JOHN D. AND CATHERINE T. MACARTHUR FOUNDATION

FINANCIAL STATEMENTS
December 31, 2008 and 2007

Crowe Horwath LLP
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
John D. and Catherine T. MacArthur Foundation

We have audited the accompanying statement of financial position of John D. and Catherine T. MacArthur Foundation (the Foundation) as of December 31, 2008, 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 Foundation as of December 31, 2007, were audited by other auditors whose report dated June 27, 2008, 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 John D. and Catherine T. MacArthur Foundation as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the Foundation adopted Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements,* during the year ended December 31, 2008.

Crowe Horwath LLP

Crowe Horwath LLP

Chicago, Illinois
June 17, 2009

John D. and Catherine T. MacArthur Foundation

Statements of Financial Position

December 31, 2008 and 2007

	2008	2007
	(000's omitted)	
Assets		
Cash and cash equivalents	$ 5,415	$ 1,057
Investments	4,824,247	6,896,207
Program-related investments	134,373	118,394
Assets held for charitable use	31,756	28,310
Other assets	18,268	6,663
Total assets	$ 5,014,059	$ 7,050,631
Liabilities and net assets		
Grants payable	$ 308,424	$ 281,261
Other liabilities	127,234	44,313
Excise and income taxes	3,420	30,267
Total liabilities	439,078	355,841
Unrestricted net assets	4,574,981	6,694,790
Total liabilities and net assets	$ 5,014,059	$ 7,050,631

The accompanying notes are an integral part of the financial statements.

John D. and Catherine T. MacArthur Foundation

Statements of Activities

For the years ended December 31, 2008 and 2007

	2008	2007
	(000's omitted)	
Investment income		
Interest and dividends	$ 53,230	$ 223,287
Realized (loss) gain	(107,898)	543,738
Other investment portfolio loss	(337,706)	(105,444)
Total investment (loss) income	(392,374)	661,581
Investment expenses		
Fees and expenses	74,232	83,458
Excise and income tax (recoveries) expenses	(3,897)	13,107
Total investment expenses	70,335	96,565
Unrealized (loss) gain on investments	(1,367,650)	553,861
Net investment (loss) income	(1,830,359)	1,118,877
Operating expenses		
Grants authorized	255,559	288,067
Direct program	1,568	1,378
Administrative	28,991	27,462
Other	3,332	9,451
Total operating expenses	289,450	326,358
Change in unrestricted net assets	(2,119,809)	792,519
Unrestricted net assets, beginning of year	6,694,790	5,902,271
Unrestricted net assets, end of year	$ 4,574,981	$ 6,694,790

The accompanying notes are an integral part of the financial statements.

John D. and Catherine T. MacArthur Foundation

Statements of Cash Flows

For the years ended December 31, 2008 and 2007

	2008	2007
	(000's omitted)	
Cash flows from operating activities		
Change in unrestricted net assets	$ (2,119,809)	$ 792,519
Adjustments to reconcile change in unrestricted net assets to net cash used in operations		
Depreciation	1,711	1,974
Realized loss (gain) on investments	107,898	(543,738)
Unrealized loss (gain) on investments	1,367,650	(553,861)
Increase in non-investment assets	(32,372)	(31,668)
Increase in grants payable	27,163	55,700
Increase in other liabilites	38,921	16,456
(Decrease) increase in excise and income taxes	(26,847)	5,765
Net cash used in operating activities	(635,685)	(256,853)
Cash flows from investment activities		
Proceeds from sale of investments	3,961,560	5,360,934
Purchase of investments	(3,365,517)	(5,106,523)
Net cash provided by investment activities	596,043	254,411
Cash flows from financing activities		
Increase in notes payable	44,000	0
Net cash provided by financing activities	44,000	0
Net increase (decrease) in cash and cash equivalents	4,358	(2,442)
Cash and cash equivalents at beginning of year	1,057	3,499
Cash and cash equivalents at end of year	$ 5,415	$ 1,057

The accompanying notes are an integral part of the financial statements.

John D. and Catherine T. MacArthur Foundation

Notes to Financial Statements

December 31, 2008 and 2007

1. Organization

The John D. and Catherine T. MacArthur Foundation is a private, independent grant making institution that supports creative people and effective institutions committed to building a more just, verdant, and peaceful world. The Foundation makes grants and program-related investments through four programs. The Program on Global Security and Sustainability focuses on international issues, including human rights and international justice, peace and security, conservation and sustainable development, higher education, migration, and population and reproductive health. The Program on Human and Community Development addresses issues in the United States that include community and economic development; housing, with a focus on the preservation of affordable rental housing; juvenile justice reform; and education, with an interest in how technology is affecting children and society. The General Program supports public interest media, including public radio and television. Grants are also made to arts and cultural institutions in the Chicago area and for special initiatives. The MacArthur Fellows Program awards five-year, unrestricted fellowships to individuals across all ages and fields who show exceptional merit and promise of continued creative work.

2. Summary of Significant Accounting Policies

The Foundation prepares its financial statements on the accrual basis of accounting. The Foundation's significant accounting policies are as follows:

Cash Equivalents

Cash and cash equivalents held by the Foundation for use in its operations consist of temporary investments with original maturities of three months or less. Cash and cash equivalents used by the Foundation in managing its investments are reported in investments.

Investments

Investments are reported at fair value. Fair value is based on quoted market prices when available. For investments in limited partnerships and other similar investments, the fair value is based on valuations provided by external investment managers, which are reviewed by management for reasonableness. The Foundation believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and may differ from the value that would have been used had a ready market for such investments existed.

In 2008, the Foundation adopted Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements* (FAS No. 157). FAS No. 157 defines fair value as the price that would be received by the Foundation for an asset or the price paid by the Foundation to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. FAS No. 157 establishes a fair value hierarchy which requires the Foundation to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Program-related Investments

In accordance with Section 4944 of the Internal Revenue Code, the Foundation is permitted to make investments that are related to its philanthropic programs. These investments are anticipated to have a less than market return and are recorded net of appropriate reserves for collectibility. In the year of the investment, the Foundation receives a credit toward its

2. Summary of Significant Accounting Policies, continued

distribution requirement. Return of principal of program-related investments increases the Foundation's distribution requirement in the year of receipt. The Foundation had open program-related investment commitments of $67.6 million and $18.8 million as of December 31, 2008 and 2007, respectively.

Assets Held for Charitable Purposes

The Foundation holds certain assets, primarily real estate, for charitable purposes. The Foundation receives a credit toward its distribution requirement equal to the fair value, as determined by appraisal, of the assets at the time they are put into charitable use.

Grants

Grant awards are expensed when approved. Grants payable that are expected to be paid in future years are recorded at the present value of expected future payments. The Foundation discounted grants payable using an average rate of 1.28 percent and 3.09 percent as of December 31, 2008 and 2007, respectively.

Federal Taxes

The Foundation has received a determination letter from the Internal Revenue Service indicating that it qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is not subject to federal income taxes except for income from its unrelated business activities. Under Section 4940(a) of the Internal Revenue Code, a federal excise tax of 2 percent is imposed on the Foundation's net investment income and realized capital gains.

Deferred tax expense results from certain income and expense items, primarily unrealized gains or losses, being accounted for in different time periods for financial statement purposes than for federal excise and income tax purposes. Appropriate provisions are made in the financial statements for deferred taxes in recognition of these timing differences.

Employee Retirement Plan

The Foundation sponsors a defined contribution retirement plan for its eligible employees. Plan participants are fully vested after one year of service. The Foundation is current with its contributions to the plan. Employer contributions to the plan totaled $2.5 million and $2.3 million in 2008 and 2007, respectively.

Post-retirement Benefits

The Foundation provides health care and life insurance benefits to certain of its retired employees and their eligible dependents. In 2007, the Foundation adopted Financial Accounting Standards Board Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS No. 158). FAS No. 158 requires the Foundation to recognize the funded status of its post-retirement benefit plan in the statement of financial position at year end and to recognize the change in the funded status in unrestricted net assets.

2. Summary of Significant Accounting Policies, continued

The Foundation recorded a liability for post-retirement benefit obligations of $30.6 million and $29.9 million as of December 31, 2008 and 2007, respectively.

Investment Expenses

Total investment expenses as shown are $70.3 million and $96.6 million in 2008 and 2007, respectively. The Foundation includes indirect fees and expenses reported by investment partnerships in total investment expenses. These indirect costs are $52.1 million and $47.6 million in 2008 and 2007, respectively. Total investment expenses excluding indirect costs are $18.2 million and $49.0 million in 2008 and 2007, respectively.

Total investment income as shown is a $392.4 million loss and a $661.6 million gain in 2008 and 2007, respectively. Total investment income net of indirect costs is a $444.5 million loss and a $614.0 million gain in 2008 and 2007, respectively.

Estimates

The preparation of the Foundation's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

3. Investments

Investments as of December 31, 2008 and 2007, are as follows (000s omitted):

	2008		2007	
	Fair Value	Cost	Fair value	Cost
Public investments				
Equities	$ 1,324,745	$ 1,272,221	$ 2,596,341	$ 1,941,999
Fixed income	459,656	431,678	869,783	793,722
Marketable alternatives	302,848	294,099	433,368	320,000
Private investments				
Equities	924,586	828,685	1,080,120	761,889
Fixed income	602,461	695,867	677,270	557,617
Real estate and energy	1,209,951	1,131,063	1,239,325	954,792
Total investments	$ 4,824,247	$ 4,653,613	$ 6,896,207	$ 5,330,019

The Foundation's exposure in limited partnership investments and certain corporate equity investments, which totaled $3,979.6 million and $5,368.7 million as of December 31, 2008 and 2007, respectively, is limited to its partnership or equity investments in these entities.

3. Investments, continued

The Foundation had pending trade purchases of $13.1 million and $3.2 million and pending sales of $48.3 million and $6.1 million as of December 31, 2008 and 2007, respectively, which are included in investments.

Through a securities lending program, managed by its investment custodians, the Foundation loans certain marketable securities included in its investment portfolio. The custodians' loan agreements require the borrowers to maintain collateral equal to 102 percent or 105 percent of the fair value of the securities loaned. This collateral is in the form of cash, U.S. Treasury Bills, or guaranteed letters of credit and is revalued on a daily basis. At December 31, 2008, loaned securities outstanding totaled $43.2 million. No loaned securities were outstanding as of December 31, 2007.

The Foundation's investment strategy incorporates certain financial instruments, which involve, to varying degrees, elements of market risk, credit risk, currency risk, and counterparty insolvency risk in excess of the carrying value of assets recorded in the financial statements. These instruments include securities sold but not yet purchased, forward currency contracts, limited partnership investments and certain corporate equity investments.

The Foundation invests directly with managers whose strategies include shorting securities in accordance with investment management agreements. Securities sold but not yet purchased on the Foundation's behalf amounted to $33.5 million and $66.5 million as of December 31, 2008 and 2007, respectively. A third party held cash collateral of $37.8 and $81.2 million against these short positions as of December 31, 2008 and 2007, respectively. These securities have market risk to the extent that the Foundation's managers, in satisfying their obligations, may have to purchase securities at higher amounts than recorded. The Foundation also invests in funds that may short securities where the value of such shorted securities cannot be readily determined.

The Foundation enters into forward contracts to manage currency exchange risk inherent in its portfolio. At December 31, 2008 and 2007, the nominal value of contracts purchased totaled $1,867.1 million and $1,619.0 million, respectively, and the nominal value of contracts sold totaled $1,844.7 million and $1,628.1 million, respectively. Such contracts involve, to varying degrees, risk of loss arising from the possible inability of counterparties to meet the terms of the contracts. The unrealized gain or loss from these contracts is recorded in investments.

The Foundation had open private investment funding commitments of approximately $1,243.4 million and $1,632.6 million as of December 31, 2008 and 2007, respectively.

FAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of inputs within the fair value hierarchy under FAS No. 157 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

3. Investments, continued

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. This includes securities that are infrequently traded, derivatives, and mortgage backed securities.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement. This includes securities that are not actively traded on an established exchange, swaps, and partnership and direct investments.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following table sets forth by level, within the fair value hierarchy, investment assets at fair value as of December 31, 2008 (000s omitted):

	Level 1	Level 2	Level 3	Total
Public investments				
Equities	$ 405,842	$ 25,669	$ 893,234	$ 1,324,745
Fixed income	247,310	8,655	203,691	459,656
Marketable alternatives	0	0	302,848	302,848
Private investments				
Equities	0	0	924,586	924,586
Fixed income	4	0	602,457	602,461
Real estate and energy	5,030	26,277	1,178,644	1,209,951
Total	$ 658,186	$ 60,601	$ 4,105,460	$ 4,824,247

The following table is a roll forward of those investment assets classified as Level 3 as of December 31, 2008 (000s omitted):

Balance as of December 31, 2007	$ 5,407,303
Net purchases/(sales)	(216,500)
Income/(loss)	(73,828)
Realized gain/(loss)	162,167
Unrealized gain/(loss)	(1,192,113)
Net transfers in/(out)	18,431
Balance as of December 31, 2008	$ 4,105,460

4. Excise and Income Taxes

Excise and income taxes provided for in the financial statements for the years ended December 31, 2008 and 2007, include the following components (000s omitted):

	2008	2007
Federal excise taxes:		
Current	$ (579)	$ 9,899
Deferred taxes included in unrealized appreciation	(27,904)	11,330
Total	(28,483)	21,229
Federal and state income taxes:		
Current	(3,318)	3,209
Total taxes	$ (31,801)	$ 24,438

5. Commitments and Contingencies

In 2003, the Foundation entered into agreements under which it is obligated to make guarantees up to $15.0 million in support of loans to finance a portion of the cost of constructing new, mixed income communities on the sites of former public housing developments in the City of Chicago. The Foundation's guarantees can be called if certain events occur that trigger a default under the terms of the agreements. The Foundation has recorded a liability of $9.5 million as of December 31, 2008, to reimburse lenders for loans that are in default.

In 2008, the Foundation approved issuing up to $7.0 million in guarantees to support the Homeownership Retention and Neighborhood Preservation Mortgage Program, a partnership between Neighborhood Housing Services of Chicago and a consortium of private banks. The program provides home mortgage loans for low- and moderate-income homeowners who are seeking to refinance existing loans to prevent foreclosure or buying vacant, foreclosed homes. The Foundation expects to enter into a limited guarantee in the amount of $5.2 million in 2009 for a loan program totaling $122 million. The limited guarantee will cover 80 percent of losses up to a maximum of $5.2 million.

The Foundation has an available $150.0 million uncommitted line of credit demand note. The interest rate is agreed upon at the time advances are made. The Foundation has recorded a liability of $44.0 million in notes outstanding as of December 31, 2008. No notes were outstanding as of December 31, 2007.

The Foundation is involved in several legal actions. The Foundation believes it has defenses for these claims, believes the claims are substantially without merit and is vigorously defending the actions. In the opinion of management, based on advice of legal counsel, the final disposition of these matters is not expected to have a material effect on the Foundation's financial statements.