
Financial Statements and Other Financial Information

Years ended June 30, 2002 and 2001

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Report of Independent Auditors

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, 2002 and 2001, 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, 2002 and 2001, 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

New York, New York
August 30, 2002

Balance Sheets

	June 30	
	2002	2001
Assets		
Cash and cash equivalents	\$ 6,165,895	\$ 8,361,019
Investments, at fair value (<i>Notes 5 and 9</i>)	132,071,114	153,156,946
Accrued interest and dividends receivable	421,791	616,405
Prepaid expenses and other assets	146,442	44,281
Fixed assets, at cost, less accumulated depreciation (<i>Note 3</i>)	1,948,460	1,991,030
Total assets	\$ 140,753,702	\$ 164,169,681
Liabilities and net assets		
Liabilities:		
Grants payable (<i>Note 4</i>)	\$ 843,184	\$ 233,941
Accrued retirement benefits	1,602	1,695
Other accrued liabilities	83,500	80,000
Total liabilities	\$ 928,286	\$ 315,636
Net assets:		
Total unrestricted net assets	139,825,416	163,854,045
Total liabilities and net assets	\$ 140,753,702	\$ 164,169,681

See accompanying notes.

Statements of Activities

	Year ended June 30	
	2002	2001
Revenue		
Interest on investments	\$ 3,922,835	\$ 5,082,220
Dividends on investments	1,131,804	1,908,838
Other income	3,714	1,826
Total revenue	5,058,353	6,992,884
Expenses <i>(Note 7)</i>		
Salaries	603,877	593,885
Employee benefits <i>(Note 8)</i>	173,868	169,814
Professional services	44,220	49,010
Furniture, improvements and equipment	86,925	94,175
Utilities, insurance and building maintenance	75,522	77,929
Other administrative expenses	140,528	113,584
Investment counsel and custodian fees	677,263	802,383
Depreciation	48,200	83,722
Provision (credit) for federal excise tax <i>(Note 2)</i>	(209,283)	240,000
Grants and conferences, publications and program planning:		
Medical and premedical education	4,051,714	6,441,807
Discretionary grants awarded by staff	300,000	300,000
Conferences	381,569	423,436
Other programs	313,321	273,045
Post 9/11 Fund	155,875	—
Publications and program planning—net of refunds	79,828	75,808
Organizational dues	43,580	47,570
Total expenses	6,967,007	9,786,168
Change in unrestricted net assets from operations	(1,908,654)	(2,793,284)
Net realized loss on sale on investments	(18,122,008)	(4,390,579)
Net change in unrealized appreciation on investments	(3,997,967)	(18,105,139)
Change in net assets	(24,028,629)	(25,289,002)
Net assets at beginning of year	163,854,045	189,143,047
Net assets at end of year	\$ 139,825,416	\$ 163,854,045

See accompanying notes.

Statements of Cash Flows

	Year ended June 30	
	2002	2001
Cash flows from operating activities		
Change in net assets	\$ (24,028,629)	\$ (25,289,002)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	48,200	83,722
Net realized and unrealized losses on investments	22,119,975	22,495,718
Changes in operating assets and liabilities:		
Accrued interest and dividends receivable	194,614	237,874
Prepaid expenses and other assets	(102,161)	(291)
Accrued retirement benefits	(93)	989
Grants payable	609,243	233,941
Other accrued liabilities	3,500	80,000
Net cash used in operating activities	(1,155,351)	(2,157,049)
Cash flows from investing activities		
Purchases of investments	(168,421,692)	(316,631,775)
Proceeds from sales of investments	167,387,549	320,954,932
Real estate property improvements	(5,630)	—
Net cash (used in) provided by investing activities	(1,039,773)	4,323,157
Net (decrease) increase in cash and cash equivalents	(2,195,124)	2,166,108
Cash and cash equivalents at beginning of year	8,361,019	6,194,911
Cash and cash equivalents at end of year	\$ 6,165,895	\$ 8,361,019
Supplemental cash flow information		
Excise taxes paid	\$ 923	\$ 240,000

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**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 purposes 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.

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, 2002.

3. Fixed Assets

Fixed assets consist of the following:

	June 30	
	2002	2001
Land	\$ 1,922,700	\$ 1,922,700
Buildings	685,354	679,724
Furniture and fixtures	71,961	71,961
Total fixed assets	2,680,015	2,674,385
Less accumulated depreciation	731,555	683,355
Net fixed assets	\$ 1,948,460	\$ 1,991,030

4. Grants

Grants authorized by the Board of Directors were as follows:

	June 30	
	2002	2001
Beginning balance	\$ 5,308,894	\$ 8,914,968
Authorized during current year	5,442,398	3,625,461
Paid during current year	(4,593,236)	(7,204,347)
Lapsed during current year	—	(27,188)
Ending balance	\$ 6,158,056	\$ 5,308,894
Grants payable	\$ 843,184	\$ 233,941
Future installments of multi-year grants authorized	5,314,872	5,074,953
	\$ 6,158,056	\$ 5,308,894

At June 30, 2002, the Foundation’s Board of Directors had authorized grants of \$6,158,056 to be paid in future years. Of this amount, \$5,314,872 is conditional upon the grantees making satisfactory progress toward stated objectives and is revocable by the Board of Directors if certain conditions are not met.

5. Investments

The cost and fair value of investments were as follows:

	June 30			
	2002		2001	
	Cost	Fair Value	Cost	Fair Value
Common stock	\$ 72,585,341	\$ 61,358,237	\$ 83,006,035	\$ 76,743,191
U.S. government and agency obligations	14,048,417	14,436,972	18,704,349	18,763,783
Corporate obligations	11,722,012	11,625,624	25,670,893	25,620,410
Commingled equity funds	9,069,075	6,991,729	11,906,099	9,044,838
Commingled fixed income funds	16,635,860	15,731,827	14,813,954	14,131,063
International equity funds	103,789	107,313	201,830	201,424
Mutual funds	18,698,648	16,774,548	10,647,847	8,652,237
Investment in limited partnership	5,000,000	5,044,864	—	—
Total	\$ 147,863,142	\$ 132,071,114	\$ 164,951,007	\$ 153,156,946

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 \$332,052 and \$564,304 granted to the University of Massachusetts and the University of Vermont in fiscal 2002 and 2001, respectively, \$42,000 granted to AAMC in fiscal 2001, and \$775,000 granted to Harvard University and its affiliates in fiscal 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 \$433,389 and \$406,643 in 2002 and 2001, respectively.

7. Functional Expenses

Functional expenses were incurred for:

	Year ended June 30	
	2002	2001
Program services	\$ 5,671,979	\$ 8,135,578
Management and general	1,295,028	1,650,590
	\$ 6,967,007	\$ 9,786,168

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 \$75,433 and \$71,852 were charged to operating expense for the years ended June 30, 2002 and 2001, 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, International Equity Funds, 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.

Investments in Limited Partnership: The carrying value of investments in the limited partnership reflects the Foundation’s net contributions to the partnership and its share of realized and unrealized investment income and expenses of the partnership. Investments held by the limited partnership are carried at fair value as determined by the general partner.

Schedule of Grants

Year ended June 30, 2002

	July 1, 2001 to June 30, 2002			
	Balance at June 30, 2001	Authorized for Current and Future Years	Paid	Balance at June 30, 2002
Medical Education in the Context of the Changing Health Care System				
Ambulatory Pediatric Association	\$ —	\$ 499,983	\$ 164,230	\$ 335,753
Case Western Reserve University	317,052		317,052	—
Massachusetts Institute of Technology	231,436		224,273	7,163
Mount Sinai School of Medicine	115,574		56,848	58,726
The New York Academy of Medicine	—	991,731		991,731
New York University Medical Center	841,361		765,492	75,869
State University of New York at Syracuse Medical School	215,406		108,383	107,023
University of Massachusetts	317,052		317,052	—
University of Michigan School of Nursing	424,324		131,840	292,484
University of Pennsylvania School of Medicine	351,970			351,970
Increasing Diversity Among Health Professionals				
Associated Medical Schools of New York	155,320			155,320
University of California, San Francisco	—	375,000		375,000
University of Pennsylvania	—	277,412		277,412
Yale University School of Medicine	—	99,000	99,000	—

Schedule of Grants (continued)

Year ended June 30, 2002

	July 1, 2001 to June 30, 2002			
	Balance at June 30, 2001	Authorized for Current and Future Years	Paid	Balance at June 30, 2002
Increasing Teamwork Between and Among Multiple Health Professionals				
Columbia University Mailman School of Public Health	\$ 380,955		\$ 380,955	\$ —
Columbia University Mailman School of Public Health	—	\$ 1,065,797		1,065,797
University of California, Los Angeles School of Medicine	921,400		453,400	468,000
University of Washington	—	803,475	298,388	505,087
Educational Strategies to Increase Care for Underserved Populations				
National Public Health & Hospitals Institute	254,964		125,558	129,406
Total Medical and Premedical Education	4,526,814	4,112,398	3,442,471	5,196,741
Conferences				
	250,000	450,000	381,569	318,431
Other Programs				
Matching Gifts Program	232,080	330,000	313,321	248,759
Post 9/11 Fund	—	250,000	155,875	94,125

Schedule of Grants (continued)

Year ended June 30, 2002

	July 1, 2001 to June 30, 2002			
	Balance at June 30, 2001	Authorized for Current and Future Years	Paid	Balance at June 30, 2002
Discretionary Grants Awarded by Staff				
General Appropriations	\$ 300,000	\$ 300,000		\$ 300,000
Annenberg Center for Health Sciences	—		\$ 10,000	—
The Acadia Institute	—		10,000	—
Association of Academic Health Centers	—		15,000	—
Binghamton University Foundation	—		25,000	—
Columbia University/NYC Recovers	—		15,000	—
Cornell University	—		25,000	—
Doctors Without Borders	—		25,000	—
The Foundation for Island Health	—		25,000	—
The National Center on Addiction and Substance Abuse	—		25,000	—
National Foundation for Infectious Diseases	—		2,000	—
The New York Academy of Medicine	—		10,000	—
New York University	—		25,000	—
Rhodes College	—		25,000	—
Tufts University School of Medicine	—		19,500	—
University of Vermont	—		15,000	—
University of Virginia Health System	—		18,500	—
World Conference on Religion and Peace	—		10,000	—
	300,000	300,000	300,000	300,000
Total	\$ 5,308,894	\$ 5,442,398	\$ 4,593,236	\$ 6,158,056