

2005 Bradley Prize Recipients Celebrated at Kennedy Center Ceremony

Milwaukee's Lynde and Harry Bradley Foundation awarded its 2005 Bradley Prizes to American Civil Rights Institute founder Ward Connerly, Princeton University professor Robert P. George, Manhattan Institute scholar Heather Mac Donald, and columnist George F. Will in an inspiring and entertaining ceremony at The John F. Kennedy Center for the Performing Arts in Washington, D.C., on February 16. The \$250,000 prizes recognize and celebrate the honorees' achievements in areas consistent with the Foundation's mission - the promotion and defense of liberal democracy, democratic capitalism, and American ideas and institutions at home and abroad.

Connerly is a leading advocate of equal opportunity in government hiring and public college and university admissions. "Conservatives desperately need an event to socially celebrate their accomplishments and to remind each other how their various campaigns interrelate," Connerly said later. "The Bradley Prize achieves this purpose in a spectacular fashion."

George is the McCormick Professor of Jurisprudence at Princeton, where he also directs the academically pathbreaking James Madison Program in American Ideals and Institutions. He serves on the President's Council on Bioethics, as well. He touchingly referenced his immigrant family forebears' history in America, including their reliance upon its timeless principles.

Mac Donald is the John M. Olin Fellow at the Manhattan Institute and a prolific contributor to its *City Journal* magazine. She has written on homeland security, immigration, homelessness, and education. In her acceptance remarks, as in her articles, she lamented the "destruction wrought by liberal paternalism" and expressed relief that "the supporters of common sense and personal responsibility now hold the reins in Washington."

Will has been a respected public intellectual for three decades. He is also an ABC News analyst and *Newsweek* magazine contributor. He won a Pulitzer Prize for distinguished commentary in 1977. "It's even better," Will declared upon accepting it, "to receive the Bradley Prize."

The evening's master of ceremonies was Fred Barnes of *The Weekly Standard* magazine and FOX News. Former New York police officer and talented tenor Daniel Rodriguez and Broadway star Jennifer Holliday provided patriotic musical interludes. The Bradley Prizes were presented to each recipient by Michael W. Grebe, President and





CEO of the Foundation. About 500 people enjoyed the festivities, which concluded with a gala reception.

P r i z e nominations were solicited from a national panel of more than 100 prominent individuals in academia, public-policy research, journalism, civic affairs, and the arts who were asked to submit names of eligible recipients. All nominations were evaluated by a selection committee, which made recommendations to the Foundation's Board of Directors.



On the same day as the Bradley Prizes ceremony, the Bradley Center for Philanthropy and Civic Renewal at the Hudson Institute in Washington, D.C., held a symposium on "Vision and Philanthropy" at The Ritz-Carlton hotel.

At the symposium, a group of 20 nationally prominent conservative intellectuals, commentators, activists, and philanthropists explored what the conservative vision for America is today and how philanthropy can best promote it. About 150 people, most of them also prominent thinkers and writers themselves, attended.



(letter here)

Statements of Financial Position
(000's omitted)

December 31, 2004 and 2003

Assets	2004	2003
Cash and cash equivalents	\$ 14,118	9,748
Accrued investment income receivable	803	749
Due from brokers for securities sold	135	629
Collateral held for securities loaned	52,687	32,751
Prepaid expenses and other assets	328	34
Investments, at fair value (approximate cost of \$512,580 and \$465,082 at December 31, 2004 and 2003, respectively):		
Fixed income mutual funds	16,318	19,271
U.S. government and agency obligations	21,490	16,269
Corporate bonds	21,178	3,802
Mortgage-backed securities	4,421	3,729
Other asset-backed securities	4,144	2,161
Equity mutual funds	630	51,214
Common and preferred stocks	377,365	296,651
Limited partnerships	187,784	178,996
Other	354	322
Total investments	633,684	572,415
Land, buildings, furniture, and fixtures, net	4,411	4,649
Total assets	\$ 706,166	620,975
Liabilities and Net Assets		
Liabilities:		
Accrued expenses	\$ 1,597	1,525
Grants payable	7,163	7,274
Due to brokers for securities purchased	1,752	995
Payable under securities loan agreements	52,687	32,751
Notes payable	507	666
Total liabilities	63,706	43,211
Unrestricted net assets	642,460	577,764
Total liabilities and net assets	\$ 706,166	620,975

See accompanying notes to financial statements.

Statements of Activities
(000's omitted)

Years ended December 31, 2004 and 2003	2004	2003
Revenues and gains:		
Investment activity:		
Interest and dividend income	\$ 12,815	11,355
Realized gain on investments	79,263	9,331
Unrealized gain on investments	16,898	117,032
Less investment expenses	(7,844)	(6,093)
Total investment activity	101,132	131,625
Donor Intent Contributions	2,553	1,300
Total unrestricted revenues and gains	103,685	132,925
Grants and expenses:		
Grants approved for charitable purposes, net	33,169	26,450
General and administrative	4,072	4,480
Excise and income taxes	1,748	334
Total grants and expenses	38,989	31,264
Increase in unrestricted net assets	64,696	101,661
Net assets:		
Beginning of year	577,764	476,103
End of year	\$ 642,460	577,764

See accompanying notes to financial statements.

Statements of Cash Flows
(000's omitted)

Years ended December 31, 2004 and 2003	2004	2003
Operating activities:		
Increase in unrestricted net assets	\$ 64,696	101,661
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	238	238
Net realized and unrealized gains on investments	(95,639)	(126,363)
Grants paid with stock transfers	8,506	1,956
Change in provision for losses on limited partnerships	(522)	0
(Increase) decrease in accrued investment income receivable	(54)	213
Increase (decrease) in due to/from brokers for securites purchased/sold	1,251	366
(Increase) decrease in prepaid expenses and other assets	(294)	319
Increase (decrease) in accrued expenses	72	(277)
(Decrease) in grants payable	(111)	(2,342)
Net cash used in operating activities	(21,857)	(24,229)
Investing activities:		
Proceeds from the sale of investments	456,296	165,466
Purchase of investments	(429,910)	(144,803)
Net cash provided by investing activities	26,386	20,663
Financing activities:		
Payments on notes payable	(159)	(170)
Net increase (decrease) in cash and cash equivalents	4,370	(3,736)
Cash and cash equivalents:		
Beginning of year	9,748	13,484
End of year	\$ 14,118	9,748
Supplemental disclosure of cash flow information:		
Cash payments for interest	\$ 17	22
Cash payments for excise and income taxes	1,950	140

See accompanying notes to financial statements.

December 31, 2004 and 2003

(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

(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. 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.

(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 2004 and 2003.

(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 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.

(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 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 2004 and 2003 and accrued excise tax of \$241,000 and \$320,100 at December 31, 2004 and 2003, 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 2004 and 2003, the Foundation exceeded its minimum distribution requirements by approximately \$8,764,000 and \$7,931,000, respectively. At December 31, 2004, total excess qualifying distributions available from 2004 and prior years to be carried forward are approximately \$46,945,000 and expire as follows:

	Qualifying distribution in excess of minimum distribution
Year	(000's omitted)
2005	\$ 18,053
2006	6,791
2007	5,406
2008	7,931
2009	8,764
	\$ 46,945

(i) Reclassifications

Certain 2003 amounts have been reclassified to conform to the 2004 presentation.

(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 fluctuations in foreign currencies 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, 2004 and 2003 were \$(202,000) and \$(125,000), respectively. Net realized and unrealized gains (losses) on foreign currency exchange contracts recognized in the statement of activities were \$(285,000 and \$(77,000), respectively, during the year ended December 31, 2004 and \$209,000 and \$(240,000), respectively, during the year ended December 31, 2003.

(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 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 \$53,224,000 and \$33,554,000 at December 31, 2004 and 2003, respectively. In exchange for loaned securities, the Foundation received cash collateral of \$52,687,000 and non-cash collateral of \$2,094,000 at December 31, 2004 and cash collateral of \$32,751,000 and non-cash collateral of \$1,863,000 at December 31, 2003. 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 \$108,000 and \$113,000 for the years ended December 31, 2004 and 2003, respectively.

(4) LIMITED PARTNERSHIPS

The Foundation has invested in limited partnerships totaling \$187,784,000 and \$178,996,000 as of December 31, 2004 and 2003, respectively. \$147,682,000 and \$133,912,000 of the investments as of December 31, 2004 and 2003, respectively, comprise liquid partnerships and are recorded at fair value based upon quoted market prices. \$40,102,000 and \$45,084,000 of the investments as of December 31, 2004 and 2003, respectively, comprise investments in limited partnerships without quoted market prices.

(5) LAND, BUILDINGS, FURNITURE, AND FIXTURES

Land, buildings, furniture, and fixtures comprise the following assets at December 31, 2004 and 2003:

	(000's omitted)	
	2004	2003
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	1,596	1,358
	\$ 4,411	4,649

(6) GRANTS

Unconditional grants approved for charitable purposes during 2004 and 2003 are summarized as follows:

	(000's omitted)	
	2004	2003
Total grants approved for charitable purposes	\$ 33,222	26,450
Returned or cancelled grants	(53)	(0)
Grants approved for charitable purposes, net	\$ 33,169	26,450

Grants payable as of December 31, 2004 are scheduled to be disbursed as follows:

Year	(000's omitted)
2005	\$ 7,113
2006	50
	\$ 7,163

(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 Foundation terminated the line of credit on September 15, 2004 and financed the remaining balance with a fixed rate note that bears interest of 3.5% over a three year term. Loan balances were \$507,000 and \$666,000 at December 31, 2004 and 2003, respectively. The note is collateralized by investments held in a custodial account.

(8) TOTAL INVESTMENT ACTIVITY

The Foundation changed the Statement of Activities in 2004 to report total investment activity net of related investment expenses. The related investment expenses of investment advisory and custody fees were previously reported with operating expenses. Investment expenses reported in the comparative 2003 Statement of Activities have been reclassified for the change.

(9) 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. Donors contributed \$2,553,000 and \$1,300,000 in 2004 and 2003, respectively. The 2004 and 2003 donors contributions were awarded and paid in the year the contributions were received.

(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 \$197,000 and \$205,000 in 2004 and 2003, 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 \$69,000 and \$157,000 for 2004 and 2003, 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 2004 and 2003, the Foundation awarded grants of \$2,613,000 and \$2,548,000, respectively, to related party organizations.

(12) COMMITMENTS

As part of its investment management activity, the Foundation is committed to additional funding of \$11,132,000 for certain limited partnerships at December 31, 2004. In addition, as part of its grant activity, the Foundation has committed but not yet authorized grants to certain organizations of \$12,675,000 at December 31, 2004.

(13) 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, 2004, as reported by the trustee, was \$171,992,000. 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.