YOUTH VILLAGES, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

WATKINS UIBERALL
Certified Public Accountants
Independent Member of BKR International

TABLE OF CONTENTS

YOUTH VILLAGES, INC. AND AFFILIATES
ROSTER OF MANAGEMENT OFFICIALS

For the Year Ended June 30, 2019

Patrick Lawler, Chief Executive Officer
Hugh Gregory, Chief Financial Officer
Fred Thomason, Chief Medical Officer
Richard Shaw, Chief Development Officer
Edward Reyle, Chief Human Resources Officer
Scott Palmer, Chief Information Officer
Timothy Goldsmith, Chief Clinical Officer
Robert Paine, Chief Operating Officer
Jennifer Jones, Chief Marketing Officer
Hannah Caroline, Chief Operating Officer

YOUTH VILLAGES, INC. AND AFFILIATES
ROSTER OF BOARD MEMBERS

For the Year Ended June 30, 2019

Mike Bruns, Bruns Holdings
Jennifer Bush, Cummins Mid-South LLC and Southern Plains, LLC
Mark Allen, Fed Ex
Candace Flippin, First Horizon Corporation
Nicholas Ehlen, Melvin Mark Brokerage Company
Jack Eiferman, Attorney at Goulston & Storrs
Marietta Davis
Bill Giles, Autozone
Bryan Jordan, First Horizon Corporation
Matthew Tarkenton, the Tarkenton Companies
Vanessa Diffenbaugh, the Camellia Network
Elizabeth Rose, Caiola Rose Attorneys at Law
James Lackie, River Street Management Company
Gerald Laurain, FTB Wealth Management
Johnny Pitts, Lipscomb & Pitts Insurance Co.
Daryl ‘Chip’ Wade, Red Lobster
H Patterson ‘Pat’ Ritz, Footwear Specialties International
Gary Shorb, Executive Director Urban Child Institute

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Youth Villages, Inc. and Affiliates (a non-profit organization), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Youth Villages, Inc. and Affiliates as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements of Youth Villages, Inc. and Affiliates as a whole. The supplemental information as described in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued, in a separate bound document, our report dated December 13, 2019, on the schedule of expenditures of federal award, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and our consideration of Youth Villages, Inc. and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of Youth Villages, Inc. and Affiliates' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Youth Villages, Inc. and Affiliates' internal control over financial reporting and compliance.

Watkins Uhlenall, PLLC

Memphis, Tennessee
December 13, 2019

YOUTH VILLAGES, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash and cash equivalents	$ 55,004,305	$ 46,678,523
Receivables		
Promises to give, current portion	9,963,152	7,154,133
Grantor agencies, net of allowance	731,285	698,757
Contract receivables, net of allowance	21,740,217	28,800,366
Other	209,050	32,020
Investments	194,371,155	191,885,115
Prepaid expenses	1,467,378	1,301,764
Total current assets	283,486,542	276,550,678
Property and equipment, net	82,180,426	69,052,395
Other Assets		
Promises to give, net of current portion	11,257,651	15,924,815
Other	6,883,278	6,356,353
Total other assets	18,140,929	22,281,168
Total assets	$ 383,807,897	$ 367,884,241

Liabilities and Net Assets

	2019	2018
Current Liabilities		
Accounts payable	$ 5,197,029	$ 5,055,720
Accrued salaries and compensated absences	7,058,448	7,031,788
Accrued retirement plan contributions	2,076,944	2,027,551
Accrued and withheld taxes	171,313	180,094
Accrued other expenses	3,084,889	2,941,523
Deferred revenue	105,551	41,592
Total current liabilities	17,694,174	17,278,268
Net Assets		
Without donor restrictions	311,791,274	281,770,021
With donor restrictions	54,322,449	68,835,952
Total net assets	366,113,723	350,605,973
Total liabilities and net assets	$ 383,807,897	$ 367,884,241

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

YOUTH VILLAGES, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2019 and 2018

	2019	2018
Net Assets Without Donor Restrictions		
Revenues and Support		
State of Tennessee contract revenue	$ 79,730,059	$ 79,983,271
Contract revenue	50,705,505	50,303,878
Tenncare revenue	15,812,981	16,483,733
Medicaid revenue	40,576,467	38,337,512
Net private insurance	4,281,116	4,476,589
Grants	1,600,847	1,866,899
USDA	909,017	986,835
Other - local education authority, county, city, provider agency	1,078,495	2,169,007
Donations and promises to give	4,308,314	7,760,267
Special events revenue	4,288,265	3,736,345
Less: costs of direct benefits to donors	(2,307,988)	(1,741,776)
Net revenues (loss) from special events	1,980,277	1,994,569
Dividends and interest on investments	1,739,658	734,905
Net gain on investments	3,758,375	13,527,217
Gain on sale of fixed assets	1,686,937	90,628
Miscellaneous income	937,094	627,297
	209,105,142	219,342,607
Net assets released from donor restrictions	35,203,074	12,786,070
Total revenues and support	244,308,216	232,128,677
Expenses		
Program services	180,683,665	178,132,579
Management and general	30,255,892	28,851,299
Fundraising	3,347,406	3,167,275
Total expenses	214,286,963	210,151,153
Change in net assets without donor restrictions	30,021,253	21,977,524

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

YOUTH VILLAGES, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)

For the Years Ended June 30, 2019 and 2018

	2019	2018
Net Assets With Donor Restrictions		
Donations and pledges	20,689,571	43,142,918
Net assets released from donor restrictions	(35,203,074)	(12,786,070)
Change in net assets with donor restrictions	(14,513,503)	30,356,848
Change in net assets	15,507,750	52,334,372
Net assets - beginning of year	350,605,973	298,271,601
Net assets - end of year	$ 366,113,723	$ 350,605,973

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

YOUTH VILLAGES, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2019

	Dogwood Residential	Bartlett Campus Residential	Deer Valley Residential	Boys CIRT Residential	Rose Center for Girls Residential	Day Treatment (MS)	Germaine Lawrence Residential
Salaries and wages	$ 5,735,139	$ 7,010,304	$ 1,736,489	$ 6,398,262	$ 6,149,666	$ 116,916	$ 2,197,867
Employee benefits	1,458,894	1,906,362	471,665	1,832,626	1,774,413	26,241	440,570
Clothing allowance	32,564	22,841	-	-	-	-	2,703
Communications	50,910	79,764	23,745	22,968	26,127	1,933	30,913
Contribution expense	-	-	-	-	-	-	-
General insurance	72,134	136,083	17,808	60,652	59,184	312	50,479
Miscellaneous	78,080	164,298	128,000	114,177	71,260	63	14,457
Professional services	306,155	226,601	61,896	213,385	307,684	-	98,762
Rent	108,000	-	-	-	-	-	14,118
Repairs and maintenance	242,335	478,547	88,168	154,156	177,568	473	125,130
Supplies	581,551	634,313	86,724	576,412	604,564	773	86,703
Training and seminars	35,165	36,833	12,987	47,670	44,447	200	7,497
Travel	81,595	187,647	65,532	74,080	55,163	12,940	42,854
Bad debt expense	16,545	12,100	-	68,013	20,045	-	-
Special events direct costs	-	-	-	-	-	-	-
Utilities	128,921	168,639	72,855	151,919	170,026	-	148,056
	8,927,988	11,064,332	2,765,869	9,714,320	9,460,147	159,851	3,260,109
Less: costs of direct benefits to donors	-	-	-	-	-	-	-
Total functional expenses before depreciation	8,927,988	11,064,332	2,765,869	9,714,320	9,460,147	159,851	3,260,109
Depreciation	336,663	555,716	126,760	440,778	462,955	-	574,422
Total	$ 9,264,651	$ 11,620,048	$ 2,892,629	$ 10,155,098	$ 9,923,102	$ 159,851	$ 3,834,531

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

YOUTH VILLAGES, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)

For the Year Ended June 30, 2019

	Inner Harbour	Therapeutic Foster Care	In-Home Services	Group Homes	Adoptions	LifeSet	Mentoring
Salaries and wages	$ 11,778,691	$ 5,645,645	$ 42,321,749	$ 4,035,366	$ 358,490	$ 10,374,875	$ 236,333
Employee benefits	3,637,396	1,462,342	10,811,533	949,004	77,678	2,471,479	56,545
Clothing allowance	-	-	-	-	-	-	-
Communications	42,688	128,534	1,157,114	87,634	6,544	282,860	4,419
Contribution expense	-	-	-	-	-	-	-
General insurance	183,484	34,470	260,317	41,059	7,884	46,484	-
Miscellaneous	115,055	411,099	1,040,626	74,422	9,337	518,452	14,864
Professional services	771,948	6,370,992	1,092,854	3,336	255	124,150	-
Rent	-	126,301	1,743,827	18,000	-	359,614	-
Repairs and maintenance	420,489	104,433	952,082	150,121	122	133,051	13,444
Supplies	1,312,788	179,477	464,961	321,407	1,010	124,230	1,261
Training and seminars	61,108	147,897	722,831	32,395	999	96,870	2,703
Travel	155,452	514,929	5,280,640	143,667	17,908	1,174,152	3,981
Bad debt expense	89,285	(1,680)	91,473	(152,208)	-	2,500	-
Special events direct costs	-	-	-	-	-	-	-
Utilities	223,524	23,504	218,839	73,990	-	33,178	-
	18,791,908	15,147,943	66,158,846	5,778,193	480,227	15,741,895	333,550
Less: costs of direct benefits to donors	-	-	-	-	-	-	-
Total functional expenses before depreciation	18,791,908	15,147,943	66,158,846	5,778,193	480,227	15,741,895	333,550
Depreciation	928,141	45,597	506,278	170,604	-	66,991	-
Total	$ 19,720,049	$ 15,193,540	$ 66,665,124	$ 5,948,797	$ 480,227	$ 15,808,886	$ 333,550

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

YOUTH VILLAGES, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)

For the Year Ended June 30, 2019

	Crisis Services	Partners	Total Program Services	Management and General	Fundraising	Total Expenses
Salaries and wages	$ 3,574,716	$ 1,128,930	$ 108,799,438	$ 14,780,619	$ 2,222,122	$ 125,802,179
Employee benefits	877,480	224,637	28,478,865	3,752,557	473,336	32,704,758
Clothing allowance	-	-	58,108	-	-	58,108
Communications	95,232	19,289	2,060,674	485,931	100,088	2,646,693
Contribution expense	-	1,308,913	1,308,913	-	-	1,308,913
General insurance	21,780	15,779	1,007,909	223,915	-	1,231,824
Miscellaneous	38,831	131,779	2,924,800	769,235	-	3,694,035
Professional services	73,753	198,753	9,850,524	2,828,824	93,627	12,772,975
Rent	105,371	69,528	2,544,759	-	31,173	2,575,932
Repairs and maintenance	45,069	149,294	3,234,482	4,215,971	83,261	7,533,714
Supplies	11,467	1,295	4,988,936	634,284	218,764	5,841,984
Training and seminars	43,123	18,930	1,311,655	486,681	14,948	1,813,284
Travel	241,665	178,270	8,230,475	689,755	95,532	9,015,762
Bad debt expense	-	-	146,073	-	-	146,073
Special events direct costs	-	-	-	-	2,307,988	2,307,988
Utilities	21,416	-	1,434,867	250,658	779	1,686,304
	5,149,903	3,445,397	176,380,478	29,118,430	5,641,618	211,140,526
Less: costs of direct benefits to donors	-	-	-	-	2,307,988	2,307,988
Total functional expenses before depreciation	5,149,903	3,445,397	176,380,478	29,118,430	3,333,630	208,832,538
Depreciation	79,216	9,066	4,303,187	1,137,462	13,776	5,454,425
Total	$ 5,229,119	$ 3,454,463	$ 180,683,665	$ 30,255,892	$ 3,347,406	$ 214,286,963

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

YOUTH VILLAGES, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)

For the Year Ended Jun 30, 2018

	Dogwood Residential	Bartlett Campus Residential	Deer Valley Residential	Boys CIRT Residential	Rose Center for Girls Residential	Marylhurst Residential	Day Treatment (MS)
Salaries and benefits	$ 5,706,705	$ 6,954,598	$ 3,303,714	$ 6,551,310	$ 5,505,709	$ 77,013	$ 54,249
Employee benefits	1,567,145	1,774,600	830,912	1,696,333	1,636,119	72,051	16,076
Clothing allowance	29,429	20,199	-	-	-	-	-
Communications	47,041	75,206	31,886	23,337	22,378	4,353	1,306
Contribution expense	-	-	-	-	-	-	-
General insurance	70,913	125,475	38,064	55,013	55,961	40,512	324
Miscellaneous	66,792	148,293	40,293	130,415	68,309	1,369	362
Professional services	483,601	273,668	184,258	236,678	214,512	32,842	-
Rent	108,000	-	-	-	-	-	-
Repairs and maintenance	263,625	490,442	174,707	216,860	172,909	171,105	359
Supplies	504,015	667,758	310,816	578,648	539,536	7,812	590
Training and seminars	54,883	63,740	18,289	58,933	42,031	-	112
Travel	109,385	182,128	141,494	87,810	53,145	13,870	4,764
Bad debt expense	84,422	13,870	3,800	121,497	18,390	-	-
Special events direct costs	-	-	-	-	-	-	-
Utilities	134,656	172,156	115,661	138,164	169,247	67,885	-
	9,230,612	10,962,133	5,193,894	9,894,998	8,498,246	488,812	78,142
Less: costs of direct benefits to donors	-	-	-	-	-	-	-
Total functional expenses before depreciation	9,230,612	10,962,133	5,193,894	9,894,998	8,498,246	488,812	78,142
Depreciation	213,798	543,537	198,836	362,335	449,543	240,596	-
Total	$ 9,444,410	$ 11,505,670	$ 5,392,730	$ 10,257,333	$ 8,947,789	$ 729,408	$ 78,142

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

YOUTH VILLAGES, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)

For the Year Ended Jun 30, 2018

	Germaine Lawrence Residential	Inner Harbour	Therapeutic Foster Care	In-Home Services	Group Homes	Adoptions	LifeSet
Salaries and benefits	$ 6,979,028	$ 10,639,633	$ 6,049,908	$ 36,677,201	$ 4,163,537	$ 351,426	$ 8,962,824
Employee benefits	1,573,838	3,047,939	1,580,275	9,122,507	978,873	73,930	2,163,774
Clothing allowance	23,114	-	-	-	-	-	-
Communications	69,045	41,307	151,593	1,070,167	85,891	6,786	242,470
Contribution expense	-	-	-	-	-	-	-
General insurance	69,812	166,763	39,380	180,712	32,217	10,800	38,407
Miscellaneous	95,340	145,246	431,964	966,862	64,530	8,495	411,345
Professional services	272,570	1,342,620	6,692,053	1,012,888	55,628	-	149,283
Rent	56,472	-	141,515	1,618,701	18,000	-	350,258
Repairs and maintenance	359,725	424,232	107,186	565,020	170,429	409	110,779
Supplies	558,329	1,239,658	178,610	381,098	367,838	955	84,725
Training and seminars	63,676	60,386	160,263	440,523	49,697	3,387	88,230
Travel	131,849	180,898	562,353	4,601,174	143,763	21,119	928,237
Bad debt expense	2,000	60,793	21,724	97,323	250,717	-	1,228
Special events direct costs	-	-	-	-	-	-	-
Utilities	265,998	274,559	23,568	142,809	70,998	-	33,031
	10,520,796	17,624,034	16,140,392	56,876,985	6,452,118	477,307	13,564,591
Less: costs of direct benefits to donors	-	-	-	-	-	-	-
Total functional expenses before depreciation	10,520,796	17,624,034	16,140,392	56,876,985	6,452,118	477,307	13,564,591
Depreciation	653,487	806,746	47,296	467,857	221,683	-	75,003
Total	$ 11,174,283	$ 18,430,780	$ 16,187,688	$ 57,344,842	$ 6,673,801	$ 477,307	$ 13,639,594

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

YOUTH VILLAGES, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)

For the Year Ended Jun 30, 2018

	Mentoring	Crisis Services	Partners	Total Program Services	Management and General	Fundraising	Total Expenses
Salaries and benefits	$ 201,587	$ 3,612,559	$ 956,743	$ 106,747,744	$ 14,470,744	$ 2,082,260	$ 123,300,748
Employee benefits	47,538	818,380	172,181	27,172,471	3,076,870	463,506	30,712,847
Clothing allowance	-	-	-	72,742	-	-	72,742
Communications	5,108	112,704	19,979	2,010,557	505,941	79,343	2,595,841
Contribution expense	-	-	484,534	484,534	-	-	484,534
General insurance	-	24,552	8,744	957,649	198,732	-	1,156,381
Miscellaneous	15,344	50,598	110,184	2,755,741	709,124	-	3,464,865
Professional services	-	83,083	96,188	11,129,872	2,580,613	67,826	13,778,311
Rent	-	133,062	86,608	2,512,616	39,797	30,075	2,582,488
Repairs and maintenance	13,204	46,143	139,923	3,427,057	3,996,526	69,481	7,493,064
Supplies	539	17,945	5,965	5,444,837	649,800	251,914	6,346,551
Training and seminars	284	27,330	5,237	1,137,001	544,494	15,441	1,696,936
Travel	4,476	256,205	140,983	7,563,653	744,433	90,317	8,398,403
Bad debt expense	-	-	-	675,764	-	-	675,764
Special events direct costs	-	-	-	-	-	1,741,776	1,741,776
Utilities	-	21,382	-	1,630,114	234,657	1,490	1,866,261
	288,080	5,203,943	2,227,269	173,722,352	27,751,731	4,893,429	206,367,512
Less: costs of direct benefits to donors	-	-	-	-	-	1,741,776	1,741,776
Total functional expenses before depreciation	288,080	5,203,943	2,227,269	173,722,352	27,751,731	3,151,653	204,625,736
Depreciation	-	117,511	11,999	4,410,227	1,099,568	15,622	5,525,417
Total	$ 288,080	$ 5,321,454	$ 2,239,268	$ 178,132,579	$ 28,851,299	$ 3,167,275	$ 210,151,153

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

YOUTH VILLAGES, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows Provided By (Used For) Operating Activities:		
Change in net assets	$ 15,507,750	$ 52,334,372
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:		
Depreciation	5,454,425	5,525,417
Unrealized gain on investments	(5,480,083)	(14,937,510)
Realized loss on investments	799	675,388
Gain on disposal of property and equipment	(1,630,223)	(80,145)
Increase (Decrease) in Cash and Cash Equivalents:		
Receivables	8,708,736	(20,621,909)
Prepaid expenses	(165,614)	238,854
Accounts payable	141,309	1,092,575
Accrued salaries and compensated balances	26,660	1,004,701
Accrued retirement plan contributions	49,393	(385,984)
Accrued and withheld taxes	(8,781)	22,500
Accrued other expenses	143,366	332,337
Deferred revenue	63,959	(1,109,657)
Total adjustments	7,303,946	(28,243,433)
Net cash provided by operating activities	22,811,696	24,090,939
Cash Flows From (Used For) Investing Activities:		
Purchase of property and equipment	(20,205,273)	(16,015,776)
Proceeds from the sale of property and equipment	3,253,040	88,633
Investment in securities	(7,832,491)	(11,374,686)
Proceeds from sales of securities	10,825,735	24,521,507
Increase in sundry assets	(526,925)	(195,779)
Net cash used for investing activities	(14,485,914)	(2,976,101)
Net increase in cash and cash equivalents	8,325,782	21,114,838
Cash and cash equivalents at beginning of the year	46,678,523	25,563,685
Cash and cash equivalents at end of the year	$ 55,004,305	$ 46,678,523

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 Affiliates (the “Organization”) 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 LifeSet 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 Georgia, Massachusetts, and Tennessee. In addition to serving youth from these states, Youth Villages also accepted and provided residential services to out-of-state youth from Alabama, Arkansas, Arizona, California, Colorado, Connecticut, Florida, Idaho, Indiana, Kentucky, Mississippi, New Hampshire, North Carolina, Ohio, Oklahoma, Rhode Island, Virginia, West Virginia, Washington, Wisconsin and the District of Columbia. Payments for residential services are provided through contracts and/or through Medicaid and 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 Care 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 Tennessee.

The Organization’s largest program is the In-Home Services program which provides intensive in-home services to youth and their families to prevent the child from being placed out of the home. In-Home Services also works with families to remove barriers so that children can return home from placements such as hospitals, residential treatment centers, and foster care. The 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. In-home services are provided in the states of Alabama, Arkansas, Florida, Georgia, Indiana, Massachusetts, Mississippi, New Hampshire, North Carolina, Ohio, Oklahoma, Oregon, and Tennessee.

The Adoptions program is located in Tennessee and allows for many children in foster care to be adopted by their foster parents. The In-Home Services 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 LifeSet 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. These services are currently provided in Georgia, Massachusetts, Mississippi, North Carolina, Oklahoma, Oregon and Tennessee. In addition, the Mentoring program pairs adult volunteers with young adults to provide additional support and guidance in Tennessee and Georgia.

The Organization's Specialized Crisis Services provide emergency psychiatric support and recommendations for the majority of 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. Crisis support services are also provided in Oregon.

The Organization's Partners program started in January 2016 and allows for the LifeSet model to be implemented by public or private child welfare organizations for a fee.

During fiscal year 2019, the Organization ceased operations and closed down the following programs: Deer Valley residential program located in Tennessee, Germaine Lawrence residential program located in Massachusetts, and the Mississippi therapeutic foster care program. The children were placed in other programs/locations and still served by the Organization.

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

Basis of Consolidation

The consolidated financial statements include the accounts of Youth Villages, Inc. and Youth Villages Foundation, Inc. The intercompany balances and transactions have been eliminated.

Method of Accounting and Basis of Presentation

The Organization uses the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

The presentation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the consolidated financial statements. Actual results could differ from those estimates.

Credit Risk

The Organization's credit risks primarily relate to cash and cash equivalents and investments. The Organization maintains cash balances at several banks. Those accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to an aggregate of $250,000 at each institution and by the investment companies holding mutual funds and common stocks up to an aggregate of $150,000,000. A portion of the Organization's bank deposits are held in a business investment account which is fully collateralized by U.S. government backed securities or agencies. The Organization's cash deposits exceeded FDIC limits at various times during the year. The Organization believes it is not exposed to any significant credit risk on its cash balances, due to its policy of banking with high quality financial institutions.

Revenue Recognition and Support

State contract revenue, Tenncare, Medicaid, and private insurance revenue are recognized at estimated net realizable amounts when services are performed.

Promises to give and contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Promises to give and contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restrictions expire in the fiscal year in which they are recognized. All other donor-restricted promises to give and contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Cash and Cash Equivalents

For purposes of the consolidated statements 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. Cash and cash equivalents and investments include amounts that are donor restricted totaling $33,023,645 and $45,679,004 as of June 30, 2019 and 2018, respectively, and are limited in use to specific program support, program expansion and growth, capital asset purchases, mergers and acquisitions, plus infrastructure support with selected administrative functions that are tied to growth.

Investments

Investments are carried at fair market value with realized and unrealized gains and losses reflected in the consolidated statements of activities. Donated investments are recorded at fair value at the date of donation. Net investment return is reported in the consolidated statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less related investment advisory fees.

Property and Equipment

The Organization capitalizes all property and equipment purchases of $2,000 or greater at cost at the date of acquisition, or at estimated fair market value at the date of donation in the case of donated property. 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 a construction period is capitalized.

Contract and Grant Receivables, Promises to Give, and Allowance for Doubtful Accounts

Receivables other than promises to give, which consist primarily of amounts due from grantor agencies and contracts with states, are valued in the financial statements net of an allowance for doubtful accounts of $648,052 and $699,525 at June 30, 2019 and 2018, respectively. Receivables are evaluated by management monthly, and the allowance for doubtful accounts is estimated by management based on historical experience.

The Organization evaluates the collectability of promises to give and makes adjustments to the assets accordingly. An allowance for uncollectible promises to give of $291,865 and $250,480 was established at June 30, 2019 and 2018, respectively, based on management's estimation that all promises to give are not fully collectible.

In-Kind Donations and Donated Services

In-kind donations of goods are recorded at their estimated fair market value at the date of donation. Volunteers periodically provide uncompensated non-specialized services as administrative and special events assistants. During 2019 and 2018, there were no specialized services which would require recognition in the consolidated 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:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The income from these net assets may be used for specific purposes. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Advertising

The Organization expenses advertising costs as they are incurred. Advertising expenses were $353,363 and $364,983 for the years ended June 30, 2019 and 2018, 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 consolidated statements of activities. Accordingly, certain costs have been allocated by management among the programs and supporting services benefited. The consolidated statements of functional expenses present the natural classification detail of expenses by function.

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 or fundraising expenses.

Federal Tax Status

No provision for federal income taxes is required since the Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and has been determined to be an organization that is not a private foundation. The Organization files an exempt return in the U.S. federal jurisdiction.

Financial Instruments

The carrying amounts of the financial instruments of the Organization, consisting of cash, accounts receivable, and other assets, approximate their fair value.

Reclassifications

For comparability, certain prior year amounts have been reclassified where appropriate to conform to the presentation in the current year.

Recent Accounting Pronouncement

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and non-lease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2020. The Entity is evaluating the impact the standard will have on the consolidated financial statements and expects the standard to have a material impact due to the recognition of additional assets and liabilities for operating leases.

On June 21, 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which applies to all entities that receive or make contributions. The criteria for evaluating whether contributions are unconditional (and thus recognized immediately in income) or conditional (for which income recognition is deferred) have been clarified. The focus is whether a gift or grant agreement both (1) specifies a "barrier or hurdle" that the recipient must overcome to be entitled to the resources, and (2) releases the donor from its obligation to transfer resources (or if assets are advanced, a right to demand their return) if the barrier or hurdle is not achieved. An agreement that contains both is a conditional contribution. An agreement that omits one or both is unconditional. No new disclosures are required. For grants/contributions made, donors will use the same criteria as recipients (i.e., a barrier or hurdle coupled with a right of return/release) to determine whether gifts or grants are conditional or unconditional.

For federal and other government grants, the ASU clarifies the definition of an exchange transaction. As a result, not-for-profit entities will account for most federal grants as donor-restricted conditional contributions, rather than as exchange transactions (the prevalent practice today). An accommodation ("simultaneous release" option) is provided which, if elected, would allow grants received and used within the same period to be reported in net assets without donor restrictions, consistent with where the grant revenue is reported today.

For transactions in which a non-public entity serves as a resource recipient, the entity should apply the amendments in this ASU on contributions received to annual periods beginning after December 15, 2018. For transactions in which a non-public entity serves as a resource provider, the entity should apply the amendments in this ASU on contributions made to annual periods beginning after December 15, 2019. Early adoption of the amendments is permitted. The Entity is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

Change in Accounting Principle

On August 18, 2016 FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return.

The Organization has implemented ASU 2016-14 and has adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented, which did not have a material effect on the consolidated financial statements.

Date of Management's Review

The Organization evaluated its June 30, 2019, consolidated financial statements for subsequent events through December 13, 2019, the date the consolidated financial statements were available to be issued. Except as disclosed in Note 19, the Organization is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

NOTE 2 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor restrictions limiting their use, within one year of the consolidated statements of financial position date, comprise the following:

	2019	2018
Cash and cash equivalents	$ 55,004,305	$ 46,678,523
Receivables		
Promises to give, current portion	9,963,152	7,154,133
Grantor agencies, net of allowance	731,285	698,757
Contract receivables, net of allowance	21,740,217	28,800,366
Other	209,050	32,020
Investments	194,371,155	191,885,115
	282,019,164	275,248,914
Less: donor restricted cash and investments	(33,023,645)	(45,679,004)
Less: donor restricted promises to give	(5,963,153)	(3,154,133)
Available for general expenditure	$ 243,032,366	$ 226,415,777

The Entity's goal is generally to maintain financial assets to meet 90-180 days of operating expenses (currently approximately $52,000,000 to $105,000,000). As part of its liquidity plan, excess cash is held in reserve or short-term investments. As described in Note 8, the Organization also has a line of credit in the amount of $8,000,000, there were no draws on this line of credit as of June 30, 2019 and 2018.

NOTE 3 – PROMISES TO GIVE

In 2016, the Organization began a capital campaign to fund the construction to expand the Boys Center for Intensive Residential Treatment Program. 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 using a discount rate of 1.79% based on expected payments.

Promises to give are due as follows at June 30, 2019:

2020	$	10,137,482
2021		6,017,113
2022		4,868,894
2023		546,036
2024		285,769
Thereafter		200,000
	$	22,055,294

Promises to give, current portion, net of allowance of $174,330	$	9,963,152

Promises to give, long-term	$	11,917,812
Less discount to present value		(542,627)
Less allowance, non-current		(117,534)
	$	11,257,651

As of June 30, 2018, total promises to give were $23,078,949, net of a discount to present value of $1,371,624 and the allowance of $250,480.

NOTE 4 – CONDITIONAL PROMISES TO GIVE AND INTENTIONS TO GIVE

During 2016, the Organization began a growth and sustainability capital campaign in its efforts to expand its LifeSet program. This campaign was an agreement made between the Organization and a third party. This third party agreed to contribute an amount defined by their contract dependent upon the Organization meeting certain milestones each year. For the years ended June 30, 2019 and 2018, the amounts received and recorded by the Organization related to this agreement totaled $13,300,000 and $12,300,000, respectively. As of June 30, 2019, the Organization had no outstanding commitments. As of June 30, 2018, the Organization had outstanding commitments of $13,300,000, which were recorded during fiscal year 2019 when the defined program accomplishments were met.

During 2016, the Organization received a conditional promise to give in relation to its efforts to expand its services in Oklahoma. This was an agreement made between the Organization and a third party. This third party agreed to contribute an amount defined by their contract dependent upon the Organization meeting certain milestones each year. For the year ended June 30, 2019, the Organization did not receive or record an amount. For the year ended June 30, 2018, the Organization received and recorded was $949,459. During fiscal year 2019, the Organization did not request any additional private funds for their services in Oklahoma from this funder, and they do not anticipate requesting any more funding going forward, therefore no outstanding commitment is disclosed as of June 30, 2019. As of June 30, 2018, the Organization had an outstanding commitment of $1,898,960.

During 2017, The Organization was notified by a foundation of their intention to give $14,000,000 to the Organization over a period of three years. Since this intention to give can be rescinded by the donor, is not legally enforceable, and was made for budgeting purposes only, the amounts will not be recorded in the consolidated financial statements until they are actually received. For the years ended, June 30, 2019 and 2018, $3,000,000 and $5,500,000 have been received and recorded, respectively, by the Organization related to this intention to give. The whole amount has now been recorded on this intention to give.

During 2018, the Organization received a conditional promise to help support LifeSet services to young people aging out of the child welfare system. This was an agreement made between the Organization and a third party. This third party agreed to contribute an amount defined by their contract dependent upon the

Organization meeting certain milestones each year. For the years ended June 30, 2019 and 2018, the amounts received and recorded by the Organization related to this agreement totaled $500,000 each year. As of June 30, 2019 and 2018, the Organization had outstanding commitments of $1,500,000 and $2,000,000, respectively, which have not been recorded in the accompanying consolidated financial statements, nor will it be until the defined program accomplishments are met.

During 2018, the Organization received a conditional promise to give in relation to its efforts to expand its services in New England. This was an agreement made between the Organization and a third party. This third party agreed to contribute an amount defined by their contract dependent upon the Organization meeting certain milestones each year. For the years ended June 30, 2019 and 2018, the amounts received and recorded by the Organization related to this agreement totaled $600,000 each year. As of June 30, 2019, the Organization had no outstanding commitments. As of June 30, 2018, the Organization had outstanding commitments of $600,000, which were recorded during fiscal year 2019 when the defined program accomplishments were met.

NOTE 5 – INVESTMENTS

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

	2019	
	Cost	Market Value
Mutual funds	$ 47,268,727	$ 49,254,980
Equity securities	3,523,952	6,775,482
Private equity funds and master limited partnerships	30,341,820	41,375,208
Hedge funds	56,491,738	96,849,851
Real estate investment trusts	105,000	115,634
Total	$ 137,731,237	$ 194,371,155
Cumulative unrealized gain on investments		$ 56,639,918

	2018	
	Cost	Market Value
Mutual funds	$ 46,565,170	$ 48,524,265
Equity securities	2,877,560	5,581,311
Private equity funds and master limited partnerships	27,133,269	38,442,904
Hedge funds	60,991,738	99,145,121
Real estate investment trusts	160,000	191,514
Total	$ 137,727,737	$ 191,885,115
Cumulative unrealized gain on investments		$ 54,157,378

The Organization holds shares in domestic and foreign companies that invest 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 2019 and 2018, the Organization recognized a net gain of $2,204,730 and $9,349,809, respectively, from fair value hedges which are included in “Net gain (loss) on investments” in the consolidated statements of activities.

At June 30, 2019 and 2018, the Foundation had commitments to fund private equity and real estate investment trusts of $9,197,040 and $13,782,667, respectively, which are due upon request.

NOTE 6 – FAIR VALUE MEASUREMENT

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under generally accepted accounting principles are described below:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities the Organization has the ability to access.

- Level 2 – Inputs (other than quoted prices with level 1) that are observable for the asset or liability, either directly or indirectly.

  If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- 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.

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used attempt to maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2019.

Private equity funds, master limited partnerships, hedge funds and real estate investment trusts: Valued at the net asset value of shares held by the Organization at year end, as reported by the fund.

Equity securities and mutual funds: Valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2019 and 2018.

	Assets at Fair Value as of June 30, 2019				
	Level 1	Level 2	Level 3	Assets Measured at Net Asset Value	Total
Mutual funds	$ 49,254,980	$ -	$ -	$ -	$ 49,254,980
Equity securities	6,775,482	-	-	-	6,775,482
Private equity funds and master limited partnerships at NAV	-	-	-	41,375,208	41,375,208
Hedge funds at NAV	-	-	-	96,849,851	96,849,851
Real estate investment trusts at NAV	-	-	-	115,634	115,634
Total assets at fair value	$ 56,030,462	$ -	$ -	$ 138,340,693	$ 194,371,155

	Assets at Fair Value as of June 30, 2018				
	Level 1	Level 2	Level 3	Assets Measured at Net Asset Value	Total
Mutual funds	$ 48,524,265	$ -	$ -	$ -	$ 48,524,265
Equity securities	5,581,311	-	-	-	5,581,311
Private equity funds and master limited partnerships at NAV	-	-	-	38,442,904	38,442,904
Hedge funds at NAV	-	-	-	99,145,121	99,145,121
Real estate investment trusts at NAV	-	-	-	191,514	191,514
Total assets at fair value	$ 54,105,576	$ -	$ -	$ 137,779,539	$ 191,885,115

The Organization has the following investments which calculate net asset value (NAV) per share at June 30:

	2019			
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Private equity funds and master limited partnerships	$ 41,375,208	$ 9,117,040	Monthly, quarterly, annually, or as provided	30-90 days
Real estate investment trusts	115,634	80,000	As provided	Not applicable
Hedge funds	96,849,851	-	Quarterly, annually, or as provided	60-180 days
	$ 138,340,693	$ 9,197,040		

	2018			
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Private equity funds and master limited partnerships	$ 38,442,904	$ 13,702,667	Monthly, quarterly, annually, or as provided	30-90 days
Real estate investment trusts	191,514	80,000	As provided	Not applicable
Hedge funds	99,145,121	-	Quarterly, annually, or as provided	60-180 days
	$ 137,779,539	$ 13,782,667		

Private Equity and Master Limited Partnerships

Youth Villages Inc. and Affiliates invests in several private equity and master limited partnership funds that invests in private equity, venture capital, closed end bond funds, long Japanese and pan-Asia equity, U.S. equity, international equity, emerging markets equity, global long/short equity, and designated side pocket equity that are not publically traded. Redemptions are permitted during the life of the funds, and the redemption notice period ranges from 30-90 days. When the assets are sold, the proceeds, less any incentive due to the fund sponsor, will be distributed to the investors. The sale of the assets is subject to the approval of the fund's managers.

Real Estate Investment Trusts

Youth Villages Inc. and Affiliates invests in one real estate investment trust that invests in residential real estate. Redemptions are permitted. When the underlying assets are sold, the proceeds, less any incentives due to the fund sponsor, will be distributed to the investors.

Hedge Funds

Youth Villages Inc. and Affiliates invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. These funds invest in private equity, venture capital, global long/short equity, designated side pocket investments, insurance linked securities, municipal bonds, corporate stocks, real estate, insurance linked debt, film receivables lending, and cash. The fair values of these investments have been estimated using the net asset value per share of the investments as provided by the hedge fund managers.

NOTE 7 – PROPERTY AND EQUIPMENT

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

	2019	2018
Land	$ 8,345,138	$ 8,610,509
Buildings	73,001,871	71,598,645
Equipment and vehicles	25,619,613	24,991,981
Furniture and fixtures	9,435,965	8,515,729
Construction in progress	23,707,982	10,606,499
Land and property held for sale	1,096,345	1,151,029
	141,206,914	125,474,392
Less accumulated depreciation	(59,026,488)	(56,421,997)
	$ 82,180,426	$ 69,052,395

Construction in progress primarily consists of various construction projects including the construction of the Culinary and Arts Center on the Bartlett campus, Shelby Oaks building renovation, Nashville office remodel, and the Boys Center Residential expansion project. As of June 30, 2019, the estimated cost to complete these projects was approximately $13,540,000.

During fiscal year 2019, the Organization sold the Deer Valley facility which created a gain on the sale of fixed assets of approx. $1,300,000 and was recognized on the consolidated statements of activities.

NOTE 8 – LINE OF CREDIT

The Organization holds a line of credit with a financial institution with a credit limit of $8,000,000. Regular monthly payments of all accrued unpaid interest are due as of each payment date, beginning April 30, 2019, with all subsequent interest payments to be due on the same day of each month thereafter. The line of credit matures on March 31, 2020, with all outstanding principal plus all accrued unpaid interest due on that date. Interest is equal to the one month LIBOR rate plus 1.5%. As of June 30, 2019, the rate was 3.99%. The note is unsecured. As of June 30, 2019 and 2018, there were no draws on this line of credit.

NOTE 9 – LETTER OF CREDIT

The Organization has established one letter of credit with a bank, which names an insurance company as beneficiary. The Organization is self-insured with regard to workers' compensation, and the letter of credit was established to cover workers' compensation claims in the event of default on the part of the Organization. The letter of credit allows beneficiary drawings up to $2,490,000; it expires December 16, 2019. As of June 30, 2019 and 2018, there were no drawings made by the beneficiary.

NOTE 10– NET ASSETS

As of June 30, 2019 and 2018, net assets without donor restriction, designated by the board are, $5,949,924 and $5,489,344, respectively. These whole amounts have been designated to pay benefits to key employees upon termination of employment.

Net assets with donor restrictions are available for the following purposes at June 30:

	2019	2018
Purpose Restrictions:		
Growth Capital Campaign	$ 476,003	$ 715,929
LifeSet	16,581,691	17,197,624
Capital Projects	781,941	781,941
Boys Center Campaign	5,126,360	21,241,161
Janie's Fund	2,382,520	1,909,218
Blue Meridian Partners/Growth Capital Campaign III	16,895,934	10,912,079
Time Restrictions	12,000,000	16,000,000
Perpetual in Nature - ChristieCare Land	78,000	78,000
	$ 54,322,449	$ 68,835,952

The amount that is perpetual in nature consisted of Oregon land acquired through the merger with ChristieCare. The land is limited under the deed from encumbrance, mortgage, or transfer of title without prior written consent.

NOTE 11 – LEASE COMMITMENTS

The Organization maintains various lease agreements for certain administrative and operating facilities in Alabama, Arkansas, District of Columbia, Georgia, Florida, Indiana, Massachusetts, Mississippi, North Carolina, Ohio, Oklahoma, Oregon, and Tennessee. Total rental expense for such real property was $2,501,070 and $2,582,413 for the years ended June 30, 2019 and 2018, respectively. Certain leases are subject to rental escalation clauses in future years.

Minimum lease commitments in fiscal years subsequent to June 30, 2019 are as follows:

2020	$	1,767,420
2021		935,711
2022		581,262
2023		239,200
2024		198,321
Thereafter		20,277
	$	3,742,191

NOTE 12 – CONTINGENCIES

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 13 – RETIREMENT PLAN

Youth Villages Retirement 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. Employer contributions for the years ended June 30, 2019 and 2018 were $3,839,801 and $4,441,086, respectively.

NOTE 14 – RELATED PARTY TRANSACTIONS

Youth Villages, Inc. is affiliated through common management and membership with Youth Villages Foundation, Inc. The Foundation collects donations and pledges for Youth Villages, Inc. and transferred $38,872,799 and $20,475,501 to Youth Villages, Inc. for the years ended June 30, 2019 and 2018, respectively. Also, Youth Villages, Inc. and Youth Villages Foundation Inc. have intercompany receivables/payables which totaled $66,277,557 and $47,200,028 as of June 30, 2019 and 2018, respectively. These amounts have been eliminated in the consolidation.

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. The amount of funds maintained at these institutions at June 30, 2019 and 2018 was $25,413,332 and $19,210,194, respectively. Any fees paid were at market rates. There are no related party transactions with Arkansas funding.

The Organization purchased insurance services through a company that is owned and managed by a member of the Board of Directors of the Organization. The amounts paid totaled $272,649 and $289,500 for the years ended June 30, 2019 and 2018, respectively.

The Organization purchased landscaping services from a company owned by a relative of a member of the Board of Directors of the Organization. The amounts paid totaled $11,970 and $191,210 for the years ended June 30, 2019 and 2018, respectively.

NOTE 15 – INSURANCE POLICIES

Youth Villages, Inc. maintains life insurance policies on certain key employees of the Organization. As of June 30, 2019 and 2018, the cash value of these policies totaled $5,949,924 and $5,489,344, respectively and are included in "Other Assets" on the consolidated statements of financial position.

NOTE 16 – ECONOMIC DEPENDENCY

Youth Villages, Inc. relies upon the State of Tennessee as its major source of revenue. For the years ended June 30, 2019 and 2018, revenues from the State of Tennessee were $95,543,040, and $96,467,004, respectively. These revenues represented 40% and 45% of total revenue for Youth Villages, Inc. for the years ended June 30, 2019 and 2018, respectively. The Organization places an emphasis on diversifying its sources of revenue. The Organization has been successful in its diversification plan by lowering the dependence on revenue from the State of Tennessee from 69% in 2005 to 40% in 2019. State of Tennessee contract revenue is reported at estimated net realizable amounts for services rendered. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

NOTE 17 – UNCERTAINTIES

The Medicaid program accounted for approximately 24% and 25% of Youth Villages, Inc.'s total revenue for the years ended June 30, 2019 and 2018, 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 18 – NET PRIVATE INSURANCE AND MEDICAID REVENUE

Net private insurance and Medicaid revenue is reported at estimated net realizable amounts from third-party payors for services rendered. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

NOTE 19 – SUBSEQUENT EVENT

In November 2019, the Organization received notification from a donor that they have committed to invest up to $66 million in the Organization for a period of up to 54 months beginning January 1, 2020. The agreement with the donors is conditioned upon the Organization meeting certain specific program performance milestones (program barriers or hurdles) and it releases the donor from its obligation to transfer resources if the program barriers or hurdles are not achieved.

SUPPLEMENTAL INFORMATION

YOUTH VILLAGES, INC. AND AFFILIATES

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

June 30, 2019

	Youth Villages, Inc.	Youth Villages Foundation, Inc.	Eliminations	Total
Current Assets				
Cash and cash equivalents	$ 6,380,158	$ 48,624,147	$ -	$ 55,004,305
Receivables				
Affiliate	66,277,557	-	(66,277,557)	-
Promises to give, current portion	-	9,963,152	-	9,963,152
Grantor agencies, net of allowance	731,285	-	-	731,285
Contract receivables, net of allowance	21,740,217	-	-	21,740,217
Other	209,050	-	-	209,050
Investments	-	194,371,155	-	194,371,155
Prepaid expenses	1,424,799	42,579	-	1,467,378
Total current assets	96,763,066	253,001,033	(66,277,557)	283,486,542
Property and Equipment				
Land	8,345,138	-	-	8,345,138
Buildings	73,001,871	-	-	73,001,871
Equipment and vehicles	25,470,026	149,587	-	25,619,613
Furniture and fixtures	9,378,171	57,794	-	9,435,965
Construction in progress	23,707,982	-	-	23,707,982
Land and property held for sale	1,096,345	-	-	1,096,345
	140,999,533	207,381	-	141,206,914
Accumulated depreciation	(58,877,505)	(148,983)	-	(59,026,488)
Total property and equipment	82,122,028	58,398	-	82,180,426
Other Assets				
Promises to give, net of current portion	-	11,257,651	-	11,257,651
Other	6,883,278	-	-	6,883,278
Total other assets	6,883,278	11,257,651	-	18,140,929
Total assets	$ 185,768,372	$ 264,317,082	$ (66,277,557)	$ 383,807,897

See independent auditor’s report.

	Youth Villages, Inc.	Youth Villages Foundation, Inc.	Eliminations	Total
Current Liabilities				
Accounts payable	$ 4,907,032	$ 289,997	$ -	$ 5,197,029
Accounts payable - affiliate	-	66,277,557	(66,277,557)	-
Accrued salaries and compensated absences	6,956,088	102,360	-	7,058,448
Accrued retirement plan contributions	2,036,510	40,434	-	2,076,944
Accrued and withheld taxes	154,168	17,145	-	171,313
Accrued other expenses	3,067,999	16,890	-	3,084,889
Deferred revenue	105,551	-	-	105,551
Total current liabilities	17,227,348	66,744,383	(66,277,557)	17,694,174
Net Assets				
Without donor restrictions	168,541,024	143,250,250	-	311,791,274
With donor restrictions	-	54,322,449	-	54,322,449
Total net assets	168,541,024	197,572,699	-	366,113,723
Total liabilities and net assets	$ 185,768,372	$ 264,317,082	$ (66,277,557)	$ 383,807,897

YOUTH VILLAGES, INC. AND AFFILIATES

CONSOLIDATING SCHEDULE OF ACTIVITIES

For the Year Ended June 30, 2019

	Youth Villages Inc.	Youth Villages Foundation Inc.	Eliminations	Total
Net Assets Without Donor Restrictions				
Revenues and Support				
State of Tennessee contract revenue	$ 79,730,059	$ -	$ -	$ 79,730,059
Contract revenue	50,705,505	-	-	50,705,505
Tenncare revenue	15,812,981	-	-	15,812,981
Medicaid revenue	40,576,467	-	-	40,576,467
Net private insurance	4,281,116	-	-	4,281,116
Grants	1,600,847	-	-	1,600,847
USDA	909,017	-	-	909,017
Other - local education authority, county, city, provider agency	1,078,495	-	-	1,078,495
Donations and promises to give	38,872,799	4,322,714	(38,887,199)	4,308,314
Special events revenue	-	4,288,265	-	4,288,265
Less: costs of direct benefits to donors	-	(2,307,988)	-	(2,307,988)
Net revenues from special events	-	1,980,277	-	1,980,277
Dividends and interest on investments	-	1,739,658	-	1,739,658
Net gain on investments	-	3,758,375	-	3,758,375
Gain on sale of fixed assets	1,686,937	-	-	1,686,937
Miscellaneous income	657,045	280,049	-	937,094
	235,911,268	12,081,073	(38,887,199)	209,105,142
Net assets released from donor restrictions	-	35,203,074	-	35,203,074
Total revenues and support	235,911,268	47,284,147	(38,887,199)	244,308,216
Expenses				
Charitable contributions	-	38,887,199	(38,887,199)	-
Program services	180,683,665	-	-	180,683,665
Management and general	29,540,360	715,532	-	30,255,892
Fundraising	-	3,347,406	-	3,347,406
Total expenses	210,224,025	42,950,137	(38,887,199)	214,286,963
Change in net assets without donor restrictions	25,687,243	4,334,010	-	30,021,253

See independent auditor's report.

YOUTH VILLAGES, INC. AND AFFILIATES

CONSOLIDATING SCHEDULE OF ACTIVITIES (CONTINUED)

For the Year Ended June 30, 2019

	Youth Villages Inc.	Youth Villages Foundation Inc.	Eliminations	Total
Net Assets With Donor Restrictions				
Donations and promises to give	-	20,689,571	-	20,689,571
Net assets released from donor restrictions	-	(35,203,074)	-	(35,203,074)
Change in net assets with donor restrictions	-	(14,513,503)	-	(14,513,503)
Change in net assets	25,687,243	(10,179,493)	-	15,507,750
Net assets - beginning of year	142,853,781	207,752,192	-	350,605,973
Net assets - end of year	$ 168,541,024	$ 197,572,699	$ -	$ 366,113,723

See independent auditor’s report.

YOUTH VILLAGES, INC. AND AFFILIATES

CONSOLIDATING SCHEDULE OF CASH FLOWS

For the Year Ended June 30, 2019

	Youth Villages, Inc.	Youth Villages Foundation, Inc.	Eliminations	Total
Cash Flows Provided By (Used For) Operating Activities:				
Change in net assets	$ 25,687,243	$ (10,179,493)	$ -	$ 15,507,750
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:				
Depreciation	5,440,649	13,776	-	5,454,425
Unrealized gain on investments	-	(5,480,083)	-	(5,480,083)
Realized loss on investments	-	799	-	799
Gain on disposal of property and equipment	(1,630,223)	-	-	(1,630,223)
Increase (Decrease) in Cash and Cash Equivalents:				
Receivables	6,850,591	1,858,145	-	8,708,736
Receivables - affiliate	(19,077,529)	-	19,077,529	-
Prepaid expenses	(136,264)	(29,350)	-	(165,614)
Accounts payable	(126,055)	267,364	-	141,309
Accounts payable - affiliate	-	19,077,529	(19,077,529)	-
Accrued salaries and comp absences	50,394	(23,734)	-	26,660
Accrued retirement plan contributions	45,594	3,799	-	49,393
Accrued and withheld taxes	(23,106)	14,325	-	(8,781)
Accrued other expenses	142,298	1,068	-	143,366
Deferred revenue	63,959	-	-	63,959
Total adjustments	(8,399,692)	15,703,638	-	7,303,946
Net cash provided by operating activities	17,287,551	5,524,145	-	22,811,696
Cash Flows From (Used For) Investing Activities:				
Purchase of property and equipment	(20,205,273)	-	-	(20,205,273)
Proceeds from the sale of equipment	3,253,040	-	-	3,253,040
Investment in securities	-	(7,832,491)	-	(7,832,491)
Proceeds from sales of securities	-	10,825,735	-	10,825,735
Increase in sundry assets	(526,925)	-	-	(526,925)
Net cash provided by (used for) investing activities	(17,479,158)	2,993,244	-	(14,485,914)
Net increase (decrease) in cash and cash equivalents	(191,607)	8,517,389	-	8,325,782
Cash and cash equivalents at beginning of the year	6,571,765	40,106,758	-	46,678,523
Cash and cash equivalents at end of the year	$ 6,380,158	$ 48,624,147	$ -	$ 55,004,305

See independent auditor’s report.