McGladrey & Pullen
Certified Public Accountants

The Spencer Foundation

(An Illinois Not-for-Profit Corporation)

Financial Report

March 31, 2007 and 2006

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(An Illinois Not-for-Profit Corporation)
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McGladrey & Pullen
Certified Public Accountants

Independent Auditors' Report

Board of Directors of
The Spencer Foundation

We have audited the accompanying statement of financial position of The Spencer Foundation (an Illinois not-for-profit corporation) as of March 31, 2007 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of The Spencer Foundation for the year ended March 31, 2006 were audited by Altschuler, Melvoin and Glasser LLP, certain of whose partners have become partners of McGladrey & Pullen, LLP. Altschuler, Melvoin and Glasser LLP's report, dated May 18, 2006, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Spencer Foundation as of March 31, 2007 and its changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Chicago, Illinois
June 15, 2007

The Spencer Foundation
(An Illinois Not-for-Profit Corporation)
Statements of Financial Position (In Thousands of Dollars)
March 31, 2007 and 2006

	2007	2006
Assets		
Investments, at market value	$ 479,951	$ 449,887
Cash	171	325
Other assets	875	967
	$ 480,997	$ 451,179
Liabilities and Unrestricted Net Assets		
Grants payable	$ 14,651	$ 13,150
Accrued expenses	37	24
Accounts payable	74	75
	14,762	13,249
Unrestricted net assets	466,235	437,930
	$ 480,997	$ 451,179

The Spencer Foundation
(An Illinois Not-for-Profit Corporation)
Statements of Activities (In Thousands of Dollars)
Years Ended March 31, 2007 and 2006

	2007	2006
Investment returns		
Net realized gain on sales of investments	$ 9,271	$ 10,315
Net change in unrealized gain on investments	30,538	38,598
Interest income	30	29
Dividend income	11,980	9,877
	51,819	58,819
Program services		
Grants authorized, net of refunds (grant payments made were $16,486 in 2007 and $13,314 in 2006)	17,863	10,411
Foundation administered projects	1,400	874
Administrative expenses	3,094	3,373
Investment management expenses	737	332
Current federal excise taxes	420	328
	23,514	15,318
Change in net assets	28,305	43,501
Unrestricted net assets		
Beginning of year	437,930	394,429
End of year	$ 466,235	$ 437,930

See accompanying notes.

The Spencer Foundation
(An Illinois Not-for-Profit Corporation)
Statements of Cash Flows (In Thousands of Dollars)
Years Ended March 31, 2007 and 2006

	2007	2006
Operating activities		
Change in net assets	$ 28,305	$ 43,501
Net realized gain on sales of investments	(9,271)	(10,315)
Net change in unrealized gain on investments	(30,538)	(38,598)
Changes in		
Other assets	92	(388)
Grants payable	1,501	(2,705)
Accrued expenses	13	(22)
Accounts payable	(1)	(43)
Net cash used in operating activities	(9,899)	(8,570)
Investing activities		
Purchases of investments	(15,262)	(24,734)
Proceeds from sales of investments	25,007	33,391
Net cash provided by investing activities	9,745	8,657
Increase (decrease) in cash	(154)	87
Cash		
Beginning of year	325	238
End of year	$ 171	$ 325

Note 1 Nature of Activities and Significant Accounting Policies

Nature of Activities—The Spencer Foundation (the "Foundation"), organized in 1962, is the residuary legatee under the will of Lyle M. Spencer, deceased. The Foundation was established to support research aimed at the improvement of education. Support is derived primarily from returns on the Foundation's investments.

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income taxes. However, in accordance with Section 4940(e) of the Code, the Foundation is subject to a federal excise tax of 2 percent of net investment income and net realized taxable gains on security transactions, or 1 percent if the Foundation meets certain specified distribution requirements. The Foundation did not meet the specified requirements for fiscal years 2007 and 2006 and was subject to a 2 percent federal excise tax.

Financial Statement Presentation—The financial statements have been prepared following accounting principles applicable to nonprofit organizations.

Investments—Marketable securities are carried at market value based on quoted prices. Index funds are carried based on fair values provided by the fund managers. Real estate partnerships are carried at approximate fair value, as determined by the management of the partnerships, using appraised values, and at market value, based on quoted prices. Purchases and sales of securities are recorded on a trade date basis.

Deferred Federal Excise Tax—Deferred federal excise tax represents taxes provided on the net unrealized appreciation on investments, using a rate of 2 percent. The deferred federal excise tax liability is reflected as a reduction of investments in the statements of financial position. The change in deferred taxes is reflected within the change in unrealized gain on investments in the statements of activities.

Awards and Grants—Awards and grants, including multiyear grants, are considered obligations when approved by the Foundation's Board of Directors.

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.

Fair Value of Financial Instruments—Substantially all of the Foundation's assets and liabilities are considered financial instruments and are either already reflected at fair value or are short-term or replaceable on demand. Therefore, their carrying amounts approximate fair value.

Note 2 Investments

Investments at March 31, 2007 and 2006 are summarized as follows:

	2007		2006	
	Cost	Market or Fair Value	Cost	Market or Fair Value
Marketable securities				
Equity funds	$ 313,257,000	$ 414,097,000	$ 316,559,000	$ 387,259,000
Bond funds	68,865,000	66,914,000	65,543,000	63,074,000
Real estate investments	510,000	922,000	1,003,000	913,000
	382,632,000	481,933,000	383,105,000	451,246,000
Deferred federal excise tax		(1,982,000)		(1,359,000)
	$ 382,632,000	$ 479,951,000	$ 383,105,000	$ 449,887,000

Note 3 Grants Payable

Grants payable consist primarily of multiyear unconditional grants that are generally payable over one to five years. Management estimates these grants will be paid as follows:

2008	$ 10,432,000
2009	3,446,000
2010	647,000
2011	126,000
	$ 14,651,000

Grants authorized are shown net of rescissions and refunds of $126,000 in 2007 and $200,000 in 2006. Payments on authorized but unpaid grants may be accelerated upon mutual agreement between the Foundation and the grantees.

Note 4 Unrestricted Net Assets

Unrestricted net assets are comprised of the following amounts:

	2007	2006
Principal	$ 82,203,000	$ 82,203,000
Cumulative excess of grants and other expenses over revenue (cumulative grants authorized of $370,190,000 at March 31, 2007)	(223,678,000)	(212,174,000)
Cumulative net realized gains on sales of investments	510,390,000	501,119,000
Unrealized gains in investment portfolio	97,320,000	66,782,000
	$ 466,235,000	$ 437,930,000

Note 5 Retirement Plans

The Foundation maintains a defined contribution retirement plan covering all active full-time employees. Under the terms of the plan, the Foundation must contribute specified percentages of an employee's salary. The plan is currently invested in employee-designated individual annuity contracts and various approved mutual funds. The Foundation's contribution to the plan was $233,000 for fiscal year 2007 ($225,000 - 2006).

In addition, the Foundation maintains a supplemental retirement plan that allows employees to defer a portion of their pretax salaries. No contributions are made to this plan by the Foundation.

Note 6 Commitments

The Foundation currently occupies office space in Chicago, under the terms of an operating lease which expires in 2015. The lease requires the Foundation to pay monthly base rents ranging from $16,000 to $21,000, plus a proportionate share of operating and real estate taxes. At March 31, 2007, the Foundation had the following commitments for base rentals under these leases:

2008	$ 205,000
2009	212,000
2010	218,000
2011	225,000
2012	231,000
Thereafter	903,000
	$ 1,994,000

Rent expense was $116,000 for fiscal year 2007 ($238,000 - 2006).