial statement presentation, the Company treats all demand deposits and investments maturing in less than 90 days as cash and cash equivalents.

Property and Equipment

Property and equipment are recorded at acquisition cost if purchased and at estimated fair market value if donated. Depreciation is provided using the straight-line method over the expected useful lives of the related assets which range from three to thirty years. Interest incurred on financing during the construction period is capitalized.

Allowance for Doubtful Accounts

Receivables other than pledges are valued in the financial statements net of an allowance for doubtful account of $516,767 and $445,500 at June 30, 2009 and 2008, respectively.

The Organization evaluates the collectability of pledges receivable and makes adjustments to the asset accordingly. An allowance for uncollectible pledges of $213,000 and $100,000 was established at June 30, 2009 and 2008, respectively, based on management's estimation that all promises to give are not fully collectible.

Bond Issue Cost

Bond issue costs include underwriting, trustee and various professional fees. The costs are deferred and amortized over the life of the respective bonds and are stated net of accumulated amortization of $194,538 and $186,738 at June 30, 2009 and 2008, respectively.

Donated Services

Volunteers periodically provide uncompensated non-specialized services as administrative and special events assistants. During the years ended June 30, 2009 and 2008, there were no specialized services which would require recognition in the financial statements.

Net Assets

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes in net assets are classified as follows:

Unrestricted net assets are not subject to donor-imposed restrictions. Temporarily restricted net assets are subject to donor-imposed restrictions for a particular purpose or for use in a specific time period. Permanently restricted net assets are net assets with donor-imposed restrictions that are maintained permanently. The income from these net assets may be used for specified purposes.

Advertising

The Organization expenses advertising costs as they are incurred. Advertising expenses were $533,759 and $427,945 for the years ended June 30, 2009 and 2008, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Accordingly, certain costs have been allocated by management among the programs and supporting services benefited.

The Organization classifies as program services expense those items which are directly attributable to a specific program service. Those expenses which benefit more than one specific program service (shared program service expenses) are included in management and general expenses.

Income Taxes

The Organization is a publicly supported organization as described in section 509(a)(2) and as such is generally exempt from Federal income taxation under section 501(c)(3) of the Internal Revenue Code.

Financial Instruments

The carrying amounts of the financial instruments of the Organization, consisting of cash, accounts receivable, and cash surrender value of life insurance, approximate their fair value.

Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These changes had no effect on previously reported total net assets.

NOTE 2 – PROMISES TO GIVE

Pledges and contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Pledges and contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restrictions expire in the fiscal year in which they are recognized. All other donor-restricted pledges and contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

NOTE 3 – PROMISES TO GIVE – CONSTRUCTION AND GROWTH

Promises to give are restricted to payment of the costs of constructing new program service facilities and other expansion activities. These unconditional contributions are recorded as income when contributed and have been discounted to net present value at 5% based on expected payments.

In 2006, the Organization began a capital campaign to fund the construction of a new research and development building. In 2007, the Organization began a capital campaign to fund the construction and operation of a Girls Intensive Residential Treatment Program facility which opened in January 2009.

The pledges expected to be received are as follows:

2010	$ 5,051,973
2011	2,020,900
2012	713,250
2013	136,000
2014	136,000
Thereafter	544,000
	8,602,123
Less current portion	(5,051,973)
Less discount to present value	(476,500)
Less allowance	(213,000)
	$ 2,860,650

NOTE 4 – PROPERTY AND EQUIPMENT

A summary of property and equipment is as follows at June 30:

	2009	2008
Land	$ 3,074,947	$ 2,643,115
Buildings	40,175,031	28,231,425
Equipment and vehicles	12,491,024	15,089,465
Furniture and fixtures	3,237,911	3,254,679
Construction in progress	87,417	7,054,395
	59,066,330	56,273,079
Less accumulated depreciation	(18,358,075)	(21,578,201)
	$ 40,708,255	$ 34,694,878

The new girl's residential facility construction contract includes design and construction of a residential facility located on the Bartlett campus. The initial contract amount for this project was $9,398,963. At June 30, 2009, construction was completed on the new girl's residential facility. The funds remaining in construction in progress are deposits for property and equipment that had not been received as of June 30, 2009.

NOTE 5 – INVESTMENTS

Investments are carried as available for sale at market value with realized and unrealized gains and losses reflected in the consolidated statement of activities.

The cost and market value of investments are as follows at June 30:

	2009	
	Cost	Market Value
Mutual funds	$ 30,644,029	$ 25,755,358
Equity securities	1,362,917	1,341,453
Private equity funds and limited partnerships	4,815,162	4,066,345
Hedged funds	6,610,000	6,586,950
Other	433,547	433,547
Total	$ 43,865,655	$ 38,183,653
Unrealized loss on investments		$ (5,682,002)

	2008	
	Cost	Market Value
Mutual funds	$ 26,229,820	$ 28,409,323
Equity securities	1,341,727	1,624,649
Private equity funds and limited partnerships	6,664,377	7,352,749
Hedged funds	6,610,000	7,135,263
Other	401,056	401,056
Total	$ 41,246,980	$ 44,923,040
Unrealized gain on investments		$ 3,185,018

The Organization holds shares in a foreign company that invests in derivative financial instruments for the purpose of hedging the risks of certain identifiable and anticipated transactions. In general, the types of risks hedged are those relating to the effects of stock selections through 1) borrowing money against their long positions and 2) borrowing securities in connection with short positions. The hedged investments are carried at fair-market value. During 2009 and 2008, the Organization recognized a net loss of ($548,314) and ($164,250), respectively from fair value hedges which is included in “Net gain on investments” on the consolidated statement of activities.

At June 30, 2009, the Foundation had commitments to fund private equity and limited partnership investments of $6,640,000 which are due upon request.

NOTE 6 – LONG-TERM DEBT

Youth Villages, Inc., in conjunction with the Health, Educational, and Housing Facility Board of the County of Shelby, Tennessee, issued $13,500,000 aggregate principal of its Variable Rate Demand Revenue bonds maturing May 1, 2016. The bonds were issued primarily for the purpose of financing the costs of constructing and equipping an educational facility and a residential treatment facility at the Boys Town campus in Bartlett, Tennessee. Youth Villages, Inc. and Youth Villages Foundation, Inc. are jointly and severally liable to Allied Irish Banks, P.L.C. under terms of a Letter of Credit Reimbursement Agreement which serves as the guarantee of the $13,500,000 bond issuance. Interest only payments are due monthly until maturity date. During the year ending June 30, 2009, the Organization's board approved the payment of $500,000 on the principal balance of the bond.

Long-term debt of the Organization consisted of the following at June 30:

	2009	2008
Variable rate demand revenue bonds with variable interest determined by the Remarketing Agent (1.50% at June 30, 2009)	$ 3,200,000	$ 3,700,000

The Organization is subject to covenants under the bond agreements, the most restrictive of which requires the Organization to maintain a debt service coverage ratio equal to at least 1.25 to 1, and to maintain unrestricted cash and investments to debt ratio greater than or equal to 1.2 to 1.

The Organization has available an unused line of credit totaling $500,000 with a financial institution as of June 30, 2009.

NOTE 7 – NET ASSETS

Unrestricted, board designated net assets are $2,315,800 at June 30, 2009. The funds have been designated to pay benefits to key employees upon termination of employment.

Temporarily restricted net assets are available for the following purposes at June 30:

	2009	2008
Center for Intensive Residential Treatment building	$ -	$ 4,302,320
Girls Intensive Residential Treatment building	5,539,000	500,000
Operations Center building	-	2,294,534
Transitional Living program	4,378,960	2,272,409
Strategic Partners	1,548,173	241,091
	$ 11,466,133	$ 9,610,354

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	2009	2008
Operations Center building	$ 2,294,534	$ -
Center for Intensive Residential Treatment building	4,302,320	-
Transitional Living program	775,155	1,619,927
Strategic Partners	79,798	-
	$ 7,451,807	$ 1,619,927

NOTE 8 – LEASE COMMITMENTS AND CONTINGENCIES

The Organization maintains various lease agreements for certain administrative and operating facilities in Alabama, Arkansas, District of Columbia, Mississippi, North Carolina, Tennessee and Texas. Total rentals of such real property aggregated $2,000,636 and $1,553,058 for the years ended June 30, 2009 and 2008, respectively. Certain leases are subject to rental escalation clauses in future years.

Minimum lease commitments in fiscal years subsequent to June 30, 2009 are as follows:

2010	$ 2,016,655
2011	1,769,491
2012	1,214,084
2013	813,303
2014	363,445
	$ 6,176,978

The Organization is involved in various legal actions incident to the ordinary course of business. In the opinion of management, the eventual disposition of these matters will not have a material adverse effect on financial position or results of operations.

NOTE 9 – RETIREMENT PLAN

Youth Villages Profit Sharing Plan (the "Plan") is a defined contribution retirement plan which covers substantially all employees that have completed one year of service and have attained the age of twenty one. Contributions are made at the discretion of management and the Board of Directors. Employees may make voluntary rollover contributions from other qualified pension, profit sharing, or IRA plans. Pension expense for the years ended June 30, 2009 and 2008 was $2,495,978 and $2,430,470, respectively.

NOTE 10 – RELATED PARTY TRANSACTIONS

Youth Villages, Inc. is affiliated through common management and membership with Youth Villages Foundation. The Foundation collects donations and pledges for Youth Villages, Inc. which totaled $6,546,575 as of June 30, 2009. Also, Youth Villages, Inc. has intercompany receivables which totaled $11,841,865 as of June 30, 2009. These amounts have been eliminated in the consolidation.

In the normal course of business, Youth Villages, Inc. purchased products and services from local companies who have individuals representing them on their Board of Directors.

Significant expenditures were made during 2009 for the following:

Insurance premiums	$ 2,108,862
Specialty items and services	262,682
	$ 2,371,544

The Organization maintains cash and investments in numerous banks and trust companies. Officers of these banks and trust companies serve on the Board of Directors of the Organization. Also, an officer of Youth Villages, Inc. serves on the Board of Directors of one of these banking institutions. The amount of funds maintained at these institutions at June 30, 2009 was $20,621,637.

NOTE 11 – INSURANCE POLICIES

Youth Villages, Inc. maintains life insurance policies on certain key employees of the Organization. As of June 30, 2009 and 2008, the cash value of these policies totaled $2,315,800 and $2,011,001, respectively and are reflected in "Other Assets" on the Consolidated Statements of Financial Position.

NOTE 12 – ECONOMIC DEPENDENCY

Youth Villages, Inc. relies upon the State of Tennessee as its major source of revenue. For years ending June 30, 2009 and 2008, revenues from the State of Tennessee were $54,704,322 and $51,452,292, respectively.

NOTE 13 – UNCERTAINTIES

The Medicaid program accounted for approximately 19% and 16% of Youth Villages, Inc.'s total revenue for the years ended June 30, 2009 and 2008, respectively. Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

NOTE 14 – LETTER OF CREDIT

The Organization has established a letter of credit with a bank which allows beneficiary drawings up to $270,000. The letter of credit expired on October 18, 2009 and is automatically extended unless otherwise directed by management. As of June 30, 2009 and 2008, there were no drawings made by the beneficiary.

NOTE 15 – SUBSEQUENT EVENT

Effective June 30, 2009, the Organization adopted the provision of the Financial Accounting Standards Board's Statement No. 165, *Subsequent Events*, which introduces new terminology, defines a date through which management must evaluate subsequent events, and lists the circumstances under which an entity must recognize and disclose events or transactions occurring after the balance sheet date.

The Organization evaluated its June 30, 2009 financial statements for subsequent events through December 10, 2009, the date the financial statements were available to be issued. Other than the agreement noted below, the Organization is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

On September 1, 2009, the Organization entered into a merger agreement with Inner Harbour, a Georgia based nonprofit children's organization. Per the terms of the agreement, the Organization will be investing approximately $4.5 million to replace or upgrade several of Inner Harbour's capital assets over the next few years.

SUPPLEMENTAL INFORMATION

YOUTH VILLAGES, INC. AND AFFILIATE

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2009

	Youth Villages Inc.	Youth Villages Foundation Inc.	Eliminations	Total
Current Assets				
Cash	$ 5,482,425	$ 19,886,050	$ -	$ 25,368,475
Receivables:				
Affiliate	11,841,865	-	(11,841,865)	-
Pledges, current portion	-	5,051,973	-	5,051,973
Grantor agencies	17,960,360	-	-	17,960,360
Other	14,694	-	-	14,694
Investment in marketable securities	-	38,183,653	-	38,183,653
Prepaid expenses	762,037	8,450	-	770,487
Total current assets	36,061,381	63,130,126	(11,841,865)	87,349,642
Property and Equipment				
Land	3,074,947	-	-	3,074,947
Buildings	40,175,031	-	-	40,175,031
Equipment and vehicles	12,402,967	88,057	-	12,491,024
Furniture and fixtures	3,237,911	-	-	3,237,911
Construction in progress	87,417	-	-	87,417
	58,978,273	88,057	-	59,066,330
Accumulated depreciation	(18,334,055)	(24,020)	-	(18,358,075)
Total property and equipment	40,644,218	64,037	-	40,708,255
Other Assets				
Pledges receivable, net of current portion	-	2,860,650	-	2,860,650
Bond issue costs, net	20,062	-	-	20,062
Other	2,536,323	340,147	-	2,876,470
Total other assets	2,556,385	3,200,797	-	5,757,182
Total assets	$ 79,261,984	$ 66,394,960	$ (11,841,865)	$ 133,815,079

See independent auditor's report.

	Youth Villages Inc.	Youth Villages Foundation Inc.	Eliminations	Total
Current Liabilities				
Accounts payable	$ 2,718,048	$ 15,800	$ -	$ 2,733,848
Accounts payable - affiliate	-	11,841,865	(11,841,865)	-
Accrued salaries and compensated absences	5,533,795	62,077	-	5,595,872
Accrued retirement plan contributions	1,175,230	19,542	-	1,194,772
Accrued and withheld taxes	602,001	9,163	-	611,164
Accrued other expenses	712,649	11,870	-	724,519
Current portion of long-term debt	210,917	-	-	210,917
Total current liabilities	10,952,640	11,960,317	(11,841,865)	11,071,092
Long-Term Liabilities				
Bonds payable	3,200,000	-	-	3,200,000
Total long-term liabilities	3,200,000	-	-	3,200,000
Total liabilities	14,152,640	11,960,317	(11,841,865)	14,271,092
Net Assets				
Unrestricted				
Board designated	2,315,800	-	-	2,315,800
Unrestricted	62,793,544	42,968,510	-	105,762,054
Temporarily restricted	-	11,466,133	-	11,466,133
Total net assets	65,109,344	54,434,643	-	119,543,987
Total liabilities and net assets	$ 79,261,984	$ 66,394,960	$ (11,841,865)	$ 133,815,079

YOUTH VILLAGES, INC. AND AFFILIATE

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2009

	Youth Villages Inc.	Youth Villages Foundation Inc.	Eliminations	Total
Revenues and support:				
State of Tennessee pass-through programs	$ 34,822,241	$ -	$ -	$ 34,822,241
Tenncare	19,882,081	-	-	19,882,081
Private insurance and Medicaid	41,955,393	-	-	41,955,393
Grants	5,380,518	-	-	5,380,518
USDA	490,422	-	-	490,422
United Way	206,320	30,464	-	236,784
Donations and pledges	17,941,830	16,859,930	(20,956,230)	13,845,530
Special events	-	50,174	-	50,174
Investments	46,768	1,683,894	-	1,730,662
Net loss on investments	-	(9,474,193)	-	(9,474,193)
Miscellaneous income	80,567	-	-	80,567
Total revenues and support	120,806,140	9,150,269	(20,956,230)	109,000,179
Net assets released from restrictions	-	7,451,807	-	7,451,807
Total revenues and other support	120,806,140	16,602,076	(20,956,230)	116,451,986
Expenses:				
Charitable contributions	3,000,000	17,956,230	(20,956,230)	-
Program services	87,906,227	-	-	87,906,227
Management and general	14,744,368	190,540	-	14,934,908
Fundraising	-	1,267,778	-	1,267,778
Total expenses	105,650,595	19,414,548	(20,956,230)	104,108,913
Change in unrestricted net assets	15,155,545	(2,812,472)	-	12,343,073
Temporarily Restricted Net Assets				
Donations and pledges	-	9,307,586	-	9,307,586
Net assets released from restriction	-	(7,451,807)	-	(7,451,807)
Change in temporarily restricted net assets	-	1,855,779	-	1,855,779
Change in net assets	15,155,545	(956,693)	-	14,198,852
Net assets - beginning of year	49,953,799	55,391,336	-	105,345,135
Net assets - end of year	$ 65,109,344	$ 54,434,643	$ -	$ 119,543,987

See independent auditor’s report.

YOUTH VILLAGES, INC. AND AFFILIATE

CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2009

	Youth Villages Inc.	Youth Villages Foundation Inc.	Eliminations	Total
Cash Flows Provided By (Used For) Operating Activities:				
Change in net assets	$ 15,155,545	$ (956,693)	$ -	$ 14,198,852
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation	3,003,674	1,431	-	3,005,105
Amortization	7,800	-	-	7,800
Unrealized loss on investments	-	9,473,901	-	9,473,901
Realized loss on investments	-	292	-	292
Loss on disposal of equipment	48,364	-	-	48,364
Changes in assets and liabilities:				
Receivables	(3,405,433)	(4,070,427)	-	(7,475,860)
Receivables - affiliate	(9,412,397)	-	9,412,397	-
Prepaid expenses	(266,954)	(8,450)	-	(275,404)
Accounts payable	(369,661)	(2,759)	-	(372,420)
Accounts payable - affiliate	-	9,412,397	(9,412,397)	-
Accrued salaries and comp absences	896,451	8,581	-	905,032
Accrued retirement plan contributions	(122,383)	(867)	-	(123,250)
Accrued and withheld taxes	56,374	434	-	56,808
Accrued other expenses	191,466	2,889	-	194,355
Total adjustments	(9,372,699)	14,817,422	-	5,444,723
Net cash provided by operating activities	5,782,846	13,860,729	-	19,643,575
Cash Flows From (Used For) Investing Activities:				
Purchase of property and equipment	(9,097,578)	(65,468)	-	(9,163,046)
Proceeds from the sale of equipment	96,200	-	-	96,200
Purchase of securities	-	(5,663,805)	-	(5,663,805)
Proceeds from the sale of securities	-	2,928,999	-	2,928,999
Increase in sundry assets	(340,779)	(323,633)	-	(664,412)
Net cash used for investing activities	(9,342,157)	(3,123,907)	-	(12,466,064)

See independent auditor’s report.

YOUTH VILLAGES, INC. AND AFFILIATE

CONSOLIDATING STATEMENT OF CASH FLOWS (continued)

For the Year Ended June 30, 2009

	Youth Villages Inc.	Youth Villages Foundation Inc.	Eliminations	Total
Cash Flows From (Used For) Financing Activities:				
Retirements on long-term debt	(710,916)	-	-	(710,916)
Net cash used for financing activities	(710,916)	-	-	(710,916)
Net increase (decrease) in cash and cash equivalents	(4,270,227)	10,736,822	-	6,466,595
Cash and cash equivalents at beginning of the year	9,752,652	9,149,228	-	18,901,880
Cash and cash equivalents at end of the year	$ 5,482,425	$ 19,886,050	$ -	$ 25,368,475
Supplemental Disclosure of Cash Flows Information:				
Cash paid during year for interest	$ 32,039	$ -	$ -	$ 32,039

See independent auditor's report.

YOUTH VILLAGES, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2009

	Dogwood Residential	Bartlett Campus Residential	Deer Valley Residential	Boys CIRT Residential	Girls CIRT Residential	Therapeutic Foster Care
Salaries and wages	$ 3,967,104	$ 4,747,150	$ 1,913,387	$ 3,873,412	$ 1,378,582	$ 4,647,751
Employee benefits	988,667	1,189,967	602,589	997,140	266,718	1,185,654
Clothing allowance	30,928	20,110	-	-	-	-
Communications	53,836	53,014	29,685	15,165	5,296	153,436
General insurance	31,261	45,550	26,031	23,674	(6,000)	46,515
Interest	-	36,784	-	71,621	-	-
Miscellaneous	145,756	118,036	37,875	61,605	27,942	337,611
Professional services	122,420	202,947	70,538	226,064	79,283	5,176,183
Rent	-	-	805	-	-	303,139
Repairs and maintenance	289,541	606,052	136,359	178,489	114,183	155,097
Supplies	527,306	701,261	321,778	509,138	223,166	216,897
Training and seminars	-	14,541	-	-	-	-
Travel	100,261	117,744	95,718	34,828	15,330	676,819
Bad debt expense	92,774	55,677	3,253	22,243	-	131,008
Special event expense	-	-	-	-	-	-
Utilities	124,859	242,463	118,070	127,588	116,350	29,673
Total functional expenses before depreciation and amortization	6,474,713	8,151,296	3,356,088	6,140,967	2,220,850	13,059,783
Amortization	-	3,190	-	4,610	-	-
Depreciation	187,971	451,177	149,328	314,294	256,716	50,687
Total depreciation and amortization	187,971	454,367	149,328	318,904	256,716	50,687
Total	$ 6,662,684	$ 8,605,663	$ 3,505,416	$ 6,459,871	$ 2,477,566	$ 13,110,470

See independent auditor's report.

YOUTH VILLAGES, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (continued)

For the Year Ended June 30, 2009

	Intercept Program	Group Homes	Adoptions	Transitional Living	Mentoring	Crisis Services	Total Program Services
Salaries and wages	$ 19,398,133	$ 2,286,314	$ 304,895	$ 2,579,504	$ 396,907	$ 3,021,000	$ 48,514,139
Employee benefits	3,960,486	574,261	85,840	583,023	102,900	775,309	11,312,554
Clothing allowance	-	-	-	-	-	-	51,038
Communications	692,514	52,855	2,877	39,746	14,056	104,578	1,217,058
General insurance	135,985	31,500	2,700	24,180	3,300	28,724	393,420
Interest	-	-	-	-	-	-	108,405
Miscellaneous	728,689	58,030	29,577	242,648	13,097	33,831	1,834,697
Professional services	1,108,873	145,289	52,770	4,645	-	22,611	7,211,623
Rent	1,374,085	18,000	-	129,153	-	128,155	1,953,337
Repairs and maintenance	908,198	275,067	885	114,345	7,906	51,249	2,837,371
Supplies	357,579	245,107	3,786	36,646	15,563	24,871	3,183,098
Training and seminars	-	-	-	-	-	-	14,541
Travel	4,008,639	118,926	25,251	410,322	38,820	247,948	5,890,606
Bad debt expense	199,653	(2,079)	96	9,574	-	-	512,199
Special event expense	-	-	-	-	-	-	-
Utilities	108,185	59,260	114	-	-	9,260	935,822
Total functional expenses before depreciation and amortization	32,981,019	3,862,530	508,791	4,173,786	592,549	4,447,536	85,969,908
Amortization	-	-	-	-	-	-	7,800
Depreciation	336,974	137,055	-	19,434	-	24,883	1,928,519
Total depreciation and amortization	336,974	137,055	-	19,434	-	24,883	1,936,319
Total	$ 33,317,993	$ 3,999,585	$ 508,791	$ 4,193,220	$ 592,549	$ 4,472,419	$ 87,906,227

See independent auditor’s report.

YOUTH VILLAGES, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (continued)

For the Year Ended June 30, 2009

	Management and General	Fundraising	Total Expenses
Salaries and wages	$ 8,087,972	$ 711,566	$ 57,313,677
Employee benefits	1,742,613	152,237	13,207,404
Clothing allowance	-	-	51,038
Communications	486,160	54,734	1,757,952
General insurance	53,950	-	447,370
Interest	-	-	108,405
Miscellaneous	395,621	-	2,230,318
Professional services	918,023	31,597	8,161,243
Rent	15,360	30,000	1,998,697
Repairs and maintenance	797,940	1,322	3,636,633
Supplies	627,763	175,033	3,985,894
Training and seminars	-	-	14,541
Travel	507,695	29,512	6,427,813
Bad debt expense	-	-	512,199
Special event expense	-	78,406	78,406
Utilities	226,656	1,940	1,164,418
Total functional expenses before depreciation and amortization	13,859,753	1,266,347	101,096,008
Amortization	-	-	7,800
Depreciation	1,075,155	1,431	3,005,105
Total depreciation and amortization	1,075,155	1,431	3,012,905
Total	$ 14,934,908	$ 1,267,778	$ 104,108,913

See independent auditor’s report.

YOUTH VILLAGES, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2008

	Dogwood Residential	Bartlett Campus Residential	Intensive Residential Treatment	Deer Valley Residential	Therapeutic Foster Care	Intercept Program
Salaries and benefits	$ 4,939,349	$ 5,822,618	$ 4,904,646	$ 2,264,796	$ 5,747,700	$ 17,594,369
Clothing allowance	12,678	9,017	12,531	30,852	5,466	-
Communications	67,896	71,651	16,135	36,820	264,971	707,507
General insurance	80,851	162,969	99,576	75,784	88,170	196,482
Interest	-	104,068	11,926	-	-	-
Miscellaneous	68,625	154,645	67,727	34,978	442,390	275,411
Professional services	112,947	214,285	264,368	74,176	5,260,435	360,097
Rent	-	2,448	-	272	334,775	1,025,334
Repairs and maintenance	289,664	560,250	97,867	144,241	188,919	641,653
Supplies	588,351	689,472	569,994	344,981	112,882	308,878
Training and seminars	16,870	16,119	8,043	5,571	97,039	92,394
Travel	71,879	70,090	28,074	44,195	670,902	3,103,395
Utilities	120,057	205,092	133,667	126,027	33,683	99,967
Total functional expenses before depreciation and amortization	6,369,167	8,082,724	6,214,554	3,182,693	13,247,332	24,405,487
Amortization	-	16,261	-	-	-	-
Depreciation	151,040	432,370	328,138	108,662	46,714	219,966
Total depreciation and amortization	151,040	448,631	328,138	108,662	46,714	219,966
Total	$ 6,520,207	$ 8,531,355	$ 6,542,692	$ 3,291,355	$ 13,294,046	$ 24,625,453

See independent auditor’s report.

YOUTH VILLAGES, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (continued)

For the Year Ended June 30, 2008

	Group Homes	Adoptions	Transitional Living	Mentoring	Crisis Services	Total Program Services
Salaries and benefits	$ 3,130,538	$ 389,207	$ 2,180,960	$ 457,662	$ 3,716,188	51,148,033
Clothing allowance	38,171	-	-	-	-	108,715
Communications	55,773	5,728	22,713	5,658	155,314	1,410,166
General insurance	107,203	3,638	21,539	4,384	31,923	872,519
Interest	-	-	-	-	-	115,994
Miscellaneous	61,494	9,126	21,607	19,373	27,287	1,182,663
Professional services	95,405	80,676	292,476	-	34,582	6,789,447
Rent	18,000	-	72,000	-	110,697	1,563,526
Repairs and maintenance	238,003	7,676	16,716	10,616	60,620	2,256,225
Supplies	253,857	8,026	3,402	3,109	31,793	2,914,745
Training and seminars	6,955	862	2,603	2,167	8,145	256,768
Travel	90,837	24,739	263,835	34,790	265,214	4,667,950
Utilities	64,385	4,256	-	-	15,680	802,814
Total functional expenses before depreciation and amortization	4,160,621	533,934	2,897,851	537,759	4,457,443	74,089,565
Amortization	-	-	-	-	-	16,261
Depreciation	97,711	237	-	-	16,897	1,401,735
Total depreciation and amortization	97,711	237	-	-	16,897	1,417,996
Total	$ 4,258,332	$ 534,171	$ 2,897,851	$ 537,759	$ 4,474,340	$ 75,507,561

See independent auditor's report.

YOUTH VILLAGES, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (continued)

For the Year Ended June 30, 2008

	Management and General	Fundraising	Total Expenses
Salaries and benefits	$ 7,093,320	$ 768,962	$ 59,010,315
Clothing allowance	-	-	108,715
Communications	385,665	44,186	1,840,017
General insurance	139,480	4,632	1,016,631
Interest	-	-	115,994
Miscellaneous	658,357	205,710	2,046,730
Professional services	623,833	41,180	7,454,460
Rent	18,236	30,000	1,611,762
Repairs and maintenance	606,203	23,069	2,885,497
Supplies	270,127	36,813	3,221,685
Training and seminars	135,454	4,525	396,747
Travel	344,118	23,670	5,035,738
Utilities	156,297	-	959,111
Total functional expenses before depreciation and amortization	10,431,090	1,182,747	85,703,402
Amortization	-	-	16,261
Depreciation	1,000,756	-	2,402,491
Total depreciation and amortization	1,000,756	-	2,418,752
Total	$ 11,431,846	$ 1,182,747	$ 88,122,154

See independent auditor's report.

YOUTH VILLAGES, INC. AND AFFILIATE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended June 30, 2009

Federal CFDA Number	Grantor Number	Program Name	Grantor/ Pass-through Agency	Accounts Receivable June 30, 2008	Qualifying Expenditures	Cash Receipts	Accounts Receivable June 30, 2009
U.S. Department of Agriculture							
	Pass-Through Programs From:						
10.553	DP0101447	National School Lunch/ Breakfast Prog	TN Department of Agriculture	$ 38,425	$ 490,422	$ 439,949	$ 88,897
	Total U.S. Department of Agriculture			38,425	490,422	439,949	88,897
U.S. Department of Health and Human Services							
	Direct Programs From:						
93.623	04CY0719-03	Runaway Homeless Youth Basic Ctr Grant Program	U.S. Dept of Health & Human Svcs	12,500	104,167	100,000	16,667
	Total Federal 93.623 CFDA			12,500	104,167	100,000	16,667
.	**Pass-Through Programs From:**						
93.558	427-93-08081411-99	Comp Family Counseling Svcs	GA Dept of Human Resources	-	1,353,541	1,149,341	204,200
	Total Federal 93.558 CFDA			-	1,353,541	1,149,341	204,200
93.658	3907	Statewide Therapeutic Foster Care	AL Dept of Human Resources	87,754	399,620	445,908	41,466
93.658	4115	In-Home Treatment	AL Dept of Human Resources	108,386	155,233	263,620	-
93.658	4155	Intensive In Home	AL Dept of Human Resources	378,200	99,794	477,994	-
93.658	1184	Wrap Services in the Home	AL Dept of Human Resources	60,800	1,929,061	1,853,579	136,282
93.658	3800	Wrap Services	AL Dept of Human Resources	99,473	627,865	568,284	159,054
93.658		Dallas County Juvenile Board and Dept	Dallas County	191,589	1,221,210	1,336,374	76,425
93.658	0002 07 19933	MST Services	Commonwealth of MA DSS	107,569	1,721,119	1,653,457	175,231
93.658	10177/0906	Foster Care, Title IV-E Comp Residential Services	Ms Human Svcs/Family & Child Svcs	150,803	1,814,076	1,822,451	142,428
93.658	FA0415228	Forensic for Inpatient JC Ordered Eval.	TN Dept Mental Health & Dev Dis	139,650	689,450	827,000	2,100

See independent auditor's report.

YOUTH VILLAGES, INC. AND AFFILIATE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (continued)

For the Year Ended June 30, 2009

Federal CFDA Number	Grantor Number	Program Name	Grantor/ Pass-through Agency	Accounts Receivable June 30, 2008	Qualifying Expenditures	Cash Receipts	Accounts Receivable June 30, 2009
93.658	GR-07-18484	Transitional Living	TN Dept of Children's Svcs	130,480	477,275	607,755	-
93.658	GR-09-27205-00	Transitional Living	TN Dept of Children's Svcs	-	1,255,063	864,697	390,366
93.658	GR-09-26754-00	Mentoring	TN Dept of Children's Svcs	-	522,102	429,192	92,910
93.658	GR-07-20694	Mentoring	TN Dept of Children's Svcs	41,003	-	41,003	-
93.658	PFM000002	Foster Care, Medically Fragile	TN Dept Mental Health & Dev Dis	20,785	175,330	170,556	25,559
93.658	P3C000004	Foster Care Title IV-E Level 3 Cont Svcs	TN Dept of Children's Svcs	3,409,175	16,161,600	17,818,015	1,752,760
93.658	P2C000004	Foster Care Title IV-E Level 2 Cont Svcs	TN Dept of Children's Svcs	1,449,504	5,899,392	6,810,336	538,560
93.658	PFC000005	Foster Care Title IV-E Level 1 Cont Svcs	TN Dept of Children's Svcs	241,649	882,103	1,026,829	96,923
93.658	PL4000001	Foster Care Title IV-E Level 4	TN Dept of Children's Svcs	492,660	5,176,160	5,070,760	598,060
93.658	P3N000001	Foster Care Title IV-E SpNeeds Level 3	TN Dept of Children's Svcs	94,575	448,500	486,720	56,355
93.658	P4S000001	Foster Care Title IV-E SpNeeds Level 4	TN Dept of Children's Svcs	197,343	344,505	458,858	82,990
93.658	PL3000002	Foster Care Title IV-E Non-continuum	TN Dept of Children's Svcs	61,320	1,224,300	1,067,220	218,400
93.658	P3SN000002	Foster Care Title IV-E SpNds Level 3, Sex Offender	TN Dept of Children's Svcs	137,225	972,675	883,240	226,660
93.658	GR06175605	Intensive In-Home Services, Intercept	TN Dept of Children's Svcs	386,634	1,508,775	1,442,259	453,150
93.658	U2C000054	Foster Care, Title IV-E Unique Care Svcs	TN Dept of Children's Svcs	-	48,552	45,560	2,992
93.658	U3S000011	Foster Care, Title IV-E Unique Care Svcs	TN Dept of Children's Svcs	-	58,575	58,575	-
93.658	U3S000013	Foster Care, Title IV-E Unique Care Svcs	TN Dept of Children's Svcs	-	75,350	75,350	-
93.658	U3S000014	Foster Care, Title IV-E Unique Care Svcs	TN Dept of Children's Svcs	-	75,350	75,350	-
93.658	U3S000015	Foster Care, Title IV-E Unique Care Svcs	TN Dept of Children's Svcs	-	57,200	57,200	-
93.658	U3S000016	Foster Care, Title IV-E Unique Care Svcs	TN Dept of Children's Svcs	-	60,225	60,225	-
93.658	U3S000017	Foster Care, Title IV-E Unique Care Svcs	TN Dept of Children's Svcs	-	51,975	51,975	-
93.658	U3S000019	Foster Care, Title IV-E Unique Care Svcs	TN Dept of Children's Svcs	-	69,025	69,025	-
93.658	U3S000020	Foster Care, Title IV-E Unique Care Svcs	TN Dept of Children's Svcs	-	18,700	18,700	-

See independent auditor’s report.

YOUTH VILLAGES, INC. AND AFFILIATE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (continued)

For the Year Ended June 30, 2009

Federal CFDA Number	Grantor Number	Program Name	Grantor/ Pass-through Agency	Accounts Receivable June 30, 2008	Qualifying Expenditures	Cash Receipts	Accounts Receivable June 30, 2009
93.658	UL3000219	Foster Care, Title IV-E Unique Care Svcs	TN Dept of Children's Svcs	-	66,000	66,000	-
93.658	UL3000220	Foster Care, Title IV-E Unique Care Svcs	TN Dept of Children's Svcs	-	67,925	67,925	-
93.658	UL3000224	Foster Care, Title IV-E Unique Care Svcs	TN Dept of Children's Svcs	-	30,800	30,800	-
93.658	UMF000016	Foster Care, Title IV-E Unique Care Svcs	TN Dept of Children's Svcs	-	3,045	3,045	-
93.658	U3C000065	Foster Care, Title IV-E Unique Care Svcs	TN Dept of Children's Svcs	56,000	-	56,000	-
93.658	U3C000064	Foster Care, Title IV-E Unique Care Svcs	TN Dept of Children's Svcs	28,250	-	28,250	-
93.658	U3S000005	Foster Care, Title IV-E Unique Care Svcs	TN Dept of Children's Svcs	3,850	-	-	3,850
93.658	U3S000007	Foster Care, Title IV-E Unique Care Svcs	TN Dept of Children's Svcs	16,775	-	16,775	-
93.658	U3S000008	Foster Care, Title IV-E Unique Care Svcs	TN Dept of Children's Svcs	8,250	-	8,250	-
93.658	U3S000009	Foster Care, Title IV-E Unique Care Svcs	TN Dept of Children's Svcs	25,025	-	25,025	-
93.658	U3S000010	Foster Care, Title IV-E Unique Care Svcs	TN Dept of Children's Svcs	8,250	-	8,250	-
93.658	UL3000214	Foster Care, Title IV-E Unique Care Svcs	TN Dept of Children's Svcs	20,350	-	20,350	-
93.658	U3C000053	Foster Care, Title IV-E Unique Care Svcs	TN Dept of Children's Svcs	2,933	-	2,933	-
	Total Federal 93.658 CFDA			8,156,259	44,387,931	47,271,670	5,272,521
	Total U.S. Department of Health and Human Services			8,168,759	45,845,638	48,521,011	5,493,388
TOTAL FEDERAL AND STATE AWARDS				$ 8,207,184	$ 46,336,060	$ 48,960,960	$ 5,582,285

See independent auditor’s report.

YOUTH VILLAGES, INC. AND AFFILIATE

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended June 30, 2009

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal and State Awards includes the activity of all federal, state and other financial awards programs of Youth Villages, Inc. and Affiliate and is presented on the accrual basis of accounting. Federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the schedule. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 *"Audits of States, Local Governments, and Non-Profit Organizations."* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. The ending balance at June 30, 2009 of $5,582,285 consists of grantor receivables included in the accompanying Consolidated Statements of Financial Position.

NOTE 2 – ARKANSAS MEDICAID

During 2009, the Organization had payments from the Arkansas Medicaid program in the amount of $6,346,000.

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INDEPENDENT AUDITOR'S 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 Directors
Youth Villages, Inc. and Affiliate
Memphis, Tennessee

We have audited the financial statements of the Youth Villages, Inc. and Affiliate (the "Organization") as of and for the year ended June 30, 2009, and have issued our report thereon dated December 10, 2009. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Organization'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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

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.

<u>Compliance and Other Matters</u>

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 solely for the information and use of the board of directors, management, others within the Organization, 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.

Watkins Uiberall, PLLC

Memphis, Tennessee
December 10, 2009

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Youth Villages, Inc. and Affiliate
Memphis, Tennessee

Compliance

We have audited the compliance of Youth Villages, Inc. and Affiliate (the "Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. Youth Villages, Inc. and Affiliate's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination about the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of directors, management, others within the organization, 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.

Watkins Uiberall, PLLC

Memphis Tennessee
December 10, 2009

YOUTH VILLAGES, INC. AND AFFILIATE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2009

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Youth Villages, Inc. and Affiliate.

2. No instances of noncompliance material to the financial statements of Youth Villages, Inc. and Affiliate were disclosed during the audit.

3. The auditor's report on compliance for the major federal award program for Youth Villages, Inc. and Affiliate expresses an unqualified opinion on the major federal program.

4. There were no audit findings relative to the major federal award program.

5. The program tested as a major program was the U.S. Department of Children Services, Foster Care Title IV-E, CFDA No. 93.658.

6. The threshold for distinguishing between Type A and B programs was $1,322,000.

7. Youth Villages, Inc. and Affiliate qualified as a low risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

YOUTH VILLAGES, INC. AND AFFILIATE

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

For the Year Ended June 30, 2009

There were no findings in the 2008 auditor's report.