# JOHN D. AND CATHERINE T. MACARTHUR FOUNDATION

FINANCIAL STATEMENTS
December 31, 2011 and 2010

# REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying statements of financial position of John D. and Catherine T. MacArthur Foundation (the Foundation) as of December 31, 2011 and 2010, 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 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 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 John D. and Catherine T. MacArthur Foundation as of December 31, 2011 and 2010, 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.

Crowe Horwath LLP

Crowe Horwath LLP

Chicago, Illinois
June 25, 2012

MacArthur Foundation

## John D. and Catherine T. MacArthur Foundation

## Statements of Financial Position

*December 31, 2011 and 2010*

| | 2011 | 2010 |
|---|---|---|
| | (000's omitted) | |
| **Assets** | | |
| Cash and cash equivalents | $ 6,198 | $ 3,709 |
| Investments | 5,498,593 | 5,538,450 |
| Program-related investments | 147,191 | 146,988 |
| Assets held for charitable use | 30,603 | 30,738 |
| Other assets | 20,492 | 17,385 |
| **Total assets** | **$ 5,703,077** | **$ 5,737,270** |
| **Liabilities and net assets** | | |
| Grants payable | $ 243,843 | $ 261,922 |
| Other liabilities | 42,364 | 46,847 |
| Excise and income taxes | 23,318 | 18,872 |
| **Total liabilities** | **309,525** | **327,641** |
| Unrestricted net assets | 5,393,552 | 5,409,629 |
| **Total liabilities and net assets** | **$ 5,703,077** | **$ 5,737,270** |

*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, 2011 and 2010*

| | 2011 | 2010 |
|---|---|---|
| | (000's omitted) | |
| **Investment income** | | |
| Interest and dividends | $ 59,950 | $ 71,170 |
| Realized gain on investments | 294,531 | 153,200 |
| Other investment (loss) income | (107,674) | 91,492 |
| **Total investment income** | **246,807** | **315,862** |
| **Investment expenses** | | |
| Administrative | 11,097 | 9,462 |
| Excise and income tax (recoveries) | 2,308 | (6,264) |
| **Total investment expenses** | **13,405** | **3,198** |
| **Unrealized (loss) gain on investments** | **(6,561)** | **511,660** |
| **Net investment income** | **226,841** | **824,324** |
| **Operating expenses** | | |
| Grants authorized | 204,517 | 217,488 |
| Administrative | 33,663 | 32,647 |
| Post-retirement benefits | 4,738 | 4,576 |
| **Total operating expenses** | **242,918** | **254,711** |
| **Change in unrestricted net assets** | **(16,077)** | **569,613** |
| **Unrestricted net assets, beginning of year** | **5,409,629** | **4,840,016** |
| **Unrestricted net assets, end of year** | **$ 5,393,552** | **$ 5,409,629** |

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

MacArthur Foundation

## John D. and Catherine T. MacArthur Foundation

## Statements of Cash Flows

*For the years ended December 31, 2011 and 2010*

| | 2011 | 2010 |
|---|---|---|
| | (000's omitted) | |
| **Cash flows from operating activities** | | |
| Change in unrestricted net assets | $ (16,077) | $ 569,613 |
| Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities | | |
| Depreciation | 2,454 | 6,006 |
| Realized gain on investments | (294,531) | (153,200) |
| Unrealized loss (gain) on investments | 6,561 | (511,660) |
| (Increase) decrease in non-investment assets | (5,367) | 5,208 |
| Decrease in grants payable | (18,079) | (13,127) |
| (Decrease) increase in other liabilities | (4,483) | 3,987 |
| Increase in excise and income taxes | 4,446 | 7,870 |
| **Net cash used in operating activities** | **(325,076)** | **(85,303)** |
| **Cash flows from investment activities** | | |
| Proceeds from sale of investments | 2,161,660 | 2,436,156 |
| Purchase of investments | (1,834,095) | (2,348,956) |
| **Net cash provided by investment activities** | **327,565** | **87,200** |
| **Net increase in cash and cash equivalents** | **2,489** | **1,897** |
| **Cash and cash equivalents at beginning of year** | **3,709** | **1,812** |
| **Cash and cash equivalents at end of year** | **$ 6,198** | **$ 3,709** |

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

# John D. and Catherine T. MacArthur Foundation
# Notes to Financial Statements

*December 31, 2011 and 2010*

## 1. Organization

The John D. and Catherine T. MacArthur Foundation is a private, independent grant making foundation 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. International Programs focus on international issues, including human rights and international justice, peace and security, conservation and sustainable development, higher education, migration and human mobility, and population and reproductive health. U.S. Programs address 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; policy research and analysis; and education, with an interest in digital media and learning. Media, Culture and Special Initiatives support public interest media, including public radio and documentary programming. 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 in conformity with accounting principles generally accepted in the United States of America. The Foundation's significant accounting policies are as follows:

### *Cash and Cash Equivalents*

Cash and cash equivalents held by the Foundation for use in its operations include 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 or quoted market prices of comparable instruments when prices are not available. For alternative investments in limited partnerships and other similar instruments, the fair value is based on valuations provided by external investment managers, including net asset values as of the most recent audited or interim financial statements. The net asset values provided by external managers are based on the underlying securities and investment holdings, which may be valued at quoted market prices, based on comparable instruments, at appraised value, or by discounted cash flows. The external managers' valuations are reviewed by Foundation management. The Foundation believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because some alternative investments are not readily marketable, their estimated value is subject to uncertainty.

Investment administrative expenses are included in investment expenses. In addition, investment management fees estimated at $47.7 million and $52.0 in 2011 and 2010, respectively, are netted against investment income.

# John D. and Catherine T. MacArthur Foundation
# Notes to Financial Statements

*December 31, 2011 and 2010*

### *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 in the form of loans and equities and are anticipated to have a less than market return. In the year of the investment, the Foundation receives a credit toward its distribution requirement. Return of principal of program-related investments increases the Foundation's distribution requirement in the year of receipt. These investments are generally recorded at cost net of appropriate reserves for collectability. Reserves are based on a review of borrowers' credit risks, including consideration of the financial strength of borrowers, the nature of the investments, payment history, and current economic conditions. The Foundation has reserved $50.9 million and $48.3 million as of December 31, 2011 and 2010, respectively. No investments were written off as bad debt in 2011. Loans more than thirty days past due totaled $3.6 million as of December 31, 2011. The Foundation had open program-related investment commitments of $17.5 million and $17.6 million as of December 31, 2011 and 2010, 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 0.6 percent and 1.6 percent as of December 31, 2011 and 2010, 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. The Foundation qualified under Section 4940(e) of the Internal Revenue Code for a reduced excise tax rate of 1 percent in 2010.

Deferred tax expense results from certain income and expense items, primarily unrealized gains or losses on investments, 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 $2.6 million in both 2011 and 2010.

### *Post-retirement Benefits*

The Foundation provides health care and life insurance benefits to certain of its retired employees and their eligible dependents. The Foundation has recorded a liability for post-retirement benefit obligation of $35.0 million and $30.1 million as of December 31, 2011 and 2010, 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.

### *Reclassifications*

Certain amounts in the prior year financial statements have been reclassified, with no effect on net assets or change in net assets, to conform to the current year presentation.

## 3. Investments

The Foundation's investment objective is to provide a return on its investments sufficient to fund in perpetuity the grants, other qualifying distributions, and operating costs of the Foundation. Investments are made in accordance with an asset allocation policy with the objective of earning a 5 percent real return over time and preserving the portfolio corpus in real terms. Assets in the investment portfolio may include marketable debt and equity securities traded on public exchanges anywhere in the world; foreign currency investments; private debt and equity securities and partnerships; venture capital partnerships; commodities, including oil and gas assets; real estate; derivative instruments; and cash and cash equivalents. The investment portfolio is sufficiently diversified to minimize the concentration risk of any single security, class of securities, or asset class.

Investments as of December 31, 2011 and 2010, are as follows (000s omitted):

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Fair Value** | **Cost** | **Fair Value** | **Cost** |
| **Public Investments** | | | | |
| Equities | $ 1,080,136 | $ 992,406 | $ 1,172,530 | $ 906,635 |
| Fixed income | 670,088 | 543,903 | 446,855 | 385,433 |
| Marketable alternatives | 558,709 | 361,786 | 594,828 | 376,917 |
| Real estate | 6,143 | 7,084 | 7,801 | 14,521 |
| Cash and cash equivalents | 134,784 | 134,784 | 439,190 | 439,190 |
| **Private Investments** | | | | |
| Equities | 1,055,429 | 759,825 | 1,101,480 | 791,442 |
| Fixed income | 494,725 | 439,784 | 547,161 | 437,557 |
| Real estate | 790,134 | 818,225 | 788,934 | 895,022 |
| Energy and commodities | 708,445 | 507,519 | 439,671 | 350,299 |
| **Total investments** | **$ 5,498,593** | **$ 4,565,316** | **$ 5,538,450** | **$ 4,597,016** |

Public investments include cash and cash equivalents, marketable equity and fixed income securities that are regularly traded on public exchanges, and public securities held by funds structured either as corporations in which the Foundation owns stock or as partnerships in which the Foundation is a limited partner. Private investments include equity and fixed income investments that are not regularly traded and private securities held by corporations in which the Foundation owns stock or held by partnerships in which the Foundation is a limited partner.

The Foundation's exposure in limited partnership investments and certain corporate equity investments, which totaled $4,031.7 million and $4,134.9 million as of December 31, 2011 and 2010, respectively, is limited to its partnership or equity investments in these entities.

In addition to the cash and cash equivalents held by the Foundation for investment, the Foundation's investment managers held cash totaling $254.8 million and $386.3 million as of December 31, 2011 and 2010, respectively, in the course of implementing their investment strategies. Cash held for investment by those managers totaled $34.8 million and $58.5 million as of December 31, 2011 and 2010, respectively. Cash held at the direction of the Foundation associated with derivative strategies totaled $201.8 million and $306.2 million as of December 31, 2011 and 2010, respectively. Cash held as required margin for outstanding securities trades totaled $18.2 million and $21.6 million as of December 31, 2011 and 2010, respectively.

The Foundation had pending trade purchases of $803,300 and $709,000 as of December 31, 2011 and 2010, respectively. The Foundation had pending sales of $13.4 million and $1.4 million as of December 31, 2011 and 2010, respectively. These amounts are included in investments.

Through a securities lending program, managed by its investment custodian, the Foundation loaned certain marketable securities included in its investment portfolio. The custodian's loan agreements required the borrowers to maintain collateral equal to 102 percent or 105 percent of the fair value of the securities loaned. This collateral was in the form of cash, U.S. Treasury Bills, or guaranteed letters of credit and was revalued on a daily basis. Loaned securities outstanding totaled $8.8 million as of December 31, 2010. The Foundation exited this securities lending program as of January 21, 2011.

Beginning in 2010, the Foundation entered into a repurchase agreement program managed by its investment custodian. The Foundation loans cash included in its investment portfolio overnight and the agreements mature the following day. In 2011, borrowers were required to maintain collateral equal to 102 percent of the loan, with collateral in the form of U.S. Treasury obligations. In 2010, borrowers were required to maintain collateral equal to 108 percent of the loan, with collateral in the form of domestic equity securities traded on a U.S. stock exchange and not representing more than five percent of any security's outstanding shares. The average cash loaned overnight was $170.0 million and $150.0 million for 2011 and 2010, respectively. No loans were outstanding as of December 31, 2011 and 2010, respectively.

### *Derivative Instruments*

The Foundation's investment strategy utilizes financial instruments that involve, to varying degrees, elements of market risk, credit risk, currency risk, and counterparty risk. These instruments are held in separately managed accounts, limited partnerships, and other fund structures. Financial instruments include securities sold but not yet purchased and derivative contracts including forward currency contracts, futures, options, and swaps. All of the

Foundation's derivative positions are marked to fair value as a component of investment income. The fair value of these instruments is included in investments.

The Foundation enters into forward currency contracts, futures, options, and swaps for tactical investment and hedging purposes. Currency forward contracts and options may be used to hedge non-U.S. dollar exposure in foreign investments, or to take positions in managed currency portfolios. Futures and swap contracts may be used to rebalance asset categories within the portfolio or to manage market exposures in portfolios. Futures contracts, swaps and options may be used to hedge or leverage positions within certain risk parameters.

The net notional and fair values of forward contracts, futures, options and swaps as of December 31, 2011 and 2010, are as follows (000s omitted):

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Net notional value | Fair value | Net notional value | Fair value |
| Forward contracts | $ (140,737) | $ (4,854) | $ 179,349 | $ (4,255) |
| Futures | 90,539 | - | 129,260 | - |
| Options | 336,340 | 3,352 | - | - |
| Swaps | 1,854,348 | (8,709) | 974,019 | 67,753 |
| | $ 2,140,490 | $ (10,211) | $ 1,282,628 | $ 63,498 |

In the opinion of the Foundation's management, the use of financial derivative instruments in its investment program is appropriate and customary for the investment strategies employed. Using these instruments may reduce certain investment risks and add value to the portfolio.

### *Fair Value*

The fair value of investments is reported using a 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 are described as follows:

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

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.

# John D. and Catherine T. MacArthur Foundation
## Notes to Financial Statements

*December 31, 2011 and 2010*

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 Foundation has certain investments categorized as level 3 where the inputs are not readily observable but the underlying assets are public investments.

The following tables set forth by level, within the fair value hierarchy, investment assets at fair value as of December 31, 2011 and 2010 (000s omitted). The unfunded commitments, which are not included in investments, represent contractual obligations for future investments.

Investment Assets as of December 31, 2011

| | Investment Assets by Level | | | | Unfunded |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Commitments |
| **Public investments** | | | | | |
| Equities | $ 223,267 | $ 368,944 | $ 487,925 | $ 1,080,136 | $ - |
| Fixed income | 380,090 | 193,514 | 96,484 | 670,088 | - |
| Marketable alternatives | 8,080 | 22,707 | 527,922 | 558,709 | - |
| Real estate | 3,404 | - | 2,739 | 6,143 | - |
| Cash and cash equivalents | 134,784 | - | - | 134,784 | - |
| **Private investments** | | | | | |
| Equities | - | - | 1,055,429 | 1,055,429 | 255,700 |
| Fixed income | 1,191 | 78,362 | 415,172 | 494,725 | 76,818 |
| Real estate | - | 19 | 790,115 | 790,134 | 186,150 |
| Energy and commodities | 27,178 | 148,191 | 533,076 | 708,445 | 73,686 |
| **Total** | **$ 777,994** | **$ 811,737** | **$ 3,908,862** | **$ 5,498,593** | **$ 592,354** |

Investment Assets as of December 31, 2010

| | Investment Assets by Level | | | | Unfunded |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Commitments |
| **Public investments** | | | | | |
| Equities | $ 362,652 | $ 215,594 | $ 594,284 | $ 1,172,530 | $ - |
| Fixed income | 210,169 | 160,841 | 75,845 | 446,855 | - |
| Marketable alternatives | 1,078 | 13,881 | 579,869 | 594,828 | - |
| Real estate | 5,309 | - | 2,492 | 7,801 | - |
| Cash and cash equivalents | 439,190 | - | - | 439,190 | - |
| **Private investments** | | | | | |
| Equities | - | 34 | 1,101,446 | 1,101,480 | 330,816 |
| Fixed income | 2,815 | 91,778 | 452,568 | 547,161 | 67,630 |
| Real estate | - | 71 | 788,863 | 788,934 | 220,760 |
| Energy and commodities | - | - | 439,671 | 439,671 | 66,334 |
| **Total** | **$ 1,021,213** | **$ 482,199** | **$ 4,035,038** | **$ 5,538,450** | **$ 685,540** |

The following tables set forth by level, within the fair value hierarchy, transfers of investments at fair value as of December 31, 2011 and 2010 (000s omitted). Transfers between levels are recognized as of the end of the reporting period. The transfers in the table below are primarily the result of changes in the level of trading activity associated with the underlying investments.

Transfers as of December 31, 2011

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Transfers in | $ - | $ 2,940 | $ 24,780 | $ 27,720 |
| Transfers out | - | (24,780) | (2,940) | (27,720) |
| **Total** | **$ -** | **$ (21,840)** | **$ 21,840** | **$ -** |

Transfers as of December 31, 2010

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Transfers in | $ - | $ 133 | $ - | $ 133 |
| Transfers out | - | - | (133) | (133) |
| **Total** | **$ -** | **$ 133** | **$ (133)** | **$ -** |

The following tables are a roll forward of those investment assets classified as Level 3 as of December 31, 2011 and 2010 (000s omitted):

Roll Forward of Level 3 Investment Assets for the year ended December 31, 2011

| | Public Investments | | | | Private Investments | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Equities | Fixed Income | Marketable Alternatives | Real Estate | Equities | Fixed Income | Real Estate | Energy and Commodities | Total |
| **Beginning Balance 1/1/2011** | **$ 594,284** | **$ 75,845** | **$ 579,869** | **$ 2,492** | **$ 1,101,446** | **$ 452,568** | **$ 788,863** | **$ 439,671** | **$ 4,035,038** |
| Transfers in | 24,780 | - | - | - | - | - | - | - | 24,780 |
| Contributions | 75,054 | 7,282 | - | - | 106,339 | 75,777 | 72,797 | 33,696 | 370,945 |
| Distributions | (97,865) | - | (48,872) | - | (205,748) | (118,440) | (77,118) | (76,494) | (624,537) |
| Income (loss) | 5,424 | - | (874) | - | (107,173) | 13,575 | (63,857) | (265) | (153,170) |
| Realized gain (loss) | 13,745 | (13) | 20,939 | | 175,000 | 26,533 | (8,620) | 24,316 | 251,900 |
| Unrealized gain (loss) | (127,497) | 13,370 | (23,140) | 247 | (14,435) | (31,901) | 78,050 | 112,152 | 6,846 |
| Transfers out | - | - | - | - | - | (2,940) | - | - | (2,940) |
| **Ending balance 12/31/2011** | **$ 487,925** | **$ 96,484** | **$ 527,922** | **$ 2,739** | **$ 1,055,429** | **$ 415,172** | **$ 790,115** | **$ 533,076** | **$ 3,908,862** |

# John D. and Catherine T. MacArthur Foundation
## Notes to Financial Statements

*December 31, 2011 and 2010*

Roll Forward of Level 3 Investment Assets for the year ended December 31, 2010

| | Public Investments | | | | Private Investments | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Equities | Fixed Income | Marketable Alternatives | Real Estate | Equities | Fixed Income | Real Estate | Energy and Commodities | Total |
| **Beginning Balance 1/1/2010** | **$ 628,927** | **$ 139,096** | **$ 470,875** | **$ 2,372** | **$ 908,269** | **$ 445,931** | **$ 712,550** | **$ 387,024** | **$ 3,695,044** |
| Contributions | 55,404 | 93,407 | 60,000 | - | 127,002 | 69,079 | 178,967 | 133,670 | 717,529 |
| Distributions | (200,878) | (202,907) | (34,283) | - | (157,363) | (142,456) | (181,168) | (149,008) | (1,068,063) |
| Income (loss) | 18,407 | - | 1,282 | 120 | (13,869) | 7,054 | 29,918 | 10,643 | 53,555 |
| Realized gain (loss) | 22,139 | 9,423 | 13,655 | | 68,851 | 9,943 | (2,876) | 22,277 | 143,412 |
| Unrealized gain (loss) | 70,285 | 36,826 | 68,340 | - | 168,590 | 63,045 | 51,543 | 35,065 | 493,694 |
| Transfers out | - | - | - | - | (34) | (28) | (71) | - | (133) |
| **Ending balance 12/31/2010** | **$ 594,284** | **$ 75,845** | **$ 579,869** | **$ 2,492** | **$ 1,101,446** | **$ 452,568** | **$ 788,863** | **$ 439,671** | **$ 4,035,038** |

The following tables set forth investment assets by the amount of time, including notice period and redemption period, in which the Foundation has the legal right to receive redemptions of its investments as of December 31, 2011, and 2010 (000s omitted). For investment assets with a redemption period greater than 365 days, the Foundation's capital is expected to be liquidated over a weighted average period of 3.9 years, ranging from 1 to 11 years, as of December 31, 2011, and over a weighted average period of 4.7 years, ranging from 1 to 12 years, as of December 31, 2010. The Foundation has certain investments classified as level 3 where the Foundation has the right to give notice and exit the investments if the investments have sufficient liquidity available. These investments are categorized with a redemption period of 90 days or less.

# John D. and Catherine T. MacArthur Foundation
# Notes to Financial Statements

*December 31, 2011 and 2010*

Investment Assets by Redemption Periods as of December 31, 2011

| | 90 Days or Less | 91 to 365 Days | >365 Days | Total |
|---|---|---|---|---|
| **Public investments** | | | | |
| Equities | $ 870,650 | $ 79,065 | $ 130,421 | $ 1,080,136 |
| Fixed income | 670,088 | - | - | 670,088 |
| Marketable alternatives | 224,959 | 125,415 | 208,335 | 558,709 |
| Real estate | 3,404 | - | 2,739 | 6,143 |
| Cash and cash equivalents | 134,784 | - | - | 134,784 |
| **Private investments** | | | | |
| Equities | 23,086 | - | 1,032,343 | 1,055,429 |
| Fixed income | 27,978 | 94,664 | 372,083 | 494,725 |
| Real estate | 36,055 | - | 754,079 | 790,134 |
| Energy and commodities | 250,254 | 4,717 | 453,474 | 708,445 |
| **Total** | **$ 2,241,258** | **$ 303,861** | **$ 2,953,474** | **$ 5,498,593** |

Investment Assets by Redemption Periods as of December 31, 2010

| | 90 Days or Less | 91 to 365 Days | >365 Days | Total |
|---|---|---|---|---|
| **Public investments** | | | | |
| Equities | $ 940,612 | $ 120,401 | $ 111,517 | $ 1,172,530 |
| Fixed income | 446,855 | - | - | 446,855 |
| Marketable alternatives | 339,616 | 164,003 | 91,209 | 594,828 |
| Real estate | 7,801 | - | - | 7,801 |
| Cash and cash equivalents | 439,190 | - | - | 439,190 |
| **Private investments** | | | | |
| Equities | 38,904 | 142,741 | 919,835 | 1,101,480 |
| Fixed income | 62,964 | 123,912 | 360,285 | 547,161 |
| Real estate | 3,164 | 7,895 | 777,875 | 788,934 |
| Energy and commodities | 5,456 | 19 | 434,196 | 439,671 |
| **Total** | **$ 2,284,562** | **$ 558,971** | **$ 2,694,917** | **$ 5,538,450** |

## 4. Excise and Income Taxes

Excise and income taxes provided for in the financial statements for the years ended December 31, 2011 and 2010, include the following components (000s omitted):

| | 2011 | 2010 |
|---|---|---|
| **Federal excise taxes:** | | |
| Current | $ 3,469 | $ (5,258) |
| Deferred taxes included in unrealized appreciation | (184) | 13,474 |
| **Total federal excise taxes** | **3,285** | **8,216** |
| **Federal and state income taxes:** | | |
| Current | (1,161) | (1,006) |
| **Total excise and income taxes** | **$ 2,124** | **$ 7,210** |

## 5. Commitments and Contingencies

### *Guarantees*

The Foundation enters into guarantees to support its grant making programs. Total outstanding guarantees were $20.4 million and $21.1 million as of December 31, 2011 and 2010, respectively. Guarantees approved but not yet closed totaled $7.3 million as of December 31, 2011 and 2010. The Foundation records a liability if it is likely a guarantee will be called and the expected amount to be called can be estimated. These liabilities totaled $2.9 million and $359,000 as of December 31, 2011 and 2010, respectively.

### *Line of Credit*

In 2010, the Foundation replaced its $150 million uncommitted line of credit demand note carrying an interest rate of either LIBOR plus 25 basis points or Prime with a $250 million unsecured committed line of credit carrying an interest rate of either LIBOR plus 60 basis points or Prime. The Foundation has no notes outstanding as of December 31, 2011 and 2010.

### *Legal Actions*

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.

## 6. Subsequent Events

Management has determined that no material events or transactions, which require adjustments or additional disclosures in the Foundation's financial statements, occurred subsequent to December 31, 2011, and through June 25, 2012, the date the Foundation's financial statements were available to be issued.