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Statements of Financial Position

(000's omitted)

December 31, 2003 and 2002

Assets	2003	2002
Cash and cash equivalents	$ 9,382	13,484
Accrued investment income receivable	749	962
Collateral held for securities loaned	32,751	43,691
Prepaid expenses and other assets	34	353
Investments, at fair value (approximate cost of $465,082 and $478,620 at December 31, 2003 and 2002, respectively):		
Fixed income mutual funds	19,271	21,223
U.S. government and agency obligations	16,269	4,329
Corporate bonds	3,802	4,496
Mortgage-backed securities	3,729	4,093
Other asset-backed securities	2,161	4,187
Equity mutual funds	51,214	36,239
Common and preferred stocks	296,651	237,371
Limited partnerships	178,996	156,443
Other	322	290
Total investments	572,415	468,671
Land, buildings, furniture, and fixtures, net	4,649	4,887
Total assets	$ 619,980	532,048

Liabilities and Net Assets		
Liabilities:		
Accrued expenses	$ 1,525	1,802
Grants payable	7,274	9,616
Payable under securities loan agreements	32,751	43,691
Notes payable	666	836
Total liabilities	42,216	55,945
Unrestricted net assets	577,764	476,103
Commitments and contingencies	--	--
Total liabilities and net assets	$ 619,980	532,048

See accompanying notes to financial statements.

Statements of Activities
(000's omitted)

Years ended December 31, 2003 and 2002	2003	2002
Revenues and gains (losses):		
Interest and dividend income	$ 11,355	12,971
Realized gain (loss) on investments	9,331	(13,343)
Unrealized gain (loss) on investments	117,032	(56,003)
Donor Intent Contribution	1,300	708
Total unrestricted revenues and gains (losses)	139,018	(55,667)
Grants and expenses:		
Grants approved for charitable purposes, net	26,450	25,815
Operating expenses	10,907	7,562
Total grants and expenses	37,357	33,377
Increase (decrease) in unrestricted net assets	101,661	(89,044)
Net assets, beginning of year	476,103	565,147
Net assets, end of year	$ 577,764	476,103

See accompanying notes to financial statements.

Statements of Cash Flows

(000's omitted)

Years ended December 31, 2003 and 2002	2003	2002
Operating activities:		
Increase (decrease) in net assets	$ 101,661	(89,044)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	238	238
Net realized and unrealized gains and losses on investments	(126,363)	69,346
Change in provision for losses on program-related investments	0	(40)
Decrease (increase) in accrued investment income receivable	213	(13)
Decrease (increase) in prepaids and other assets	319	(108)
(Decrease) increase in accrued expenses	(277)	41
(Decrease) increase in grants payable	(2,342)	(2,220)
Net cash used in operating activities	(26,551)	(21,800)
Investing activities:		
Proceeds from the sale of investments	167,422	186,471
Purchase of investments	(144,803)	(165,856)
Net cash provided by investing activities	22,619	20,615
Financing activities:		
Payments on note payable	(170)	(159)
Net decrease in cash and cash equivalents	(4,102)	(1,344)
Cash and cash equivalents at beginning of year	13,484	14,828
Cash and cash equivalents at end of year	$ 9,382	13,484
Supplemental disclosure of cash flow information:		
Cash payments for interest	$ 22	32
Cash payments for excise and income taxes	140	14

See accompanying notes to financial statements.

December 31, 2003 and 2002

(1) ORGANIZATION AND PURPOSE

The Lynde and Harry Bradley Foundation, Inc. (the Foundation), a nonprofit organization, was incorporated under the laws of Wisconsin on June 29, 1942 to raise, invest and reinvest money, and devote the principal and net earnings there from perpetually and exclusively for charitable, scientific, literary, and educational purposes. The programs and funding decisions of the Foundation are the responsibility of the Board of Directors.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The financial statements of The Lynde and Harry Bradley Foundation, Inc. have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and comply with the guidance in the American Institute of Certified Public Accountants Audit and Accounting Guide for Not-for-Profit Organizations.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets of the Foundation and changes therein are not subject to donor-imposed stipulations and therefore are classified as unrestricted net assets.

(b) Use of Estimates

Management of the Foundation has made a number of estimates and assumptions relating to the reporting of assets, liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, gains, grants and expenses during the reporting period. Actual results could differ from those estimates.

(c) Cash Equivalents

Cash equivalents consist of short-term highly liquid instruments purchased with an original maturity date of three months or less. Such instruments are valued at cost, which approximates market.

(d) Investments

Investment transactions are recorded on the trade date. Realized gains and losses on sales of investments are determined on the specific identification basis and include the effects of currency transactions related to holdings of foreign securities. Investment management and custodian fees are recorded as operating expenses. Investments, including derivative instruments, are generally recorded at fair value based upon quoted market prices. Investments without quoted market prices are reported at the lower of cost or fair value. Investments without quoted market prices include certain limited partnerships (see Note 4). Fair value for certain limited partnerships is determined in good faith using procedures approved by the Foundation's Board of Directors. However, because of the inherent uncertainty of valuation, the estimated fair values for investments without quoted market prices may differ significantly from the values that would have been used had a ready market for the investments existed, these differences could be material.

The Foundation establishes a valuation allowance against investments without quoted market prices when the estimated fair value of an investment is less than the Foundation's cost. If a limited partnership is determined to be permanently impaired, it is written down to its net realizable value. The net realizable value then becomes its new cost basis.

The Foundation's investments denominated in foreign currencies are translated into U.S. dollars as follows: (1) securities, financial instruments and other assets and liabilities denominated in a foreign currency are translated on the last business day of each month at the spot exchange rate; (2) forward foreign currency contracts are marked to market or net settlement value on the last business day of each month; and (3) purchases, sales, income, and expenses are translated at the spot exchange rate prevailing on the respective dates of such transactions. The effect of changes in foreign currency exchange rates on investments denominated in foreign currencies are included in the statement of activities as a component of unrealized gain (loss) on investments. The gains/losses on foreign currency transactions related to other assets and liabilities of the Foundation are not significant and therefore are not separately reported.

(e) Land, Buildings, Furniture, and Fixtures

Land, buildings, furniture, and fixtures are stated at cost as of the date of acquisition. Depreciation of buildings and furniture and fixtures is provided on the straight-line basis over the estimated useful lives of the related assets as follows:

Assets	Years
Buildings	30
Land improvements	10
Furniture and fixtures	10

The cost of office equipment is consistently charged to expense because the Foundation does not deem such amounts sufficiently material to warrant capitalization and depreciation. The Foundation recorded $238,000 of depreciation expense in both 2003 and 2002.

(f) Grants Payable

Unconditional grants, authorized by the Foundation's Board of Directors but not yet paid, are reported as liabilities to be paid in future years.

(g) Federal Income Tax

The Foundation has received a determination letter from the Internal Revenue Service indicating that it is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code). The Foundation is, however, subject to Federal income taxes on any net unrelated business income under the provisions of Section 511 of the Code.

(h) Federal Excise Tax and Distribution Requirements

The Foundation is subject to an excise tax on net investment income, including realized gains, as defined in the Internal Revenue Code of 1986. In addition, certain minimum annual qualifying distributions are to be made approximating 5% of average net investment assets less the excise tax on investment income. Meeting the minimum distribution requirement avoids a 15% excise tax on the difference between the distributed amount and the minimum distribution. The excise tax is 2% for foundations but is reduced to 1% if certain distribution requirements are met. The Foundation recognized excise tax of $320,100 and $161,000 at December 31, 2003 and 2002, respectively.

During 2003 and 2002, the Foundation exceeded its minimum distribution requirements by approximately $8,074,000 and $5,399,000, respectively. At December 31, 2003, total excess qualifying distributions available from 2003 and prior years to be carried forward are approximately $64,245,000 and expire as follows:

	Qualifying distribution in excess of minimum distribution
Year	(000's omitted)
2004	$ 25,907
2005	18,074
2006	6,791
2007	5,399
2008	8,074
	$ 64,245

(3) INVESTMENTS

(a) International Securities and Foreign Currency Contracts

The Foundation's investments in international securities are denominated in various foreign currencies and therefore are subject to exposure due to fluctuations in exchange rates. At times, the Foundation enters into forward currency contracts whereby the Foundation agrees to exchange one currency for another on an agreed-upon date at an agreed-upon exchange rate in the future. The Foundation enters into these contracts primarily to hedge its foreign currency exposure related to international holdings. Foreign currency contracts are recorded at fair market value based upon net settlement amount. Such contracts involve, to varying degrees, risk of loss associated with the inability of counterparties to meet the terms of their contracts. Changes in the value of forward currency contracts are recognized as unrealized gains or losses until such contracts are closed. The maturities of those contracts are generally less than nine months. Unrealized (losses) gains on open foreign currency exchange contracts at December 31, 2003 and 2002 were $(125,000) and $115,000, respectively. Net realized and unrealized gains (losses) on foreign currency exchange contracts recognized in the statement of activities were $209,000 and $(240,000), respectively, during the year ended December 31, 2003 and $668,000 and $(350,000), respectively, during the year ended December 31, 2002.

(b) **Securities Lending Activities**

The Foundation has security lending arrangements with The Northern Trust Company (Northern) whereby certain of the Foundation's marketable securities are loaned to designated counterparties (borrowers) in exchange for acceptable collateral (cash, government securities, and irrevocable letters of credit). Such arrangements involve risks of loss arising from the potential nonperformance of the borrowers. The minimum collateral required is 102% of the market value of the securities on loan at the time of initiating the loan. On a daily basis, securities on loan are marked to market and collateral levels are adjusted to maintain a minimum of 102% of the loan. Northern or a third party agent holds collateral in custody.

The market value of the loaned securities was $33,554,000 and $44,962,000 at December 31, 2003 and 2002, respectively. In exchange for loaned securities, the Foundation received cash collateral of $34,613,000 and non-cash collateral of $1,863,000 at December 31, 2003 and cash collateral of $43,691,000 and non-cash collateral of $2,697,000 at December 31, 2002 . In accordance with SFAS No. 140, the cash collateral is shown as both an asset and liability of the Foundation. The income earned from securities lending activities was $113,000 and $111,000 for the years ended December 31, 2003 and 2002, respectively.

(4) LIMITED PARTNERSHIPS

The Foundation has invested in limited partnerships totaling $178,995,000 and $156,443,000 as of December 31, 2003 and 2002, respectively. $133,909,000 and $107,887,000 of the investments as of December 31, 2003 and 2002, respectively, comprise liquid partnerships and are recorded at fair value based upon quoted market prices. $45,084,000 and $48,556,000 of the investments as of December 31, 2003 and 2002, respectively, comprise investments in limited partnerships without quoted market values.

(5) LAND, BUILDINGS, FURNITURE, AND FIXTURES

Land, buildings, furniture, and fixtures comprise the following assets at December 31, 2003 and 2002:

	(000's omitted) 2003	2002
Land and land improvements	$ 530	530
Buildings and building improvements	4,876	4,876
Furniture and fixtures	601	601
	6,007	6,007
Less accumulated depreciation	1,358	1,120
	$ 4,649	4,887

(6) GRANTS

Unconditional grants approved for charitable purposes during 2003 and 2002 are summarized as follows:

	(000's omitted) 2003	2002
Total grants approved for charitable purposes	$ 26,450	25,860
Returned or cancelled grants	(0)	(5)
	26,450	25,855
Change in provision for losses on program-related investments	(0)	(40)
Grants approved for charitable purposes, net	$ 26,450	25,815

Grants payable as of December 31, 2003 are scheduled to be disbursed as follows:

Year	(000's omitted)
2004	$ 7,016
2005	258
	$ 7,274

(7) NOTES PAYABLE

The Foundation maintains a $2,500,000 revolving credit note agreement with a bank bearing interest at prime less 1.25%. The loan balance for the revolving line of credit was $666,000 and $836,000 at December 31, 2003 and 2002, respectively, bearing an interest rate of 2.75% at December 31, 2003. The line of credit is collateralized by investments held in a custodial account.

(8) DONOR INTENT PROGRAM

In 2002, the Foundation established a Donor Intent Program whereby unrestricted contributions are received from independent donors. Donors are permitted to recommend that grants be made to organizations that are qualified as a public charity under Section 501(c)(3) of the Internal Revenue Code in an amount up to the donor's contribution. Although guided by the donor's recommendation, the Foundation has no legal obligation to follow that recommendation. Contributions to the Donor Intent Program are irrevocable and all donor recommended grants must by reviewed and approved by the Board of Directors of the Bradley Foundation. Donor contributions of $1,300,000 and $708,000 in 2003 and 2002, respectively. The 2003 and 2002 donor contributions were awarded and paid in the year the contributions were received.

(9) OPERATING EXPENSES

Operating expenses for the years ended December 31, 2003 and 2002 were as follows:

	(000's omitted) 2003	2002
General and administrative expenses	$ 4,480	4,515
Investment management and custodian fees	6,093	3,343
Excise and income taxes	334	(296)
	$ 10,907	7,562

(10) EMPLOYEE BENEFIT PLANS

The Foundation sponsors a defined contribution plan for substantially all employees. Contributions by the Foundation are determined as a percentage of the covered employee's annual salary. Amounts expensed under this plan totaled $205,000 and $217,000 in 2003 and 2002, respectively.

The Foundation provides for certain post employment and supplemental retirement benefits for certain officers and other executives of the Foundation. Amounts expensed under these plans totaled $157,000 and $43,000 for 2003 and 2002, respectively.

(11) RELATED PARTY TRANSACTIONS

It is the policy of the Foundation that all officers and directors shall avoid any conflict between their own individual interest and the interests of the Foundation. The Foundation has a conflict-of-interest policy whereby the board and committee members must advise the board of any direct or indirect interest in any transaction or relationship with the Foundation and abstain from voting for the approval/denial of the grant and/or expenditure affecting their individual, professional, or business interests. During 2003 and 2002, the Foundation awarded grants of $2,548,000 and $3,609,000, respectively, to related party organizations.

In 2002, the Foundation paid $98,000 in professional services to organizations with which certain board members were affiliated. In 2003, no fees were paid to such organizations.

(12) COMMITMENTS

As part of its investment management activity, the Foundation is committed to additional funding of $14,773,000 for certain limited partnerships at December 31, 2003. In addition, as part of its grant activity, the Foundation has committed but not yet authorized grants to certain organizations of $20,350,000 at December 31, 2003.

(13) REMAINDER INTEREST IN TRUST

The Foundation has a remainder interest in an independent trust (the Trust) in which an unrelated third party acts as trustee. The Foundation is entitled to receive 70% of the trust principal upon the death of the primary beneficiary of the Trust, contingent upon actions exercised during the life of the Trust by other parties to the trust agreement. The total market value of the Trust at December 31, 2003, as reported by the trustee, was $164,151,000. The Trust has not been recorded within the Foundation's financial statements because of the contingencies associated with determining the final amount of the Foundation's remainder interest in the Trust.