

# McGladrey & Pullen

Certified Public Accountants

## **Lloyd A. Fry Foundation**

Financial Report

June 30, 2007 and 2006

**Lloyd A. Fry Foundation**  
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**June 30, 2007 and 2006**

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# McGladrey & Pullen

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## Independent Auditors' Report

Board of Directors of  
Lloyd A. Fry Foundation

We have audited the accompanying statement of financial position of the Lloyd A. Fry Foundation (the "Foundation") as of June 30, 2007, and the related statements of activities and cash flows for the year 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 audit. The prior year comparative information has been derived from the Foundation's financial statements for the year ended June 30, 2006, which 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 August 31, 2006, expressed an unqualified opinion on those financial 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 that our audit provides a reasonable basis for our opinion.

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

*McGladrey & Pullen, LLP*

Chicago, Illinois  
November 9, 2007

**Lloyd A. Fry Foundation**  
**Statements of Financial Position**  
**June 30, 2007 and 2006**

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	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Cash and equivalent	\$ 8,140,104	\$ 4,420,029
Accrued dividends and interest receivable	523,923	426,190
Prepaid expenses	11,028	8,749
Investments	184,151,363	170,403,104
Furniture and equipment, net	<u>63,867</u>	<u>78,650</u>
	<u>\$ 192,890,285</u>	<u>\$ 175,336,722</u>
<b>Liabilities and Net Assets</b>		
Accrued expenses	\$ 66,245	\$ 63,630
Excise tax payable	67,204	25,410
Unconditional grants payable	682,500	420,341
Deferred federal excise tax	<u>663,538</u>	<u>535,035</u>
	1,479,487	1,044,416
Unrestricted net assets	<u>191,410,798</u>	<u>174,292,306</u>
	<u>\$ 192,890,285</u>	<u>\$ 175,336,722</u>

**Lloyd A. Fry Foundation**  
**Statements of Activities**  
**Years Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Revenue		
Fixed income investments	\$ 1,753,899	\$ 1,556,989
Dividends	2,651,317	2,011,683
Distributions from Lloyd A. Fry Trusts	742,939	676,906
	<u>5,148,155</u>	<u>4,245,578</u>
Expenditures		
Grants authorized	8,636,476	7,511,354
Administrative and other expenses	1,452,967	1,450,916
Investment management fees	612,735	720,417
Federal excise tax	546,390	555,694
	<u>11,248,568</u>	<u>10,238,381</u>
<b>Expenditures over revenue</b>	<u>(6,100,413)</u>	<u>(5,992,803)</u>
Net gains on investments		
Realized	16,436,575	11,523,612
Unrealized	6,782,330	98,496
	<u>23,218,905</u>	<u>11,622,108</u>
<b>Net increase in unrestricted net assets</b>	17,118,492	5,629,305
Unrestricted net assets		
Beginning of year	<u>174,292,306</u>	<u>168,663,001</u>
<b>End of year</b>	<u>\$ 191,410,798</u>	<u>\$ 174,292,306</u>

**Lloyd A. Fry Foundation**  
**Statements of Cash Flows**  
**Years Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Operating activities</b>		
Net increase in unrestricted net assets	\$ 17,118,492	\$ 5,629,305
Depreciation	25,808	30,482
Net realized and unrealized gains on investments	(23,218,905)	(11,622,108)
Changes in		
Accrued dividends and interest receivable	(97,733)	34,482
Excise tax refund receivable		171,754
Prepaid expenses	(2,279)	1,767
Accrued expenses	2,615	1,530
Excise tax payable	41,794	25,410
Unconditional grants payable	262,159	80,341
Deferred federal excise tax	128,503	267,930
<b>Net cash used in operating activities</b>	<u>(5,739,546)</u>	<u>(5,379,107)</u>
<b>Investing activities</b>		
Additions to furniture and equipment	(11,025)	(7,301)
Proceeds from sales of investments	124,236,687	125,181,991
Purchases of investments	(114,766,041)	(119,840,344)
<b>Net cash provided by investing activities</b>	<u>9,459,621</u>	<u>5,334,346</u>
<b>Increase (decrease) in cash and equivalent</b>	3,720,075	(44,761)
<b>Cash and equivalent</b>		
Beginning of year	<u>4,420,029</u>	<u>4,464,790</u>
<b>End of year</b>	<u>\$ 8,140,104</u>	<u>\$ 4,420,029</u>

**Lloyd A. Fry Foundation**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2007 and 2006**

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**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 market 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, 2006 to assist in the determination of fair value. The market 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.

**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 \$742,939 during fiscal year 2007 (2006 - \$676,906). Future residual amounts to be received by the Foundation cannot be determined.

**Lloyd A. Fry Foundation**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2007 and 2006**

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**Note 3 Investments**

Marketable securities consisted of the following:

	2007		2006	
	Cost	Market	Cost	Market
Domestic common stock	\$ 45,275,597	\$ 59,002,204	\$ 51,128,804	\$ 62,154,089
Foreign common stock	965,831	1,054,176		
Mutual funds - equity	47,543,792	64,017,062	44,501,788	58,855,586
Mutual funds - fixed income	5,354,043	4,880,480	5,171,295	4,854,598
U.S. Government bonds	20,206,729	20,050,743	24,130,879	23,632,172
Corporate bonds	5,890,906	5,672,020	4,075,531	3,828,461
Foreign bonds	563,361	553,886	603,851	581,668
Asset backed securities	6,261,821	6,217,164	4,646,764	4,574,075
Limited liability company (hedge funds)	7,000,000	9,812,886	7,000,000	8,853,870
Real estate investment trusts	843,798	840,624	616,854	809,090
Certificate of deposit	750,000	750,000	1,000,000	1,000,000
Investment partnerships	10,353,875	11,300,118	1,193,875	1,259,495
	<u>\$ 151,009,753</u>	<u>\$ 184,151,363</u>	<u>\$ 144,069,641</u>	<u>\$ 170,403,104</u>

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 \$7,946,125 at June 30, 2007 (2006 - \$3,806,125).

**Note 4 Grant Commitments**

Unconditional grants payable at June 30, 2007 are estimated to be distributed in fiscal 2008.

The Foundation had approved grants amounting to \$65,000 at June 30, 2006, 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, 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:

2008	\$ 144,149
2009	148,453
2010	<u>88,075</u>
	<u>\$ 380,677</u>

Rental expense (primarily for office space) was approximately \$146,000 for fiscal year 2007 (2006 - \$137,000).



**Lloyd A. Fry Foundation**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2007 and 2006**

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**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 2007 and 2006.

**Note 7 Grant Distributions**

During the current year, grants totaling \$8,374,317 were paid, including Foundation Grants of \$7,842,794, Employee Matching Grants of \$18,750 and payments relating to the High School Initiative of \$512,773. Unconditional grants authorized but not distributed as of June 30, 2007 totaled \$682,500. Grant expense for fiscal year 2007 consisted of the following:

Unconditional grants payable at June 30, 2006	\$ (420,341)
Grants distributed from July 1, 2006 to June 30, 2007	8,374,317
Unconditional grants payable at June 30, 2007	<u>682,500</u>
	<u>\$ 8,636,476</u>

**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 2007 and 2006 were \$64,402 and \$48,295, respectively.