Lloyd A. Fry Foundation

Financial Report

June 30, 2009 and 2008

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, 2009 and 2008, 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, 2009 and 2008, 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 6, 2009

Lloyd A. Fry Foundation

Statements of Financial Position
June 30, 2009 and 2008

	2009	2008
Assets		
Cash and equivalent	$ 7,641,904	$ 6,395,305
Accrued dividends and interest receivable	375,168	415,643
Excise tax refund receivable	21,240	42,500
Prepaid expenses	14,467	6,181
Investments	126,329,590	166,001,640
Furniture and equipment, net	61,715	53,989
	$ 134,444,084	$ 172,915,258
Liabilities and Net Assets		
Accrued expenses	$ 82,818	$ 97,737
Unconditional grants payable	875,000	2,122,125
Deferred federal excise tax		193,455
	957,818	2,413,317
Unrestricted net assets	133,486,266	170,501,941
	$ 134,444,084	$ 172,915,258

See Notes to Financial Statements.

Lloyd A. Fry Foundation

Statements of Activities
Years Ended June 30, 2009 and 2008

	2009	2008
Revenue:		
Fixed income investments	**$ 1,377,956**	$ 1,728,466
Dividends	**2,108,732**	2,678,031
Distributions from Lloyd A. Fry Trusts	**734,362**	729,483
Other	**847**	
	4,221,897	5,135,980
Expenditures:		
Grants authorized	**6,036,122**	10,586,014
Administrative and other expenses	**1,541,160**	1,474,285
Investment management fees	**543,244**	620,379
Federal excise tax benefit	**(76,088)**	(182,753)
	8,044,438	12,497,925
Expenditures over revenue	**(3,822,541)**	(7,361,945)
Net gains (losses) on investments:		
Realized	**(3,560,597)**	10,341,963
Unrealized	**(29,632,537)**	(23,888,875)
	(33,193,134)	(13,546,912)
Net decrease in unrestricted net assets	**(37,015,675)**	(20,908,857)
Unrestricted net assets:		
Beginning of year	**170,501,941**	191,410,798
End of year	**$ 133,486,266**	$ 170,501,941

See Notes to Financial Statements.

Lloyd A. Fry Foundation

Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities		
Net decrease in unrestricted net assets	**$ (37,015,675)**	$ (20,908,857)
Depreciation	**24,880**	23,680
Net realized and unrealized losses on investments	**33,193,134**	13,546,912
Deferred federal excise tax	**(193,455)**	(470,083)
Changes in:		
Accrued dividends and interest receivable	**40,475**	108,280
Excise tax refund receivable	**21,260**	(42,500)
Prepaid expenses	**(8,286)**	4,847
Accrued expenses	**(14,919)**	31,492
Excise tax payable		(67,204)
Unconditional grants payable	**(1,247,125)**	1,439,625
Net cash used in operating activities	**(5,199,711)**	(6,333,808)
Cash Flows from Investing Activities		
Additions to furniture and equipment	**(32,606)**	(13,802)
Proceeds from sales of investments	**68,191,328**	114,994,088
Purchases of investments	**(61,712,412)**	(110,391,277)
Net cash provided by investing activities	**6,446,310**	4,589,009
Increase (decrease) in cash and equivalent	**1,246,599**	(1,744,799)
Cash and equivalent:		
Beginning of year	**6,395,305**	8,140,104
End of year	**$ 7,641,904**	$ 6,395,305

See Notes to Financial Statements.

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: 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 underlying partnerships' net assets as of the measurement date. In determining fair value, management utilizes valuations provided by the underlying investment partnerships. The underlying investment partnerships value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the underlying 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 other 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 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.

Fair value of financial instruments: The carrying amounts of financial instruments, including cash and equivalent, receivables, accrued expenses, 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.

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 2008 financial statements have been reclassified to conform to the 2009 presentation without affecting previously reported net assets.

Subsequent events: The Foundation has evaluated subsequent events for potential recognition and/or disclosure through November 6, 2009, the date the financial statements were issued.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

New accounting pronouncements: The Foundation adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157) for the fiscal year beginning July 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies to all assets and liabilities that are measured and reported on a fair value basis. The adoption of SFAS 157 did not have a material impact on the financial statements of the Foundation. In accordance with Financial Accounting Standards Board (FASB) Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157*, the Foundation will delay application of SFAS 157 for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis until the fiscal year beginning July 1, 2009. The adoption of the remaining provisions of SFAS 157 is not expected to have a material impact on the Foundation's financial position, results of activities and cash flows.

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 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 statements tax positions taken or expected to be taken on a tax return including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. 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 presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*. The Foundation has elected to defer the application of FIN 48 in accordance with FASB Staff Position (FSP) FIN 48-3. This FSP defers the effective date of FIN 48 for nonpublic organizations, such as the Foundation, included within its scope, to the annual financial statements for fiscal years beginning after December 15, 2008. The Foundation will be required to adopt FIN 48 in its 2010 annual financial statements. Management is currently assessing the impact of FIN 48 on its financial position and results of activities and has not determined if the adoption of FIN 48 will have a material effect on its financial statements.

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 $734,362 during fiscal year 2009 (2008 - $729,483). Future residual amounts to be received by the Foundation cannot be determined.

Note 3. Investments

Investments consisted of the following:

	2009		2008	
	Cost	Market	Cost	Market
Common stock	$ 44,901,141	$ 40,286,814	$ 54,139,259	$ 59,224,075
Mutual funds - equity	44,050,837	30,688,710	43,023,761	42,578,620
Mutual funds - fixed income	6,509,732	5,638,602	5,728,940	5,760,066
Fixed Income	24,082,380	24,738,856	31,351,462	31,539,297
Real estate investment trusts	996,869	614,557	1,026,086	865,379
Certificate of deposit	750,000	750,000	750,000	750,000
Hedge funds	19,300,000	18,191,981	16,300,000	20,546,911
Private equity investments	6,114,096	5,420,070	4,425,070	4,737,292
	$ 146,705,055	$ 126,329,590	$ 156,744,578	$ 166,001,640

Note 3. Investments (Continued)

The Foundation had open commitments to make additional hedge fund and private equity investments of $19,354,100 at June 30, 2009 (2008 - $6,445,350).

Note 4. Fair Value Disclosures

As defined in SFAS 157, fair value is 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. Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes real estate investment trusts, U.S. Treasury and federal agency securities, and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2. Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities. Level 2 investments include certificates of deposit with maturities of greater than three months, for which a readily available pricing source is not available.

Level 3. Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

For the fiscal year ended June 30, 2009, 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:

Investment securities: The fair value of investment securities is the market value based on quoted market prices, when available, third party pricing services for the same or similar investment, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to SFAS 157. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

Note 4. 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, 2009.

	Level 1	Level 2	Level 3	Total
Common stock	$ 40,286,814	$ -	$ -	$ 40,286,814
Mutual funds - equity	30,688,710	-	-	30,688,710
Mutual funds - fixed income	5,638,602	-	-	5,638,602
Fixed income	24,738,856	-	-	24,738,856
Real estate investment trusts	614,557	-	-	614,557
Certificate of deposit	-	750,000	-	750,000
Hedge funds	-	-	18,191,981	18,191,981
Private equity investments	-	-	5,420,070	5,420,070
Total assets	$ 101,967,539	$ 750,000	$ 23,612,051	$ 126,329,590

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	Hedge funds	Private equity
Balance, June 30, 2008	$ 20,546,911	$ 4,737,292
Net realized gain on investments	3,225,564	126,247
Net change in unrealized loss on investments	(5,354,929)	(1,006,256)
Purchases, sales, issuances and settlements, net	(225,565)	1,562,787
Balance, June 30, 2009	$ 18,191,981	$ 5,420,070

Note 5. Grant Commitments

Unconditional grants payable at June 30, 2009 are estimated to be distributed in fiscal 2010.

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, 2009 and 2008.

Note 6. Other Commitments

The Foundation is required to make the following minimum annual rental payments under a noncancelable lease for office space through 2020:

2010	$ 106,474
2011	83,387
2012	86,058
2013	88,728
2014	122,558
Thereafter	773,627
	$ 1,260,832

Rental expense (primarily for office space) was approximately $148,000 for fiscal year 2009 (2008 - $144,000).

Note 7. 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, in fiscal year 2008, 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. 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 2009 and 2008.

Note 8. Grant Distributions

During the current year, grants totaling $7,283,247 (2008 - $9,146,389) were paid, including Foundation Grants of $7,157,449 (2008 - $9,066,764), Employee Matching Grants of $60,830 (2008 - $29,625) and payments relating to the High School Initiative of $64,968 (2008 - $50,000). Unconditional grants authorized but not distributed as of June 30, 2009 and 2008 totaled $875,000 and $2,122,125. Grant expense for fiscal years 2009 and 2008 consisted of the following:

	2009	2008
Unconditional grants payable at beginning of year	$ (2,122,125)	$ (682,500)
Grants distributed	7,283,247	9,146,389
Unconditional grants payable at year-end	875,000	2,122,125
	$ 6,036,122	$ 10,586,014

Note 9. 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 2009 and 2008 were $58,675 and $53,797, respectively.