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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, 2001 and 2000, 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, 2001 and 2000, 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.

*Ernst + Young LLP*

July 27, 2001

New York, New York

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## Balance Sheets

	June 30 2001	June 30 2000
<b>Assets</b>		
Cash and cash equivalents	\$ 8,361,019	\$ 6,194,911
Investments, at fair value <i>(Notes 5 and 9)</i>	153,156,946	179,975,821
Accrued interest and dividends receivable	616,405	854,279
Prepaid expenses and other assets	44,281	43,990
Fixed assets, at cost, less accumulated depreciation <i>(Note 3)</i>	1,991,030	2,074,752
Total assets	\$ 164,169,681	\$ 189,143,753
<b>Liabilities and net assets</b>		
Liabilities:		
Grants payable <i>(Note 4)</i>	233,941	—
Accrued retirement benefit	1,695	706
Other accrued liabilities	80,000	—
Total liabilities	\$ 315,636	\$ 706
Net asset balances:		
Total unrestricted net assets	163,854,045	189,143,047
Total liabilities and net assets	\$ 164,169,681	\$ 189,143,753

*See accompanying notes.*

## Statements of Activities

	Year ended June 30	
	2001	2000
<b>Revenue</b>		
Interest on investments	\$ 5,082,220	\$ 5,051,541
Dividends on investments	1,908,838	2,242,622
Other income	1,826	11,854
Total revenue	6,992,884	7,306,017
<b>Expenses</b> <i>(Note 7)</i>		
Salaries	593,885	573,227
Employee benefits <i>(Note 8)</i>	169,814	170,076
Professional services	49,010	35,945
Furniture, improvements and equipment	94,175	77,296
Utilities, insurance and building maintenance	77,929	74,043
Other administrative expenses	113,584	116,324
Investment counsel and custodian fees	802,383	739,713
Depreciation	83,722	80,459
Provision for federal excise tax <i>(Note 2)</i>	240,000	252,800
Grants and conferences, publications and program planning:		
Medical and premedical education	6,441,807	6,769,675
Discretionary grants awarded by staff	300,000	300,000
Conferences	423,436	407,113
Other programs	273,045	242,760
Publications and program planning—net of refunds	75,808	54,641
Organizational dues	47,570	48,475
Total expenses	9,786,168	9,942,547
Change in unrestricted net assets from operations	(2,793,284)	(2,636,530)
Net realized (loss) gain on sale of investments	(4,390,579)	16,015,382
Net change in unrealized appreciation on investments	(18,105,139)	(9,059,590)
Change in net assets	(25,289,002)	4,319,262
Net assets at beginning of year	189,143,047	184,823,785
Net assets at end of year	\$ 163,854,045	\$ 189,143,047

See accompanying notes.



## Statements of Cash Flows

	Year ended June 30	
	2001	2000
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (25,289,002)	\$ 4,319,262
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	83,722	80,459
Net realized and unrealized losses (gains) on investments	22,495,718	(6,955,792)
Changes in operating assets and liabilities:		
Decrease in accrued interest and dividends receivable	237,874	19,066
(Increase) decrease in prepaid expenses and other assets	( 291)	96,695
Increase (decrease) in accrued retirement benefit	989	( 16)
Increase (decrease) in grants payable	233,941	(123,550)
Increase in other accrued liabilities	80,000	—
Net cash used in operating activities	(2,157,049)	(2,563,876)
<b>Cash flows from investing activities</b>		
Purchases of investments	(316,631,775)	(372,520,569)
Proceeds from sales of investments	320,954,932	376,711,058
Real estate property improvements	—	(32,635)
Net cash provided by investing activities	4,323,157	4,157,854
Net increase in cash and cash equivalents	2,166,108	1,593,978
Cash and cash equivalents at beginning of year	6,194,911	4,600,933
Cash and cash equivalents at end of year	\$ 8,361,019	\$ 6,194,911
<b>Supplemental cash flow information</b>		
Excise taxes paid	\$ 240,000	\$ 252,800

*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**

#### **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.

#### **Fixed Assets**

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

#### **Expense Allocations**

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

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

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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, 2001.

## 3. Fixed Assets

Fixed assets consists of the following:

	June 30 2001	June 30 2000
Land	\$ 1,922,700	\$ 1,922,700
Buildings	679,724	679,724
Furniture and fixtures	71,961	71,961
Total fixed assets	2,674,385	2,674,385
Less accumulated depreciation	683,355	599,633
Net fixed assets	\$ 1,991,030	\$ 2,074,752

## 4. Grants

Grants authorized by the Board of Directors were as follows:

	June 30 2001	June 30 2000
Beginning balance	\$ 8,914,968	\$ 13,576,835
Authorized during current year	3,625,461	3,290,913
Paid during current year	(7,204,347)	(7,843,098)
Lapsed during current year	(27,188)	(109,682)
Ending balance	\$ 5,308,894	\$ 8,914,968
Grants payable	\$ 233,941	\$ –
Future installments of multi-year grants	5,074,953	8,914,968
	\$ 5,308,894	\$ 8,914,968

At June 30, 2001, the Foundation’s Board of Directors had authorized grants of \$5,308,894 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, 2001		June 30, 2000	
	Cost	Fair Value	Cost	Fair Value
U.S. government and agency obligations	\$ 18,704,349	\$ 18,763,783	\$ 24,443,584	\$ 24,430,358
Corporate obligations	25,670,893	25,620,410	38,739,187	37,843,349
International equity funds	201,830	201,424	1,137,483	1,011,850
Common stock	94,912,134	85,788,029	69,791,399	78,911,897
Commingled fixed income funds	14,813,954	14,131,063	29,633,443	27,901,545
Mutual funds	10,647,847	8,652,237	9,919,647	9,876,822
Total	\$ 164,951,007	\$ 153,156,946	\$ 173,664,743	\$ 179,975,821

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 \$775,000 and \$1,808,834 granted to Harvard University and its affiliates in fiscal 2001 and 2000, respectively, an aggregate amount of \$564,304 and \$1,358,870 granted to the University of Massachusetts and the University of Vermont in fiscal 2001 and 2000, respectively, and AAMC of \$42,000 in 2001. 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 \$406,643 and \$335,000 in 2001 and 2000, respectively.

## 7. Functional Expenses

Functional expenses were incurred for:

	Year ended June 30	
	2001	2000
Program services	\$ 8,135,578	\$ 8,271,567
Management and general	1,650,590	1,670,980
	\$ 9,786,168	\$ 9,942,547

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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 \$71,852 and \$65,424 were charged to operating expense for the years ended June 30, 2001 and 2000, 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, 2001

July 1, 2000 to June 30, 2001

	Balance at June 30 2000	Authorized for Current and Future Years	Paid	Lapsed	Balance at June 30 2001
<b>Medical Education in the Context of the Changing Health Care System</b>					
AAMC	\$	\$ 42,000	\$ 42,000		\$ —
Brown University	62,500		62,500		—
Case Western Reserve University	781,356		464,304		317,052
Children's Hospital of Philadelphia		84,022	84,022		—
Harvard University	750,000		750,000		—
JSTOR	125,000		125,000		—
Massachusetts Institute of Technology	450,623		219,187		231,436
Mount Sinai School of Medicine	115,574				115,574
New York University Medical Center	1,721,961		880,600		841,361
New York University School of Medicine/ Hazelden Foundation	169,173		169,173		—
State University of New York at Syracuse Medical School		215,406			215,406
Uniformed Services University of the Health Sciences	183,094		183,094		—
University of California, San Francisco	236,788		236,776	\$ 12	—
University of Massachusetts	781,356		464,304		317,052
University of Michigan School of Nursing	520,154		95,830		424,324
University of Pennsylvania School of Medicine		526,629	174,659		351,970
University of Vermont	100,000		100,000		—
<b>Increasing Diversity Among Health Professionals</b>					
Associated Medical Schools of New York	317,357		316,783	574	—
Associated Medical Schools of New York		310,640	155,320		155,320
National Medical Fellowships, Inc.	180,882		180,844	38	—

## Schedule of Grants (continued)

Year ended June 30, 2001

	July 1, 2000 to June 30, 2001				
	Balance at June 30 2000	Authorized for Current and Future Years	Paid	Lapsed	Balance at June 30 2001
<b>Increasing Teamwork Between and Among Multiple Health Professionals</b>					
Cold Spring Harbor Laboratory	\$ 282,686	\$	\$ 282,686		\$ —
Columbia University Mailman School of Public Health	1,005,775		624,820		380,955
University of California, Los Angeles School of Medicine		1,356,800	435,400		921,400
<b>Educational Strategies to Increase Care for Underserved Populations</b>					
The Beth Israel Foundation	160,564		160,564		—
National Public Health and Hospital Institute		254,964			254,964
Total Medical and Premedical Education	7,944,843	2,790,461	6,207,866	624	4,526,814
<b>Conferences</b>	450,000	250,000	423,436	26,564	250,000
<b>Other Programs</b>					
Matching Gifts Program	220,125	285,000	273,045		232,080

## Schedule of Grants (continued)

Year ended June 30, 2001

July 1, 2000 to June 30, 2001

	Balance at June 30 2000	Authorized for Current and Future Years	Paid	Lapsed	Balance at June 30 2001
<b>Discretionary Grants Awarded by Staff</b>					
General Appropriations	\$ 300,000	\$ 300,000			\$ 300,000
Association of Academic Health Centers			\$ 10,000		
Alliance to End Childhood Lead Poisoning			5,000		
American Heart Association			10,000		
American Medical Association			10,000		
American Public Health Association			25,000		
The Brookings Institution			15,000		
Coordinated Care Management Corporation			5,000		
D.C. Developing Families Center			10,000		
Funders Concerned About AIDS			2,000		
Greater New York Hospital Foundation			5,000		
Harvard Medical School			25,000		
Health Affairs			25,000		
The Henry H. Kessler Foundation			10,000		
Institute for Intercultural Studies of New York			10,000		
Institute of Medicine of the National Academies			5,000		
Irvington Institute for Immunological Research			5,000		
March of Dimes			10,500		
Morehouse College			17,500		
New York Academy of Sciences			10,000		
New York Presbyterian Hospital/Weill Cornell Medical Center			5,000		
New York State Coalition for the Aging			10,000		
Physicians for Reproductive Choice and Health			15,000		
Project Hope			25,000		
Texas A&M University System Health Science Center			10,000		
Thurgood Marshall Scholarship Fund			20,000		
	300,000	300,000	300,000		300,000
Totals	\$ 8,914,968	\$ 3,625,461	\$ 7,204,347	\$ 27,188	\$ 5,308,894