McGladrey & Pullen
Certified Public Accountants

Lloyd A. Fry Foundation

Financial Report

June 30, 2008 and 2007

Contents

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report

Board of Directors of
Lloyd A. Fry Foundation

We have audited the accompanying statements of financial position of the Lloyd A. Fry Foundation (the "Foundation") as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lloyd A. Fry Foundation as of June 30, 2008 and 2007, and its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Chicago, Illinois
November 4, 2008

Lloyd A. Fry Foundation

Statements of Financial Position
June 30, 2008 and 2007

	2008	2007
Assets		
Cash and equivalent	$ 6,395,305	$ 8,140,104
Accrued dividends and interest receivable	415,643	523,923
Excise tax refund receivable	42,500	
Prepaid expenses	6,181	11,028
Investments	166,001,640	184,151,363
Furniture and equipment, net	53,989	63,867
	$ 172,915,258	$ 192,890,285
Liabilities and Net Assets		
Accrued expenses	$ 97,737	$ 66,245
Excise tax payable		67,204
Unconditional grants payable	2,122,125	682,500
Deferred federal excise tax	193,455	663,538
	2,413,317	1,479,487
Unrestricted net assets	170,501,941	191,410,798
	$ 172,915,258	$ 192,890,285

Lloyd A. Fry Foundation

Statements of Activities
Years Ended June 30, 2008 and 2007

	2008	2007
Revenue		
Fixed income investments	$ 1,728,466	$ 1,753,899
Dividends	2,678,031	2,651,317
Distributions from Lloyd A. Fry Trusts	729,483	742,939
	5,135,980	5,148,155
Expenditures		
Grants authorized	10,586,014	8,636,476
Administrative and other expenses	1,474,285	1,452,967
Investment management fees	620,379	612,735
Federal excise tax expense (refund)	(182,753)	546,390
	12,497,925	11,248,568
Expenditures over revenue	(7,361,945)	(6,100,413)
Net gains (losses) on investments		
Realized	10,341,963	16,436,575
Unrealized	(23,888,875)	6,782,330
	(13,546,912)	23,218,905
Net increase (decrease) in unrestricted net assets	(20,908,857)	17,118,492
Unrestricted net assets		
Beginning of year	191,410,798	174,292,306
End of year	$ 170,501,941	$ 191,410,798

See accompanying notes.

Lloyd A. Fry Foundation

Statements of Cash Flows
Years Ended June 30, 2008 and 2007

	2008	2007
Operating activities		
Net increase (decrease) in unrestricted net assets	$ (20,908,857)	$ 17,118,492
Depreciation	23,680	25,808
Net realized and unrealized gains (losses) on investments	13,546,912	(23,218,905)
Changes in		
Accrued dividends and interest receivable	108,280	(97,733)
Excise tax refund receivable	(42,500)	-
Prepaid expenses	4,847	(2,279)
Accrued expenses	31,492	2,615
Excise tax payable	(67,204)	41,794
Unconditional grants payable	1,439,625	262,159
Deferred federal excise tax	(470,083)	128,503
Net cash used in operating activities	(6,333,808)	(5,739,546)
Investing activities		
Additions to furniture and equipment	(13,802)	(11,025)
Proceeds from sales of investments	114,994,088	124,236,687
Purchases of investments	(110,391,277)	(114,766,041)
Net cash provided by investing activities	4,589,009	9,459,621
Increase (decrease) in cash and equivalent	(1,744,799)	3,720,075
Cash and equivalent		
Beginning of year	8,140,104	4,420,029
End of year	$ 6,395,305	$ 8,140,104

See accompanying notes.

Note 1 Nature of Activities and Significant Accounting Policies

Nature of Activities—Lloyd A. Fry Foundation (the "Foundation") is a nonprofit private charitable foundation which distributes grants principally to charitable organizations.

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

Investments—Investments are stated at fair value. The fair values of investment partnerships are estimated by management based on the fair value of the assets owned by the partnerships (as determined by managing partners of the partnerships) and the liquidity of the Foundation's investments in those partnerships. The Foundation relies on the underlying investment partnerships' audited financial statements as of December 31, 2007 to assist in the determination of fair value. The fair value of corporate bonds and equity securities traded on national securities exchanges is the last reported sales price. Purchases and sales of securities are accounted for on the trade date. Interest is recorded as earned and dividends are recorded on the ex-dividend date.

The Foundation invests in various investments. Such investments are exposed to various risks such as interest rate, market, and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Cash Equivalents—The Foundation considers all investments purchased with a maturity of three months or less to be cash equivalents. The Foundation maintains its cash in bank accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. Management believes that the Foundation is not exposed to any significant credit risk on cash.

Furniture and Equipment—Furniture and equipment are stated at cost. Depreciation is being computed over the estimated useful lives of the assets using the straight-line method.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions affecting the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications—Certain amounts from the 2007 financial statements have been reclassified to conform to the 2008 presentation without affecting previously reported net assets.

Note 2 Distributions from Lloyd A. Fry Trusts

The Foundation has a residual interest in several trusts established by the Estate of Lloyd A. Fry. The Trusts made distributions to the Foundation of $729,483 during fiscal year 2008 (2007 - $742,939). Future residual amounts to be received by the Foundation cannot be determined.

Note 3 Investments

Marketable securities consisted of the following:

	2008		2007	
	Cost	Market	Cost	Market
Common stock	$ 54,139,259	$ 59,224,075	$ 46,241,428	$ 60,056,380
Mutual funds - equity	43,023,761	42,578,620	47,543,792	64,017,062
Mutual funds - fixed income	5,728,940	5,760,066	5,354,043	4,880,480
U.S. government and corporate bonds	25,000,675	25,191,451	26,097,635	25,722,763
Foreign bonds	671,441	669,055	563,361	553,886
Asset backed securities	5,679,346	5,678,791	6,261,821	6,217,164
Limited liability company (hedge fund)	7,000,000	10,255,768	7,000,000	9,812,886
Real estate investment trusts	1,026,086	865,379	843,798	840,624
Certificate of deposit	750,000	750,000	750,000	750,000
Investment partnerships	13,725,070	15,028,435	10,353,875	11,300,118
	$ 156,744,578	$ 166,001,640	$ 151,009,753	$ 184,151,363

Investment partnerships consist of limited partnership interests in venture capital funds, buyout funds, mezzanine and subordinated debt funds, and restructuring and distressed debt and securities funds. The Foundation had open commitments to make additional partnership investments of $6,445,350 at June 30, 2008 (2007 - $7,946,125).

Note 4 Grant Commitments

Unconditional grants payable at June 30, 2008 are estimated to be distributed in fiscal 2009.

The Foundation had approved grants in the past which were subject to the satisfaction of prior conditions by the intended recipients before payments could be made. These conditional grants were not reflected in the financial statements. There were no conditional grants at June 30, 2008 and 2007.

Note 5 Other Commitments

The Foundation is required to make the following minimum annual rental payments under a noncancelable lease for office space through 2010:

2009	$ 148,453
2010	88,075
	$ 236,528

Rental expense (primarily for office space) was approximately $144,000 for fiscal year 2008 (2007 - $140,000).

Note 6 Federal Excise Taxes

The Foundation is classified as a private foundation pursuant to Section 509(a) of the Internal Revenue Code and, therefore, is subject to an excise tax currently payable on net investment income, including realized net gains on sales of securities. In addition, a liability for deferred excise taxes is provided on the unrealized gain on investments and accrued investment income. The tax was provided for at a 2 percent rate. Private foundations are also required to make minimum annual distributions of grants in accordance with a specified formula. The Foundation met the distribution requirement for fiscal years 2008 and 2007.

Note 7 Grant Distributions

During the current year, grants totaling $9,146,389 (2007 - $8,374,317) were paid, including Foundation Grants of $9,066,764 (2007 - $7,842,794), Employee Matching Grants of $29,625 (2007 - $18,750) and payments relating to the High School Initiative of $50,000 (2007 - $512,773). Unconditional grants authorized but not distributed as of June 30, 2008 and 2007 totaled $2,122,125 and $682,500. Grant expense for fiscal years 2008 and 2007 consisted of the following:

	2008	2007
Unconditional grants payable at beginning of year	$ (682,500)	$ (420,341)
Grants distributed	9,146,389	8,374,317
Unconditional grants payable at year-end	2,122,125	682,500
	$ 10,586,014	$ 8,636,476

Note 8 Employee Benefit Plan

The Foundation maintains a Section 403(b) salary reduction retirement plan. The plan covers all full-time employees. The plan agreement provides for employer contributions based on a set percentage of salary up to the annual maximum. The Foundation's contributions for 2008 and 2007 were $53,797 and $64,402, respectively.

Note 9 Pending Adoptions of New Accounting Principles

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statement tax position taken or expected to be taken on a tax return. If there are changes in net assets as a result of application of FIN 48 these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will be required also. The Foundation will be required to adopt FIN 48 in its 2009 annual financial statements. Management is currently assessing the impact of FIN 48 on its financial statements.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. SFAS 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS 157, fair value measurements are disclosed by level within that hierarchy. SFAS 157 is effective for fiscal years beginning after November 15, 2007, except for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for which delayed application is permitted until fiscal years beginning after November 15, 2008. The Foundation is currently assessing the potential effect of SFAS 157 on its financial position, results of operations and cash flows.