Financial Statements and Other Financial Information

Years ended June 30, 2005 and 2004 with Report of Independent Auditors

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Financial Statements

Other Financial Information

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, 2005 and 2004, 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. We were not engaged to perform an audit of the Foundation's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2005 and 2004, 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 audit was conducted for the purpose of forming an opinion on the basic 2005 financial statements taken as a whole. The accompanying schedule of grants for the year ended June 30, 2005 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 2005 financial statements taken as a whole.

Ernst + Young LLP

September 21, 2005

Balance Sheets

	June 30	
	2005	2004
Assets		
Cash and cash equivalents *(Note 9)*	$ 2,341,803	$ 3,907,684
Investments, at fair value *(Notes 5 and 9)*	144,894,682	141,569,450
Accrued interest and dividends receivable	386,166	404,988
Prepaid expenses and other assets	45,708	132,190
Fixed assets, at cost, less accumulated depreciation *(Note 3)*	2,117,720	2,110,018
Total assets	$ 149,786,079	$ 148,124,330
Liabilities and net assets		
Liabilities:		
Grants payable *(Note 4)*	$ –	$ 613,383
Accrued retirement benefits *(Note 8)*	2,674	3,830
Accrued unrelated business income tax *(Note 2)*	15,151	–
Other accrued liabilities	92,550	87,487
Deferred federal excise tax *(Note 2)*	73,000	83,000
Total liabilities	183,375	787,700
Net assets:		
Unrestricted net assets	149,602,704	147,336,630
Total liabilities and net assets	$ 149,786,079	$ 148,124,330

See accompanying notes.

Statements of Activities

	Year ended June 30	
	2005	2004
Revenue		
Interest on investments	$ 1,942,383	$ 2,215,853
Dividends on investments	637,866	732,082
Grant refunds and other	25,226	66,102
Total revenue	2,605,475	3,014,037
Expenses *(Note 7)*		
Salaries	644,387	650,916
Employee benefits *(Note 8)*	207,635	192,775
Professional services	31,050	22,820
Equipment leases and minor improvements	83,175	72,466
Utilities, insurance and building maintenance	100,829	94,707
Other administrative expenses	166,439	147,111
Investment counsel and custodian fees	672,001	698,380
Depreciation	25,188	21,077
Provision for taxes *(Note 2):*		
Excise and unrelated business income taxes	188,627	60,743
Deferred	(10,000)	83,000
Grants and conferences, publications and program planning:		
Medical and premedical education	4,094,679	4,274,870
Discretionary grants awarded	300,000	300,000
Honorary directors' fund	50,000	–
Conferences	380,487	325,134
Other programs	354,264	359,177
Post 9/11 Fund	9,125	75,000
Publications and program planning—net of refunds	119,117	62,096
Organizational dues	31,200	38,430
Total expenses	7,448,203	7,478,702
Change in unrestricted net assets from operations	(4,842,728)	(4,464,665)
Net realized gain on sale on investments	8,010,661	5,198,208
Net change in unrealized (depreciation) appreciation on investments *(Note 5)*	(901,859)	9,789,779
Change in net assets	2,266,074	10,523,322
Net assets at beginning of year	147,336,630	136,813,308
Net assets at end of year	$ 149,602,704	$ 147,336,630

See accompanying notes.

Statements of Cash Flows

	Year ended June 30	
	2005	2004
Cash flows from operating activities		
Change in net assets	$ 2,266,074	$ 10,523,322
Adjustments to reconcile change in net assets to		
net cash used in operating activities:		
Depreciation	25,188	21,077
Net realized and unrealized gain on investments	(7,108,802)	(14,987,987)
Provision (credit) for deferred federal excise tax	(10,000)	83,000
Changes in operating assets and liabilities:		
Accrued interest and dividends receivable	18,822	114,077
Prepaid expenses and other assets	86,482	(38,655)
Accrued retirement benefits	(1,156)	438
Accrued unrelated business income tax	15,151	–
Grants payable	(613,383)	191,534
Other accrued liabilities	5,063	27,219
Net cash used in operating activities	(5,316,561)	(4,065,975)
Cash flows from investing activities		
Purchases of investments	(370,239,526)	(290,422,374)
Proceeds from sales of investments	374,023,096	291,833,910
Fixed asset additions	(32,890)	(161,213)
Net cash provided by investing activities	3,750,680	1,250,323
Net decrease in cash and cash equivalents	(1,565,881)	(2,815,652)
Cash and cash equivalents at beginning of year	3,907,684	6,723,336
Cash and cash equivalents at end of year	$ 2,341,803	$ 3,907,684
Supplemental disclosure of cash flow information		
Excise taxes paid	$ 70,000	$ 85,000
Unrelated business income taxes paid	$ 27,176	$ –

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 toutilize 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.

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 New York City (the "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 excisetaxarisesfrom temporarydifferences betweenfinancialand taxreporting related to the difference between the cost basis and the fair value of marketable securities.

Unrelated business income taxes arise from investment activities that are subject to tax.

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, 2005.

3. Fixed Assets

Fixed assets consists of the following:

	June 30 2005	June 30 2004
Land	$ 1,922,700	$ 1,922,700
Buildings	913,157	883,467
Furniture and fixtures	77,596	74,396
Total fixed assets	2,913,453	2,880,563
Less accumulated depreciation	795,733	770,545
Fixed assets, net	$ 2,117,720	$ 2,110,018

4. Grants

Grants authorized by the Board of Directors were as follows:

	Year ended June 30 2005	Year ended June 30 2004
Beginning balance	$ 6,317,726	$ 4,405,381
Authorized	6,871,028	6,983,090
Paid	(5,436,432)	(5,070,745)
Lapsed	(109,659)	–
Ending balance	$ 7,642,663	$ 6,317,726
Grants payable	$ –	$ 613,383
Future installments of multi-year grants authorized	7,642,663	5,704,343
	$ 7,642,663	$ 6,317,726

At June 30, 2005, the Foundation's Board of Directors had authorized grants of $7,642,663 to be paid in future years. The entire amount of authorized grants 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			
	2005		2004	
	Cost	Fair Value	Cost	Fair Value
Common stock	$ 30,139,011	$ 31,234,096	$ 37,584,136	$ 40,394,723
U.S. government and agency obligations	19,659,250	19,668,695	18,784,601	18,610,363
Corporate obligations	12,106,308	12,267,262	16,235,164	16,146,882
Commingled equity funds	41,621,150	41,582,255	26,498,575	28,447,245
International fixed income funds	413,812	430,744	600,317	541,488
Mutual funds	5,705,029	5,606,898	10,637,175	10,359,936
Alternative Investments	27,833,100	34,104,732	22,910,601	27,068,813
Total	$ 137,477,660	$ 144,894,682	$ 133,250,569	$ 141,569,450

In 2005 and 2004, the Foundation had investments in alternative investments that include a limited partnership, trust and an offshore corporation. While these investments may contain varying degrees of risk, the Foundation's risk is limited to its capital investment in each investment.

Investment fees of approximately $215,000 for one of the alternative investments were netted against the unrealized losses in 2005. There were no such fees in 2004.

6. Related Parties

Certain members of the Board of Directors of the Foundation have relationships with institutions that receive grants from the Foundation. Grants totaling $1,468,249 and $1,756,699 were paid to these institutions during the years ended June 30, 2005 and 2004, respectively. At June 30, 2005 and 2004, $3,344,670 and $1,599,867, respectively, were payable to these institutions (see Note 4). The Board members abstain from voting on grants to institutions with which they have a relationship.

7. Functional Expenses

Functional expenses were incurred for:

	Year ended June 30	
	2005	2004
Program services	$ 5,912,186	$ 6,027,816
Management and general	1,536,017	1,450,886
	$ 7,448,203	$ 7,478,702

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 $81,294 and $81,026 were charged to operating expense for the years ended June 30, 2005 and 2004, respectively.

In addition, the Foundation's employees have the option to participate in supplemental retirement plans with TIAA through payroll deductions.

9. Fair Values of Financial Instruments

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.

Alternative Investments: Limited partnership, trust and offshore corporation investments, which are alternative investments, are stated at fair value as estimated in an unquoted market. Fair values of the alternative investments are determined by the investment managers or general partners.

Values may be based on estimates that require varying degrees of judgment and investments are primarily based on financial data supplied by the underlying investee funds. Generally, fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The financial statements of the investees are audited annually by independent auditors.

Other Financial Information

Schedule of Grants

Year ended June 30, 2005

	Balance at June 30, 2004	Authorized for Current and Future Years	Paid	Lapsed	Balance at June 30, 2005
Adult Literacy Media Alliance	$ –	$ 205,858	$ 205,858	$ –	$ –
Ambulatory Pediatric Association	1,001	–	1,001	–	–
Association of Academic Health Centers	–	421,578	210,789	–	210,789
Association of Academic Health Centers	–	520,438	132,952	–	387,486
Association of American Medical Colleges**	–	2,065,000	105,000		1,960,000
Associated Medical Schools of New York	42,720	–	42,720	–	–
Association of Teachers of Preventive Medicine	–	497,218	142,770	–	354,448
Case Western Reserve University	242,352	–	242,352	–	–
Case Western Reserve University	655,384	–	–	–	655,384
Cold Spring Harbor Laboratory	–	500,000	400,000	–	100,000
Columbia University Mailman School of Public Health	65,795	–	65,794	1	–
Columbia University Mailman School of Public Health	1,063,888	–	511,972	–	551,916
Columbia University School of Dentistry**	326,360	–	137,124	–	189,236
Columbia University School of Nursing**	–	948,052	213,704	–	734,348
Duke University Medical Center	582,020	–	328,945	–	253,075
Health Affairs/Project Hope	61,515	–	61,515	–	–
Howard University College of Medicine	704,300	–	352,150	–	352,150
Morehouse School of Medicine	94,538	–	94,538	–	–
The New York Academy of Medicine**	464,692	–	436,473	–	28,219
New York Psychiatric Institute Research Foundation**	100,000	–	100,000	–	–
Princeton University	77,030	–	77,030	–	–
The City College of New York, The Sophie Davis School of Biomedical Education**	201,048	–	201,048	–	–

Schedule of Grants (continued)

Year ended June 30, 2005

	Balance at June 30, 2004	Authorized for Current and Future Years	Paid	Lapsed	Balance at June 30, 2005
St. Luke's-Roosevelt Hospital Center, New York Obesity Research Center**	$ 331,167	$ –	$ –	$ –	$ 331,167
Stanford University	–	682,884	233,765	–	449,119
The Task Force for Child Survival and Development**	–	200,000	100,000	–	100,000
University of California, San Francisco	305,037	–	101,411	–	203,626
University of Massachusetts Medical School**	176,600	–	174,900	–	1,700
University of Pennsylvania	34,251	–	34,251	–	–
Total Medical and Premedical Education	5,529,698	6,041,028	4,708,062	1	$ 6,862,663
Conferences	14,981	–	14,981	–	–
Other Programs:					
Honorary Directors Fund	–	150,000	50,000	–	100,000
Matching Gifts Program	463,922	380,000	354,264	109,658	380,000
Post 9/11 Fund	9,125	–	9,125	–	–
Discretionary Grants Awarded	300,000	300,000	300,000*	–	300,000
Totals	$ 6,317,726	$ 6,871,028	$ 5,436,432	$ 109,659	$ 7,642,663

Other Financial Information (continued)

SCHEDULE OF GRANTS (continued)
Year ended June 30, 2005

*Alliance for Aging Research	$ 25,000
American Health Quality Foundation	25,000
American Public Health Association Student Assembly	13,000
Dartmouth College	12,000
Doctors for Healthy Communities	25,000
Himalayan Cataract Project	25,000
The Jackie Robinson Foundation	25,000
The National Center on Substance Abuse (CASA)	25,000
National Coalition for Health Professional Education in Genetics	25,000
National Medical Fellowships	25,000
New York Academy of Medicine	25,000
New York University (Faculty Resource Network)	25,000
University of Berkeley (UCSF)	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.*