The Joyce Foundation

Financial Statements
Years Ended December 31, 2006 and 2005

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Contents

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Independent Auditors' Report

To the Board of Directors
The Joyce Foundation

We have audited the accompanying statements of financial position of The Joyce 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 audits 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 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, the financial statements referred to above present fairly, in all material respects, the financial position of The Joyce Foundation as of December 31, 2006 and 2005 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.

BDO Seidman, LLP

Chicago, Illinois
May 1, 2007

Financial Statements

The Joyce Foundation

Statements of Financial Position

December 31,		**2006**		2005
Assets				
Current Assets				
Cash	**$**	**197,875**	$	232,933
Collateral received under securities lending program (Note 1)		**70,406,523**		64,882,694
Due from brokers for sales of securities		**898,781**		521,104
Investments (Note 3)				
Short-term money market investments		**20,281,126**		11,939,032
U.S. Government and corporate bonds		**162,612,594**		152,247,057
Stocks		**557,138,119**		502,240,987
Investment partnerships		**163,072,736**		159,662,540
Program-related investments		**225,000**		323,000
Real estate and mineral rights		**442,761**		442,761
Other assets		**72**		104
Total Assets	**$**	**975,275,587**	$	892,492,212
Liabilities and Net Assets				
Current Liabilities				
Accounts payable and accrued expenses	**$**	**47,578**	$	135,088
Due to brokers for purchases of securities		**2,637,750**		1,405,534
Grants payable		**26,030,009**		11,186,289
Payable under securities lending program		**70,406,523**		64,882,694
Current federal excise tax payable		**27,945**		90,920
Deferred federal excise tax payable		**2,284,449**		1,750,760
		101,434,254		79,451,285
Net assets – unrestricted		**873,841,333**		813,040,927
Total Liabilities and Net Assets	**$**	**975,275,587**	$	892,492,212

See accompanying notes to financial statements.

The Joyce Foundation

Statements of Activities

Year ended December 31,	**2006**	2005
Revenue		
Gain on marketable investments		
Net realized	**$ 47,958,713**	$ 15,969,255
Net unrealized	**26,334,383**	13,594,249
Partnership income	**24,381,186**	12,791,225
Interest income	**1,623,881**	1,079,390
Dividend income	**19,415,957**	15,872,137
Other income	**291,284**	490,094
	120,005,404	59,796,350
Investment expenses	**2,803,394**	2,220,995
Net investment revenue	**117,202,010**	57,575,355
Expenses		
Grants awarded, net of grants returned (grant payments made of $34,440,454 in 2006 and $31,445,028 in 2005)	**49,284,174**	26,562,335
General and administrative expenses	**4,981,470**	4,697,940
Federal excise tax	**1,602,272**	1,483,278
Deferred federal excise tax	**533,688**	134,760
Total expenses	**56,401,604**	32,878,313
Increase in Unrestricted Net Assets	**60,800,406**	24,697,042
Unrestricted Net Assets, at beginning of year	**813,040,927**	788,343,885
Unrestricted Net Assets, at end of year	**$ 873,841,333**	$ 813,040,927

See accompanying notes to financial statements.

The Joyce Foundation

Statements of Cash Flows

Year ended December 31,	**2006**	2005
Cash Flows From Operating Activities		
Increase in unrestricted net assets	**$ 60,800,406**	$ 24,697,042
Adjustments to reconcile change in net assets to net cash used in operating activities		
Realized gain on sales of investments	**(47,958,713)**	(15,969,255)
Increase in market value of investments	**(26,334,383)**	(13,594,249)
Partnership income	**(24,381,186)**	(12,791,225)
Write-off of program related investments	**75,000**	-
Deferred federal excise tax payable	**533,689**	134,760
Changes in		
Other assets	**32**	1,070
Federal excise tax	**(62,975)**	242,438
Grants payable	**14,843,720**	(4,882,691)
Accounts payable and other accruals	**1,144,706**	110,278
Net cash used in operating activities	**(21,339,704)**	(22,051,832)
Cash Flows From Investing Activities		
Proceeds from sales of stocks and bonds	**248,310,360**	259,855,797
Purchases of stocks and bonds	**(239,657,608)**	(267,755,574)
Investments in partnerships	**(8,381,953)**	(6,297,836)
Distributions from partnerships	**29,352,941**	13,115,830
Net sales and purchases of short-term money market investments	**(8,342,094)**	23,011,974
Program-related investments	**23,000**	23,000
Change in payable under securities lending program	**5,523,829**	13,462,614
Change in collateral received under securities lending program	**(5,523,829)**	(13,462,614)
Net cash provided by investing activities	**21,304,646**	21,953,191
Decrease in Cash	**(35,058)**	(98,641)
Cash, at beginning of year	**232,933**	331,574
Cash, at end of year	**$ 197,875**	$ 232,933

See accompanying notes to financial statements.

1. Nature of Activities and Significant Accounting Policies

Nature of Activities

The Joyce Foundation (the "Foundation") is a nonprofit organization that focuses on a limited number of carefully defined program areas, primarily education, employment, environment, gun violence, money and politics and culture.

The financial statements have been prepared in conformity with accounting policies applicable to nonprofit organizations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions affecting the amounts reported in the financial statements and accompanying notes. Actual results could differ from the estimates.

Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law. However, as a private charitable foundation, it is subject to a federal excise tax based on net investment income. Deferred federal excise tax represents taxes provided on the net unrealized appreciation on investments, using a rate of 2%.

Investments

Marketable securities and exchange-traded futures contracts are reflected at market value based on quoted prices. Investment partnerships and real estate and mineral rights are reflected at approximate fair value. Realized and unrealized gains and losses from changes in market values are reflected in the statements of activities.

Securities Lending

The Foundation participates in a securities lending program administered by the Foundation's custodian. Under this program, securities are periodically loaned to selected brokers, banks or other institutional borrowers of securities, for which collateral in the form of cash, letters of credit, or government securities may not be less than 102% of the market value of the loaned securities plus accrued but unpaid interest or dividends. The Foundation invests this collateral received in equity securities. The Foundation bears the risk that it may experience delays in the recovery or even loss of rights in the collateral should the borrower of the securities fail to meet its obligations.

Fixed Assets	The cost of leasehold improvements, furniture and equipment is charged to expense in the year they are acquired rather than being capitalized, as the amounts involved are deemed to be immaterial.
Grants	Grants specifically committed to designated grantees, but not yet paid, are accrued as grants payable.
Translation of Foreign Currencies	Assets and liabilities denominated in foreign currencies are translated at year-end exchange rates. Revenue and expense items are translated at average rates of exchange for the year. Translation gains and losses are included in income.
Concentration of Credit Risk	The Foundation maintains its cash in bank deposit 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.

2. 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 their fair values.

3. Investments

Foundation investments, other than investment partnerships and program related investments described below, consist of the following:

	2006		2005	
	Cost	**Market Value**	Cost	Market Value
Short-Term Money Markets Investments	**$ 20,281,126**	**$ 20,281,126**	$ 11,939,032	$ 11,939,032
U.S. Government and Corporate Bonds	**168,456,304**	**162,612,594**	156,295,611	152,247,057
Stocks	**437,072,026**	**557,138,119**	410,304,434	502,240,987
Total	**$ 625,809,456**	**$ 740,031,839**	$ 578,539,077	$ 666,427,076

Investment Partnerships

The Foundation holds limited partnership interest in various venture capital partnerships, all of which invest in and trade marketable securities. The Foundation holds another limited partnership interest that invests in and trades marketable securities and futures contracts. The partnerships reflect these investments at market value. The Foundation's share of its net assets and income or losses is reflected in the financial statements using the equity method of accounting. Partnership investment income includes interest, dividends, and realized gains or losses, net of partnership expense. The Foundation had open commitments to make additional partnership investments of $36,724,604 and $30,106,557 at December 31, 2006 and 2005, respectively. Returned unused capital contributions may be recalled and all distributions are subject to repayment to cover liabilities of the partnerships. The amount of this contingency cannot be determined.

Program-Related Investments

The Foundation had three program-related investments at December 31, 2005 and one remaining at December 31, 2006.

$225,000 investment in Series E preferred stock of the Shorebank Corporation, Chicago, Illinois.

Purpose

To support rural economic development involving expert technical assistance, venture investing and small business lending to expand economic opportunities of low-income people in the Upper Peninsula of Michigan.

At December 31, 2005, the Foundation had promissory notes of $23,000 due on July 1, 2006 from Shorebank Corporation, Chicago, Illinois. Interest was earned at ⅔ of prime per year (4.67% as of December 31, 2005). The note amount was received during 2006.

Purpose

To encourage the revitalization of the Austin community of Chicago.

$75,000 callable loan to the Women's Self-Employment Project, Inc., Chicago, Illinois. Interest is earned at 3% per year. This amount was written off during 2006 due to the organization dissolving.

Purpose

To capitalize revolving loan fund to assist low-income women in establishing businesses to increase their self-sufficiency based on the Bangladesh Grameen Bank model.

As the market value of these assets is not readily available, these investments are recorded at cost.

4. Pension Plan

The Foundation maintains a defined contribution pension plan for eligible employees. Employer contributions are discretionary and are calculated as a percentage of salaries as determined by the Board of Directors. Total employer and employee contributions may not exceed the lesser of 100% of salaries or $44,000 per employee. Pension expense was $310,376 for 2006 and $286,075 for 2005.

5. Commitments

The Foundation leases office space under a noncancelable operating lease that provides for minimum monthly payments through January 31, 2013, plus additional amounts to cover the proportionate share of the cost of operating the property. Rent expense including related operating expenses totaled $362,274 in 2006 and $375,467 in 2005. At December 31, 2006, minimum payments under this lease are as follows:

	Amount
2007	$ 159,919
2008	198,484
2009	227,794
2010	233,965
2011	240,135
Thereafter	266,874
Total	$ 1,327,171

6. Derivative Financial Instruments

In connection with its investing activities, the Foundation enters into transactions involving a variety of derivative financial instruments, primarily exchange-traded financial futures contracts. These contracts provide for the delayed delivery or purchase of financial instruments at a specified future date at a specified price or yield.

Derivative financial instruments involve varying degrees of off-balance-sheet market risk, whereby changes in the market values of the underlying financial instruments may result in changes in the value of the financial instruments in excess of the amounts reflected in the statements of financial position. Exposure to market risk is influenced by a number of factors, including the relationships between financial instruments and the Foundation's investment holdings and the volatility and liquidity in the markets in which the financial instruments are traded. In many cases, the use of financial instruments serves to modify or offset market risk associated with other transactions and, accordingly, serves to decrease the Foundation's overall exposure to market risk.

Derivative financial instruments can also be subject to credit risk, which arises from the potential inability of counterparties to perform in accordance with the terms of the contract. The Foundation's exposure to credit risk associated with counterparty nonperformance is limited to the current cost to replace all contracts in which the Foundation has a gain. Exchange-traded derivative financial instruments, such as financial futures contracts, generally do not give rise to significant counterparty exposure due to the cash settlement procedures for daily market movements and the margin requirements of the individual exchanges.

The Foundation's net losses from futures contracts were $138,691 in 2006 and $306,851 in 2005.