

**LLOYD A. FRY FOUNDATION**

**FINANCIAL STATEMENTS**

June 30, 2011 and 2010

LLOYD A. FRY FOUNDATION  
FINANCIAL STATEMENTS  
June 30, 2011 and 2010

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Lloyd A. Fry Foundation (the Foundation) as of June 30, 2011 and 2010, 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 Lloyd A. Fry Foundation as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the Foundation has restated their net assets as of July 1, 2009 in the 2010 financial statements to reflect the beneficial interest in trusts held by others.



Crowe Horwath LLP

Chicago, Illinois  
December 13, 2011

LLOYD A. FRY FOUNDATION  
 STATEMENTS OF FINANCIAL POSITION  
 June 30, 2011 and 2010

	<u>2011</u>	As restated <u>2010</u>
<b>ASSETS</b>		
Cash and equivalents	\$ 13,254,327	\$ 9,953,799
Accrued dividends and interest receivable	163,800	240,349
Prepaid expenses	962	49,500
Investments	149,199,272	131,514,264
Beneficial interest in trusts held by others	7,241,093	7,344,651
Furniture and equipment, net	<u>48,998</u>	<u>41,004</u>
 Total assets	 <u>\$ 169,908,452</u>	 <u>\$ 149,143,567</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accrued expenses	\$ 102,200	\$ 75,044
Unconditional grants payable	1,911,863	2,463,000
Federal excise tax payable	<u>424,834</u>	<u>10,608</u>
Total liabilities	2,438,897	2,548,652
 Unrestricted net assets	 160,228,462	 139,250,264
Temporarily restricted net assets	<u>7,241,093</u>	<u>7,344,651</u>
Total net assets	<u>167,469,555</u>	<u>146,594,915</u>
 Total liabilities and net assets	 <u>\$ 169,908,452</u>	 <u>\$ 149,143,567</u>

See accompanying notes to financial statements.

LLOYD A. FRY FOUNDATION  
STATEMENTS OF ACTIVITIES  
Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Changes in unrestricted net assets		
Revenue:		
Interest income	\$ 677,503	\$ 1,084,977
Dividends	1,836,357	1,614,747
Release from restriction, distributions from Lloyd A. Fry Trusts	557,458	621,451
Other	13,130	-
	<u>3,084,448</u>	<u>3,321,175</u>
Expenditures:		
Grants authorized	7,048,040	8,421,415
Administrative and other expenses	1,521,005	1,475,610
Investment management fees	812,480	679,900
Federal excise tax expense	445,430	19,331
	<u>9,826,955</u>	<u>10,596,256</u>
Expenditures over revenue	<u>(6,742,507)</u>	<u>(7,275,081)</u>
Net gains (losses) on investments:		
Realized	5,747,045	(86,031)
Unrealized	21,973,660	13,125,110
	<u>27,720,705</u>	<u>13,039,079</u>
Increase in unrestricted net assets	20,978,198	5,763,998
Change in temporarily restricted net assets		
Change in beneficial interests in trusts held by others	453,900	463,651
Release from restriction, distributions from Lloyd A. Fry Trusts	<u>(557,458)</u>	<u>(621,451)</u>
Decrease in temporarily restricted net assets	(103,558)	(157,800)
Total increase in net assets	20,874,640	5,606,198
Net assets		
Beginning of year as previously reported	146,594,915	133,486,266
Adjustment for beneficial interest in trusts (Note 2)	-	7,502,451
Beginning of year, as restated	<u>146,594,915</u>	<u>140,988,717</u>
End of year	<u>\$ 167,469,555</u>	<u>\$ 146,594,915</u>

See accompanying notes to financial statements.

LLOYD A. FRY FOUNDATION  
 STATEMENTS OF CASH FLOWS  
 Years ended June 30, 2011 and 2010

	<u>2011</u>	As restated <u>2010</u>
<b>Cash flows from operating activities</b>		
Net increase in net assets	\$ 20,874,640	\$ 5,606,198
Depreciation	13,095	20,711
Net realized and unrealized gains on investments	(27,720,705)	(13,039,079)
Change in beneficial interest in trusts held by others	103,558	157,800
Changes in:		
Accrued dividends and interest receivable	76,549	134,819
Prepaid expenses	48,538	(35,033)
Accrued expenses	27,156	(7,774)
Unconditional grants payable	(551,137)	1,588,000
Federal excise tax payable	414,226	31,848
Net cash used in operating activities	<u>(6,714,080)</u>	<u>(5,542,510)</u>
<b>Cash flows from investing activities</b>		
Additions to furniture and equipment	(21,089)	-
Proceeds from sales of investments	56,213,601	74,348,607
Purchases of investments	(46,177,904)	(66,494,202)
Net cash provided by investing activities	<u>10,014,608</u>	<u>7,854,405</u>
 Increase in cash and equivalent	 3,300,528	 2,311,895
Cash and equivalent		
Beginning of year	<u>9,953,799</u>	<u>7,641,904</u>
 <b>End of year</b>	 <u>\$ 13,254,327</u>	 <u>\$ 9,953,799</u>
 Supplimental cash flow disclosure		
Cash paid for taxes	<u>\$ 33,826</u>	<u>\$ 3,787</u>

See accompanying notes to financial statements.

LLOYD A. FRY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

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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: 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, 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.

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(Continued)

LLOYD A. FRY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

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

Beneficial interest in trusts: The Estate of Lloyd A. Fry established and funded trusts which are administered as trustee by an external organization. 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.

Net assets: The Foundation classifies its net assets as unrestricted, temporarily restricted, or permanently restricted. At June 30, 2011 and 2010, 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 principle.
- *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 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 2010 financial statements have been reclassified to conform to the 2011 presentation without affecting previously reported net assets.

Uncertain tax positions: Additionally, 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.

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(Continued)



LLOYD A. FRY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

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

(Continued)

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, 2011 and 2010. The Foundation is no longer subject to examination by U.S. federal taxing authorities for years before June 30, 2008, and for all state income taxes through June 30, 2008. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

Subsequent events: Foundation has performed an analysis of the activities and transactions subsequent to June 30, 2011, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2011. Management has performed their analysis through December 13, 2011, the date the financial statements were available to be issued.

**NOTE 2 - 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 \$557,458 and \$621,451 during fiscal years 2011 and 2010, respectively.

*Prior period adjustment*

During the current year, it was determined that the fair value of the beneficial interest in the trusts held by others can be estimated. As a result, a prior period adjustment was recorded to restate temporarily restricted net assets by \$7,502,451 at July 1, 2009. Additional changes to the statement of financial position and statement of activities are presented below.

	<u>2010</u>
Beneficial interest in trusts	
held by others	\$ 7,344,651
Increase in total assets	<u>\$ 7,344,651</u>
Change in beneficial interest in trusts	
held by others	<u>(157,800)</u>
Decrease in temporarily restricted net assets	<u>\$ (157,800)</u>

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(Continued)

LLOYD A. FRY FOUNDATION  
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**NOTE 3 - INVESTMENTS**

Investments consisted of the following:

	<u>2011</u>		<u>2010</u>
Common stock			
Large Cap	\$ 20,751,398	\$	16,226,830
Mid Cap	12,061,368		10,398,196
Small Cap	4,226,109		4,334,259
Mutual funds - equity	42,855,187		34,625,979
Mutual funds - fixed income	3,403,068		5,191,863
Fixed Income			
Corporate Bonds	2,754,183		13,519,913
Federal and Agency Bonds	12,505,832		4,678,400
International Bond Funds	202,770		-
Real estate investment trusts	975,168		788,366
Certificate of deposit	750,000		750,000
Hedge funds	37,591,418		33,862,633
Private equity investments	<u>11,122,771</u>		<u>7,137,825</u>
	<u>\$ 149,199,272</u>	<u>\$</u>	<u>131,514,264</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 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.

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(Continued)

LLOYD A. FRY FOUNDATION  
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**NOTE 4 - FAIR VALUE DISCLOSURES (Continued)**

- 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.

For the fiscal year ended June 30, 2011, 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 – market approach).

*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 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).

*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.

*Real Estate:* 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 – market approach).

*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 trust cannot be redeemed by management until the termination of the trust. (Level 3 inputs – income approach).

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(Continued)

LLOYD A. FRY FOUNDATION  
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**NOTE 4 - 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), but incorporates 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, 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 (Level 3 inputs – income approach). In some cases, the Foundation is able to redeem these funds within 90 days of June 30<sup>th</sup> at the NAV (Level 2 inputs – market approach). 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.

Description of Alternative Investments and Liquidity:

The hedge funds-of-fund alternative investments are comprised of three portfolios. All three portfolios are offshore hedge funds-of-fund investments which invests its capital into limited partnerships. The lock-up periods are gone from all three of the hedge fund of fund investments. Two of the funds have quarterly liquidity with 65-day or 95 day notice. The other fund has annual liquidity with 100-days' notice plus on June 30<sup>th</sup> of each year with 100-day notice the Foundation is able to pull 25% of its capital out. All three hedge funds-of-fund managers invest in 25 to 50 underlying hedge fund managers. One fund is a net long equity long/short hedge funds-of-fund who only invests in equity long/short funds. This fund tends to invest in domestic managers with a focus in managers with smaller assets bases. The other two managers are multi-strategy hedge funds-of-fund 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 funds-of-fund investments will not capture all of the equity market rally, but will preserve capital better during a down period in the equity markets.

The private equity alternative investments are comprised of two private equity funds-of-fund investment portfolios that are offshore limited partnerships. The liquidity of the private equity funds-of-fund is estimated at 10 to 12 years with 3 one-year extensions. 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 funds-of-fund managers invest in 50 to 80 underlying limited partners each which equates to over 1500 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.

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(Continued)

LLOYD A. FRY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

**NOTE 4 - FAIR VALUE DISCLOSURES (Continued)**

The real estate investment is comprised of one investment manager focused on medical offices, college housing, senior housing, and storage. The liquidity on this investment fund is estimated to be 5 to 7 years. Distributions will be paid out throughout the life of the investment. This investment will be diversified geographically throughout the entire US. There will be between 90 and 110 investment properties in the fund. The exit strategy for real estate will either by public REITs, strategic buyers, pension funds and 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	-	-	9,765,158	1,357,613	11,122,771

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, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock				
Large Cap	\$ 20,751,398	\$ -	\$ -	\$ 20,751,398
Mid Cap	12,061,368	-	-	12,061,368
Small Cap	4,226,109	-	-	4,226,109
Mutual funds				
Equity	34,633,198	8,221,989	-	42,855,187
Fixed income	3,403,068	-	-	3,403,068
Fixed income				
Corporate bonds	-	2,754,183	-	2,754,183
Federal and agency bonds	12,505,832	-	-	12,505,832
International bonds	-	202,770	-	202,770
Real estate investment trusts	975,168	-	-	975,168
Certificate of deposit	-	750,000	-	750,000
Hedge funds	-	19,967,540	17,623,878	37,591,418
Private equity investments	-	-	11,122,771	11,122,771
<b>Total investments</b>	<u>\$ 88,556,141</u>	<u>\$ 31,896,482</u>	<u>\$ 28,746,649</u>	<u>\$ 149,199,272</u>
Beneficial interests in trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,241,093</u>	<u>\$ 7,241,093</u>

(Continued)

LLOYD A. FRY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 4 - FAIR VALUE DISCLOSURES (Continued)**

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				
Large Cap	\$ 16,226,830	\$ -	\$ -	\$ 16,226,830
Mid Cap	10,398,196	-	-	10,398,196
Small Cap	4,334,259	-	-	4,334,259
Mutual funds				
Equity	28,242,527	6,383,452	-	34,625,979
Fixed income	5,191,863	-	-	5,191,863
Fixed income securities				
Corporate bonds	-	13,519,913	-	13,519,913
Federal and agency bonds	4,678,400	-	-	4,678,400
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	-	-	<u>7,137,825</u>	<u>7,137,825</u>
Total investments	<u>\$ 69,860,441</u>	<u>\$ 30,640,152</u>	<u>\$ 31,013,671</u>	<u>\$ 131,514,264</u>
Beneficial interests in trusts, as restated	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,344,651</u>	<u>\$ 7,344,651</u>

The Foundation had unfunded commitments to make additional private equity investments of \$19,643,051 at June 30, 2011.

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LLOYD A. FRY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 4 - FAIR VALUE DISCLOSURES (Continued)**

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

	Beneficial interest in trusts, as restated	Hedge funds	Private equity investments	Total
Balance, June 30, 2009	\$ 7,502,451	\$ 18,191,981	\$ 5,420,070	\$ 31,114,502
Net realized gain on investments	-	-	228,047	228,047
Net change in unrealized gain on investments	-	1,050,002	484,081	1,534,083
Purchases, sales, issuances and settlements, net :				
Investment Income	-	120,650	170	120,820
Purchases	-	15,000,000	1,353,550	16,353,550
Distributions	(621,451)	(500,000)	(104,150)	(1,225,601)
Fees	-	-	(243,943)	(243,943)
Change in beneficial interests	463,651	-	-	463,651
Transfers out of level 3	-	(9,986,787)	-	(9,986,787)
Balance, June 30, 2010	<u>7,344,651</u>	<u>23,875,846</u>	<u>7,137,825</u>	<u>38,358,322</u>
Net realized gain on investments	-	-	767,108	767,108
Net change in unrealized gain on investments	-	2,892,774	1,280,040	4,172,814
Purchases, sales, issuances and settlements, net :				
Investment Income	-	112,307	95	112,402
Purchases	-	-	3,430,099	3,430,099
Distributions	(557,458)	(14,379)	(1,042,367)	(1,614,204)
Fees	-	-	(450,029)	(450,029)
Change in beneficial interests	453,900	-	-	453,900
Transfers out of level 3	-	(9,242,670)	-	(9,242,670)
Balance, June 30, 2011	<u>\$ 7,241,093</u>	<u>\$ 17,623,878</u>	<u>\$ 11,122,771</u>	<u>\$ 35,987,742</u>

Management recognizes all changes in fair value classification at year end. Transfers out of level 3 investments were the result of investment lockup periods expiring during the year. All unrealized gains (losses) shown in the table above relate to investments still held by the Foundation at June 30, 2011 and 2010.

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LLOYD A. FRY FOUNDATION  
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**NOTE 5 - GRANT COMMITMENTS**

Unconditional grants payable at June 30, 2011 are estimated to be distributed in fiscal 2012.

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, 2011 and 2010.

**NOTE 6 - OTHER COMMITMENTS**

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

2012	\$ 86,058
2013	88,728
2014	122,558
2015	126,119
2016	129,680
Thereafter	<u>517,829</u>
	<u>\$ 1,070,972</u>

Rental expense (primarily for office space) was approximately \$83,100 and \$106,500 for fiscal year 2011 and 2010, respectively.

**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 2011, 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 2011 and 2010.

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(Continued)



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**NOTE 8 - GRANT DISTRIBUTIONS**

Grants paid during the years ended June 30, 2011 and 2010 were \$7,599,177 and \$6,833,415, respectively. Unconditional grants authorized but not distributed as of June 30, 2011 and 2010 totaled \$1,911,863 and \$2,463,000. Grant expense for the fiscal years 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Unconditional grants payable at beginning of year	\$ (2,463,000)	\$ (875,000)
Grants distributed	7,599,177	6,833,415
Unconditional grants payable at year-end	<u>1,911,863</u>	<u>2,463,000</u>
	<u>\$ 7,048,040</u>	<u>\$ 8,421,415</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 2011 and 2010 were \$64,899 and \$68,502, respectively.