

Lawrence Hall Youth Services

Financial Statements

June 30, 2006



Altschuler, Melvoin and Glasser LLP
Certified Public Accountants

Lawrence Hall Youth Services

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June 30, 2006

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Altschuler, Melvoin and Glasser LLP
Certified Public Accountants

Independent Auditors' Report

Board of Trustees of
Lawrence Hall Youth Services

We have audited the statement of financial position of Lawrence Hall Youth Services as of June 30, 2006 and the statements of activities, functional expenses and cash flows for the year then ended. The financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these statements based on our audit. The prior year summarized comparative information was derived from the Agency's 2005 financial statements and, in our report dated October 5, 2005, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 our audit provides 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 Lawrence Hall Youth Services as of June 30, 2006 and its activities and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information is included for purposes of additional analysis and is not a required part of the financial statements. This information has been subjected to the procedures applied in the audit of the financial statements and, in our opinion, is stated fairly in all material respects in relation to the financial statements taken as a whole.

Altschuler, Melvoin & Glasser LLP

Chicago, Illinois
October 13, 2006

Lawrence Hall Youth Services
Statement of Financial Position
June 30, 2006 (With Comparative Totals for 2005)

	<u>2006</u>	<u>2005</u>
Assets		
Cash and equivalent	\$ 7,682,839	\$ 5,052,481
Accounts receivable (net of allowance for uncollectible accounts of \$30,000 in 2006 and \$12,000 in 2005)	699,273	1,162,346
Pledges receivable	1,830,185	1,395,615
Prepaid expenses and other assets	451,770	388,200
Unrestricted investments	2,286,790	2,122,006
Permanently restricted investments	2,794,398	2,614,358
Beneficial interest in irrevocable trusts	11,625,209	11,316,399
Property and equipment, net	<u>6,571,189</u>	<u>6,643,665</u>
	<u>\$ 33,941,653</u>	<u>\$ 30,695,070</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 427,409	\$ 266,816
Accrued expenses	366,921	460,201
Accrued payroll and payroll taxes	307,067	606,573
Accrued pension liability	913,000	1,805,329
Deferred contractual obligations	3,547,719	2,055,944
Deferred rent liability	<u>129,398</u>	<u>158,727</u>
	<u>5,691,514</u>	<u>5,353,590</u>
Net assets		
Unrestricted	10,411,146	8,508,595
Temporarily restricted	3,416,423	2,902,128
Permanently restricted	<u>14,422,570</u>	<u>13,930,757</u>
	<u>28,250,139</u>	<u>25,341,480</u>
	<u>\$ 33,941,653</u>	<u>\$ 30,695,070</u>

Lawrence Hall Youth Services
Statement of Activities
Year Ended June 30, 2006 (With Comparative Totals for 2005)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2006	2005
Revenue					
Fees and grants from government agencies	\$ 17,887,961	\$ 42,807	\$ -	\$ 17,930,768	\$ 17,599,879
Contributions and grants	504,131	1,085,753		1,589,884	1,335,645
United Way of Metropolitan Chicago	619,203			619,203	353,565
Legacies and bequests	491,365			491,365	438,333
Allocations from Episcopal Charities	71,500			71,500	205,000
Special events, net of \$65,458 and \$90,228 of expenses in 2006 and 2005, respectively	23,148			23,148	24,953
Contributions from associated organizations	1,000			1,000	1,000
Allocation from unassociated and nonfederated fundraising organizations	1,600	8,333		9,933	18,796
Investment income	306,241	847		307,088	187,410
Gains on sales of investments	66,323		78,172	144,495	9,931
Unrealized gain on investments	88,943		104,831	193,774	238,843
Increase in value of beneficial interest in irrevocable trusts			308,810	308,810	571,646
Net adjustments to allowance for uncollectible accounts	(23,195)			(23,195)	5,357
Other	6,538			6,538	18,542
Net assets released from restrictions	623,445	(623,445)		-	-
	<u>20,668,203</u>	<u>514,295</u>	<u>491,813</u>	<u>21,674,311</u>	<u>21,008,900</u>
Expenses					
Program services					
Residential programs					
Institutional Group Care	3,292,315			3,292,315	3,069,268
Regular Group Homes	3,658,908			3,658,908	3,724,719
Group Shelter Care	978,519			978,519	197,229
Special Education School	2,756,307			2,756,307	2,570,747
Supervised Independent Living	424,210			424,210	493,509
Transitional Living Arrangements	2,451,841			2,451,841	2,604,002
Supervised Transitional Group Living	925,292			925,292	815,233
Transitional Living Program	23,535			23,535	-
Relative/Traditional Foster Care	1,495,071			1,495,071	1,591,855
Specialized Foster Care				-	86,842
Specialized Mental Health Foster Care	339,790			339,790	151,610
Project SKIL	329,129			329,129	338,888
Peer Jury	31,212			31,212	39,372
Child Care				-	13,600
Scholarships	37,210			37,210	22,156
	<u>16,743,339</u>	<u>-</u>	<u>-</u>	<u>16,743,339</u>	<u>15,719,030</u>

See accompanying notes.

Lawrence Hall Youth Services

Statement of Activities, *Continued*

Year Ended June 30, 2006 (With Comparative Totals for 2005)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2006	2005
Supporting services					
Management and general	\$ 2,524,875	\$ -	\$ -	\$ 2,524,875	\$ 2,382,798
Fundraising	669,274			669,274	835,132
	<u>3,194,149</u>	<u>-</u>	<u>-</u>	<u>3,194,149</u>	<u>3,217,930</u>
Total functional expenses	19,937,488	-	-	19,937,488	18,936,960
Other	789			789	3,657
	<u>19,938,277</u>	<u>-</u>	<u>-</u>	<u>19,938,277</u>	<u>18,940,617</u>
Increase in net assets before curtailment of pension liability	729,926	514,295	491,813	1,736,034	2,068,283
Curtailment of pension liability	<u>1,172,625</u>	<u>-</u>	<u>-</u>	<u>1,172,625</u>	<u>-</u>
Increase in net assets	1,902,551	514,295	491,813	2,908,659	2,068,283
Net assets					
Beginning of year	<u>8,508,595</u>	<u>2,902,128</u>	<u>13,930,757</u>	<u>25,341,480</u>	<u>23,273,197</u>
End of year	<u>\$ 10,411,146</u>	<u>\$ 3,416,423</u>	<u>\$ 14,422,570</u>	<u>\$ 28,250,139</u>	<u>\$ 25,341,480</u>

Lawrence Hall Youth Services

Statement of Functional Expenses

Year Ended June 30, 2006 (With Comparative Totals for 2005)

	Residential					Total
	Institutional Group Care	Regular Group Homes	Group Shelter Care	Special Education School	Other Programs	
Salaries	\$ 2,087,397	\$ 2,186,980	\$ 653,348	\$ 1,869,763	\$ 2,431,879	\$ 9,229,367
Employee health and retirement benefits	207,622	217,527	64,985	185,975	241,885	917,994
Payroll taxes and benefits	248,118	259,955	77,660	222,249	289,065	1,097,047
	<u>2,543,137</u>	<u>2,664,462</u>	<u>795,993</u>	<u>2,277,987</u>	<u>2,962,829</u>	<u>11,244,408</u>
Professional fees and contract service payments	51,457	64,072	11,413	30,900	281,172	439,014
Supplies	162,947	199,410	31,146	129,825	70,507	593,835
Telephone	20,381	39,443	8,326	14,175	68,659	150,984
Postage and shipping	2,122	2,581	19	2,367	3,768	10,857
Occupancy	220,145	253,015	47,736	129,947	461,083	1,111,926
Printing and publications	372	373		1,593	1,981	4,319
Local transportation	71,835	95,153	23,706	24,639	148,722	364,055
Conferences and training	9,233	7,390	509	12,842	7,119	37,093
Subscriptions	26	37		732	100	895
Foster care room and board					483,316	483,316
Specific assistance to clients	102,144	134,342	16,499	17,380	1,393,051	1,663,416
Membership dues	535	728	36	2,413	175	3,887
Minor equipment	25,969	32,596	10,377	40,335	51,780	161,057
Miscellaneous	2,484	2,612	1,408	5,231	6,709	18,444
	<u>3,212,787</u>	<u>3,496,214</u>	<u>947,168</u>	<u>2,690,366</u>	<u>5,940,971</u>	<u>16,287,506</u>
Depreciation	<u>79,528</u>	<u>162,694</u>	<u>31,351</u>	<u>65,941</u>	<u>116,319</u>	<u>455,833</u>
	<u>\$ 3,292,315</u>	<u>\$ 3,658,908</u>	<u>\$ 978,519</u>	<u>\$ 2,756,307</u>	<u>\$ 6,057,290</u>	<u>\$ 16,743,339</u>

Lawrence Hall Youth Services

Statement of Functional Expenses, *Continued*

Year Ended June 30, 2006 (With Comparative Totals for 2005)

	Supporting Services			Total	
	Management and General	Fundraising	Total	2006	2005
Salaries	\$ 1,352,438	\$ 339,650	\$ 1,692,088	\$ 10,921,455	\$ 10,324,293
Employee health and retirement benefits	129,549	33,783	163,332	1,081,326	1,132,582
Payroll taxes and benefits	154,811	40,373	195,184	1,292,231	1,179,896
	<u>1,636,798</u>	<u>413,806</u>	<u>2,050,604</u>	<u>13,295,012</u>	<u>12,636,771</u>
Professional fees and contract service payments	179,218	134,739	313,957	752,971	666,050
Supplies	36,664	4,491	41,155	634,990	571,861
Telephone	58,814	5,772	64,586	215,570	204,226
Postage and shipping	9,459	8,325	17,784	28,641	32,594
Occupancy	227,077	50,864	277,941	1,389,867	1,251,372
Printing and publications	15,211	6,016	21,227	25,546	39,763
Local transportation	35,327	3,420	38,747	402,802	345,466
Conferences and training	76,198	3,380	79,578	116,671	92,448
Subscriptions	2,522	2,634	5,156	6,051	7,448
Foster care room and board				483,316	447,113
Specific assistance to clients				1,663,416	1,757,507
Membership dues	37,243	1,688	38,931	42,818	34,186
Minor equipment	66,760	14,378	81,138	242,195	233,417
Miscellaneous	78,768	7,766	86,534	104,978	80,424
	<u>2,460,059</u>	<u>657,279</u>	<u>3,117,338</u>	<u>19,404,844</u>	<u>18,400,646</u>
Depreciation	<u>64,816</u>	<u>11,995</u>	<u>76,811</u>	<u>532,644</u>	<u>536,314</u>
	<u>\$ 2,524,875</u>	<u>\$ 669,274</u>	<u>\$ 3,194,149</u>	<u>\$ 19,937,488</u>	<u>\$ 18,936,960</u>

Lawrence Hall Youth Services
Statement of Functional Expenses - Other Programs
Year Ended June 30, 2006

	Supervised Independent Living	Transitional Living Arrangements	Supervised Transitional Group Living	Transitional Living Program	Relative/ Traditional Foster Care	Specialized Mental Health Foster Care	Project SKIL	Peer Jury	Scholarships	Total Other Programs
Salaries	\$ 164,231	\$ 882,701	\$ 557,426	\$ -	\$ 501,948	\$ 88,578	\$ 211,977	\$ 25,018	\$ -	\$ 2,431,879
Employee health and retirement benefits	16,335	87,798	55,444		49,926	8,810	21,084	2,488		241,885
Payroll taxes and benefits	19,521	104,922	66,258		59,664	10,529	25,197	2,974		289,065
	<u>200,087</u>	<u>1,075,421</u>	<u>679,128</u>	<u>-</u>	<u>611,538</u>	<u>107,917</u>	<u>258,258</u>	<u>30,480</u>	<u>-</u>	<u>2,962,829</u>
Professional fees and contract service payments	804	10,669	155		219,533	50,011				281,172
Supplies	433	8,243	3,393		10,682	1,832	45,924			70,507
Telephone	2,365	28,577	16,807		17,696	3,115	99			68,659
Postage and shipping	269	1,639	258		1,362	240				3,768
Occupancy	24,230	231,739	59,217		122,002	21,530	2,365			461,083
Printing and publications	82	774	21		838	148	118			1,981
Local transportation	11,575	63,149	14,426		50,657	8,729		186		148,722
Conferences and training	130	819	409		4,664	841		256		7,119
Subscriptions	6	18	1		5	1	69			100
Foster care room and board					353,430	129,886				483,316
Specific assistance to clients	175,131	987,204	96,380	11,110	65,127	8,928	11,846	115	37,210	1,393,051
Membership dues	15	110	31		16	3				175
Minor equipment	3,200	20,299	3,343	7,405	14,530	2,564	439			51,780
Miscellaneous	80	419	30	5,020	848	137		175		6,709
	<u>418,407</u>	<u>2,429,080</u>	<u>873,599</u>	<u>23,535</u>	<u>1,472,928</u>	<u>335,882</u>	<u>319,118</u>	<u>31,212</u>	<u>37,210</u>	<u>5,940,971</u>
Depreciation	5,803	22,761	51,693		22,143	3,908	10,011			116,319
	<u>\$ 424,210</u>	<u>\$ 2,451,841</u>	<u>\$ 925,292</u>	<u>\$ 23,535</u>	<u>\$ 1,495,071</u>	<u>\$ 339,790</u>	<u>\$ 329,129</u>	<u>\$ 31,212</u>	<u>\$ 37,210</u>	<u>\$ 6,057,290</u>

Lawrence Hall Youth Services
Statement of Cash Flows
Year Ended June 30, 2006 (With Comparative Totals for 2005)

	<u>2006</u>	<u>2005</u>
Operating activities		
Increase in net assets	\$ 2,908,659	\$ 2,068,283
Depreciation	532,644	536,314
Realized and unrealized gains on investments	(338,269)	(248,774)
Increase in value of beneficial interest in irrevocable trusts	(308,810)	(571,646)
Gain on sale of property and equipment	(3,801)	(13,150)
Temporarily restricted contributions for purchase of real property	(333,390)	(921,109)
Changes in		
Accounts receivable	463,073	17,364
Pledges receivable	(434,570)	251,311
Prepaid expenses and other assets	(63,570)	58,790
Accounts payable	160,593	17,608
Accrued expenses	(93,280)	23,099
Accrued payroll and payroll taxes	(299,506)	27,545
Accrued pension liability	(892,329)	139,814
Deferred contractual obligations	1,491,775	(507,028)
Deferred rent liability	(29,329)	(17,925)
Net cash provided by operating activities	<u>2,759,890</u>	<u>860,496</u>
Investing activities		
Additions to equipment	(162,018)	(273,966)
Renovations and improvements to buildings	(298,150)	(716,970)
Proceeds from sale of property and equipment	3,801	13,150
Proceeds from sales of investments	2,829,620	4,509,677
Purchases of investments	<u>(2,836,175)</u>	<u>(4,601,435)</u>
Net cash used in investing activities	<u>(462,922)</u>	<u>(1,069,544)</u>
Financing activities		
Temporarily restricted contributions for purchase of real property	<u>333,390</u>	<u>921,109</u>
Net cash provided by financing activities	<u>333,390</u>	<u>921,109</u>
Increase in cash and equivalent	2,630,358	712,061
Cash and equivalent		
Beginning of year	<u>5,052,481</u>	<u>4,340,420</u>
End of year	<u>\$ 7,682,839</u>	<u>\$ 5,052,481</u>

Lawrence Hall Youth Services

Notes to the Financial Statements

Year Ended June 30, 2006 (With Comparative Information for 2005)

Note 1 Nature of Activities and Significant Accounting Policies

Nature of Activities—Lawrence Hall Youth Services (Agency) is a child welfare agency licensed by the Illinois Department of Children and Family Services (DCFS). The Agency provides services to approximately 1,200 abused, neglected, disadvantaged and educationally handicapped youths and their families in the Chicago area. Major services contracted with DCFS and the City of Chicago include residential, foster care, independent living and job placement programs and a school for children with behavioral and emotional disabilities. These contracts provide a substantial portion of the Agency's revenue.

The Agency is exempt from income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code and applicable state law.

Basis of Presentation—The financial statements have been prepared in accordance with accounting principles applicable to nonprofit organizations.

Net Asset Accounting—In accordance with the limitations, designations and restrictions placed on the use of resources available to the Agency, the following classifications are utilized according to the nature and purpose of the resources:

Unrestricted Net Assets. Unrestricted net assets represent net assets that are not subject to donor-imposed restrictions. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Temporarily Restricted Net Assets. Temporarily restricted net assets are assets subject to donor-imposed restrictions that may or will be met, either by actions of the Agency and/or the passage of time. When a restriction is satisfied, temporarily restricted net assets are transferred to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets. Permanently restricted net assets are subject to donor-imposed restrictions that will not terminate. Funds are held in perpetuity while the income is available for general use. Permanently restricted net assets also reflect the Agency's beneficial interest in various irrevocable trusts.

Cash and Equivalent—Cash and equivalent consists of highly liquid interest-bearing depository and money market accounts. The Agency considers all highly liquid investments with a maturity of three months or less at date of purchase to be cash equivalents.

Accounts Receivable—Accounts receivable primarily consist of amounts due from the Illinois Department of Children and Family Services and the Chicago Board of Education for program services provided. Accounts receivable are net of an allowance for doubtful accounts, determined based on historical experience and analysis of specific accounts. Uncollectible accounts are written off in the year they are deemed to be worthless.

Lawrence Hall Youth Services
Notes to the Financial Statements
Year Ended June 30, 2006 (With Comparative Information for 2005)

Note 1 Nature of Activities and Significant Accounting Policies, *Continued*

Property and Equipment—Property and equipment are stated at cost and are being depreciated over their estimated useful lives using the straight-line method. Amortization is being provided on the straight-line method over the term of the leases for leasehold improvements.

Functional Expenses—Operating expenses directly identifiable with a functional area are charged to that area and, where expenses affect more than one area, they are allocated on the basis of ratios determined by management.

Temporarily Restricted Contributions—The Agency reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations limiting the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

Gifts of property and equipment are reported as unrestricted support unless donor stipulations specify how the assets are to be used. Gifts of long-lived assets with restrictions specifying how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted revenue. The Agency reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated Materials and Services—Donated materials and equipment are reflected as contributions at their estimated values at date of receipt. With minor exceptions, no amounts have been reflected for donated services because they do not meet the criteria for inclusion in the financial statements. However, a substantial number of volunteers have donated significant amounts of their time to the Agency's program services and its fundraising activities.

Prior Year Information—The financial statements include certain prior year summarized comparative information in total but not by net asset class or by changes in net asset class. This information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, this information should be read in conjunction with the Agency's financial statements for fiscal 2005 from which the summarized information was derived.

Use of Estimates—In preparing financial statements in conformity with U.S. generally accepted accounting principles, management makes estimates and assumptions affecting the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Lawrence Hall Youth Services

Notes to the Financial Statements

Year Ended June 30, 2006 (With Comparative Information for 2005)

Note 2 Grants Receivable and Deferred Contractual Obligations

During fiscal 2000, the Agency initiated a planning process to provide for the reconfiguration of its Francisco Avenue Campus and the replacement of facilities at this site. The Agency received state and federal grants for the project and has expended grant funds for pre-construction activities as follows:

	<u>Grant Proceeds</u>	<u>Grant Expenditures</u>
State of Illinois		
Capital Development Board (\$3.5 million grant awarded in fiscal 2001)		
2001	\$ -	\$ 527,467
2002	1,575,000	572,464
2003	1,575,000	453,607
2004		33,490
2005		307,097
2006	<u>350,000</u>	<u>21,347</u>
	<u>\$ 3,500,000</u>	<u>\$ 1,915,472</u>
Department of Commerce and Economic Opportunity (\$2 million grant awarded in fiscal 2002)		
2003	\$ 1,000,000	\$ -
2004		
2005		298,101
2006	<u>1,000,000</u>	<u>21,460</u>
	<u>\$ 2,000,000</u>	<u>\$ 319,561</u>

Funds expended under the grants for project activities are recorded as net assets released from restrictions in the statement of activities during the year of expenditure. Unexpended funds in the amount of \$3,264,967 are recorded as deferred contractual obligations at June 30, 2006 (2005 - \$1,957,774). Upon commencement of project construction, the deferred amounts will be recorded as temporarily restricted revenue and released as eligible project expenditures are incurred.

The Agency also received a grant commitment in fiscal 2005 for the project from the United States Department of Housing and Urban Development in the amount of \$74,558. Because the payment of grant proceeds is subject to certain conditions, this grant has not been recorded as grants receivable and is not reflected in the financial statements.

Lawrence Hall Youth Services
Notes to the Financial Statements
Year Ended June 30, 2006 (With Comparative Information for 2005)

Note 2 Grants Receivable and Deferred Contractual Obligations, *Continued*

Subsequent to June 30, 2006, the Agency commenced construction on Phase I of the Campus Renovation project. Phase I includes the construction of a new Residential Treatment Center, the renovation of the gymnasium and various site improvements. The Agency anticipates conducting a \$15 million bond issue through the Illinois Finance Authority in November 2006 with credit enhancement being provided by Fifth Third Bank.

Grant awards from government entities are summarized as follows:

	Fiscal Year of Award	Cumulative Grant Amount	At June 30, 2006		Deferred Contractual Obligations	Grant Proceeds Outstanding
			Cumulative Grant Proceeds	Cumulative Grant Expenditures		
Capital Development Board	2001	\$ 3,500,000	\$ 3,500,000	\$ 1,915,472	\$ 1,584,528	\$ -
Department of Commerce and Economic Opportunity	2002	2,000,000	2,000,000	319,561	1,680,439	
U.S. Department of Housing and Urban Development	2005	74,558				74,558

The Campus Renovation project is to be completed in the following three phases: (i) building of the Residential Treatment Center, (ii) building of the Special Education Therapeutic Day School and (iii) building of the corporate and residential administrative center, gymnasium and library.

In addition to deferred contractual obligations related to project grant funds, the Agency has also recorded a deferred obligation in the amount of \$227,751 representing grant funds received from the Illinois Department of Children and Family Services in excess of program expenditures for certain programs.

Note 3 Pledges Receivable

Pledges receivable consists of gifts (primarily for the Campaign for the Children of Lawrence Hall) from various foundations and individuals payable in future installments. Receipts of the unpaid portion of the pledges are expected to be collected as follows:

2007	\$ 1,200,995
2008	627,126
2009	81,289
2010	<u>26,250</u>
	1,935,660
Discount to present value (at a rate of 4%)	<u>(105,475)</u>
	<u><u>\$ 1,830,185</u></u>

Lawrence Hall Youth Services
Notes to the Financial Statements
Year Ended June 30, 2006 (With Comparative Information for 2005)

Note 4 Beneficial Interest in Irrevocable Trusts

The Agency is a beneficiary of several trusts maintained by independent trustees. The trusts' assets are to be held in perpetuity. The Agency expects to receive annual distributions of its share of the trusts' annual income. These distributions are recorded in the financial statements as bequest income. The gifts have been recognized in the financial statements as beneficial interest in irrevocable trusts at the fair market value of the Agency's interests in the trusts, which amounted to \$11,625,209 at June 30, 2006 (2005 - \$11,316,399).

Note 5 Investments

The Agency has unrestricted and restricted investments which are stated at market value based on quoted market prices. Permanently restricted investments are restricted as to principal.

Investments consisted of:

	Held As		2006	2005
	Unrestricted	Permanently Restricted		
Cash available for investment	\$ -	\$ 99,542	\$ 99,542	\$ 113,724
U.S. Government and government agency securities	762,177	898,173	1,660,350	1,277,179
Common stock	1,524,613	1,796,683	3,321,296	3,345,461
	<u>\$ 2,286,790</u>	<u>\$ 2,794,398</u>	<u>\$ 5,081,188</u>	<u>\$ 4,736,364</u>

Note 6 Property and Equipment

Property and equipment consisted of:

	2006	2005
Land	\$ 109,408	\$ 109,408
Land improvements	15,250	8,250
Buildings	3,384,229	3,384,229
Building improvements	3,486,766	3,286,966
Architectural and other fees	2,941,224	2,849,874
Furnishings and equipment	1,590,102	1,520,880
Automobiles	784,357	756,945
	<u>12,311,336</u>	<u>11,916,552</u>
Accumulated depreciation	<u>(5,740,147)</u>	<u>(5,272,887)</u>
	<u>\$ 6,571,189</u>	<u>\$ 6,643,665</u>

Lawrence Hall Youth Services
Notes to the Financial Statements
Year Ended June 30, 2006 (With Comparative Information for 2005)

Note 7 Retirement Plans

The Agency maintains a defined benefit pension plan covering substantially all of its employees. The benefits are based on years of service and the employee's compensation during the last years of employment. The Agency's funding policy is to contribute to the plan the annual actuarially required amounts. Effective December 31, 2005, the Agency froze the defined benefit pension plan. No further benefits or credited service will accrue under the plan after December 31, 2005. The plan's assets are mainly invested in mutual funds. The Agency uses a May 31 measurement date for its plan.

	<u>2006</u>	<u>2005</u>
Projected benefit obligation	\$ 11,603,814	\$ 12,485,063
Plan assets at market value	<u>11,642,007</u>	<u>10,946,027</u>
Funded status	<u>\$ 38,193</u>	<u>\$ (1,539,036)</u>
Accrued pension liability recognized in the statements of financial position	\$ (913,000)	\$ (1,805,329)
Benefit cost	280,296	406,654
Employer contributions		266,840
Benefits paid	462,732	464,786
Accumulated benefit obligation	11,603,814	10,669,251
Weighted-average assumptions used to determine benefit obligations		
Discount rate	6.00 %	6.00 %
Rate of compensation increase		4.00
Weighted-average assumptions used to determine net periodic benefit cost		
Discount rate	5.50 %	7.00 %
Expected long-term return on plan assets	7.00	8.00
Rate of compensation increase		4.00

The Agency's expected long-term return on plan assets assumption is based on a periodic review and modeling of the plan's asset allocation and liability structure over a long-term horizon. Expectations of returns for each asset class are the most important of the assumptions used in the review and modeling and are based on comprehensive reviews of historical data and economic/financial market theory. The expected long-term rate of return on assets was selected from within the reasonable range of rates determined by (a) historical real returns, net of inflation, for the asset classes covered by the investment policy and (b) projections of inflation over the long-term period during which benefits are payable to plan participants.

Lawrence Hall Youth Services
Notes to the Financial Statements
Year Ended June 30, 2006 (With Comparative Information for 2005)

Note 7 Retirement Plans, *Continued*

At June 30, 2006, plan assets were invested in mutual funds and comprised of approximately 31 percent debt securities funds, 62 percent equity funds and 7 percent in other funds. The Agency's target allocation was 33 percent debt securities, 60 percent equity securities and 7 percent in other funds. Seven mutual fund holdings were in excess of 5 percent of plan assets as of June 30, 2006. As determined by its actuary, there is no required contribution for 2006.

The Agency's investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions. Central to the policy are target allocations (shown above) by major asset categories. The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plan's actuarial assumptions and achieve asset returns that are competitive with like institutions employing similar investment strategies. The investment policy is periodically reviewed by the Agency. The policy is established and administered in a manner so as to comply at all times with applicable government regulations.

The benefits expected to be paid for the next 10 years are as follows:

2007	\$ 437,877
2008	456,018
2009	470,061
2010	481,231
2011	495,987
2012-2016	<u>3,176,818</u>
	<u>\$ 5,517,992</u>

In conjunction with the December 31, 2005 plan freeze, the Agency recognized a curtailment gain of \$1,172,625. The gain has been reported separately in the Statement of Activities as an increase in unrestricted net assets. There were no settlements or termination benefits as classified under the Statement of Financial Accounting Standards No. 88 (SFAS 88).

In April 2006, the Agency instituted a qualified 401(k) plan for its employees. Employees are eligible to contribute to the 401(k) plan upon employment and anytime thereafter. The Agency provides a matching contribution to employees that have completed one year of service during which the employee has completed 1,000 hours of service. The Agency's required matching contribution is 100 percent of the employee's first 3 percent contribution and 50 percent of the employee's next 2 percent contribution for a maximum Agency contribution of 4 percent. Employer contributions for fiscal year 2006 were \$44,680.

Lawrence Hall Youth Services
Notes to the Financial Statements
Year Ended June 30, 2006 (With Comparative Information for 2005)

Note 8 Lease Obligations

The Agency occupies office facilities at 65 East Wacker Place under a lease expiring in 2015. Various equipment operating leases are in effect as well. Approximate minimum future rental payments required under these leases are as follows:

2007	\$ 447,000
2008	404,000
2009	397,000
2010	396,000
2011	393,000
2012-2015	<u>1,652,000</u>
	<u>\$ 3,689,000</u>

Rent expense for fiscal year 2006 was \$616,979 (2005 - \$596,467). Effective September 1, 2006, the Agency restructured its lease at 65 East Wacker Place, reducing the amount of space under lease as well as the rental rate and extending the term from January 2009 to June 2015. The future minimum rental payments presented above reflect the impact of the lease restructure.

Note 9 Deferred Rent Liability

In connection with its 1998 lease for office space at 65 East Wacker Place, the Agency negotiated a rent abatement for the first three months of the lease. The lease also provides for scheduled annual increases in rent over the term of the lease. In accordance with applicable accounting pronouncements, the Agency records rent expense for each month of occupancy equal to the average minimum monthly rent over the lease term.

The Agency has recorded a liability for the imputed rent expense during the reduced rent periods. This liability increased during the early portion of the lease and is currently being amortized over the remaining lease term.

Lawrence Hall Youth Services
Notes to the Financial Statements
Year Ended June 30, 2006 (With Comparative Information for 2005)

Note 10 Net Assets Restrictions

Restricted net assets consisted of:

	2006		2005	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Beneficial interest in irrevocable trusts	\$ -	\$ 11,625,209	\$ -	\$ 11,316,399
General use		2,766,906		2,585,895
Independent living			4,539	
Recreation	10,113		6,445	
Residential	4,948		16,760	
School	46,636	30,455	20,550	28,463
Chaplaincy	3,000		465	
Scholarships	53,149		74,762	
Christmas gifts	3,944		263	
Property and equipment	1,486,878		1,421,879	
Campaign for the Children of Lawrence Hall	1,807,316		1,355,319	
Other	439		1,146	
	<u>\$ 3,416,423</u>	<u>\$ 14,422,570</u>	<u>\$ 2,902,128</u>	<u>\$ 13,930,757</u>

Temporarily restricted balances represent funds available for use, while permanently restricted balances represent funds held in perpetuity, the income of which is to be used for the designated purposes.

Assets released from restrictions are as follows:

	2006	2005
Independent living	\$ 52,539	\$ -
Residential	34,311	38,146
Recreation	20,334	91,040
School	86,962	60,040
Chaplaincy	13,410	28,140
Scholarships	37,460	22,406
Health/Nutrition programming	10,000	10,000
Christmas gifts	18,110	14,762
Additions to property and equipment	333,390	921,109
Training	233	19,640
Other	16,696	6,096
	<u>\$ 623,445</u>	<u>\$ 1,211,379</u>

Supplementary Information

Lawrence Hall Youth Services
Schedule of Restricted Grants from Government Agencies
Year Ended June 30, 2006

	Illinois Department of Commerce and Economic Opportunity* <u>#02-120160</u>	Illinois Capital Development Board** <u>#900-010-161</u>	<u>Total</u>
Balance of restricted grants, July 1, 2005	\$ 701,899	\$ 1,255,875	\$ 1,957,774
Grants received	1,000,000	350,000	1,350,000
Expenditures			
Architectural and other consultant fees	<u>(21,460)</u>	<u>(21,347)</u>	<u>(42,807)</u>
Balance of restricted grants (deferred contractual obligations), June 30, 2006	<u>\$ 1,680,439</u>	<u>\$ 1,584,528</u>	<u>\$ 3,264,967</u>

*\$2,000,000 grant funds received, net of expenditures of \$298,101 in fiscal year 2005 and \$21,460 in 2006 (see Note 2).

**\$3,500,000 grant funds received, net of expenditures of \$527,467 in fiscal year 2001, \$572,464 in 2002, \$453,607 in 2003, \$33,490 in 2004, \$307,097 in 2005 and \$21,347 in 2006 (see Note 2).

Lawrence Hall Youth Services
Schedule of Unrestricted Fees and Grants from Government Agencies
Year Ended June 30, 2006 (With Comparative Totals for 2005)

	Residential Programs			Special Education School	Supervised Independent Living	Transitional Living Arrangements	Supervised Transitional Group Living
	Institutional Group Care	Regular Group Homes	Group Shelter Care				
Service fees							
Illinois Department of Children and Family Services	\$ 3,498,377	\$ 3,710,115	\$ 1,120,097	\$ 35,832	\$ 463,656	\$ 2,703,203	\$ 1,018,512
Illinois Department of Human Services Project SKIL (Title XX)							
Chicago Board of Education - Special Education	54,666			3,089,444			
Local Education Agencies				80,522			
Grants							
Food grants	25,060	28,154	5,607	34,097			5,911
U.S. Department of Health and Human Services - Substance Abuse and Mental Health Services Administration	2,646	3,968					
U.S. Department of Justice - Office of Justice Programs							
Louisiana Department of Social Services							
	<u>\$ 3,580,749</u>	<u>\$ 3,742,237</u>	<u>\$ 1,125,704</u>	<u>\$ 3,239,895</u>	<u>\$ 463,656</u>	<u>\$ 2,703,203</u>	<u>\$ 1,024,423</u>

Lawrence Hall Youth Services

Schedule of Unrestricted Fees and Grants from Government Agencies, *Continued* Year Ended June 30, 2006 (With Comparative Totals for 2005)

	Transitional Living Program	Relative/ Traditional Foster Care	Specialized Mental Health Foster Care	Other Programs	Total	
					2006	2005
Service fees						
Illinois Department of Children and Family Services	\$ 25,863	\$ 1,354,321	\$ 412,568	\$ -	\$ 14,342,544	\$ 13,440,145
Illinois Department of Human Services Project SKIL (Title XX)				210,842	210,842	210,052
Chicago Board of Education - Special Education					3,144,110	2,864,542
Local Education Agencies					80,522	76,130
Grants						
Food grants					98,829	83,672
U.S. Department of Health and Human Services - Substance Abuse and Mental Health Services Administration					6,614	173,887
U.S. Department of Justice - Office of Justice Programs					-	141,753
Louisiana Department of Social Services				4,500	4,500	4,500
	<u>\$ 25,863</u>	<u>\$ 1,354,321</u>	<u>\$ 412,568</u>	<u>\$ 215,342</u>	<u>\$ 17,887,961</u>	<u>\$ 16,994,681</u>

Lawrence Hall Youth Services
Schedule of Property and Equipment
June 30, 2006

	Assets			Accumulated Depreciation			Net, June 30, 2006		
	Balance, July 1, 2005	Additions	Retirements	Balance, June 30, 2006	Balance, July 1, 2005	Provisions		Retirements	Balance, June 30, 2006
Francisco Avenue Campus									
Land	\$ 51,458	\$ -	\$ -	\$ 51,458	\$ -	\$ -	\$ -	\$ 51,458	
Land improvements	8,250	7,000		15,250	3,312	5,144	8,456	6,794	
Buildings	2,810,482			2,810,482	1,947,050	65,732	2,012,782	797,700	
Building improvements	474,888	30,686		505,574	318,251	41,837	360,088	145,486	
Furnishings and equipment	544,333	42,214		586,547	407,209	52,477	459,686	126,861	
Architectural and other fees	2,675,290	91,350		2,766,640			-	2,766,640	
Sandberg Center Property									
Land	20,000			20,000			-	20,000	
Buildings	245,943			245,943	244,409	1,534	245,943	-	
Building improvements	277,715	17,806		295,521	190,355	10,461	200,816	94,705	
Furnishings and equipment	60,679	4,380		65,059	51,650	5,417	57,067	7,992	
Architectural and other fees	17,453			17,453	2,087	872	2,959	14,494	
Group Home Properties									
Land	37,950			37,950			-	37,950	
Buildings	327,804			327,804	317,584	1,630	319,214	8,590	
Building improvements	2,414,231	151,308		2,565,539	587,321	160,407	747,728	1,817,811	
Furnishings and equipment	78,797	12,167		90,964	48,727	11,861	60,588	30,376	
Architectural and other fees	157,131			157,131	18,612	8,232	26,844	130,287	
Automobiles	756,945	92,796	65,384	784,357	567,810	84,255	65,384	586,681	
Wacker Building Property									
Leasehold improvements	120,132			120,132	69,450	12,013	81,463	38,669	
Furnishings and equipment	837,071	10,461		847,532	499,060	70,772	569,832	277,700	
	<u>\$11,916,552</u>	<u>\$ 460,168</u>	<u>\$ 65,384</u>	<u>\$12,311,336</u>	<u>\$ 5,272,887</u>	<u>\$ 532,644</u>	<u>\$ 65,384</u>	<u>\$ 5,740,147</u>	<u>\$ 6,571,189</u>