Financial Report

Josiah Macy, Jr. Foundation Financial Statements

Fiscal Year

July 1, 2008 to June 30, 2009

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Contents

Independent Auditor's Report

To the Board of Directors of
Josiah Macy, Jr. Foundation

We have audited the accompanying statements of financial position of Josiah Macy, Jr. Foundation (a not-for-profit corporation) as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of the Organization. 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 of America. 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 Josiah Macy, Jr. Foundation as of June 30, 2009 and 2008, 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 of America.

Lutz + Carr, LLP

New York, New York
December 22, 2009

Statements of Financial Position

	2009	2008
Assets		
Cash and cash equivalents (Notes 1c and 9)	$ 2,870,743	$ 6,755,042
Investments, at fair value (Notes 1d and 3)	113,827,574	142,276,393
Accrued interest and dividends receivable	275,749	324,889
Prepaid expenses and other assets	110,641	244,195
Fixed assets, at cost, less accumulated depreciation (Notes 1e and 4)	4,736,966	2,527,140
Total Assets	$121,821,673	$152,127,659
Liabilities and Net Assets		
Liabilities		
Due to broker	$ 36,857	$ 360,423
Grants payable (Notes 1f and 5)	938,710	862,790
Accrued retirement benefits (Note 8)	5,358	2,850
Other accrued liabilities	301,595	176,893
Deferred federal excise tax (Note 2)	-	67,872
Total Liabilities	1,282,520	1,470,828
Net Assets		
Unrestricted	120,539,153	150,656,831
Total Liabilities and Net Assets	$121,821,673	$152,127,659

See notes to financial statements

Statements of Activities

	2009	2008
Revenue		
Interest on investments	$ 1,366,429	$ 1,667,466
Dividends on investments	1,570,590	1,580,710
Grant refunds and other	70,217	215
Total Revenue	3,007,236	3,248,391
Expenses (Note 7)		
Salaries	1,134,321	945,432
Employee benefits (Note 8)	301,059	356,746
Professional services	358,782	372,071
Equipment and minor improvements	63,588	96,505
Utilities, insurance and building maintenance	73,486	68,171
Other administrative expenses	345,443	337,006
Investment counsel and custodian fees	690,196	791,161
Depreciation	23,289	20,660
Provision for taxes (Note 2)		
Excise and unrelated business tax	25,000	57,250
Deferred	(67,872)	(183,002)
Grants and conferences, publications and program planning		
Medical and premedical education	3,189,346	4,921,794
Discretionary grants awarded	500,000	500,000
Conferences	298,509	123,913
Matching gift grants	332,394	300,376
Publications and program planning - net of refunds	327,531	333,626
Organizational dues	56,620	55,506
Total Expenses	7,651,692	9,097,215
Change in unrestricted net assets from operations	(4,644,456)	(5,848,824)
Net realized and unrealized loss on investments	(25,473,222)	(14,741,573)
Change in net assets	(30,117,678)	(20,590,397)
Net assets, beginning of year	150,656,831	171,247,228
Net Assets, End of Year	$120,539,153	$150,656,831

See notes to financial statements

Statements of Cash Flows

	2009	2008
Cash Flows From Operating Activities		
Change in net assets	$ (30,117,678)	$(20,590,397)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	23,289	20,660
Net realized and unrealized gain on investments	25,473,222	14,741,573
Credit for deferred federal excise tax	(67,872)	(183,002)
Changes in operating assets and liabilities		
Accrued interest and dividends receivable	49,140	(4,659)
Prepaid expenses and other assets	133,554	(214,625)
Grants payable	75,920	538,878
Accrued retirement benefits	2,508	237
Other accrued liabilities	124,209	(46,136)
Net Cash Used By Operating Activities	(4,303,708)	(5,737,471)
Cash Flows From Investing Activities		
Purchases of investments	(91,772,315)	(104,133,769)
Proceeds from sales of investments	94,424,346	111,141,299
Payment for fixed asset additions	(2,232,622)	(330,765)
Net Cash Provided By Investing Activities	419,409	6,676,765
Net increase (decrease) in cash and cash equivalents	(3,884,299)	939,294
Cash and cash equivalents, beginning of year	6,755,042	5,815,748
Cash and Cash Equivalents, End of Year	$ 2,870,743	$ 6,755,042

Supplemental Disclosure of Cash Flow Information		
Excise taxes paid	$ -	$ 160,000

See notes to financial statements

Notes to Financial Statements

Note 1 - <u>Organization and Summary of Significant Accounting Policies</u>

a - <u>Organization</u>
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.

b - <u>Net Assets Classification</u>
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.

c - <u>Cash and Cash Equivalents</u>
The Foundation considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

d - <u>Investments</u>
The Foundation was required to adopt Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"), effective July 1, 2008.

SFAS 157 clarifies that fair value is an estimate of the exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e., the exit price at the measurement date). Under SFAS 157, fair value measurements are not adjusted for transaction costs. SFAS 157 provides for use of a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three levels.

Unadjusted quoted prices in active markets for identical assets or liabilities are referred to as Level 1 inputs. Inputs other than quoted market prices that are observable, either directly or indirectly, and reasonably available are referred to as Level 2 inputs. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Foundation. Unobservable inputs reflect the assumptions developed by the Foundation based on available information about what market participants would use in valuing the asset or liability and are referred to as Level 3.

An asset or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Availability of observable inputs can vary and is affected by a variety of factors. Level 3 assets and liabilities involve greater judgment than Level 1 or Level 2 assets or liabilities.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

d - Investments (continued)
Investments in common stock, U.S. government and agency obligations, mutual funds and corporate obligations are classified within Level 1 of the fair value hierarchy. Fair value is determined using quoted market values.

Investments in certain alternative investments are classified within Level 2 of the fair value hierarchy. Fair value is determined by the general partners or management of the companies, based on quoted prices for similar assets.

Investments are classified within Level 3 of the fair value hierarchy because they trade infrequently (or not at all) and therefore have little or no readily available pricing. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available. Certain alternative investments are classified within Level 3 of the fair value hierarchy.

For positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability and such adjustments are generally based on available market information. In the absence of such evidence, management's best estimate is used.

The values assigned to these investments and any unrealized gains or losses are reported based on available information and do not necessarily represent amounts that might be realized if a ready market existed and such differences could be material. The ultimate realization of such amounts depends on future events and circumstances and therefore valuation estimates may differ from the value realized upon disposition of individual positions.

e - Fixed Assets
Buildings and furnishings are recorded at cost and are being depreciated using the straight-line method over the estimated useful lives of the assets ranging from 5 to 15 years.

f - 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

Note 1 - <u>Organization and Summary of Significant Accounting Policies</u> (continued)

g - <u>Expense Allocations</u>
Functional expenses which are not specifically attributable to program services or supporting services are allocated by management based on various allocation factors.

h - <u>Use of Estimates</u>
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.

i - <u>Subsequent Events</u>
The Foundation has evaluated subsequent events through December 22, 2009, the date that the financial statements are considered available to be issued.

Note 2 - <u>Income Tax Status</u>

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.

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 cash and investments. All such required qualifying distributions have been made through June 30, 2009.

Note 3 - Investments

The cost and fair value of investments at June 30, 2009 and 2008 were as follows:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Common stock	$ 38,151,017	$ 30,190,105	$ 38,732,125	$ 33,389,627
U.S. government and agency obligations	6,033,425	6,124,084	9,523,664	9,490,364
Corporate obligations	13,891,494	12,615,345	15,052,150	14,221,907
Mutual funds	24,102,591	19,438,933	22,872,573	20,445,048
Alternative investments	41,404,490	45,459,107	49,308,242	64,729,447
Total	$123,583,017	$113,827,574	$135,488,754	$142,276,393

In Fiscal 2009 and 2008, the Foundation had investments in alternative investments that include a limited partnership, a trust and offshore corporations. These investments are reported at fair value as determined by the general partner or management of the company. While these investments contain varying degrees of risk, the Foundation's risk is limited to its capital investment in each investment.

Investment fees of approximately $602,000 related to the alternative investments were netted against the unrealized appreciation in 2009. Such fees approximated $2,836,000 in 2008.

The following summarizes investments at June 30, 2009 by the levels within the fair value hierarchy used to measure their respective fair values:

	Fair Value	Level 1	Level 2	Level 3
Common stock	$ 30,190,105	$30,190,105	$ -	$ -
U.S. government and agency obligations	6,124,084	6,124,084	-	-
Corporate obligations	12,615,345	12,615,345	-	-
Mutual funds	19,438,933	19,438,933	-	-
Alternative investments	45,459,107	-	23,759,301	21,699,806
	$113,827,574	$68,368,467	$23,759,301	$21,699,806

Note 3 - Investments (continued)

The following summarized changes in fair value of the Foundation's Level 3 investments for the year ended June 30, 2009:

	Alternative Investments
Balance, July 1, 2008	$35,816,247
Realized gain	580,288
Unrealized loss	(11,079,333)
Purchases	382,604
Sales	(4,000,000)
Balance, June 30, 2009	$21,699,806

Note 4 - Fixed Assets

Fixed assets at June 30 consist of the following:

	2009	2008
Land	$1,922,700	$1,922,700
Buildings and improvements	1,291,072	1,281,672
Furniture and fixtures	134,023	79,446
Construction in progress (*)	2,627,079	457,941
Total fixed assets	5,974,874	3,741,759
Less: Accumulated depreciation	(1,237,908)	(1,214,619)
Fixed Assets, Net	$4,736,966	$2,527,140

(*) Construction in progress is expected to be completed in fiscal year 2010.

Notes to Financial Statements
Continued

Note 5 - **Grants and Conference Expense**

Grants (including conference costs) authorized by the Board of Directors were as follows:

	2009	2008
Beginning balance	$4,753,878	$7,420,313
Authorized	5,032,438	2,878,391
Paid	(4,244,328)	(5,425,201)
Lapsed	(177,970)	(119,625)
Ending Balance	$5,364,018	$4,753,878
Grants payable	$ 938,710	$ 862,790
Future installments of multi-year grants and conference expense authorized	4,425,308	3,891,088
	$5,364,018	$4,753,878

At June 30, 2009, the Foundation's Board of Directors had authorized grants of $4,454,018 to be paid in future years. Of this amount, $3,515,308 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.

Note 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 $1,019,500 and $1,982,818 were paid to these institutions during the years ended June 30, 2009 and 2008, respectively. At June 30, 2009 and 2008, $574,480 and $269,500, respectively, were payable to these institutions (see Note 5). The Board members abstain from voting on grants to institutions with which they have a relationship.

Note 7 - Functional Expenses

Functional expenses were incurred for:

	2009	2008
Program services	$5,470,476	$6,930,721
Management and general	2,181,216	2,166,494
	$7,651,692	$9,097,215

Note 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 $102,021 and $99,520 were charged to operating expense for the years ended June 30, 2009 and 2008, respectively.

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

Note 9 - Concentration of Credit Risk

The Foundation maintains its cash balances in The Bank of New York Mellon which at times may exceed federally insured limits. The balances are insured by the Federal Deposit Insurance Corporation or the Securities Investors Protection Corporation up to certain limits.

Note 10 - Line of Credit

In August 2008, the Foundation secured a $2,000,000 line of credit with The Bank of New York Mellon which expired on July 31, 2009. Advances on the line of credit provide for an interest rate based on either the prime rate, or the LIBOR rate plus 1.25%. There was no balance outstanding at June 30, 2009.

Note 11 - Fair Value of Financial Instruments

The provisions of Statement of Financial Accounting Standards No. 107, 'Disclosures about Fair Value of Financial Instruments', require disclosure of the fair value of financial instruments for which it is practicable to estimate the fair value. The fair value of investments has been presented in Note 3. The carrying amount of all other financial instruments approximates fair value because of their short maturity.