
Financial Statements and Other Financial Information

**Years ended June 30, 2004 and 2003
with Report of Independent Auditors**

Contents

Report of Independent Auditors	53
Balance Sheets	54
Statements of Activities	55
Statements of Cash Flows	56
Notes to Financial Statements	57
Other Financial Information	
Schedule of Grants	61

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, 2004 and 2003, 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, 2004 and 2003, 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 19, 2004

Balance Sheets

	June 30	
	2004	2003
Assets		
Cash and cash equivalents	\$ 3,907,684	\$ 6,723,366
Investments, at fair value <i>(Notes 5 and 9)</i>	141,569,450	127,992,999
Accrued interest and dividends receivable	404,988	519,065
Prepaid expenses and other assets	132,190	93,535
Fixed assets, at cost, less accumulated depreciation <i>(Note 3)</i>	2,110,018	1,969,882
Total assets	\$ 148,124,330	\$ 137,298,817
Liabilities and net assets		
Liabilities:		
Grants payable <i>(Note 4)</i>	\$ 613,383	\$ 421,849
Accrued retirement benefits	3,830	3,392
Other accrued liabilities	87,487	60,268
Deferred federal excise tax <i>(Note 2)</i>	83,000	—
Total liabilities	787,700	485,509
Net assets:		
Total unrestricted net assets	147,336,630	136,813,308
Total liabilities and net assets	\$ 148,124,330	\$ 137,298,817

See accompanying notes.

Statements of Activities

	Year ended June 30	
	2004	2003
Revenue		
Interest on investments	\$ 2,215,853	\$ 3,063,259
Dividends on investments	732,082	1,185,326
Grant refunds	66,102	24,275
Total revenue	3,014,037	4,272,860
Expenses <i>(Note 7)</i>		
Salaries	650,916	629,912
Employee benefits <i>(Note 8)</i>	192,775	179,817
Professional services	22,820	19,335
Furniture, improvements and equipment	72,466	77,297
Utilities, insurance and building maintenance	94,707	85,657
Other administrative expenses	147,111	124,183
Investment counsel and custodian fees	698,380	707,761
Depreciation	21,077	17,913
Provision for federal excise tax <i>(Note 2)</i>		
Current	60,743	86,533
Deferred	83,000	—
Grants and conferences, publications and program planning:		
Medical and premedical education	4,274,780	4,511,495
Discretionary grants awarded by staff	300,000	300,000
Conferences	325,134	300,618
Other programs	359,177	305,260
Post 9/11 Fund	75,000	10,000
Publications and program planning—net of refunds	62,096	65,605
Organizational dues	38,430	41,890
Total expenses	7,478,702	7,463,276
Change in unrestricted net assets from operations	(4,464,665)	(3,190,416)
Net realized gain (loss) on sale on investments	5,198,208	(14,142,822)
Net change in unrealized appreciation on investments	9,789,779	14,321,130
Change in net assets	10,523,322	(3,012,108)
Net assets at beginning of year	136,813,308	139,825,416
Net assets at end of year	\$ 147,336,630	\$ 136,813,308

See accompanying notes.

Statements of Cash Flows

	Year ended June 30	
	2004	2003
Cash flows from operating activities		
Change in net assets	\$ 10,523,322	\$ (3,012,108)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	21,077	17,913
Net realized and unrealized gain on investments	(14,987,987)	(178,308)
Provision for deferred federal excise tax	83,000	-
Changes in operating assets and liabilities:		
Accrued interest and dividends receivable	114,077	(97,274)
Prepaid expenses and other assets	(38,655)	52,907
Accrued retirement benefits	438	1,790
Grants payable	191,534	(421,335)
Other accrued liabilities	27,219	(23,232)
Net cash used in operating activities	(4,065,975)	(3,659,647)
Cash flows from investing activities		
Purchases of investments	(290,422,374)	(318,608,621)
Proceeds from sales of investments	291,833,910	322,865,044
Fixed asset additions	(161,213)	(39,335)
Net cash provided by investing activities	1,250,323	4,217,088
Net (decrease) increase in cash and cash equivalents	(2,815,652)	557,441
Cash and cash equivalents at beginning of year	6,723,336	6,165,895
Cash and cash equivalents at end of year	\$ 3,907,684	\$ 6,723,336
Supplemental cash flow information		
Excise taxes paid	\$ 85,000	\$ 83,862

See accompanying notes.

1. Organization and Summary of 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

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.

Notes to Financial Statements (continued)

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.

Deferred federal excise tax arises from temporary differences between financial and tax reporting related to the difference between the cost basis and the fair value of marketable securities.

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 value of the Foundation's investments. All such required qualifying distributions have been made through June 30, 2004.

3. Fixed Assets

Fixed assets consists of the following:

	2004	June 30	2003
Land	\$ 1,922,700		\$ 1,922,700
Buildings	883,467		724,689
Furniture and fixtures	74,396		71,961
Total fixed assets	2,880,563		2,719,350
Less accumulated depreciation	770,545		749,468
Net fixed assets	\$ 2,110,018		\$ 1,969,882

4. Grants

Grants authorized by the Board of Directors were as follows:

	2004	Year ended June 30	2003
Beginning balance	\$ 4,405,381		\$ 6,158,056
Authorized	6,983,090		4,103,197
Paid	(5,070,745)		(5,848,709)
Lapsed	—		(7,163)
Ending balance	\$ 6,317,726		\$ 4,405,381
Grants payable	\$ 613,383		\$ 421,849
Future installments of multi-year grants authorized	5,704,343		3,983,532
	\$ 6,317,726		\$ 4,405,381

At June 30, 2004, the Foundation's Board of Directors had authorized grants of \$6,317,726 to be paid in future years. Of this amount, \$5,704,343 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.

Notes to Financial Statements (continued)

5. Investments

The cost and fair value of investments were as follows:

	June 30			
	2004		2003	
	Cost	Fair Value	Cost	Fair Value
Common stock	\$ 37,584,136	\$ 40,394,723	\$ 73,096,540	\$ 71,012,712
U.S. government and agency obligations	18,784,601	18,610,363	13,385,880	13,551,414
Corporate obligations	16,235,164	16,146,882	17,260,961	18,024,242
Commingled equity funds	34,409,176	39,383,958	7,989,896	8,163,811
International fixed income funds	600,317	541,488	347,827	367,784
Mutual funds	10,637,175	10,359,936	12,382,793	11,823,036
Investments in limited partnerships	15,000,000	16,132,100	5,000,000	5,050,000
Total	\$ 133,250,569	\$ 141,569,450	\$ 129,463,897	\$ 127,992,999

In 2003, the Foundation began investing in limited partnerships that invest in alternative investment vehicles. These investments contain varying degrees of risk whereby changes in the fair value of the securities underlying the financial instruments may be greater or less than the amount recognized on the balance sheet.

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

6. Related Parties

Certain members of the Board of Directors of the Foundation have relationships with six institutions that receive grants from the Foundation. Grants totaling \$1,083,438 and \$245,891 were paid to these institutions during the years ended June 30, 2004, and 2003 respectively. At June 30, 2004 and 2003, \$2,691,614 and \$783,000, respectively were payable to these institutions. The Board members abstain from voting on grants to institutions with which they have a relationship.

In addition, four members of the Foundation's Board of Directors have relationships with three of the Foundation's investment managers. Fees paid to these three financial services institutions were \$446,926 and \$582,470 in 2004 and 2003, respectively.

7. Functional Expenses

Functional expenses were incurred for:

	Year ended June 30	
	2004	2003
Program services	\$ 6,027,816	\$ 6,034,782
Management and general	1,450,886	1,428,494
	\$ 7,478,702	\$ 7,463,276

Notes to Financial Statements (continued)

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 funded by the purchase of individual annuity contracts with an insurance company. Premium payments of \$81,026 and \$77,657 were charged to operating expense for the years ended June 30, 2004 and 2003, respectively.

In addition, the Foundation’s employees have the option to participate in supplemental retirement plans 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 Fixed Income Funds, Common Stock, Commingled Equity 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 Partnerships: The carrying value of investments in the limited partnerships reflects the Foundation’s net contributions to the partnerships and its share of realized and unrealized investment income and expenses of the partnerships. Investments held by the limited partnerships are carried at fair value as determined by the general partners.

Other Financial Information

Schedule of Grants

Year ended June 30, 2004

	Balance at June 30 2003	Authorized for Current and Future Years	Paid	Balance at June 30 2004
Ambulatory Pediatric Association	\$ 162,327	\$ –	\$ 161,326	\$ 1,001
Associated Medical Schools of New York	136,000	–	93,280	42,720
Case Western Reserve University	242,352	–	–	242,352
Case Western Reserve University	–	983,076	327,692	655,384
Columbia University Mailman School of Public Health	65,795	–	–	65,795
Columbia University Mailman School of Public Health	–	1,063,888	–	1,063,888
Columbia School of Dentistry**	–	460,000	133,640	326,360
Duke University Medical Center	–	985,770	403,750	582,020
Harvard Medical School**	250,000	–	250,000	–
Health Affairs/Project Hope	61,515	–	–	61,515
Howard University College of Medicine	–	1,074,210	369,910	704,300
Massachusetts Institute of Technology	225,143	–	225,143	–
Morehouse School of Medicine	–	203,383	108,845	94,538
New York Psychiatric Institute Research Foundation	200,000	–	100,000	100,000
Princeton University	148,519	–	71,489	77,030
St. Luke's – Roosevelt Hospital Center, New York Obesity Research Center**	–	504,428	173,261	331,167
The New York Academy of Medicine	908,640	–	443,948	464,692
The City College of New York, The Sophie Davis School of Bio-Medical Education**	–	413,298	212,250	201,048

(Continued)

Other Financial Information—
Schedule of Grants (continued)

Year ended June 30, 2004

	Balance at June 30 2003	Authorized for Current and Future Years	Paid	Balance at June 30 2004
The South Street Seaport Museum**	–	250,000	250,000	–
University of California, San Francisco	195,176	–	195,176	–
University of California, San Francisco	–	305,037	–	305,037
University of Massachusetts Medical School**	370,200	–	193,600	176,600
University of Michigan School of Nursing	135,850	–	135,850	–
University of Pennsylvania	34,251	–	–	34,251
University of Washington	234,176	–	234,176	–
Total Medical and Premedical Education	\$ 3,369,944	\$ 6,243,090	\$ 4,083,336	\$ 5,529,698
 Conferences	 \$ 267,813	 \$ –	 \$ 252,832	 \$ 14,981
 Other Programs				
Matching Gifts Program	383,499	440,000	359,577	463,922
Post 9/11 Fund	84,125	–	75,000	9,125

Other Financial Information—
Schedule of Grants (continued)

Year ended June 30, 2004

	Balance at June 30 2003	Authorized for Current and Future Years	Paid	Balance at June 30 2004
Discretionary Grants Awarded by Staff	\$ 300,000	\$ 300,000	\$ 300,000*	\$ 300,000
Totals	\$ 4,405,381	\$ 6,983,090	\$ 5,070,745	\$ 6,317,726

* American Medical Women's Association	\$ 25,000
American Public Health Association	10,000
Brown University	20,000
Columbia University	15,000
Cornell University	20,000
Global Health Council	25,000
Learning for Life Inc	25,000
Morehouse School of Medicine	25,000
New York Academy of Medicine	15,000
Planned Parenthood— New York City	25,000
The Arnold P. Gold Foundation	25,000
The Eye-Bank for Sight Restoration	10,000
The Healthcare Chaplaincy	25,000
United Hospital Fund	10,000
WXXI Public Broadcasting	25,000
	\$ 300,000

** *Certain members of the Board of Directors of the Foundation have relationships with these institutions. See Note 6 to the accompanying financial statements.*

Guidelines for Grant Applications

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, requests to the Foundation that are not likely to be funded are promptly declined. Proposals recommended for grant support are submitted to the Board of Directors for final consideration.