

LLOYD A. FRY FOUNDATION

FINANCIAL STATEMENTS

June 30, 2010 and 2009

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FINANCIAL STATEMENTS

June 30, 2010 and 2009

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of Lloyd A. Fry Foundation (the Foundation) as of June 30, 2010, 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 financial statements of the Foundation as of June 30, 2009, were audited by other auditors whose report dated November 6, 2009, 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of Lloyd A. Fry Foundation as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.


Crowe Horwath LLP

Chicago, Illinois
November 16, 2010

LLOYD A. FRY FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|---|---------------------------|---------------------------|
| ASSETS | | |
| Cash and equivalents | \$ 9,953,799 | \$ 7,641,904 |
| Accrued dividends and interest receivable | 240,349 | 375,168 |
| Excise tax refund receivable | - | 21,240 |
| Prepaid expenses | 49,500 | 14,467 |
| Investments | 131,514,264 | 126,329,590 |
| Furniture and equipment, net | <u>41,004</u> | <u>61,715</u> |
| Total assets | <u>\$ 141,798,916</u> | <u>\$ 134,444,084</u> |
| LIABILITIES AND NET ASSETS | | |
| Accrued expenses | \$ 75,044 | \$ 82,818 |
| Unconditional grants payable | 2,463,000 | 875,000 |
| Federal excise tax payable | <u>10,608</u> | <u>-</u> |
| Total liabilities | 2,548,652 | 957,818 |
| Unrestricted net assets | <u>139,250,264</u> | <u>133,486,266</u> |
| Total liabilities and net assets | <u>\$ 141,798,916</u> | <u>\$ 134,444,084</u> |

See accompanying notes to financial statements.

LLOYD A. FRY FOUNDATION
 STATEMENTS OF ACTIVITIES
 Years ended June 30, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|--|----------------------|----------------------|
| Revenue: | | |
| Fixed income investments | \$ 1,084,977 | \$ 1,377,956 |
| Dividends | 1,614,747 | 2,108,732 |
| Distributions from Lloyd A. Fry Trusts | 621,451 | 734,362 |
| Other | - | 847 |
| | <u>3,321,175</u> | <u>4,221,897</u> |
| Expenditures: | | |
| Grants authorized | 8,421,415 | 6,036,122 |
| Administrative and other expenses | 1,475,610 | 1,541,160 |
| Investment management fees | 679,900 | 543,244 |
| Federal excise tax expense (benefit) | 19,331 | (76,088) |
| | <u>10,596,256</u> | <u>8,044,438</u> |
| Expenditures over revenue | <u>(7,275,081)</u> | <u>(3,822,541)</u> |
| Net gains (losses) on investments: | | |
| Realized | (86,031) | (3,560,597) |
| Unrealized | 13,125,110 | (29,632,537) |
| | <u>13,039,079</u> | <u>(33,193,134)</u> |
| Net increase (decrease) in unrestricted net assets | 5,763,998 | (37,015,675) |
| Unrestricted net assets: | | |
| Beginning of year | <u>133,486,266</u> | <u>170,501,941</u> |
| End of year | <u>\$139,250,264</u> | <u>\$133,486,266</u> |

See accompanying notes to financial statements.

LLOYD A. FRY FOUNDATION
 STATEMENTS OF CASH FLOWS
 Years ended June 30, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|---|----------------------------|----------------------------|
| Cash flows from operating activities | | |
| Net decrease in unrestricted net assets | \$ 5,763,998 | \$(37,015,675) |
| Depreciation | 20,711 | 24,880 |
| Net realized and unrealized (gains) losses on investments | (13,039,079) | 33,193,134 |
| Deferred federal excise tax | - | (193,455) |
| Changes in: | | |
| Accrued dividends and interest receivable | 134,819 | 40,475 |
| Excise tax refund receivable | - | 21,260 |
| Prepaid expenses | (35,033) | (8,286) |
| Accrued expenses | (7,774) | (14,919) |
| Excise tax payable | 31,848 | - |
| Unconditional grants payable | 1,588,000 | (1,247,125) |
| Net cash used in operating activities | <u>(5,542,510)</u> | <u>(5,199,711)</u> |
| Cash flows from investing activities | | |
| Additions to furniture and equipment | - | (32,606) |
| Proceeds from sales of investments | 74,348,607 | 68,191,328 |
| Purchases of investments | <u>(66,494,202)</u> | <u>(61,712,412)</u> |
| Net cash provided by investing activities | <u>7,854,405</u> | <u>6,446,310</u> |
| | | |
| Increase in cash and equivalent | 2,311,895 | 1,246,599 |
| | | |
| Cash and equivalent | | |
| Beginning of year | <u>7,641,904</u> | <u>6,395,305</u> |
| | | |
| End of year | <u>\$ 9,953,799</u> | <u>\$ 7,641,904</u> |
| | | |
| Supplimental cash flow disclosure | | |
| Cash paid for taxes | <u>\$ 3,787</u> | <u>\$ 94,903</u> |

See accompanying notes to financial statements.

LLOYD A. FRY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

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. For other investments for which there is no active market, generally referred to as "alternative investments", fair values are initially based on valuations determined by the investment managers using audited net asset values ("NAV") as of their most recent audited financial statements, adjusted for cash receipts, cash disbursements, and other anticipated income or loss through June 30th. The NAVs of the investment funds are determined on the accrual basis of accounting in conformity with GAAP. The managers utilize standard valuation procedures and policies to assess the fair value of the underlying investment holdings to derive 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.

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 equivalents, 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.

(Continued)

LLOYD A. FRY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Net assets: All net assets of the Foundation are classified as unrestricted because 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.

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.

Subsequent events: Foundation management has performed an analysis of the activities and transactions subsequent to June 30, 2010, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2010. Management has performed their analysis through November 16, 2010, the date the financial statements were available to be issued.

FASB Codification: In 2009, the Foundation adopted the Financial Accounting Standards Board (FASB) *Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles and Accounting for Uncertainty in Income Taxes* (Codification) as the single source of authoritative U.S. generally accepted accounting principles (U.S. GAAP) recognized by the FASB to be applied by nongovernmental entities. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009.

Uncertain tax positions: The Foundation adopted guidance issued by the FASB with respect to accounting for uncertainty in income taxes as of July 1, 2009. 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. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The adoption had no effect on the Foundation’s financial statements.

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, 2010 and 2009. The Foundation is no longer subject to examination by U.S. federal taxing authorities for years before June 30, 2006, and for all state income taxes through June 30, 2006. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

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LLOYD A. FRY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

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 \$621,451 during fiscal year 2010 (2009 - \$734,362). Future residual amounts to be received by the Foundation cannot be determined.

NOTE 3 - INVESTMENTS

Investments consisted of the following:

| | <u>2010</u> | <u>2009</u> |
|-------------------------------|-----------------------|-----------------------|
| Common stock | \$ 30,959,284 | \$ 40,286,814 |
| Mutual funds - equity | 34,625,979 | 30,688,710 |
| Mutual funds - fixed income | 5,191,863 | 5,638,602 |
| Fixed Income | 18,198,314 | 24,738,856 |
| Real estate investment trusts | 788,366 | 614,557 |
| Certificate of deposit | 750,000 | 750,000 |
| Hedge funds | 33,862,633 | 18,191,981 |
| Private equity investments | <u>7,137,825</u> | <u>5,420,070</u> |
| | <u>\$ 131,514,264</u> | <u>\$ 126,329,590</u> |

NOTE 4 - 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 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.

(Continued)

LLOYD A. FRY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 4 - FAIR VALUE DISCLOSURES (Continued)

- 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, 2010, 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:

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).

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).

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). Fair values of corporate 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).

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).

Real estate investment trusts: Foundation 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).

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LLOYD A. FRY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 4 - FAIR VALUE DISCLOSURES (Continued)

Description of Alternative Investments and Liquidity:

Hedge funds of funds: The hedge fund of funds alternative investments are comprised of three portfolios. All three portfolios are offshore hedge fund of funds investments which invest their capital into limited partnerships. The lock-up periods are gone from all three of the hedge fund of funds investments. Two of the funds have quarterly liquidity with 65-day or 95-day notice. Due to recent accounting guidance, the fund with 65-day notice was transferred from level 3 to level 2 in fiscal year 2010 (level 2 inputs). The other fund has annual liquidity with 100-days notice plus on June 30th of each year with 100-day notice the Foundation is able to pull 25% of its capital out (level 3 inputs).

All three hedge fund of funds managers invest in 25 to 50 underlying hedge fund managers. One fund is a net long equity long/short hedge fund of funds who only invests in equity long/short funds. This fund tends to invest in domestic managers with a focus in managers with smaller asset bases. The other two managers are multi-strategy hedge fund of funds managers who invest in equity long/short, credit, and global macro strategies. The objective for all the hedge funds of funds is equity-like returns with half the risk of the S&P 500 Index over a full market cycle. Historically, the hedge fund of funds investments will not capture all of the equity market rally, but will preserve capital much better during a down period in the equity markets.

The Foundation had no open commitments to make additional hedge fund of funds investments at June 30, 2010 and 2009.

Private equity: The private equity alternative investments are comprised of two private equity fund of funds investment portfolios that are offshore limited partnerships. The liquidity of the private equity funds of funds is estimated at 10 to 12 years with 3 one-year extensions (level 3 inputs). Distributions will be paid out throughout the life of the investment. Both managers tend to invest globally with a bias toward buyouts, venture capital, secondaries, and mezzanine. The two private equity fund of funds managers invest in 50 to 80 underlying limited partners each which equates to over 1,500 individual companies invested in. The typical areas of investments for the private equity managers are within the following sectors: technology, health care, services, consumer-related, energy, telecom, financial, etc. The exit strategy for the private equity managers underlying companies are typically the IPO market, a strategic buyer, or another private equity firm.

The Foundation had open commitments to make additional private equity investments at June 30, 2010 and 2009, of approximately \$18,316,000 and \$19,354,000, respectively.

(Continued)

LLOYD A. FRY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

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, 2010:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Common stock | \$ 30,959,284 | \$ - | \$ - | \$ 30,959,284 |
| Mutual funds | | | | |
| Equity | 34,625,979 | - | - | 34,625,979 |
| Fixed income | 5,191,863 | - | - | 5,191,863 |
| Fixed income securities | 4,678,399 | 13,519,915 | - | 18,198,314 |
| Real estate investment trusts | 788,366 | - | - | 788,366 |
| Certificate of deposit | - | 750,000 | - | 750,000 |
| Hedge funds | - | 9,986,787 | 23,875,846 | 33,862,633 |
| Private equity investments | - | - | 7,137,825 | 7,137,825 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total assets | <u>\$ 76,243,891</u> | <u>\$24,256,702</u> | <u>\$ 31,013,671</u> | <u>\$ 131,514,264</u> |

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2009:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Common stock | \$ 40,286,814 | \$ - | \$ - | \$ 40,286,814 |
| Mutual funds | | | | |
| Equity | 30,688,710 | - | - | 30,688,710 |
| Fixed income | 5,638,602 | - | - | 5,638,602 |
| Fixed income securities | 10,456,972 | 14,281,884 | - | 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 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total assets | <u>\$ 87,685,655</u> | <u>\$15,031,884</u> | <u>\$ 23,612,051</u> | <u>\$ 126,329,590</u> |

(Continued)

LLOYD A. FRY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 4 - FAIR VALUE DISCLOSURES (Continued)

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

| | <u>Hedge funds</u> | <u>Private equity</u> | <u>Total</u> |
|--|---------------------|-----------------------|----------------------|
| Balance, June 30, 2008 | \$20,546,911 | \$ 4,737,292 | \$ 25,284,203 |
| Net realized gain on investments | 3,225,564 | 126,247 | 3,351,811 |
| Net change in unrealized loss on investments | (5,354,929) | (1,006,256) | (6,361,185) |
| Purchases, sales, issuances and settlements, net | <u>(225,565)</u> | <u>1,562,787</u> | <u>1,337,222</u> |
| Balance, June 30, 2009 | 18,191,981 | 5,420,070 | 23,612,051 |
| Net realized gain on investments | - | 267,424 | 267,424 |
| Net change in unrealized loss on investments | 1,050,002 | (39,377) | 1,010,625 |
| Purchases, sales, issuances and settlements, net | 14,620,650 | 1,489,708 | 16,110,358 |
| Transfers out of level 3 | <u>(9,986,787)</u> | <u>-</u> | <u>(9,986,787)</u> |
| Balance, June 30, 2010 | <u>\$23,875,846</u> | <u>\$ 7,137,825</u> | <u>\$ 31,013,671</u> |

All unrealized gains (losses) shown in the table above relate to investments still held by the Foundation at June 30, 2010.

NOTE 5 - GRANT COMMITMENTS

Unconditional grants payable at June 30, 2010, are estimated to be distributed in fiscal 2011.

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, 2010.

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:

| | |
|------------|---------------------|
| 2011 | \$ 83,387 |
| 2012 | 86,058 |
| 2013 | 88,728 |
| 2014 | 122,558 |
| 2015 | 126,119 |
| Thereafter | <u>773,627</u> |
| | <u>\$ 1,280,477</u> |

Rental expense (primarily for office space) was approximately \$106,500 for fiscal year 2010 (2009 - \$148,000).

(Continued)

LLOYD A. FRY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

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 2010 and 2009.

NOTE 8 - GRANT DISTRIBUTIONS

Grants paid during the years ended June 30, 2010 and 2009 were \$6,833,415 and \$7,283,247, respectively. The final payment relating to the High School Initiative had been made in 2009 (\$64,968). Unconditional grants authorized but not distributed as of June 30, 2010 and 2009, totaled \$2,463,000 and \$875,000. Grant expense for fiscal years 2010 and 2009 consisted of the following:

| | <u>2010</u> | <u>2009</u> |
|---|---------------------|---------------------|
| Unconditional grants payable at beginning of year | \$ (875,000) | \$ (2,122,125) |
| Grants distributed | 6,833,415 | 7,283,247 |
| Unconditional grants payable at year-end | <u>2,463,000</u> | <u>875,000</u> |
| | <u>\$ 8,421,415</u> | <u>\$ 6,036,122</u> |

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 2010 and 2009 were \$68,502 and \$58,675, respectively.