
Financial Statements and Other Financial Information

**Years ended June 30, 2007 and 2006
with Report of Independent Auditors**

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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, 2007 and 2006, 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of grants and president's discretionary grants awarded for the year ended June 30, 2007 are presented for purposes of additional analysis and are 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

November 14, 2007

Balance Sheets

	June 30	
	2007	2006
Assets		
Cash and cash equivalents <i>(Note 9)</i>	\$ 5,815,748	\$ 6,141,991
Due from broker	–	135,291
Investments, at fair value <i>(Notes 5 and 9)</i>	164,336,447	145,757,386
Accrued interest and dividends receivable	320,230	355,746
Prepaid expenses and other assets	29,570	38,797
Fixed assets, at cost, less accumulated depreciation <i>(Note 3)</i>	2,082,960	2,099,549
Total assets	\$ 172,584,955	\$ 154,528,760
Liabilities and net assets		
Liabilities:		
Due to broker	\$ 671,374	\$ –
Grants payable <i>(Note 4)</i>	323,912	738,820
Accrued retirement benefits <i>(Note 8)</i>	2,613	2,800
Other accrued liabilities	88,954	75,194
Deferred federal excise tax <i>(Note 2)</i>	250,874	105,000
Total liabilities	1,337,727	921,814
Net assets:		
Unrestricted net assets	171,247,228	153,606,946
Total liabilities and net assets	\$ 172,584,955	\$ 154,528,760

See accompanying notes.

Statements of Activities

	Year ended June 30	
	2007	2006
Revenue		
Interest on investments <i>(Note 5)</i>	\$ 1,624,148	\$ 1,823,236
Dividends on investments <i>(Note 5)</i>	1,454,793	1,450,691
Grant refunds and other	406	458
Total revenue	3,079,347	3,274,385
Expenses <i>(Note 7)</i>		
Salaries	736,553	698,243
Employee benefits <i>(Note 8)</i>	329,016	250,219
Professional services	142,932	40,874
Equipment leases and minor improvements	69,735	72,942
Utilities, insurance and building maintenance	67,384	101,213
Other administrative expenses	148,650	168,076
Investment counsel and custodian fees	952,511	812,367
Depreciation	23,039	23,261
Provision for taxes <i>(Note 2)</i> :		
Excise and unrelated business income taxes	125,163	83,733
Deferred	145,874	32,000
Grants and conferences, publications and program planning:		
Medical and premedical education	5,428,227	6,185,953
Discretionary grants awarded	500,000	300,000
Honorary directors' fund	-	100,000
Conferences	443,357	28,109
Other programs	342,754	283,816
Publications and program planning—net of refunds	128,201	144,884
Organizational dues	56,700	64,970
Total expenses	9,640,096	9,390,660
Change in unrestricted net assets from operations	(6,560,749)	(6,116,275)
Net realized and unrealized gain on investments <i>(Note 5)</i>	24,201,031	10,120,517
Change in net assets	17,640,282	4,004,242
Net assets at beginning of year	153,606,946	149,602,704
Net assets at end of year	\$ 171,247,228	\$ 153,606,946

See accompanying notes.

Statements of Cash Flows

	Year ended June 30	
	2007	2006
Cash flows from operating activities		
Change in net assets	\$ 17,640,282	\$ 4,004,242
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	23,039	23,261
Net realized and unrealized gain on investments	(24,201,031)	(10,120,517)
Provision for deferred federal excise tax	145,874	32,000
Changes in operating assets and liabilities:		
Accrued interest and dividends receivable	35,516	30,420
Prepaid expenses and other assets	9,227	6,911
Accrued retirement benefits	(187)	126
Accrued unrelated business income tax	-	(15,151)
Grants payable	(414,908)	738,820
Other accrued liabilities	13,760	(17,356)
Net cash used in operating activities	(6,748,428)	(5,317,244)
Cash flows from investing activities		
Purchases of investments	(160,011,984)	(161,503,108)
Proceeds from sales of investments	166,440,619	169,416,400
Fixed asset additions	(6,450)	(5,090)
Net cash provided by investing activities	6,422,185	7,908,202
Net (decrease) increase in cash and cash equivalents	(326,243)	2,590,958
Cash and cash equivalents at beginning of year	6,141,991	3,551,033
Cash and cash equivalents at end of year	\$ 5,815,748	\$ 6,141,991
Supplemental disclosure of cash flow information		
Excise taxes paid	\$ 115,000	\$ 95,000
Unrelated business income taxes paid	\$ -	\$ 19,000

See accompanying notes.

Notes to Financial Statements • June 30, 2007

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.

Investments

Investments are carried at fair value in accordance with Statement of Financial Accounting Standards No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Investment income, including interest, dividends, realized and unrealized gains and losses, is recorded in unrestricted net assets since there are no donor restrictions on this income. Alternative investments are carried at fair values based on historical cost, appraisals or other estimates that require varying degrees of judgment and reflect the Foundation's share of realized and unrealized investment income and expenses of the respective investees.

Fixed Assets

Depreciation of buildings and furnishings is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 15 years for fixed assets not fully depreciated.

Grants

The Foundation normally provides grants to colleges, universities and other professional associations for a period of one to three years. These grants are recorded as expense at the time they become unconditional. Conditional or revocable grants are disclosed as future commitments.

Notes to Financial Statements (continued)

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.

Reclassifications

Certain reclassifications have been made to the June 30, 2006 financial statements to conform to the June 30, 2007 presentation.

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 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, 2007.

3. FIXED ASSETS

Fixed assets consists of the following:

	2007	June 30	2006
Land	\$ 1,922,700		\$ 1,922,700
Buildings	1,274,772		1,270,172
Furniture and fixtures	79,446		77,596
Total fixed assets	3,276,918		3,270,468
Less accumulated depreciation	1,193,958		1,170,919
Fixed assets, net	\$ 2,082,960		\$ 2,099,549

Notes to Financial Statements (continued)

4. GRANTS

Grants authorized by the Board of Directors were as follows:

	Year ended June 30	
	2007	2006
Beginning balance	\$ 7,172,604	\$ 7,642,663
Authorized	7,415,902	5,782,936
Paid	(7,129,246)	(6,156,811)
Lapsed	(38,947)	(96,184)
Ending balance	\$ 7,420,313	\$ 7,172,604
Grants payable	\$ 323,912	\$ 738,820
Future installments of multi-year grants authorized	7,096,401	6,433,784
	\$ 7,420,313	\$ 7,172,604

At June 30, 2007, the Foundation's Board of Directors had authorized grants of \$7,420,313 to be paid in future years. Of this amount, \$7,096,401 is conditional upon the grantees making satisfactory progress toward stated objectives and is revocable by the Board of Directors if, upon assessment and recommendation of management, certain conditions are not met.

5. INVESTMENTS

The cost and fair value of investments were as follows:

	June 30			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Common stock	\$ 39,161,160	\$ 43,385,349	\$ 32,622,404	\$ 35,335,275
U.S. government and agency obligations	10,605,654	10,416,282	18,025,807	17,580,393
Corporate obligations	12,435,582	12,327,899	11,859,155	11,513,464
International fixed income funds	-	-	452,463	456,295
Mutual funds	17,890,319	20,030,060	15,291,549	15,166,142
Other mutual funds	10,437,488	11,622,719	10,144,705	10,337,476
Alternative investments	48,718,819	66,554,138	45,969,551	55,368,341
Total	\$ 139,249,022	\$ 164,336,447	\$ 134,365,634	\$ 145,757,386

In fiscal 2007 and 2006, the Foundation had investments in alternative investments that include a limited partnership, a trust and offshore corporations. While these investments contain varying degrees of risk, the Foundation's risk is limited to its capital investment in each investment (see Note 9).

Investment fees of approximately \$2,238,000 related to the alternative investments were netted against the unrealized appreciation in fiscal 2007. Such fees approximated \$938,000 in 2006.

Notes to Financial Statements (continued)

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 \$2,140,922 and \$2,558,924 were paid to these institutions during the years ended June 30, 2007 and 2006, respectively. At June 30, 2007 and 2006, \$3,393,250 and \$2,202,933, 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	
	2007	2006
Program services	\$ 7,612,753	\$ 7,702,068
Management and general	2,027,343	1,688,592
	<u>\$ 9,640,096</u>	<u>\$ 9,390,660</u>

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 \$94,671 and \$90,085 were charged to operating expense for the years ended June 30, 2007 and 2006, 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 determining the fair value of financial instruments for reporting and/or disclosure purposes:

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

U.S. Government and Agency Obligations, Corporate Obligations, International Fixed Income Funds, Common Stock and Mutual Funds: The carrying amounts reported in the balance sheets are the fair values of the respective investments based on quoted market prices.

Notes to Financial Statements (continued)

Alternative Investments: The Foundation accounts for certain investments that do not have a readily determinable fair value using the equity method of accounting based on investment valuations provided by the external investment managers as of June 30. Since the alternative investments generally follow the fair value accounting model, the Foundation's use of the equity method generally should approximate the fair value of its ownership interests.

The Foundation's alternative investments include limited partnerships, offshore corporations and a trust, some of which employ traditional strategies (long only) in readily marketable securities (liquid equities or bonds traded on exchanges) and others of which employ less traditional strategies such as long/short hedge fund investing for capital appreciation; multi-strategy event driven funds (long and short equity or fixed income, distressed/event driven, distressed debt, arbitrage strategies, etc.) that may include the use of options, futures and other derivative instruments. The Foundation's alternative investments themselves have interests in limited partnerships, U.S. and international public equities, private equity, fixed income, real estate and commodities, depending on the legal structure and investment strategy of the underlying manager. Because alternative investments are not readily marketable, their estimated fair values are subject to judgment and uncertainty and therefore may differ from the values that would have been used had a ready market for such investments existed. As a result, there is a reasonable possibility that recorded estimates will change by a material amount in the near term.

Other Financial Information

SCHEDULE OF GRANTS

Year ended June 30, 2007

	Balance at June 30, 2006	Authorized for Current and Future Years	Paid	Lapsed	Balance at June 30, 2007
American Board of Internal Medicine	\$ 480,700	\$ —	\$ 311,300	\$ —	\$ 169,400
Association of Academic Health Centers	241,126	—	241,126	—	—
Association of American Medical Colleges*	605,000	—	605,000	—	—
Association of American Medical Colleges*	—	288,083	144,042	—	144,041
Association for Prevention Teaching and Research	164,538	—	164,538	—	—
Brandeis University*	704,487	—	704,487	—	—
Brandeis University*	—	1,500,000	—	—	1,500,000
Case Western Reserve University (University Hospitals Health System)	327,693	—	327,692	1	—
Columbia University School of Nursing*	734,348	—	253,667	—	480,681
Fund for Public Health in New York, Inc.	—	443,359	151,493	—	291,866
The George Washington University	—	750,171	375,086	—	375,085
Harvard Medical School*	—	984,344	—	—	984,344
Institute of Medicine	—	300,000	300,000	—	—
Memorial Sloan Kettering Cancer Center	—	204,430	204,430	—	—
New York University	789,525	—	160,380	—	629,145
St. Luke's-Roosevelt Hospital Center, New York Obesity Research Center*	157,398	—	157,399	(1)	—
School of Public Health and Health Professions of the University at Buffalo (SUNY)	—	257,070	128,535	—	128,535
Stanford University	226,635	—	226,635	—	—
State University of New York- Upstate Medical Center	—	857,934	428,967	—	428,967

Other Financial Information (continued)

SCHEDULE OF GRANTS (continued)

Year ended June 30, 2007

	Balance at June 30, 2006	Authorized for Current and Future Years	Paid	Lapsed	Balance at June 30, 2007
University of California, San Francisco	\$ 103,592	\$ —	\$ 103,591	\$ 1	\$ —
University of Massachusetts Medical School*	1,700	—	—	1,700	—
University of Pennsylvania	1,303,720	—	477,574	—	826,146
Wayne State University Medical School	128,004	—	100,866	—	27,138
Yale University School of Nursing*	—	560,511	276,327	—	284,184
Total Medical and Premedical Education	5,968,466	6,145,902	5,843,135	1,701	6,269,532
Conferences	324,138	350,000	443,357	—	230,781
Other Programs:					
Matching Gifts Program	380,000	420,000	342,754	37,246	420,000
President's Discretionary Grants Awarded	500,000	500,000	500,000	—	500,000
Totals	\$ 7,172,604	\$ 7,415,902	\$ 7,129,246	\$ 38,947	\$ 7,420,313

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

Other Financial Information (continued)

SCHEDULE OF PRESIDENT'S DISCRETIONARY GRANTS AWARDED

American Dental Education Association (ADEA)	\$ 35,000
American Foundation for Pharmaceutical Education	30,000
Association of Clinicians for the Underserved	5,000
Center for the Advancement of Health (State of the Arts, Inc.)	25,250
Clark University	35,000
Fund for Public Health in New York, Inc.	35,000
Global Health Education Consortium	25,000
Independent Production Fund, Inc. (Riverside Films)	35,000
Metropolitan New York Library Council	25,000
The National Center on Addiction and Substance Abuse (Columbia University)	35,000
NDRI USA, Inc.	24,750
The Opportunity Agenda	35,000
Physicians for Human Rights	25,000
Physicians for Peace	35,000
Thirteen/WNET, New York	20,000
Thirteen/WNET, New York	25,000
Tufts University	15,000
University of North Carolina at Chapel Hill	35,000
	<u>\$ 500,000</u>

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 assessed for 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, (generalizability) 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 equipment or 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 useful in helping the staff to determine whether submission of a full proposal is appropriate.

Grant proposals should be addressed to the president (hardcopy) and should include:

- the name of the sponsoring agency or institution and 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 most recent validation of the 501(c)(3) tax-exempt status of 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.

