

McGladrey & Pullen

Certified Public Accountants

Lawrence Hall Youth Services

Financial Report

June 30, 2007

Lawrence Hall Youth Services

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McGladrey & Pullen

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 (the "Agency") as of June 30, 2007 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 financial statements based on our audit. The financial statements for the Agency for the year ended June 30, 2006 were audited by Altschuler, Melvoin and Glasser LLP, certain of whose partners have become partners of McGladrey & Pullen, LLP. Altschuler, Melvoin and Glasser LLP's report, dated October 13, 2006, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, 2007 and its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

As described in Note 7 to the financial statements, the Agency adopted as of June 30, 2007, FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

McGladrey & Pullen, LLP

Chicago, Illinois
November 20, 2007

Lawrence Hall Youth Services
Statement of Financial Position
June 30, 2007 (With Comparative Totals for 2006)

	<u>2007</u>	<u>2006</u>
Assets		
Cash and cash equivalents	\$ 3,554,276	\$ 7,682,839
Accounts receivable (net of allowance for uncollectible accounts of \$10,000 in 2007 and \$30,000 in 2006)	1,117,097	699,273
Pledges and grants receivable	931,850	1,830,185
Prepaid expenses and other assets	517,360	451,770
Funds held for construction	11,079,590	
Unrestricted investments	5,514,901	2,286,790
Permanently restricted investments	3,106,306	2,794,398
Beneficial interest in irrevocable trusts	12,409,709	11,625,209
Property and equipment, net	14,148,284	6,571,189
Prepaid pension cost	664,973	
	<u>\$ 53,044,346</u>	<u>\$ 33,941,653</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 334,778	\$ 427,409
Construction costs payable	1,403,588	
Accrued expenses	485,952	496,319
Accrued payroll and payroll taxes	401,422	307,067
Accrued pension liability		913,000
Deferred revenue/contractual obligations	129,581	3,547,719
Bonds payable	15,000,000	
	<u>17,755,321</u>	<u>5,691,514</u>
Net assets		
Unrestricted	16,964,555	10,411,146
Temporarily restricted	2,803,863	3,416,423
Permanently restricted	15,520,607	14,422,570
	<u>35,289,025</u>	<u>28,250,139</u>
	<u>\$ 53,044,346</u>	<u>\$ 33,941,653</u>

Lawrence Hall Youth Services

Statement of Activities

Year Ended June 30, 2007 (With Comparative Totals for 2006)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2007	2006
Revenue					
Fees and grants from government agencies	\$ 18,973,318	\$ 3,379,525	\$ -	\$ 22,352,843	\$ 17,930,768
Contributions and grants	593,364	652,293		1,245,657	1,589,884
United Way of Metropolitan Chicago	499,767			499,767	619,203
Allocations from Episcopal Charities	75,500			75,500	71,500
Special events, net of \$23,049 and \$65,458 of expenses in 2007 and 2006, respectively	28,165			28,165	23,148
Contributions from associated organizations				-	1,000
Allocation from unassociated and nonfederated fundraising organizations		51,450		51,450	9,933
Investment income	437,786	1,024		438,810	307,088
Investment income - funds held for construction	353,916			353,916	-
Earnings from beneficial interest in irrevocable trusts	486,864			486,864	491,365
Gains on sales of investments	90,354		83,831	174,185	144,495
Unrealized gain on investments	233,038		229,706	462,744	193,774
Increase in value of beneficial interest in irrevocable trusts			784,500	784,500	308,810
Net adjustments to allowance for uncollectible accounts	(1,667)			(1,667)	(23,195)
Other	131,291			131,291	6,538
Net assets released from restriction	4,696,852	(4,696,852)		-	-
	<u>26,598,548</u>	<u>(612,560)</u>	<u>1,098,037</u>	<u>27,084,025</u>	<u>21,674,311</u>
Expenses					
Program services					
Residential programs					
Institutional Group Care	2,849,692			2,849,692	3,292,315
Regular Group Care	3,439,351			3,439,351	3,658,908
Group Shelter Care	1,710,933			1,710,933	978,519
Special Education School	2,761,526			2,761,526	2,756,307
Independent Living	1,019,112			1,019,112	424,210
Transitional Living	3,290,758			3,290,758	3,400,668
Relative/Traditional Foster Care	1,301,486			1,301,486	1,495,071
Specialized Mental Health Foster Care	711,876			711,876	339,790
Project SKIL	314,760			314,760	329,129
Balanced and Restorative Justice	18,471			18,471	31,212
Specialty populations	29,128			29,128	-
Scholarships	29,930			29,930	37,210
	<u>17,477,023</u>	<u>-</u>	<u>-</u>	<u>17,477,023</u>	<u>16,743,339</u>

Lawrence Hall Youth Services

Statement of Activities, *Continued*

Year Ended June 30, 2007 (With Comparative Totals for 2006)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2007	2006
<i>Expenses, Continued</i>					
Supporting services					
Management and general	\$ 2,791,262	\$ -	\$ -	\$ 2,791,262	\$ 2,524,875
Fundraising	743,820	-	-	743,820	669,274
	<u>3,535,082</u>	<u>-</u>	<u>-</u>	<u>3,535,082</u>	<u>3,194,149</u>
Total functional expenses	<u>21,012,105</u>	<u>-</u>	<u>-</u>	<u>21,012,105</u>	<u>19,937,488</u>
Financing and project activities					
Bond interest	357,288	-	-	357,288	-
Financing costs	53,057	-	-	53,057	-
Temporary off-site occupancy	77,124	-	-	77,124	-
	<u>487,469</u>	<u>-</u>	<u>-</u>	<u>487,469</u>	<u>-</u>
Other	<u>7,210</u>	<u>-</u>	<u>-</u>	<u>7,210</u>	<u>789</u>
	<u>21,506,784</u>	<u>-</u>	<u>-</u>	<u>21,506,784</u>	<u>19,938,277</u>
Increase (decrease) in net assets before pension curtailment and accounting change	5,091,764	(612,560)	1,098,037	5,577,241	1,736,034
Curtailment of pension liability	-	-	-	-	1,172,625
Income recognized from adoption of FAS 158	<u>1,461,645</u>	<u>-</u>	<u>-</u>	<u>1,461,645</u>	<u>-</u>
Increase (decrease) in net assets	6,553,409	(612,560)	1,098,037	7,038,886	2,908,659
Net assets					
Beginning 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>
End of year	<u>\$ 16,964,555</u>	<u>\$ 2,803,863</u>	<u>\$ 15,520,607</u>	<u>\$ 35,289,025</u>	<u>\$ 28,250,139</u>

Lawrence Hall Youth Services

Statement of Functional Expenses

Year Ended June 30, 2007 (With Comparative Totals for 2006)

	Residential					Total
	Institutional Group Care	Regular Group Care	Group Shelter Care	Special Education School	Other Programs	
Salaries	\$ 1,825,577	\$ 2,140,595	\$ 1,180,893	\$ 1,858,544	\$ 2,895,010	\$ 9,900,619
Employee health and retirement benefits	139,173	163,186	90,025	141,685	220,699	754,768
Payroll taxes and benefits	208,867	244,911	135,149	212,704	331,462	1,133,093
	<u>2,173,617</u>	<u>2,548,692</u>	<u>1,406,067</u>	<u>2,212,933</u>	<u>3,447,171</u>	<u>11,788,480</u>
Professional fees and contract service payments	37,203	43,891	16,263	41,382	252,587	391,326
Supplies	167,301	207,055	74,828	152,664	89,143	690,991
Telephone	23,906	43,433	13,700	20,059	79,085	180,183
Postage and shipping	1,162	1,211	153	1,537	5,300	9,363
Occupancy	173,656	193,248	73,897	158,000	326,636	925,437
Printing and publications	409	398	66	1,333	1,611	3,817
Local transportation	77,186	85,837	48,626	28,328	167,129	407,106
Conferences and training	7,534	7,840	1,462	14,407	18,662	49,905
Subscriptions	77	98	78	909		1,162
Foster care room and board					564,659	564,659
Specific assistance to clients	90,175	138,299	27,122	20,071	1,625,015	1,900,682
Membership dues	491	536	87	2,642	1,074	4,830
Minor equipment	16,140	18,784	2,643	33,227	32,240	103,034
Miscellaneous	4,560	5,022	493	7,111	2,103	19,289
	<u>2,773,417</u>	<u>3,294,344</u>	<u>1,665,485</u>	<u>2,694,603</u>	<u>6,612,415</u>	<u>17,040,264</u>
Depreciation	<u>76,275</u>	<u>145,007</u>	<u>45,448</u>	<u>66,923</u>	<u>103,106</u>	<u>436,759</u>
	<u>\$ 2,849,692</u>	<u>\$ 3,439,351</u>	<u>\$ 1,710,933</u>	<u>\$ 2,761,526</u>	<u>\$ 6,715,521</u>	<u>\$ 17,477,023</u>

Lawrence Hall Youth Services

Statement of Functional Expenses, *Continued*

Year Ended June 30, 2007 (With Comparative Totals for 2006)

	Supporting Services			Total	
	Management and General	Fundraising	Total	2007	2006
Salaries	\$ 1,461,982	\$ 397,494	\$ 1,859,476	\$ 11,760,095	\$ 10,921,455
Employee health and retirement benefits	110,287	30,303	140,590	895,358	1,081,326
Payroll taxes and benefits	165,607	45,491	211,098	1,344,191	1,292,231
	<u>1,737,876</u>	<u>473,288</u>	<u>2,211,164</u>	<u>13,999,644</u>	<u>13,295,012</u>
Professional fees and contract service payments	303,947	140,958	444,905	836,231	752,971
Supplies	70,356	6,190	76,546	767,537	634,990
Telephone	67,079	10,554	77,633	257,816	215,570
Postage and shipping	13,886	7,557	21,443	30,806	28,641
Occupancy	249,968	49,547	299,515	1,224,952	1,389,867
Printing and publications	28,332	8,266	36,598	40,415	25,546
Local transportation	38,620	5,522	44,142	451,248	402,802
Conferences and training	61,562	5,075	66,637	116,542	116,671
Subscriptions	4,056	4,730	8,786	9,948	6,051
Foster care room and board				564,659	483,316
Specific assistance to clients				1,900,682	1,663,416
Membership dues	38,288	2,150	40,438	45,268	42,818
Minor equipment	61,686	13,225	74,911	177,945	242,195
Miscellaneous	52,404	5,202	57,606	76,895	104,978
	<u>2,728,060</u>	<u>732,264</u>	<u>3,460,324</u>	<u>20,500,588</u>	<u>19,404,844</u>
Depreciation	<u>63,202</u>	<u>11,556</u>	<u>74,758</u>	<u>511,517</u>	<u>532,644</u>
	<u>\$ 2,791,262</u>	<u>\$ 743,820</u>	<u>\$ 3,535,082</u>	<u>\$ 21,012,105</u>	<u>\$ 19,937,488</u>

Lawrence Hall Youth Services
Statement of Functional Expenses - Other Programs
Year Ended June 30, 2007

	Independent Living	Transitional Living	Relative/ Traditional Foster Care	Specialized Mental Health Foster Care	Project SKIL	Balanced and Restorative Justice	Specialty Populations	Scholarships	Total Other Programs
Salaries	\$ 276,676	\$ 1,643,285	\$ 473,033	\$ 253,383	\$ 213,552	\$ 14,303	\$ 20,778	\$ -	\$ 2,895,010
Employee health and retirement benefits	21,093	125,274	36,061	19,317	16,280	1,090	1,584		220,699
Payroll taxes and benefits	31,665	188,069	54,137	28,999	24,440	1,774	2,378		331,462
	<u>329,434</u>	<u>1,956,628</u>	<u>563,231</u>	<u>301,699</u>	<u>254,272</u>	<u>17,167</u>	<u>24,740</u>	<u>-</u>	<u>3,447,171</u>
Professional fees and contract service payments	4,796	16,954	161,913	68,924					252,587
Supplies	5,675	29,969	6,628	1,177	45,486	44	164		89,143
Telephone	9,453	43,277	19,513	6,504	101	118	119		79,085
Postage and shipping	691	710	2,924	975					5,300
Occupancy	72,385	124,490	96,451	32,150	1,160				326,636
Printing and publications	321	321	639	213	117				1,611
Local transportation	35,608	58,565	55,393	17,338	16	104	105		167,129
Conferences and training	2,373	3,963	6,375	1,771		180	4,000		18,662
Foster care room and board			302,378	262,281					564,659
Specific assistance to clients	544,383	983,031	49,561	6,916	11,088	106		29,930	1,625,015
Membership dues	29	29	774	137	105				1,074
Minor equipment	6,258	8,667	12,955	4,318		42			32,240
Miscellaneous	270	290	708	125		710			2,103
	<u>1,011,676</u>	<u>3,226,894</u>	<u>1,279,443</u>	<u>704,528</u>	<u>312,345</u>	<u>18,471</u>	<u>29,128</u>	<u>29,930</u>	<u>6,612,415</u>
Depreciation	7,436	63,864	22,043	7,348	2,415	-	-	-	103,106
	<u>\$ 1,019,112</u>	<u>\$ 3,290,758</u>	<u>\$ 1,301,486</u>	<u>\$ 711,876</u>	<u>\$ 314,760</u>	<u>\$ 18,471</u>	<u>\$ 29,128</u>	<u>\$ 29,930</u>	<u>\$ 6,715,521</u>

Lawrence Hall Youth Services
Statement of Cash Flows
Year Ended June 30, 2007 (With Comparative Totals for 2006)

	<u>2007</u>	<u>2006</u>
Operating activities		
Increase in net assets	\$ 7,038,886	\$ 2,908,659
Depreciation	511,517	532,644
Realized and unrealized gains on investments	(638,754)	(338,269)
Increase in value of beneficial interest in irrevocable trusts	(784,500)	(308,810)
Gain on sale of property and equipment	(1,800)	(3,801)
Temporarily restricted contributions for purchase of real property	(4,260,570)	(333,390)
Changes in		
Accounts receivable	(417,824)	463,073
Pledges and grants receivable	898,335	(434,570)
Prepaid expenses and other assets	(65,590)	(63,570)
Prepaid pension cost/liability	(1,577,973)	(892,329)
Accounts payable	(92,631)	160,593
Construction costs payable	1,403,588	
Accrued expenses	(10,367)	(122,609)
Accrued payroll and payroll taxes	94,355	(299,506)
Deferred revenue/contractual obligations	<u>(3,418,138)</u>	<u>1,491,775</u>
Net cash provided by (used in) operating activities	<u>(1,321,466)</u>	<u>2,759,890</u>
Investing activities		
Additions to equipment	(179,746)	(162,018)
Renovations and improvements to buildings	(7,908,866)	(298,150)
Proceeds from sale of property and equipment	1,800	3,801
Proceeds from sales of investments	27,886,342	2,829,620
Purchases of investments	<u>(41,867,197)</u>	<u>(2,836,175)</u>
Net cash used in investing activities	<u>(22,067,667)</u>	<u>(462,922)</u>
Financing activities		
Tax-exempt bond proceeds	15,000,000	
Temporarily restricted contributions for purchase of real property	<u>4,260,570</u>	<u>333,390</u>
Net cash provided by financing activities	<u>19,260,570</u>	<u>333,390</u>
Increase (decrease) in cash and cash equivalents	(4,128,563)	2,630,358
Cash and cash equivalents		
Beginning of year	<u>7,682,839</u>	<u>5,052,481</u>
End of year	<u>\$ 3,554,276</u>	<u>\$ 7,682,839</u>
Supplemental disclosure of cash flow information		
Interest paid	<u>\$ 357,288</u>	<u>\$ -</u>

Lawrence Hall Youth Services

Notes to the Financial Statements

Year Ended June 30, 2007 (With Comparative Information for 2006)

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 Cash Equivalents—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, 2007 (With Comparative Information for 2006)

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 accounting principles generally accepted in the United States of America. Accordingly, this information should be read in conjunction with the Agency's financial statements for fiscal 2006 from which the summarized information was derived. In addition, certain 2007 balances were reclassified to conform to the current year presentation, without any effect on total net assets.

Use of Estimates—In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, 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.

New Accounting Pronouncements—The Financial Accounting Standards Board (FASB) has issued FASB Staff Position (FSP) No. FAS 126-1, which will be effective for the Agency for the fiscal year ending June 30, 2008. This FSP clarifies the definition of a public entity in certain accounting standards to include entities that are conduit bond obligors for conduit debt securities that are traded in a public market. This FSP amends various pronouncements, including FASB Statement No. 132 (R), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, and the AICPA Audit and Accounting Guides, Not-for-Profit Organizations. The Agency's management believes that certain additional disclosures will be required in financial statements issued after the FSP's effective date.

Lawrence Hall Youth Services

Notes to the Financial Statements

Year Ended June 30, 2007 (With Comparative Information for 2006)

Note 2 Deferred Revenue/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 "project"). The Agency received state and federal grants for the project and has expended grant funds for project 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 and \$40,000 grant awarded in fiscal 2007)		
2001	\$ -	\$ 527,467
2002	1,575,000	572,464
2003	1,575,000	453,607
2004		33,490
2005		307,097
2006	350,000	21,347
2007	40,000	422,565
	<u>\$ 3,540,000</u>	<u>\$ 2,338,037</u>
Department of Commerce and Economic Opportunity (\$2 million grant awarded in fiscal 2002)		
2003	\$ 1,000,000	\$ -
2004		
2005		298,101
2006	1,000,000	21,460
2007		1,279,194
	<u>\$ 2,000,000</u>	<u>\$ 1,598,755</u>
United States Department of Housing and Urban Development (fiscal 2005)		
2007	<u>\$ 74,558</u>	<u>\$ -</u>

Funds unexpended in the amount of \$3,264,967 were recorded as deferred contractual obligations at June 30, 2006. During fiscal year 2007, project construction commenced and these amounts were recorded as grants received from government agencies in the temporarily restricted fund. 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. Payments under the grants are made in accordance with the grant terms to cover qualified expenditures.

Lawrence Hall Youth Services
Notes to the Financial Statements
Year Ended June 30, 2007 (With Comparative Information for 2006)

Note 2 Deferred Revenue/Contractual Obligations, Continued

The Agency commenced construction on Phase I of the Campus Renovation project during fiscal year 2007. Phase I includes the construction of a new Residential Treatment Center, the renovation of the gymnasium and various site improvements. The total estimated cost of Phase I project activities is \$23,500,000. The Agency also conducted a \$15,000,000 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	At June 30, 2007		
		Cumulative Grant Amount	Cumulative Grant Expenditures	Temporarily Restricted Funds
Capital Development Board	2001/2007	\$ 3,540,000	\$ 2,338,037	\$ 1,201,963
Department of Commerce and Economic Opportunity	2002	2,000,000	1,598,755	401,245
U.S. Department of Housing and Urban Development	2005	74,558		74,558

Remaining phases of campus redevelopment to be conducted in the future include a new special education therapeutic day school, administrative center, gymnasium and library.

At June 30, 2007, the Agency has recorded a deferred obligation in the amount of \$129,581 (2006 - \$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 and Grants Receivable

Pledges and grants 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:

2008	\$ 745,263
2009	114,402
2010	67,228
2011	<u>24,625</u>
	951,518
Discount to present value (at a rate of 4%)	<u>(19,668)</u>
	<u>\$ 931,850</u>

Lawrence Hall Youth Services
Notes to the Financial Statements
Year Ended June 30, 2007 (With Comparative Information for 2006)

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 earnings from beneficial interest in irrevocable trusts. 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 \$12,409,709 at June 30, 2007 (2006 - \$11,625,209).

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		2007	2006
	Unrestricted	Permanently Restricted		
Cash available for investment	\$ -	\$ 156,645	\$ 156,645	\$ 99,542
U.S. government and corporate fixed income securities	3,795,825	923,775	4,719,600	1,660,350
Corporate equity securities and institutional mutual funds	1,719,076	2,025,886	3,744,962	3,321,296
	<u>\$ 5,514,901</u>	<u>\$ 3,106,306</u>	<u>\$ 8,621,207</u>	<u>\$ 5,081,188</u>

Note 6 Property and Equipment

Property and equipment consisted of:

	2007	2006
Land	\$ 109,408	\$ 109,408
Land improvements	15,250	15,250
Construction in progress (Note 2)	6,902,311	
Buildings	3,384,229	3,384,229
Building improvements	3,707,824	3,486,766
Architectural and other fees	3,449,293	2,941,224
Bond financing costs	277,428	
Furnishings and equipment	1,707,604	1,590,102
Automobiles	814,410	784,357
	<u>20,367,757</u>	<u>12,311,336</u>
Accumulated depreciation	<u>(6,219,473)</u>	<u>(5,740,147)</u>
	<u>\$ 14,148,284</u>	<u>\$ 6,571,189</u>

Lawrence Hall Youth Services
Notes to the Financial Statements
Year Ended June 30, 2007 (With Comparative Information for 2006)

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 June 30 measurement date for its plan.

The Agency adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an Amendment of FASB Statements No. 87, 88, 106, and 132(R)*, which require the Agency to recognize, beginning with its fiscal year 2007 financial statements, the funding position of its plan (the difference between the fair value of plan assets and the projected benefit obligation). Because the plan was frozen, the pension liability at June 30, 2007 is the same as required by the adoption of FAS 158. In conjunction with the plan freeze and the adoption of FAS 158, the Agency recognized a non-operating revenue item of \$1,461,645, which has been separately reported in the statement of activities as an increase in unrestricted net assets (see Note 8). Following is a summary of plan information as provided by the consulting actuary:

	<u>2007</u>	<u>2006</u>
Projected benefit obligation	\$ 11,981,000	\$ 11,603,814
Plan assets at market value	<u>12,645,973</u>	<u>11,642,007</u>
Funded status	<u>\$ 664,973</u>	<u>\$ 38,193</u>
Accrued pension asset (liability) recognized in the statements of financial position	\$ 664,973	\$ (913,000)
Benefit cost (revenue)	(116,328)	280,296
Benefits paid	440,543	462,732
Accumulated benefit obligation	11,981,000	11,603,814
Weighted-average assumptions used to determine benefit obligations		
Discount rate	5.75 %	6.00 %
Weighted-average assumptions used to determine net periodic benefit cost		
Discount rate	6.00 %	6.00 %
Expected long-term return on plan assets	7.00	8.00

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, 2007 (With Comparative Information for 2006)

Note 7 Retirement Plans, *Continued*

At June 30, 2007, plan assets were invested in mutual funds and comprised of approximately 71 percent debt securities funds, 21 percent equity funds and 8 percent in other funds. The Agency's target allocation was 69 percent debt securities, 20 percent equity securities and 11 percent in other funds. Seven mutual fund holdings were in excess of 5 percent of plan assets as of June 30, 2007. As determined by its actuary, there is no required contribution for 2007.

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:

2008	\$ 468,206
2009	481,461
2010	491,621
2011	505,106
2012	559,938
2013-2017	<u>3,389,492</u>
	<u>\$ 5,895,824</u>

In conjunction with the plan freeze effective December 31, 2005, the Agency recognized a curtailment gain of \$1,172,625 in its fiscal year 2006 financial statements. The gain was reported separately in the financial statements 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 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 2007 and 2006 were \$214,794 and \$44,680, respectively.

Lawrence Hall Youth Services
Notes to the Financial Statements
Year Ended June 30, 2007 (With Comparative Information for 2006)

Note 8 Adoption of FASB Statement No. 158

The Agency adopted FASB Statement No. 158 effective June 30, 2007. The following table illustrates the incremental effect on individual line items in the statement of financial position as of June 30, 2007:

	Before Application of Statement 158	Adjustment	After Application of Statement 158
Prepaid pension cost	\$ -	\$ 664,973	\$ 664,973
Accrued pension liability	<u>796,672</u>	<u>796,672</u>	<u> </u>
Adjustment for prepaid pension cost	<u>\$ 796,672</u>	<u>\$ 1,461,645</u>	<u>\$ 664,973</u>

Note 9 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:

2008	\$ 456,000
2009	404,000
2010	400,000
2011	394,000
2012	401,000
2013-2015	<u>1,251,000</u>
	<u>\$ 3,306,000</u>

Rent expense for fiscal year 2007 was \$524,684 (2006 - \$616,979). 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 2013 to June 2015. The future minimum rental payments presented above reflect the impact of the lease restructure.

Note 10 Contingencies

From time to time, the Agency is subject to litigation that arises in the ordinary course of conducting activities. In management's opinion, the resolution of litigation matters, if any, could not have a material effect on the financial position of the Agency at June 30, 2007.

Lawrence Hall Youth Services
Notes to the Financial Statements
Year Ended June 30, 2007 (With Comparative Information for 2006)

Note 11 Net Assets Restrictions

Restricted net assets consisted of:

	2007		2006	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Beneficial interest in irrevocable trusts	\$ -	\$ 12,409,709	\$ -	\$ 11,625,209
General use		3,077,030		2,766,906
Recreation	64,613		10,113	
Residential	18,418		4,948	
School	34,238	33,868	46,636	30,455
Chaplaincy	1,610		3,000	
Scholarships	39,664		53,149	
Christmas gifts			3,944	
Property and equipment	1,802,775		1,486,878	
Campaign for the Children of Lawrence Hall	820,322		1,807,316	
Professional development and training	10,000			
Clinical services	7,500			
Other	4,723		439	
	<u>\$ 2,803,863</u>	<u>\$ 15,520,607</u>	<u>\$ 3,416,423</u>	<u>\$ 14,422,570</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:

	2007	2006
Independent/Transitional living	\$ 25,500	\$ 52,539
Residential	67,730	34,311
Recreation	93,750	20,334
School	92,572	86,962
Chaplaincy	35,026	13,410
Scholarships	33,860	37,460
Health/Nutrition programming		10,000
Christmas gifts	20,594	18,110
Additions to property and equipment	4,260,570	333,390
Professional development and training	55,500	233
Other	11,750	16,696
	<u>\$ 4,696,852</u>	<u>\$ 623,445</u>

Lawrence Hall Youth Services
Notes to the Financial Statements
Year Ended June 30, 2007 (With Comparative Information for 2006)

Note 12 Bonds Payable

In November 2006 the Agency issued 35-year variable rate tax-exempt bonds through the Illinois Finance Authority (the "Authority") in the amount of \$15,000,000. The Agency entered into a loan agreement with the Authority for the proceeds of the bond issue, which are held by the trustee (Bank of New York) and disbursed periodically for payment of expenditures incurred in conjunction with the Agency's Francisco Avenue campus renovation project (see Notes 2 and 13). The bonds have a maturity date of November 1, 2041. Interest (at 3.77 percent as of June 30, 2007) is payable monthly, and principal payments are scheduled annually as follows:

2007	\$ 540,000
2008	545,000
2009	565,000
2010	585,000
2011	605,000
Thereafter	<u>12,160,000</u>
	<u>\$ 15,000,000</u>

Related loan obligations are collateralized by a first mortgage on the Francisco Avenue property granted to Fifth Third Bank (the "Bank"). The Bank has issued an irrevocable five-year letter of credit, which expires November 6, 2011, in conjunction with the bond financing and related loan agreements.

Subsequent to year-end, the Bank consented to the Agency's request for waiver of the principal payment scheduled for November 1, 2007, which is allowed under the Reimbursement Agreement between the Agency and the Bank. In addition, the Agency entered into an interest rate swap transaction effective July 31, 2007 and evidenced by a master agreement dated May 9, 2007. The notional amount of the agreement is \$7,500,000. The agreement effectively changes the Agency's interest exposure on one half of the Agency's \$15,000,000 loan from variable to fixed rates. The swap agreement terminates July 31, 2014 and provides for a fixed interest rate of 3.90 percent.

Note 13 Funds Held for Construction

In conjunction with the issuance of tax-exempt bonds, loan proceeds in the amount of \$15,000,000 were deposited with the bond trustee in November 2006. These funds are disbursed periodically to reimburse the Agency for approved expenditures related to the Francisco Avenue Campus construction project. At June 30, 2007, funds held by the trustee were invested as follows:

Cash and equivalent	\$ 2,024,323
U.S. government and government agency fixed income securities	8,558,112
U.S. corporate fixed income securities	<u>497,155</u>
	<u>\$ 11,079,590</u>

Supplementary Information

Lawrence Hall Youth Services
Schedule of Restricted Grants from Government Agencies
Year Ended June 30, 2007

	Illinois Department of Commerce and Economic Opportunity* <u>#02-120160</u>	Illinois Capital Development Board ** #900-010-161 #900-010-274	United States Department of Housing and Urban Development	<u>Total</u>
Balance of restricted grants, July 1, 2006	\$ 1,680,439	\$ 1,584,528	\$ -	\$ 3,264,967
Grants received		40,000		40,000
Grants receivable			74,558	74,558
Expenditures				
Construction in progress	(1,223,194)	(235,605)		(1,458,799)
Architectural and other consultant fees	<u>(56,000)</u>	<u>(186,960)</u>		<u>(242,960)</u>
Balance of restricted grants, June 30, 2007	<u>\$ 401,245</u>	<u>\$ 1,201,963</u>	<u>\$ 74,558</u>	<u>\$ 1,677,766</u>

*\$2,000,000 grant funds received, net of expenditures of \$298,101 in fiscal year 2005, \$21,460 in 2006 and \$1,279,194 in 2007 (see Note 2).

**\$3,540,000 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, \$21,347 in 2006 and \$422,565 in 2007 (see Note 2).

Lawrence Hall Youth Services
Schedule of Unrestricted Fees and Grants from Government Agencies
Year Ended June 30, 2007 (With Comparative Totals for 2006)

	Residential Programs			Special Education School	Independent Living	Transitional Living
	Institutional Group Care	Regular Group Care	Group Shelter Care			
Service fees						
Illinois Department of Children and Family Services	\$ 3,033,681	\$ 3,552,130	\$ 1,923,781	\$ 20,571	\$ 1,110,573	\$ 3,705,491
Illinois Department of Human Services Project SKIL (Title XX)						
Chicago Board of Education - Special Education				3,105,104		
Local Education Agencies				61,980		
Other						
Grants						
Food grants	20,929	24,135	11,822	35,675		6,459
U.S. Department of Health and Human Services - Substance Abuse and Mental Health Services Administration						
Louisiana Department of Social Services						
	<u>\$ 3,054,610</u>	<u>\$ 3,576,265</u>	<u>\$ 1,935,603</u>	<u>\$ 3,223,330</u>	<u>\$ 1,110,573</u>	<u>\$ 3,711,950</u>

Lawrence Hall Youth Services

Schedule of Unrestricted Fees and Grants from Government Agencies, *Continued* Year Ended June 30, 2007 (With Comparative Totals for 2006)

	Relative/ Traditional Foster Care	Specialized Mental Health Foster Care	Other Programs	Total	
				2007	2006
Service fees					
Illinois Department of Children and Family Services	\$ 1,298,794	\$ 853,059	\$ -	\$ 15,498,080	\$ 14,342,544
Illinois Department of Human Services Project SKIL (Title XX)			207,906	207,906	210,842
Chicago Board of Education - Special Education				3,105,104	3,144,110
Local Education Agencies				61,980	80,522
Other			1,228	1,228	-
Grants					
Food grants				99,020	98,829
U.S. Department of Health and Human Services - Substance Abuse and Mental Health Services Administration				-	6,614
Louisiana Department of Social Services				-	4,500
	<u>\$ 1,298,794</u>	<u>\$ 853,059</u>	<u>\$ 209,134</u>	<u>\$ 18,973,318</u>	<u>\$ 17,887,961</u>

Lawrence Hall Youth Services
Schedule of Property and Equipment
June 30, 2007

	Assets			Accumulated Depreciation			Net, June 30, 2007		
	Balance, July 1, 2006	Additions	Retirements	Balance, June 30, 2007	Balance, July 1, 2006	Provisions		Retirements	Balance, June 30, 2007
Francisco Avenue Campus									
Land	\$ 51,458	\$ -	\$ -	\$ 51,458	\$ -	\$ -	\$ -	\$ 51,458	
Land improvements	15,250			15,250	8,456	1,490		9,946	
Construction in progress		6,902,311		6,902,311				-	
Buildings	2,810,482			2,810,482	2,012,782	65,732		2,078,514	
Building improvements	505,574	26,101		531,675	360,088	41,219		401,307	
Furnishings and equipment	586,547	42,799		629,346	459,686	38,191		497,877	
Architectural and other fees	2,766,640	483,574		3,250,214				-	
Bond financing costs		277,428		277,428		7,059		7,059	
Sandberg Center Property									
Land	20,000			20,000				-	
Buildings	245,943			245,943	245,943			245,943	
Building improvements	295,521			295,521	200,816	6,884		207,700	
Furnishings and equipment	65,059	55,927		120,986	57,067	6,797		63,864	
Architectural and other fees	17,453			17,453	2,959	872		3,831	
Group Home Properties									
Land	37,950			37,950				-	
Buildings	327,804			327,804	319,214	1,630		320,844	
Building improvements	2,565,539	194,957		2,760,496	747,728	157,709		905,437	
Furnishings and equipment	90,964	10,258		101,222	60,588	10,293		70,881	
Architectural and other fees	157,131	24,495		181,626	26,844	8,964		35,808	
Automobiles	784,357	62,244	32,191	814,410	586,681	87,716	32,191	642,206	
Wacker Building Property									
Leasehold improvements	120,132			120,132	81,463	12,013		93,476	
Furnishings and equipment	847,532	8,518		856,050	569,832	64,948		634,780	
	<u>\$12,311,336</u>	<u>\$ 8,088,612</u>	<u>\$ 32,191</u>	<u>\$20,367,757</u>	<u>\$ 5,740,147</u>	<u>\$ 511,517</u>	<u>\$ 32,191</u>	<u>\$ 6,219,473</u>	<u>\$14,148,284</u>