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# Financial Section

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# Report of Independent Auditors

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Board of Directors  
Josiah Macy, Jr. Foundation

We have audited the accompanying balance sheets of the Josiah Macy, Jr. Foundation (the "Foundation") as of June 30, 2000 and 1999, 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. 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 the Josiah Macy, Jr. Foundation at June 30, 2000 and 1999, 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of grants is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The logo for Ernst & Young LLP is written in a blue, cursive script. The words "Ernst & Young" are connected, and "LLP" is written in a smaller font to the right.

July 28, 2000

New York, New York

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## Balance Sheets

	June 30 2000	June 30 1999
<b>Assets</b>		
Cash and cash equivalents	\$ 6,194,911	\$ 4,600,933
Investments, at fair value <i>(Notes 5 and 9)</i>	179,975,821	177,210,518
Accrued interest and dividends receivable	854,279	873,345
Prepaid expenses and other assets	43,990	140,685
Fixed assets, at cost, less accumulated depreciation <i>(Note 3)</i>	2,074,752	2,122,576
Total assets	\$ 189,143,753	\$ 184,948,057
<b>Liabilities and net assets</b>		
Liabilities:		
Grants payable <i>(Note 4)</i>	–	123,550
Accrued retirement benefit	706	722
Total liabilities	\$ 706	\$ 124,272
Net asset balances:		
Total unrestricted net assets	189,143,047	184,823,785
Total liabilities and net assets	\$ 189,143,753	\$ 184,948,057

*See accompanying notes.*

## Statements of Activities

	Year ended June 30	
	2000	1999
<b>Revenue</b>		
Interest on investments	\$ 5,051,541	\$ 5,579,548
Dividends on investments	2,242,622	1,310,068
Other income	11,854	288,720
<b>Total revenue</b>	<b>7,306,017</b>	<b>7,178,336</b>
<b>Expenses (Note 7)</b>		
Salaries	573,227	691,218
Employee benefits (Note 8)	170,076	189,806
Professional services	35,945	40,460
Furniture, improvements and equipment	77,296	94,738
Utilities, insurance and building maintenance	74,043	73,860
Other administrative expenses	116,324	123,527
Investment counsel and custodian fees	739,713	446,918
Depreciation	80,459	76,016
Provision for federal excise tax (Note 2)	252,800	225,400
Grants and conferences, publications and program planning:		
Medical and premedical education	6,769,675	6,263,800
Discretionary grants awarded by staff	300,000	300,000
Conferences	407,113	344,924
Other programs	242,760	388,920
Publications and program planning—net of refunds	54,641	62,288
Organizational dues	48,475	30,695
<b>Total expenses</b>	<b>9,942,547</b>	<b>9,352,570</b>
Change in unrestricted net assets from operations	(2,636,458)	(2,174,234)
Net realized gain on sale of investments	16,015,382	16,254,470
Net change in unrealized appreciation on investments	(9,059,590)	(5,435,198)
<b>Change in net assets</b>	<b>4,319,262</b>	<b>8,645,038</b>
Net assets at beginning of year	184,823,785	176,178,747
<b>Net assets at end of year</b>	<b>\$ 189,143,047</b>	<b>\$ 184,823,785</b>

*See accompanying notes.*



## Statements of Cash Flows

	Year ended June 30	
	2000	1999
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 4,319,262	\$ 8,645,038
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	80,459	76,016
Net realized and unrealized gains on investments	(6,955,792)	(10,819,272)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest and dividends receivable	19,066	(175,462)
Increase in prepaid expenses and other assets	96,695	(106,205)
(Increase) decrease in accrued retirement benefit	(16)	(1,036)
(Decrease) increase in grants payable	(123,550)	82,860
Net cash used in operating activities	(2,563,876)	(2,298,061)
<b>Cash flows from investing activities</b>		
Purchases of investments	(372,520,569)	(256,948,707)
Proceeds from sales of investments	376,711,058	259,540,649
Real estate property improvements	(32,635)	(10,801)
Net cash provided by investing activities	4,157,854	2,581,141
Net increase in cash and cash equivalents	1,593,978	283,080
Cash and cash equivalents at beginning of year	4,600,933	4,317,853
Cash and cash equivalents at end of year	\$ 6,194,911	\$ 4,600,933
<b>Supplemental cash flow information</b>		
Excise taxes paid	\$ 252,800	\$ 40,000

*See accompanying notes.*

## **1. Organization and Significant Accounting Policies**

### **Organization**

The Josiah Macy, Jr. Foundation (the “Foundation”) is a private foundation which provides grants to colleges, universities and other professional associations relating primarily to medical education and preparation for careers in the health professions.

### **Summary of Significant Accounting Policies**

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Fund Accounting and Net Asset Classification**

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the Foundation, the accounts of the Foundation are maintained in accordance with the principles of “fund accounting.” This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specific activities and objectives.

The Foundation’s net assets consist of unrestricted net assets which are fully available at the discretion of management and the Board of Directors to utilize in any of the Foundation’s programs or supporting services.

#### **Cash and Cash Equivalents**

For the purpose of the statements of cash flows, the Foundation considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

#### **Expense Allocations**

Functional expenses which are not specifically attributable to program services or supporting services are allocated by management based on various allocation factors.

#### **Fixed Assets**

Depreciation of buildings and furnishings is computed using the straight-line method over the estimated useful lives of the assets.

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## 2. Income Tax Status

The Foundation qualifies as a tax-exempt organization as defined by Internal Revenue Code Section 501(c)(3) and, accordingly, is not subject to federal income taxes under Internal Revenue Code Section 501(a). In addition, New York State (the "State") and City have classified the Foundation as nonprofit in character and, as such, it is exempt from payment of income taxes to the State and City. However, as a private foundation, an excise tax of 1% or 2% is imposed on the net investment income of the Foundation.

In addition, as a private foundation, qualifying distributions are required to be made for charitable, educational, or religious and scientific purposes equal to approximately 5% of the average fair market value of the Foundation's investments. All such required qualifying distributions have been made through June 30, 2000.

## 3. Fixed Assets

Fixed assets consists of the following:

	June 30 2000	June 30 1999
Land	\$ 1,922,700	\$ 1,922,700
Buildings	679,724	999,014
Furniture and fixtures	71,961	71,961
Total fixed assets	2,674,385	2,993,675
Less accumulated depreciation	599,633	871,099
Net fixed assets	\$ 2,074,752	\$ 2,122,576

## 4. Grants

Grants authorized by the Board of Directors were as follows:

	June 30 2000	June 30 1999
Beginning balance	\$ 13,576,835	\$ 10,028,915
Authorized during current year	3,290,913	10,762,704
Paid during current year	(7,843,098)	(7,214,784)
Lapsed during current year	(109,682)	-
Ending balance	\$ 8,914,968	\$ 13,576,835
Grants payable	\$ -	\$ 123,550
Future installments of multi-year grants	8,914,968	13,453,285
	\$ 8,914,968	\$ 13,576,835

At June 30, 2000, the Foundation's Board of Directors had authorized grants of \$8,914,968 to be paid in future years. These amounts are conditional upon the grantees making satisfactory progress toward stated objectives.



## 5. Investments

The cost and fair value of investments were as follows:

	June 30 2000	June 30 2000	June 30 1999	June 30 1999
	Cost	Fair Value	Cost	Fair Value
U.S. government and agency obligations	\$ 24,443,584	\$ 24,430,358	\$ 27,155,186	\$ 26,569,037
Corporate obligations	38,739,187	37,843,349	31,353,671	31,312,749
International equity funds	1,137,483	1,011,850	558,737	496,219
Common stock	69,791,399	78,911,897	57,552,259	74,474,523
Commingled fixed income funds	29,633,443	27,901,545	37,459,997	36,485,978
Mutual funds	9,919,647	9,876,822	7,760,000	7,872,012
Total	\$ 173,664,743	\$ 179,975,821	\$ 161,839,850	\$ 177,210,518

Donated securities are recorded at their fair market value at the date of donation.

## 6. Related Parties

Included in grants paid and grants authorized for future years are aggregate amounts of \$1,808,834 and \$2,617,669 granted to Harvard University and its affiliates in fiscal 2000 and 1999, respectively, and an aggregate amount of \$1,358,870 and \$1,638,748 granted to the University of Massachusetts and the University of Vermont in fiscal 2000 and 1999, respectively. Certain members of the Board of Directors of the Foundation also have relationships with these institutions. The Board members are required to abstain from voting on grants to institutions with which they have a relationship.

In addition, two members of the Foundation's Board of Directors have relationships with the Foundation's investment managers. Fees paid to these two financial services institutions were approximately \$335,000 and \$105,000 in 2000 and 1999, respectively.

## 7. Functional Expenses

Functional expenses were incurred for:

	Year ended June 30	
	2000	1999
Program services	\$ 8,271,567	\$ 8,138,961
Management and general	1,670,980	1,213,609
	\$ 9,942,547	\$ 9,352,570

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## **8. Retirement Plan**

The Foundation has a noncontributory employee retirement plan with Teachers Insurance and Annuity Association (“TIAA”) covering employees who meet specified service and age tests. The plan is being funded by the purchase of individual annuity contracts with an insurance company. Premium payments of \$65,424 and \$82,341 were charged to operating expense for the years ended June 30, 2000 and 1999, respectively.

In addition, the Foundation’s employees have an option to participate in a supplemental retirement plan with TIAA through payroll deductions.

## **9. Fair Values**

The following methods and assumptions were used by the Foundation in estimating its fair value disclosures for financial instruments:

*Cash and Cash Equivalents:* The carrying amounts reported in the balance sheets approximate their fair value.

*United States Government and Agency Obligations, Corporate Obligations, Foreign Obligations, Common Stock, Commingled Fixed Income Funds, and Mutual Funds:* The carrying amounts reported in the balance sheets are the fair values of the respective investments. Fair values are based on quoted market prices.

## Schedule of Grants

Year ended June 30, 2000

July 1, 1999 to June 30, 2000

	Balance at June 30 1999	Authorized for Current and Future Years	Paid	Lapsed	Balance at June 30 2000
<b>Health Professional Education in the Context of the Changing Health Care System</b>					
Brown University	\$ 62,500				\$ 62,500
Case Western Reserve University	1,152,870		\$ 371,514		781,356
Columbia University		\$ 61,000	61,000		–
Fred Friendly Seminars, Inc.		59,900	59,900		–
Harvard Medical School/Beth Israel Deaconess Mount Auburn Institute	558,834		558,834		–
Harvard University	1,250,000		500,000		750,000
The Institute for Urban Family Health	604,666		604,666		–
JSTOR	250,000		125,000		125,000
Massachusetts Institute of Technology		615,997	165,374		450,623
Mount Sinai School of Medicine		170,616	55,042		115,574
New York University Medical Center	2,395,371		673,410		1,721,961
New York University School of Medicine/ Hazelden Foundation	333,886		164,713		169,173
Stanford University School of Medicine		131,383	131,383		–
Uniformed Services University of the Health Sciences	367,922		184,828		183,094
University of California, San Francisco	236,788				236,788
University of Massachusetts	1,152,870		371,514		781,356
University of Michigan		588,954	68,800		520,154
University of Vermont	200,000		100,000		100,000
<b>Increasing Diversity Among Health Professionals</b>					
AAMC		80,000	80,000		–
Associated Medical Schools of New York	317,357				317,357
Marine Biological Laboratory	90,000		90,000		–
National Medical Fellowships, Inc.	482,710		301,828		180,882

## Schedule of Grants (continued)

Year ended June 30, 2000

July 1, 1999 to June 30, 2000

	Balance at June 30 1999	Authorized for Current and Future Years	Paid	Lapsed	Balance at June 30 2000
<b>Increasing Teamwork Between and Among Multiple Health Professions</b>					
Centro Para los Adolescentes de San Miguel De Allendo (CASA)	\$ 49,926		\$ 49,926		–
Cold Spring Harbor Laboratory	273,333		273,333		–
Cold Spring Harbor Laboratory		\$ 548,063	265,377		\$ 282,686
Columbia University Mailman School of Public Health	1,499,974		494,199		1,005,775
State University of New York, Health Sciences Center at Stony Brook	95,833		95,833		–
University of California at San Diego	45,280		45,280		–
University of Minnesota	140,149		140,149		–
University of Pennsylvania School of Nursing	199,200		198,762	\$ 438	–
<b>Educational Strategies to Increase Care for Underserved Populations</b>					
The Beth Israel Foundation	179,519		18,955		160,564
The Center for the Study of Rochester's Health, University of Rochester	50,000		50,000		–
National Public Health and Hospital Institute	122,571		122,425	146	–
The Sophie Davis School of Biomedical Education, CUNY	312,340		312,340		–
University of Pennsylvania School of Medicine	158,840		158,840		–
<b>Total Medical and Premedical Education</b>	<b>12,582,739</b>	<b>2,255,913</b>	<b>6,893,225</b>	<b>584</b>	<b>7,944,843</b>
<b>Conferences</b>	516,211	450,000	407,113	109,098	450,000
<b>Other Programs</b>					
Matching Gifts Program	177,885	285,000	242,760		220,125

## Schedule of Grants (continued)

Year ended June 30, 2000

July 1, 1999 to June 30, 2000

	Balance at June 30 1999	Authorized for Current and Future Years	Paid	Lapsed	Balance at June 30 2000
<b>Discretionary Grants Awarded by Staff</b>					
General Appropriations	\$ 300,000	\$ 300,000			\$ 300,000
American Foundation for AIDS Research			\$ 5,000		
Bay Area Video Coalition			25,000		
Center for Women's Health			15,400		
The College Fund/UNCF			10,000		
Global Strategies for HIV Prevention			10,000		
Health, Safety and Research Alliance of New York State Inc.			5,000		
National Association of Medical Minority Educators			10,000		
National Public Radio			25,000		
The New York Academy of Medicine			10,000		
The New York Library			15,000		
New York City Long-Term Care Ethics Network			15,000		
Partnerships for Quality Education			25,000		
Physicians for Human Rights			25,000		
The Population Institute			5,000		
Roswell Park Cancer Institute			5,000		
Society of Professors of Child and Adolescent Psychiatry			10,000		
State University of New York Health Science Center at Brooklyn			25,000		
Tufts University			5,000		
United Hospital Fund			3,600		
University of California, San Francisco			20,000		
University of Vermont			1,000		
VZV Research Foundation, Inc.			10,000		
Yale University			20,000		
	300,000	300,000	300,000	—	300,000
Totals	\$ 13,576,835	\$ 3,290,913	\$ 7,843,098	\$ 109,682	\$ 8,914,968

# Guidelines for Grant Applications

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The Foundation can act favorably on relatively few of the more than five hundred grant requests received each year. Many proposals must be declined even though they are appropriate to the Foundation's areas of interest and appear to be of merit.

Proposals are evaluated on the importance of the project and its relevance to the Foundation's areas of interest; the significance of the project's expected results and potential applicability to similar situations; and the sponsor's commitment to continue successful programs after the Foundation's support ceases. Grants are made only to tax-exempt institutions or agencies; no grants are made directly to individuals. The Foundation does not consider requests for general undesignated support or for construction or renovation projects.

Applications may be made at any time for support of activities consistent with the Foundation's guidelines. There are no special application forms. A preliminary letter of inquiry is often useful in helping the staff to determine whether submission of a full proposal is appropriate.

Grant proposals should be addressed to the president and should include:

- the name of the sponsoring agency or institution;
- a description of the project;
- the names and qualifications of the persons who will be responsible for the project;
- the expected cost and duration of the project, including an itemized budget;
- documents substantiating the tax-exempt status of the sponsoring institution; and
- a letter of endorsement from the sponsoring institution.

After a review and evaluation by the staff of the Foundation, requests that are not likely to be funded are promptly declined. Proposals that the officers recommend for grant support are submitted to the Board of Directors for final consideration.





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