The Joyce Foundation

Financial Statements
Years Ended December 31, 2008 and 2007

BDO

BDO Seidman, LLP
Accountants and Consultants

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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 (the "Foundation") as of December 31, 2008 and 2007 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.

As discussed in Note 2, effective January 1, 2008, the Foundation changed its method of accounting for fair value measurements in accordance with Statement of Accounting Standards No. 157, *"Fair Value Measurements."*

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, 2008 and 2007 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
July 6, 2009

Financial Statements

The Joyce Foundation

Statements of Financial Position

December 31,		**2008**		2007
Assets				
Current Assets				
Cash	**$**	**338,984**	$	200,912
Collateral received under securities lending program (Note 1)		**16,739,010**		52,583,610
Due from brokers for sales of securities		**1,329,869**		339,450
Investments (Note 2)		**629,670,599**		931,643,665
Contribution receivable		**1,000,000**		1,000,000
Other assets		**733,558**		405,138
Total Assets	**$**	**649,812,020**	$	986,172,775
Liabilities and Net Assets				
Current Liabilities				
Accounts payable and accrued expenses	**$**	**527,665**	$	89,092
Due to brokers for purchases of securities		**1,834,469**		564,856
Grants payable		**18,548,629**		20,694,987
Payable under securities lending program (Note 1)		**16,739,010**		52,583,610
Current federal excise tax payable		**-**		21,399
Deferred federal excise tax payable		**-**		1,935,449
		37,649,773		75,889,393
Net Assets				
Unrestricted		**611,048,135**		908,169,270
Temporarily restricted		**1,114,112**		2,114,112
Total Net Assets		**612,162,247**		910,283,382
Total Liabilities and Net Assets	**$**	**649,812,020**	$	986,172,775

See accompanying notes to financial statements.

The Joyce Foundation

Statements of Activities

Year ended December 31,			2008
	Unrestricted	**Temporarily Restricted**	**Total**
Revenue			
Investment (losses) revenue			
Net realized losses on investment transactions	**$ (51,474,221)**	**$ -**	**$ (51,474,221)**
Net unrealized depreciation on assets	**(219,619,485)**	**-**	**(219,619,485)**
Interest income	**612,441**	**-**	**612,441**
Dividend income	**15,505,286**	**-**	**15,505,286**
Other income	**630,613**	**-**	**630,613**
	(254,345,366)	**-**	**(254,345,366)**
Investment expenses	**2,991,969**	**-**	**2,991,969**
Net investment losses	**(257,337,335)**	**-**	**(257,337,335)**
Expenses			
Grants awarded, net of grants returned (grant payments made of $38,956,628)	**36,810,270**	**-**	**36,810,270**
General and administrative expenses	**5,561,981**	**-**	**5,561,981**
Federal excise tax/ unrelated business income tax	**346,998**	**-**	**346,998**
Deferred federal excise tax benefit	**(1,935,449)**	**-**	**(1,935,449)**
Total expenses	**40,783,800**	**-**	**40,783,800**
Net assets released from restrictions	**1,000,000**	**(1,000,000)**	**-**
Decrease in Net Assets	**(297,121,135)**	**(1,000,000)**	**(298,121,135)**
Net Assets, at beginning of year	**908,169,270**	**2,114,112**	**910,283,382**
Net Assets, at end of year	**$ 611,048,135**	**$ 1,114,112**	**$ 612,162,247**

See accompanying notes to financial statements.

The Joyce Foundation

Statements of Activities

Year ended December 31,			2007
	Unrestricted	**Temporarily Restricted**	**Total**
Revenue			
Contributions	$ -	$ 2,114,112	$ 2,114,112
Investment revenue (losses)			
Net realized gains on investment transactions	70,558,206	-	70,558,206
Net unrealized depreciation on assets	(19,039,722)	-	(19,039,722)
Interest income	1,515,970	-	1,515,970
Dividend income	21,137,999	-	21,137,999
Other income	538,478	-	538,478
	74,710,931	-	74,710,931
Investment expenses	3,356,456	-	3,356,456
Net investment revenue	71,354,475	-	71,354,475
Total revenue	71,354,475	2,114,112	73,468,587
Expenses			
Grants awarded, net of grants returned (grant payments made of $35,667,053)	30,332,027	-	30,332,027
General and administrative expenses	5,284,256	-	5,284,256
Federal excise tax/ unrelated business income tax	1,759,255	-	1,759,255
Deferred federal excise tax benefit	(349,000)	-	(349,000)
Total expenses	37,026,538	-	37,026,538
Increase in Net Assets	34,327,937	2,114,112	36,442,049
Net Assets, at beginning of year	873,841,333	-	873,841,333
Net Assets, at end of year	$ 908,169,270	$ 2,114,112	$ 910,283,382

See accompanying notes to financial statements.

The Joyce Foundation

Statements of Cash Flows

Year ended December 31,	**2008**	2007
Cash Flows From Operating Activities		
(Decrease) increase in net assets	**$ (298,121,135)**	$ 36,442,049
Adjustments to reconcile change in net assets to net cash used in operating activities		
Realized loss (gain) on investment transactions	**51,474,221**	(70,558,206)
Net unrealized depreciation on assets	**219,619,485**	19,039,722
Deferred federal excise tax	**(1,935,449)**	(349,000)
Changes in		
Contribution receivable	**-**	(1,000,000)
Other assets	**(328,420)**	(405,066)
Federal excise tax payable	**(21,399)**	(6,546)
Grants payable	**(2,146,358)**	(5,335,022)
Accounts payable and accrued expenses	**438,573**	(2,031,380)
Net cash used in operating activities	**(31,020,482)**	(24,203,449)
Cash Flows From Investing Activities		
Proceeds from investments	**530,354,020**	310,779,796
Purchases of investments	**(499,195,466)**	(286,573,310)
Change in payable under securities lending program	**35,844,600**	17,822,913
Change in collateral received under securities lending program	**(35,844,600)**	(17,822,913)
Net cash provided by investing activities	**31,158,554**	24,206,486
Increase in Cash	**138,072**	3,037
Cash, at beginning of year	**200,912**	197,875
Cash, at end of year	**$ 338,984**	$ 200,912

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 makes grants in a 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% or 1%. The Foundation is subject to income tax at corporate rates on certain income that is considered unrelated business income under the Internal Revenue Code.

Investments

Marketable securities are reflected at market values based on quoted prices. Realized and unrealized gains and losses from changes in market values are reflected in the statements of activities.

Limited liquidity investments (categorized as "private equities" and "marketable alternatives" – see Note 2) are stated at estimated fair value. Limited liquidity investments are primarily made under agreements to participate in limited partnerships and commingled funds and are generally subject to certain withdrawal restrictions. These interests are valued on the basis of the Foundation’s equity in the net assets of such investments. Values for these investments, which may include investments in both nonmarketable and market-traded securities, are provided by the general partner or administrator and may be based on appraisals, market values discounted for concentration of ownership, or other estimates. Because of inherent uncertainty of valuing the investments in such partnerships and certain of the underlying investments held by the partnership and commingled funds, the Foundation’s estimate of fair value may differ significantly from the values that would have been used had a ready market for the investments existed. The financial statements of the limited liquidity investments are audited annually by independent public accounting firms.

Investment sales and purchases are recorded on a trade-date basis, which results in both investment receivables and payables on unsettled investment trades. Dividend income is recorded based upon the ex-dividend date, and interest income is recorded as earned on an accrual basis. Futures, forwards, and options contracts are marked to market with the change reflected in investment income.

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 a commingled fund of short-term fixed income 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 or if investments purchased through the collateral reinvestment process become impaired. In September 2008, the custodian declared a deficiency in the collateral fund for the securities lending program. As such, the Foundation was assessed their pro rata share of the deficiency, which is included in accounts payable and accrued expenses in the accompanying statement of financial position. In October 2008, the Foundation informed the custodian that they intend to withdraw from the program in a staged fashion. The Foundation intends to complete the staged withdrawal late in 2009 or in 2010.

Fixed Assets

Until 2007, the Foundation expensed fixed assets the year in which the asset was acquired rather than capitalizing the fixed asset, as the amounts were deemed to be immaterial. Beginning in 2007, the Foundation began capitalizing the cost of leasehold improvements, furniture and equipment, and depreciating/amortizing the assets using the straight-line method. Leasehold improvements are amortized over the lesser of the estimated useful life or the term of the lease and furniture and equipment are depreciated over five years, the estimated useful life. Fixed assets are included in other assets on the 2008 and 2007 Statements of Financial Position.

Grants

Grants specifically committed to designated grantees, but not yet paid, are accrued as grants payable.

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.

Net Assets

Temporarily restricted net assets are limited by donors to a specific time period or purpose. Unrestricted net assets are not subject to any stipulations. During 2007, the Foundation received a commitment of $2,100,000 restricted to specific grant-making. $1,100,000 of this amount was received during 2007 and the remaining $1,000,000 was subsequently received in 2009. $1,000,000 of this contribution was awarded and expensed during 2008.

2. Investments

Fair Value Measurements

The Foundation adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 157, *"Fair Value Measurements,"* ("FAS 157") effective January 1, 2008. In accordance with FAS 157, fair value is defined as the price that the Foundation would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. FAS 157 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based upon market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions of what market participants would use in pricing the asset or liability based upon the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

Level 1 – Quoted prices in active markets for identical investments

Level 2 – Other significant observable inputs (including quoted prices for similar investments, interest rates, credit risk, etc.)

Level 3 – Significant unobservable inputs (including the Foundation's own assumptions in determining the fair value of investments)

Foundation investments consist of the following:

	2008		2007	
	Cost	**Market Value**	Cost	Market Value
Short-term money markets	**$ 8,084,359**	**$ 8,084,359**	$ 17,863,111	$ 17,863,111
U.S. government and corporate bonds	**117,348,018**	**108,692,197**	181,534,752	181,843,422
Public equities	**418,828,119**	**329,418,138**	584,263,098	680,285,395
Private equities	**34,184,463**	**41,016,599**	24,453,320	35,983,976
Marketable alternatives	**164,310,746**	**141,791,545**	15,000,000	15,000,000
Program related investment	**225,000**	**225,000**	225,000	225,000
Real estate and mineral rights	**442,761**	**442,761**	442,761	442,761
Total	**$ 743,423,466**	**$ 629,670,599**	$ 823,782,042	$ 931,643,665

Short-term money markets consist primarily of U.S. government treasury securities, high-grade commercial paper, and discounted notes. U.S. government and corporate bonds consist primarily of U.S. government agency and treasury securities, mortgage-backed securities, collateralized mortgage obligations, high-grade corporate securities, international corporate and government securities, and investments in domestic and international pooled funds. Public equities consist primarily of direct or indirect investments in U.S. and international stock. Private equities consist of limited partnerships, such as venture capital, buyout firms, real estate partnerships, and investments in distressed and mezzanine debt securities. Marketable alternatives consist of mutual, hedge and commingled funds.

The following is a summary of the inputs used as of December 31, 2008 in valuing the Foundation's investments:

	December 31, 2008	Quotes Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term money markets	$ 8,084,359	$ 8,084,359	$ -	$ -
U.S. government and corporate bonds	108,692,197	-	108,692,197	-
Public equities	329,418,138	141,544,249	172,699,792	15,174,097
Private equities	41,016,599	-	-	41,016,599
Marketable alternatives	141,791,545	-	42,102,991	99,688,554
Program related investment	225,000	-	-	225,000
Real estate and mineral rights	442,761	-	-	442,761
Total	**$629,670,599**	**$149,628,608**	**$323,494,980**	**$156,547,011**

The table below sets forth a summary of changes in the fair vale of the Foundation's level 3 investment assets for the year ended December 31, 2008.

	Public Equities	Private Equities	Marketable Alternatives	Program Related Investments	Real Estate and Mineral Rights	Total
Balance, at January 1, 2008	$ -	$35,983,976	$15,000,000	$225,000	$442,761	$ 51,651,737
Realized (losses) gains	(2,170,829)	(2,833,981)	141,712	-	-	(4,863,098)
Unrealized losses	(10,155,074)	(3,264,597)	(20,453,158)	-	-	(33,872,829)
Purchases, issuances, and settlements, net	27,500,000	11,131,201	105,000,000	-	-	143,631,201
Balance, at December 31, 2008	$15,174,097	$41,016,599	$99,688,554	$225,000	$442,761	$156,547,011

In addition, at December 31, 2008, the Foundation also has $16,739,010 of securities lending collateral which are considered to be level 2 investments.

Fair Value of Financial Instruments

The estimated fair values of financial instruments have been determined by the Foundation as follows:

Cash, securities transactions receivable, and obligations are carried at cost which approximates fair value because of the short maturity of these instruments.

Investments are carried at estimated fair value, which is generally based on year-end published quotations, or the net asset value ("NAV") of public investment funds. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of outstanding shares. These prices are only used for financial reporting purposes and do not necessarily represent the ultimate realizable values of such securities.

Some of the Foundation's assets are held in various limited partnerships that invest in the securities of companies that may not be immediately liquid. The partnerships' general partners, who must follow the valuation guidelines stipulated in their respective limited partnership agreements, determine the value of such investments. Given the inherent risks associated with this type of investment, there can be no guarantee that there will not be widely varying gains or losses on these limited partnership investments in future periods.

Investment Partnerships Open Commitments

The Foundation had open commitments to make additional partnership investments of $59,456,621 and $39,615,642 at December 31, 2008 and 2007, 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.

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 $0 in 2008 and $36,168 in 2007.

Program-Related Investments

The Foundation had one program-related investment at December 31, 2008 and 2007 which is a $225,000 investment in Series E preferred stock of Shorebank Corporation, Chicago, Illinois. The purpose of this investment is 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. As the market value of this asset is not readily determinable, this investment is recorded at cost.

The audit committee chairperson of the Foundation's Board of Directors also serves on the Board of Directors of Shorebank Corporation.

3. Defined Contribution 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 $46,000 per employee. Pension expense was $327,003 for 2008 and $317,705 for 2007.

4. 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 $366,091 in 2008 and $382,898 in 2007. At December 31, 2008, minimum payments under this lease are as follows:

	Amount
2009	$ 227,794
2010	233,965
2011	240,135
2012	246,306
2013	20,569
Total	$ 968,769

5. Investment Performance Risk

Major U.S. and foreign equity and fixed income indices have experienced volatility and, in some cases, significant declines during 2008. Management is monitoring investment market conditions and the impact such declines are having on the Foundation's investment portfolio. Due to the volatility of the U.S. and world financial markets as of the date of this report, there is uncertainty regarding the long-term impact the current declines will have on the Foundation's investment portfolio.