

**LLOYD A. FRY FOUNDATION**

**FINANCIAL STATEMENTS**

June 30, 2016 and 2015

Chicago, Illinois

FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Lloyd A. Fry Foundation  
Chicago, Illinois

**Report on the Financial Statements**

We have audited the accompanying financial statements of Lloyd A. Fry Foundation (the Foundation), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on these 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 from material misstatement.

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

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

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(Continued)

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lloyd A. Fry Foundation as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1 to the financial statements, as of June 30, 2016 and 2015, Lloyd A. Fry Foundation adopted new accounting guidance ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "CROWE HORWATH LLP". The letters are in all caps and have a cursive, flowing style.

Crowe Horwath LLP

Chicago, Illinois  
November 14, 2016

LLOYD A. FRY FOUNDATION  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2016 and 2015

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	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and equivalents	\$ 9,892,888	\$ 8,096,935
Accrued dividends and interest receivable	93,426	112,862
Prepaid expenses	3,824	-
Excise tax benefit	377,844	161,125
Investments	150,360,092	165,622,290
Beneficial interest in Lloyd A. Fry Trusts held by others	7,121,957	7,121,957
Furniture and equipment, net	<u>36,822</u>	<u>24,167</u>
 Total assets	 <u>\$ 167,886,853</u>	 <u>\$ 181,139,336</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accrued expenses	\$ 71,557	\$ 82,672
Unconditional grants payable	2,245,000	2,415,500
Federal excise tax	<u>286,506</u>	<u>496,600</u>
Total liabilities	2,603,063	2,994,772
 Unrestricted net assets	 158,161,833	 171,022,607
Temporarily restricted net assets	<u>7,121,957</u>	<u>7,121,957</u>
Total net assets	<u>165,283,790</u>	<u>178,144,564</u>
 Total liabilities and net assets	 <u>\$ 167,886,853</u>	 <u>\$ 181,139,336</u>

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See accompanying notes to financial statements.

LLOYD A. FRY FOUNDATION  
STATEMENTS OF ACTIVITIES  
Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Changes in unrestricted net assets		
Revenue:		
Interest income	\$ 314,447	\$ 384,805
Dividends	3,339,995	3,215,118
Release from restriction, distributions from Lloyd A. Fry Trusts	412,993	473,124
Other	<u>10,529</u>	<u>51,622</u>
	<u>4,077,964</u>	<u>4,124,669</u>
Expenditures:		
Grants authorized	7,491,023	7,637,255
Administrative and other expenses	1,523,449	1,506,796
Investment management fees	818,125	824,032
Federal excise tax (benefit) expense	<u>(32,094)</u>	<u>138,119</u>
	<u>9,800,503</u>	<u>10,106,202</u>
Expenditures over revenue	<u>(5,722,539)</u>	<u>(5,981,533)</u>
Net gains (losses) on investments:		
Realized	3,426,440	10,035,656
Unrealized	<u>(10,564,675)</u>	<u>(5,814,703)</u>
	<u>(7,138,235)</u>	<u>4,220,953</u>
Decrease in unrestricted net assets	(12,860,774)	(1,760,580)
Changes in temporarily restricted net assets		
Change in beneficial interests in Lloyd A. Fry Trusts held by others	412,993	473,124
Release from restriction, distributions from Lloyd A. Fry Trusts	<u>(412,993)</u>	<u>(473,124)</u>
Change in temporarily restricted net assets	<u>-</u>	<u>-</u>
Total change in net assets	(12,860,774)	(1,760,580)
Net assets		
Beginning of year	<u>178,144,564</u>	<u>179,905,144</u>
End of year	<u>\$165,283,790</u>	<u>\$178,144,564</u>

See accompanying notes to financial statements.

LLOYD A. FRY FOUNDATION  
 STATEMENTS OF CASH FLOWS  
 Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities</b>		
Net decrease in net assets	\$ (12,860,774)	\$ (1,760,580)
Adjustments to reconcile change in net assets to net cash flow provided by (used in) operating activities:		
Depreciation	19,151	10,994
Net realized and unrealized losses (gains) on investments	7,138,235	(4,220,953)
Changes in:		
Accrued dividends and interest receivable	19,436	2,538
Prepaid expenses	(3,824)	8,034
Excise tax benefit	(216,719)	(157,856)
Accrued expenses	(11,115)	(115,449)
Unconditional grants payable	(170,500)	310,500
Federal excise tax	<u>(210,094)</u>	<u>(118,218)</u>
Net cash used in operating activities	(6,296,204)	(6,040,990)
<b>Cash flows from investing activities</b>		
Additions of furniture and equipment	(31,806)	-
Proceeds from sales of investments	61,175,868	45,776,486
Purchases of investments	<u>(53,051,905)</u>	<u>(38,793,544)</u>
Net cash provided by investing activities	<u>8,092,157</u>	<u>6,982,942</u>
Increase in cash and cash equivalents	1,795,953	941,952
Cash and equivalents		
Beginning of year	<u>8,096,935</u>	<u>7,154,983</u>
<b>End of year</b>	<u>\$ 9,892,888</u>	<u>\$ 8,096,935</u>
Supplemental cash flow disclosure		
Cash paid for taxes	<u>\$ 451,310</u>	<u>\$ 381,200</u>

See accompanying notes to financial statements.

LLOYD A. FRY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

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

Cash Equivalents: The Foundation considers all investments purchased with an original 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.

Investments: Investments are reported at 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. Investments in other investment partnerships are valued at fair value based on the applicable percentage ownership of the investment partnerships' net assets as of the measurement date. In determining fair value, management utilizes valuations provided by the investment partnerships. The investment partnerships value the underlying securities and other financial instruments on a fair value basis of accounting. The estimated fair values of underlying assets of certain investment partnerships, which may include private placements and other securities for which prices are not readily available, are determined by the general partner or sponsor of the respective investment partnership, and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of the Foundation's investments in other investment partnerships generally represents the amount the Foundation would expect to receive if it were to liquidate its investment in the other investment partnerships excluding any redemption charges that may apply.

The Foundation invests in a variety of 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.

Fair Value of Financial Instruments: The carrying amounts of financial instruments, including cash and cash equivalents, receivables, and payables, approximate fair value due to the short maturity of these instruments.

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.

Beneficial Interest in Trusts: The Estate of Lloyd A. Fry established and funded trusts which are administered by an external trustee. The trusts make annual distributions for specified amounts to certain descendants of Lloyd A. Fry during their lifetimes. Under the terms of the trusts, the Foundation has the right to receive a portion of the excess income earned on the trust assets at the discretion of the trustee for the life (term) of the trusts as well as any residual values upon the termination of the trusts. The Foundation does not control the assets held by the outside trusts. Although the Foundation has no control over the administration of the funds held in these term trusts, the estimated fair value of the expected future cash flows from the trusts is recognized as an asset in the accompanying financial statements.

The Trusts made distributions to the Foundation of \$412,993 and \$473,124 during fiscal years 2016 and 2015, respectively.

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LLOYD A. FRY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Unconditional Grants Payable: Grant expense is recognized in the period the unconditional grant is approved. Conditional grants that are subject to satisfaction of prior conditions by the intended recipients are not reflected in the financial statements. There were no conditional grants at June 30, 2016 and 2015.

Net Assets: The Foundation classifies its net assets as unrestricted, temporarily restricted, or permanently restricted. At June 30, 2016 and 2015, the Foundation does not have permanently restricted assets; accordingly, the net assets are classified as:

- *Unrestricted net assets* – Represents assets, other than beneficial interests in trusts held by others, in excess of liabilities. The trust document under which the Foundation was formed, as well as its bylaws, does not specify a restriction on the amount of grants and contributions that may be paid out of income or principal.
- *Temporarily restricted net assets* – Represents assets held by others in trust. The restrictions expire by passage of time and by the receipt of distributions from the trustee.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“US GAAP”) 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.

Uncertain Tax Positions: The Foundation follows guidance issued by the Financial Accounting Standards Board (FASB) with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. Where tax positions do not meet the “more likely than not” test, no tax benefit is recorded.

The Foundation is exempt from U.S. federal income tax as well as income tax of the state of Illinois under section 501(c)(3) of the Internal Revenue Code as a Private Foundation as described in 509(a). All domestic private foundations must calculate their distributable amount annually. The Foundation’s distributable amount is the amount of qualifying distributions based upon certain criteria that needs to be granted by the end of the succeeding year to avoid an excise tax for failure to distribute income.

The Foundation recognizes interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. The Foundation has no amounts accrued for interest or penalties as of June 30, 2016 and 2015. The Foundation is no longer subject to examination by U.S. federal taxing authorities for years before June 30, 2013, and for all state income taxes through June 30, 2013. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

Recent Accounting Guidance: In May 2015, the FASB issued Accounting Standards Update 2015-07 (“ASU 2015-07”), *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using net asset value per share as a practical expedient. For non-public business entities, ASU 2015-07 is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. The Foundation elected to adopt ASU 2015-07 as of and for the year ended June 30, 2016. Accordingly, investments for which fair value is measured using net asset value per share or its equivalent as a practical expedient have not been categorized within the fair value hierarchy. See Note 3 for further disclosures.

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**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES** (Continued)

In February 2016, the FASB issued (ASU) 2016-02, *Leases*. This ASU affects any entity that enters into a lease, with some specified scope exemptions. The main difference between previous US GAAP and this ASU is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous US GAAP. Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019. The Foundation has not yet implemented this ASU and is in the process of assessing the effect on the Foundation's financial statements.

In August 2016, the FASB issued (ASU) 2016-14, *Not-for-Profit Entities: Topic 958*. The amendments in this Update affect not-for-profit entities ("NFP's") and the users of their general purpose financial statements. The amendments in this Update make certain improvements to the current net asset classification requirements and the information presented in financial statements and notes about a NFP's liquidity, financial performance, and cash flows. The amendments in the ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application of the amendments in this Update is permitted. The Foundation has not yet implemented this ASU and is in the process of assessing the effect on the Foundation's financial statements.

Subsequent Events: The Foundation has performed an analysis of the activities and transactions subsequent to June 30, 2016, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2016. Management has performed their analysis through November 14, 2016, the date the financial statements were available to be issued.

LLOYD A. FRY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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**NOTE 2 - INVESTMENTS**

Investments consisted of the following:

	<u>2016</u>	<u>2015</u>
Common stock		
Large Cap	\$ 16,402,331	\$ 18,971,128
Mid Cap	7,806,013	12,424,495
Small Cap	7,274,800	4,429,478
Mutual funds		
Equity	22,491,895	28,269,562
Fixed income	12,840,144	13,740,877
Fixed Income		
Corporate Bonds	7,557,835	1,220,656
Federal and agency bonds	11,180,337	11,566,009
International bonds	20,315	6,486,823
Commingled Fund		
Equity	2,781,203	3,478,854
Real estate investment trusts	1,870,204	1,293,504
Certificate of deposit	750,000	750,000
Hedge funds	25,121,064	29,515,400
Private equity investments	<u>34,263,951</u>	<u>33,475,504</u>
	<u>\$ 150,360,092</u>	<u>\$ 165,622,290</u>

**NOTE 3 - FAIR VALUE DISCLOSURES**

FASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Foundation uses various methods including market, income and cost approaches. Based on these approaches, the Foundation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Foundation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1      Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Foundation has the ability to access as of the measurement date.
  - Level 2      Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
  - Level 3      Significant unobservable inputs that reflect the Foundation's own assumptions about the assumptions that market participants would use in pricing an asset or liability.
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LLOYD A. FRY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

**NOTE 3 - FAIR VALUE DISCLOSURES (Continued)**

Fair Value on a Recurring Basis: The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>(NAV<sup>1</sup>)</u>	<u>Total</u>
Common stock					
Large Cap	\$ 16,402,331	\$ -	\$ -	\$ -	\$ 16,402,331
Mid Cap	7,806,013	-	-	-	7,806,013
Small Cap	7,274,800	-	-	-	7,274,800
Mutual funds					
Equity	19,491,895	-	-	3,000,000	22,491,895
Fixed income	5,033,550	-	-	7,806,594	12,840,144
Fixed income					
Corporate bonds	-	7,557,835	-	-	7,557,835
Federal and agency bonds	11,180,337	-	-	-	11,180,337
International bonds	20,315	-	-	-	20,315
Commingled Fund					
Equity	2,781,203	-	-	-	2,781,203
Real estate investment trusts	1,870,204	-	-	-	1,870,204
Certificate of deposit	-	750,000	-	-	750,000
Hedge funds	-	-	-	25,121,064	25,121,064
Private equity investments	-	-	-	34,263,951	34,263,951
<b>Total investments</b>	<b><u>\$ 71,860,648</u></b>	<b><u>\$ 8,307,835</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 70,191,609</u></b>	<b><u>\$ 150,360,092</u></b>
Beneficial interests in trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,121,957</u>	<u>\$ -</u>	<u>\$ 7,121,957</u>

<sup>(1)</sup> Investments measured at NAV are presented in this table to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>(NAV<sup>1</sup>)</u>	<u>Total</u>
Common stock					
Large Cap	\$ 18,971,128	\$ -	\$ -	\$ -	\$ 18,971,128
Mid Cap	12,424,495	-	-	-	12,424,495
Small Cap	4,429,478	-	-	-	4,429,478
Mutual funds					
Equity	28,269,562	-	-	-	28,269,562
Fixed income	5,051,312	-	-	8,689,565	13,740,877
Fixed income					
Corporate bonds	-	1,220,656	-	-	1,220,656
Federal and agency bonds	11,566,009	-	-	-	11,566,009
International bonds	35,236	6,451,587	-	-	6,486,823
Commingled Fund					
Equity	3,478,854	-	-	-	3,478,854
Real estate investment trusts	1,293,504	-	-	-	1,293,504
Certificate of deposit	-	750,000	-	-	750,000
Hedge funds	-	-	-	29,515,400	29,515,400
Private equity investments	-	-	-	33,475,504	33,475,504
<b>Total investments</b>	<b><u>\$ 85,519,578</u></b>	<b><u>\$ 8,422,243</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 71,680,469</u></b>	<b><u>\$ 165,622,290</u></b>
Beneficial interests in trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,121,957</u>	<u>\$ -</u>	<u>\$ 7,121,957</u>

<sup>(1)</sup> Investments measured at NAV are presented in this table to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

**NOTE 3 - FAIR VALUE DISCLOSURES** (Continued)

For the fiscal year ended June 30, 2016, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

*Common stock:* The Foundation's common stock securities are readily marketable and have fair values which are determined by obtaining quoted market prices in active markets. (Level 1 inputs – market approach).

*Fixed income and equity mutual funds:* The fair value of investments in fixed income and equity mutual funds that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs – market approach). One equity mutual fund is held at net asset value ("NAV") and is not quoted on a nationally recognized securities exchange; however, the amount is priced daily with no redemption restrictions (Level 2 inputs – market approach). The fund is a risk-managed broad large cap growth fund, which invests in various large cap securities in the Russell 1000 Growth Index.

*Fixed income securities:* Fair values of U.S. Government securities reflect closing prices reported in the active markets in which the securities are traded. (Level 1 inputs – market approach). Fair values of corporate bonds and international bonds are determined based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and other market-corroborated sources, such as indices, yield curves and matrix pricing. (Level 2 inputs – market approach).

*Real estate investment trust:* The Foundation's real estate holdings consist of an investment in a publicly traded real estate investment trust. The fair value of this investment is readily marketable and is determined by obtaining quoted prices on a nationally recognized securities exchange (Level 1 inputs – market approach).

*Certificate of deposit account:* Fair values are estimated to approximate deposit account balances, payable on demand, as no discounts for credit quality or liquidity were determined to be applicable (Level 2 inputs – market approach).

*Commingled fund:* The Foundation has one commingled fund which has an investment objective of achieving capital appreciation through investing in a diversified portfolio consisting primarily of equity securities. Equity securities consist of common stocks and securities convertible into common stocks, such as warrants, rights, convertible bonds, debentures or convertible preferred stock. Under normal market conditions the Fund will invest at least 75% of its assets in equity securities issued by companies that are in developing or emerging markets. The fair values of these securities are readily marketable and determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs – market approach).

**NOTE 3 - FAIR VALUE DISCLOSURES (Continued)**

*Hedge funds and private equity:* For hedge funds and limited partnerships, for which there is no active market, the Foundation records these investments at the net asset value (“NAV”). The Foundation also reviews information such as historical and current performance of the underlying assets, cash flow projections, liquidity and credit premiums required by a market participant, and financial trend analysis with respect to the individual fund manager. Together, these factors are utilized in determining individual security valuations. Due to current market conditions as well as the limited trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market value volatility. In some cases, the Foundation is able to redeem these funds within 90 days of June 30<sup>th</sup> at the NAV. Foundation management has done considerable independent review of valuations reported by investment managers and determined that NAV is a reasonable and prudent estimate of fair value. Alternative investments are not readily marketable and their estimated value is subject to uncertainty. Therefore, there may be a material difference between their estimated value and the value that would have been used had a readily determinable fair value for such investments existed.

*Beneficial interest in assets held by others:* The fair value of beneficial interests in trust assets was determined based upon the present value of future cash flows from the trusts. The trusts cannot be redeemed by management until the termination of the trusts. (Level 3 inputs – income approach).

Description of Alternative Investments and Liquidity:

The hedge fund-of-funds alternative investments were comprised of two portfolios, Evanston Weatherlow and Maverick Stable Value Fund. Evanston Weatherlow was fully liquidated during the year ending June 30, 2016. Both portfolios are offshore hedge fund-of-funds investments which invests its capital into limited partnerships.

- Evanston Weatherlow provided quarterly liquidity with 65-day notice. Evanston Weatherlow had a one year lock-up, which expired.
- Maverick Stable Value Fund (M2 shares) has a commitment period of two years. This share class provides liquidity every two years commencing on the second anniversary of the start of each investment’s commitment period, with 95-day notice. With the consent of the Maverick’s Board, this share class may provide quarterly liquidity, with 95-day notice, but is subject to an early termination charge during the first commitment period.

Both hedge fund-of-funds managers invest in 25 to 40 underlying hedge fund managers. Evanston Weatherlow is a multi-strategy hedge fund-of-funds manager who invests in equity long/short, credit, and global macro strategies. Maverick Stable is a multi-strategy hedge fund-of-funds manager who invests in equity long/short, multi-strategy and credit strategies. The objective for these hedge fund-of-funds is equity like returns with half the risk of the S&P 500 Index over a full market cycle. The hedge fund-of-funds investments are not intended to capture the entire equity market rally, but to better preserve capital during a down period in the equity markets.

The private equity alternative investments are comprised of three private equity fund-of-funds investment portfolios that are offshore limited partnerships. Two of the private equity managers (Adams Street and Abbott Capital) are primary private equity investments while Coller Capital is a secondary private equity investment. The liquidity of the private equity fund-of-funds is estimated at 10 to 12 years with 3 one-year extensions, while the secondary fund is intended to distribute capital more quickly. Distributions may be paid out throughout the life of the investment. All managers tend to invest globally with a bias towards buyouts, venture capital, secondaries, and mezzanine.

LLOYD A. FRY FOUNDATION  
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June 30, 2016 and 2015

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**NOTE 3 - FAIR VALUE DISCLOSURES (Continued)**

The three private equity fund-of-funds managers invest in underlying limited partnerships and direct companies with each fund investing in well over 500 to 1,500 individual companies. The typical areas of investments for the private equity managers are within the following sectors: technology, health care, services, consumer-related, energy, telecom and financial. The exit strategy for the private equity managers underlying companies are typically the IPO market, a strategic buyer or another private equity firm.

The real estate investment trusts are comprised of two investment managers, Harrison Street and TA Associates. Harrison Street is an opportunistic/value-added real estate manager focused on medical offices, college housing, senior housing, and storage. TA Associates is a value-added real estate manager focused on multi-family, industrial and office. The liquidity on these investments is estimated to be 5 to 7 years. Distributions may be paid out throughout the life of the investments. These investments will be diversified geographically throughout the entire US. On average, there have been between 90 and 110 investment properties in each fund. The exit strategy for the real estate investments will either be public REITs, strategic buyers, pension funds and/or insurance companies.

The schedule below lists the remaining number of years until the partnerships are expected to be dissolved without extension, allowing the Foundation to withdraw its investment:

	<u>&lt; 1 year</u>	<u>1 - 5 years</u>	<u>5 - 10 years</u>	<u>Thereafter</u>	<u>Total</u>
Limited partnerships:					
Private equity	\$ -	11,723,395	22,540,556	-	34,263,951

The Foundation had unfunded commitments to make additional private equity investments of approximately \$8,900,000 at June 30, 2016.

**NOTE 4 - OTHER COMMITMENTS**

The Foundation is required to make the following minimum annual rental payments under a non-cancelable lease for office space through March 31, 2027:

2017	\$ 133,241
2018	136,802
2019	140,363
2020	143,924
2021	147,485
Thereafter	<u>916,958</u>
	<u>\$ 1,618,773</u>

Rental expense (primarily for office space) was approximately \$129,700 and \$126,100 for fiscal year 2016 and 2015, respectively.

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LLOYD A. FRY FOUNDATION  
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**NOTE 5 - 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 on net investment income, including realized net gains on sales of securities. In addition, in fiscal years 2016 and 2015, a liability for deferred excise taxes was provided on the unrealized gain on investments and accrued investment income. The tax was provided for at a 2 percent rate.

The Foundation's current excise tax benefits at June 30, 2016 and 2015, was \$377,844 and \$161,125 while the deferred excise tax liability was \$286,506 and \$496,600, respectively. The provision for current and deferred federal excise taxes for the years ended June 30, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
Current excise tax	\$ 178,000	\$ 256,337
Deferred excise tax (benefit)	<u>(210,094)</u>	<u>(118,218)</u>
Total	<u>\$ (32,094)</u>	<u>\$ 138,119</u>

**NOTE 6 - GRANT DISTRIBUTIONS**

Unconditional grants authorized but not distributed as of June 30, 2016 and 2015, totaled \$2,245,000 and \$2,415,500, respectively. Grant expense for the fiscal years 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Unconditional grants payable at beginning of year	\$ (2,415,500)	\$ (2,105,000)
Grants distributed	7,661,523	7,326,755
Unconditional grants payable at year end	<u>2,245,000</u>	<u>2,415,500</u>
	<u>\$ 7,491,023</u>	<u>\$ 7,637,255</u>

**NOTE 7 - EMPLOYEE BENEFIT PLAN**

The Foundation maintains a Section 403(b) salary reduction retirement plan. The plan covers all 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 2016 and 2015 were \$63,594 and \$66,721, respectively.