

***The Lynde and Harry Bradley  
Foundation, Inc.***

*Financial Statements as of and for the  
Years Ended December 31, 2006 and  
2005, and Independent Auditors' Report*

# THE LYNDE AND HARRY BRADLEY FOUNDATION, INC.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
The Lynde and Harry Bradley Foundation, Inc.:

We have audited the accompanying statements of financial position of The Lynde and Harry Bradley Foundation, Inc. (the "Foundation") as of December 31, 2006 and 2005, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, such financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

April 6, 2007

# THE LYNDE AND HARRY BRADLEY FOUNDATION, INC.

## STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2006 AND 2005

	2006 (000's omitted)	2005 (000's omitted)
<b>ASSETS</b>		
CASH AND CASH EQUIVALENTS	\$ 15,850	\$ 36,696
ACCRUED INVESTMENT INCOME RECEIVABLE	825	815
DUE FROM BROKERS FOR SECURITIES SOLD	6,778	982
COLLATERAL HELD FOR SECURITIES LOANED	64,124	49,818
INVESTMENTS—At fair value (cost of \$589,238 and \$542,258 at December 31, 2006 and 2005, respectively):		
Fixed income mutual funds	27,778	35,499
U.S. government and agency obligations	5,128	5,067
Corporate bonds	28,658	21,501
Mortgage-backed securities	5,993	4,366
Other asset-backed securities	6,734	3,834
Common and preferred stocks	360,616	309,630
Alternative investments	320,985	282,922
Other	431	387
Total investments	<u>756,323</u>	<u>663,206</u>
LAND, BUILDINGS, FURNITURE, AND FIXTURES—Net	<u>4,116</u>	<u>4,377</u>
<b>TOTAL</b>	<u><b>\$ 848,016</b></u>	<u><b>\$ 755,894</b></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accrued expenses	\$ 1,951	\$ 1,715
Grants payable	11,450	9,864
Due to brokers for securities purchased	7,096	1,802
Payable under securities loan agreements	64,124	49,818
Notes payable	143	328
Long term grants payable	<u>5,317</u>	<u>7,809</u>
Total liabilities	90,081	71,336
<b>UNRESTRICTED NET ASSETS</b>	<u><b>757,935</b></u>	<u><b>684,558</b></u>
<b>TOTAL</b>	<u><b>\$ 848,016</b></u>	<u><b>\$ 755,894</b></u>

See notes to financial statements.

# THE LYNDE AND HARRY BRADLEY FOUNDATION, INC.

## STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006 (000's omitted)	2005
UNRESTRICTED REVENUES AND GAINS:		
Investment activity:		
Interest and dividend income	\$ 12,961	\$ 14,208
Realized gain on investments	60,035	84,473
Unrealized gain on investments	46,141	123
Less investment expenses	<u>(8,873)</u>	<u>(8,533)</u>
Total investment activity	110,264	90,271
Donor intent contributions	<u>2,161</u>	<u>3,307</u>
Total unrestricted revenues and gains	<u>112,425</u>	<u>93,578</u>
GRANTS AND EXPENSES:		
Grants approved for charitable purposes—net	31,314	45,222
General and administrative	5,320	4,848
Excise and income taxes	<u>2,414</u>	<u>1,410</u>
Total grants and expenses	<u>39,048</u>	<u>51,480</u>
INCREASE IN UNRESTRICTED NET ASSETS	73,377	42,098
NET ASSETS:		
Beginning of year	<u>684,558</u>	<u>642,460</u>
End of year	<u>\$757,935</u>	<u>\$684,558</u>

See notes to financial statements.

# THE LYNDE AND HARRY BRADLEY FOUNDATION, INC.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006 (000's omitted)	2005 (000's omitted)
<b>OPERATING ACTIVITIES:</b>		
Increase in unrestricted net assets	\$ 73,377	\$ 42,098
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	280	300
Net realized gains on investments	(60,035)	(84,273)
Net unrealized gains on investments	(46,141)	(123)
Grants paid with stock transfers		11,784
Change in provision for losses on limited partnerships		(200)
Increase in accrued investment income receivable	(10)	(12)
Increase in due to/from brokers for securities purchased/sold—net	(502)	(797)
Decrease in prepaid expenses and other assets		328
Increase in accrued expenses	236	118
Increase in grants payable	1,586	2,701
(Decrease) increase in long term grants payable	(2,492)	7,809
Net cash used in operating activities	(33,701)	(20,267)
<b>INVESTING ACTIVITIES:</b>		
Proceeds from the sale of investments	268,424	416,306
Purchase of investments	(255,365)	(373,016)
Purchase of property and equipment	(19)	(266)
Net cash provided by investing activities	13,040	43,024
<b>FINANCING ACTIVITIES—Payments on notes payable</b>	(185)	(179)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(20,846)	22,578
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	36,696	14,118
End of year	\$ 15,850	\$ 36,696
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash payments for interest	\$ 9	\$ 16
Cash payments for excise and income taxes	\$ 2,526	\$ 1,592

See notes to financial statements.

# THE LYNDE AND HARRY BRADLEY FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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### 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 therefrom perpetually and exclusively for charitable, scientific, literary, and educational purposes. The programs and funding decisions of the Foundation are the responsibility of the Foundation's Board of Directors.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**—The financial statements of the Foundation 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.

**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.

**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 value.

**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. Investments, including derivative instruments and hedge funds, 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.

In 2005, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") FAS 115-1/FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other-than-temporary, and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments.

**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 \$280,000 and \$300,000 of depreciation expense in 2006 and 2005, respectively.

**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.

**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 of 1986 (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.

**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 Code. The excise tax is 2% for foundations but is reduced to 1% if certain distribution requirements are met. The Foundation recognized excise tax at a rate of 2% in 2006 and 2005 and an excise tax receivable of \$303,000 and accrued excise tax of \$241,000 at December 31, 2006 and 2005, respectively.

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 required minimum distribution.

During 2006 and 2005, the Foundation exceeded its minimum distribution requirements by approximately \$1,809,000 and \$8,459,000, respectively. At December 31, 2006, total excess qualifying



distributions available from 2006 and prior years to be carried forward are approximately \$32,348,000 and expire as follows:

Year	(000's omitted)
2007	\$ 5,406
2008	7,932
2009	8,742
2010	8,459
2011	<u>1,809</u>
	<u>\$32,348</u>

***New Accounting Pronouncements***—In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 clarifies the definition of exchange price as the price between market participants in an orderly transaction to sell an asset or transfer a liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. The Foundation will be required to adopt SFAS No. 157 for the year ending December 31, 2008. The Foundation will evaluate the impact of SFAS No. 157 on the Foundation's financial condition, results of operations, and cash flows.

***Reclassifications***—Certain 2005 amounts have been reclassified to conform to the 2006 presentation.

### 3. INVESTMENTS

***International Securities and Foreign Currency Contracts***—The Foundation's investments in international securities are denominated in various foreign currencies and therefore are subject to fluctuations in foreign currency 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 on open foreign currency exchange contracts at December 31, 2006 and 2005, were \$0 and \$(6,200), respectively. Net realized and unrealized gains on foreign currency exchange contracts recognized in the statement of activities were \$890,000 and \$6,200, respectively, during the year ended December 31, 2006, and \$1,500,000 and \$195,800, respectively, during the year ended December 31, 2005.

***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 risk 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 \$62,804,000 and \$50,810,000 at December 31, 2006 and 2005, respectively. In exchange for loaned securities, the Foundation received cash collateral of \$64,124,000 and non-cash collateral of \$664,000 at December 31, 2006, and cash collateral of \$49,818,000 and non-cash collateral of \$2,663,000 at December 31, 2005. 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 \$105,000 and \$108,000 for the years ended December 31, 2006 and 2005, respectively.

**Other-Than-Temporary Impairment of Investments**—The following schedule summarizes by security type the unrealized losses and related fair value of the investments for which fair value is less than cost at December 31, 2006.

	December 31, 2006 (less than 12 months)		December 31, 2006 (more than 12 months)	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(000's omitted)			
Fixed income mutual funds	\$ 5,883	\$ (58)	\$ -	\$ -
U.S. government and agency obligations	97	(2)	21,925	(1,093)
Corporate bonds	391	(6)	1,460	(76)
Mortgage and other asset-backed securities	2,778	(6)	5,565	(155)
Common and preferred stocks	43,561	(2,335)	6,477	(1,746)
Alternative investments	<u>29,352</u>	<u>(1,041)</u>	<u>17,372</u>	<u>(16,263)</u>
Total	<u>\$ 82,062</u>	<u>\$ (3,448)</u>	<u>\$ 52,799</u>	<u>\$ (19,333)</u>

Management does not believe there is any material amount of investments that are impaired. The unrealized losses on fixed income investments (Fixed income mutual funds, U.S. government and agency obligations, corporate bonds, and mortgage and other asset-backed securities) were caused by interest rate increases. The unrealized losses on common and preferred stocks relate primarily to manager security selection for separately managed accounts. The Foundation maintains oversight of the investment managers and does not consider these investments to be other-than-temporarily impaired at December 31, 2006. The Foundation's investment in alternative investments consists primarily of investments in limited partnerships. These partnerships are illiquid assets, subject to volatility, and because the Foundation is committed to hold these investments for the duration of the partnership, the Foundation does not consider these investments to be other-than-temporarily impaired at December 31, 2006.

#### 4. ALTERNATIVE INVESTMENTS

Alternative investments at December 31, 2006 and 2005, consist of the following:

	2006	2005
	(000's omitted)	
Hedge funds	\$ 237,487	\$ 195,647
Real assets with a quoted market price	58,452	55,978
Private equity without a quoted market price	<u>25,046</u>	<u>31,297</u>
Total	<u>\$ 320,985</u>	<u>\$ 282,922</u>

Of the hedge funds, 91.0% are fully marketable while the remaining 9.0% contain portions that are marketable and portions that are not.

## 5. LAND, BUILDINGS, FURNITURE, AND FIXTURES

Land, buildings, furniture, and fixtures at December 31, 2006 and 2005, are comprised of the following:

	2006 (000's omitted)	2005 (000's omitted)
Land and land improvements	\$ 530	\$ 530
Buildings and building improvements	4,876	4,876
Furniture and fixtures	<u>886</u>	<u>867</u>
	6,292	6,273
Less accumulated depreciation	<u>2,176</u>	<u>1,896</u>
Total	<u>\$4,116</u>	<u>\$4,377</u>

## 6. GRANTS

Unconditional grants approved for charitable purposes during 2006 and 2005 are summarized as follows:

	2006 (000's omitted)	2005 (000's omitted)
Total grants approved for charitable purposes	\$31,350	\$45,339
Returned or cancelled grants	<u>(36)</u>	<u>(117)</u>
Grants approved for charitable purposes—net	<u>\$31,314</u>	<u>\$45,222</u>

Grants payable in more than one year are stated at fair value. Fair value is determined as the present value of estimated future cash flows using a discount rate of 4.3%. Grants payable as of December 31, 2006, are scheduled to be disbursed as follows:

Year	(000's omitted)
Less than one year	\$ 11,450
One to three years	<u>6,000</u>
	17,450
Discount	<u>(683)</u>
Total	<u>\$ 16,767</u>

## 7. NOTES PAYABLE

On September 15, 2004, the Foundation financed \$550,000 with a fixed rate note that bears interest of 3.5% over a three year term. Loan balances were \$143,000 and \$328,000 at December 31, 2006 and 2005, respectively. The note 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 be reviewed and approved by the Board of Directors of the Bradley Foundation. Donor contributions were \$2,161,000 and \$3,307,000 in 2006 and 2005, respectively. The 2006 and 2005 donor contributions were awarded and paid in the year the contributions were received.

## **9. 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 \$227,000 and \$199,000 in 2006 and 2005, 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 \$56,000 and \$66,000 for 2006 and 2005, respectively.

## **10. CONFLICT OF INTEREST**

It is the policy of the Foundation that all officers and directors shall avoid any conflict of interest between their individual interests and the interests of the Foundation. The Foundation has a conflict of interest policy whereby officers and directors must advise the board of any direct or indirect financial interest in any organization that had transactions with the Foundation. There were no such transactions in 2005 and 2006. The directors must also disclose grantee charitable organizations for which they serve as a board member or have a close relationship, and abstain from voting for the approval of grants to those organizations. During 2006 and 2005, the Foundation awarded grants of \$2,733,000 and \$4,495,000, respectively, to such charitable organizations.

## **11. COMMITMENTS**

As part of its investment management activity, the Foundation is committed to additional funding of \$19,676,000 for private equities at December 31, 2006. In addition, as part of its grant activity, the Foundation has committed grants to certain organizations of \$2,500,000 at December 31, 2006. Due to contingencies associated with these commitments, no liability has been recorded in the statements of financial position.

## **12. REMAINDER INTEREST IN TRUST**

The Foundation has a remainder interest in an independent trust (the "Trust") for 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, 2006, as reported by the trustee, was \$189,655,000. The Trust has not been included 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.

### **13. SUBSEQUENT EVENT**

On January 5, 2007, the Foundation issued a loan guarantee in the amount of \$1,775,000.

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