JOSIAH MACY JR. FOUNDATION

FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

LUTZ AND CARR
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INDEPENDENT AUDITORS' 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, 2012 and 2011, 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, 2012 and 2011, 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
October 17, 2012

JOSIAH MACY JR. FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2012 AND 2011

	2012	2011
Assets		
Cash and cash equivalents (Notes 1c and 9)	$ 7,386,349	$ 1,871,743
Investments, at fair value (Notes 1d, 1e and 3)	121,334,906	146,790,213
Due from broker	3,830,690	169,931
Accrued interest and dividends receivable	74,629	189,978
Prepaid expenses and other assets	67,648	125,644
Property and equipment, at cost, less accumulated depreciation (Notes 1f and 4)	5,321,306	4,885,149
Total Assets	$138,015,528	$154,032,658
Liabilities and Net Assets		
Liabilities		
Grants payable (Notes 1g and 5)	$ 635,794	$ 707,237
Other accrued liabilities	125,550	64,475
Deferred federal excise tax (Note 2)	84,288	269,073
Accrued retirement benefits (Note 8)	2,397	4,405
Total Liabilities	848,029	1,045,190
Net Assets		
Unrestricted	137,167,499	152,987,468
Total Liabilities and Net Assets	$138,015,528	$154,032,658

See notes to financial statements.

JOSIAH MACY JR. FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011 *
Revenue		
Interest on investments	$ 849,531	$ 1,023,263
Dividends on investments	1,369,614	1,050,930
Net realized and unrealized gain (loss) on investments	(9,461,738)	29,367,088
Investment counsel and custodian fees	(829,489)	(736,053)
Provision for taxes (Note 2):		
Current excise tax	(102,040)	(46,710)
Deferred excise (tax) benefit	184,785	(258,893)
Total Revenue (Loss)	(7,989,337)	30,399,625
Expenses (Note 7)		
Salaries	1,226,260	1,079,370
Employee benefits (Note 8)	269,703	236,790
Professional services	246,030	283,867
Equipment and minor improvements	65,895	52,348
Utilities, insurance and building maintenance	71,106	73,886
Travel	59,003	50,104
Director meetings expenses	52,926	40,211
Other administrative expenses	137,950	105,330
Depreciation	211,336	154,055
Grants and conferences and publications:		
Health professional education grants (Note 6)	3,776,551	4,228,694
Grant refunds	(17,784)	(19,773)
President's discretionary grants	500,000	500,000
Matching gift grants	181,765	159,750
Macy faculty scholars grants and related expenses	743,557	751,399
Conference expenses	167,579	198,441
Publications	100,785	98,103
Organizational dues	37,970	50,340
Total Expenses	7,830,632	8,042,915
Increase (decrease) in net assets	(15,819,969)	22,356,710
Net assets, beginning of year	152,987,468	130,630,758
Net Assets, End of Year	**$137,167,499**	**$152,987,468**

* Certain amounts have been reclassified for comparative purposes.

See notes to financial statements.

JOSIAH MACY JR. FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Cash Flows From Operating Activities		
Increase (decrease) in net assets	$ (15,819,969)	$ 22,356,710
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:		
Depreciation	211,336	154,055
Net realized and unrealized (gain) loss on investments	9,461,738	(29,367,088)
Provision for deferred federal excise tax	(184,785)	258,893
Changes in operating assets and liabilities:		
Accrued interest and dividends receivable	115,349	18,948
Prepaid expenses and other assets	57,996	(59,135)
Grants payable	(71,443)	(133,341)
Other accrued liabilities	5,004	(20,608)
Accrued retirement benefits	(2,008)	(2,595)
Net Cash Used By Operating Activities	(6,226,782)	(6,794,161)
Cash Flows From Investing Activities		
Purchases of investments	(86,713,101)	(89,949,611)
Proceeds from sales of investments	99,045,911	94,784,493
Payment for property and equipment additions	(591,422)	(78,064)
Net Cash Provided By Investing Activities	11,741,388	4,756,818
Net increase (decrease) in cash and cash equivalents	5,514,606	(2,037,343)
Cash and cash equivalents, beginning of year	1,871,743	3,909,086
Cash and Cash Equivalents, End of Year	$ 7,386,349	$ 1,871,743

See notes to financial statements.

JOSIAH MACY JR. FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

Note 1 - Organization and Summary of Significant Accounting Policies

a - 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 health professional education.

b - Net Assets Classification
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 - Cash and Cash Equivalents
For purposes of the statement of cash flows, the Foundation considers all unrestricted highly liquid debt instruments, purchased with a maturity of three months or less, to be cash equivalents, except for cash and short-term investments managed by the Foundation’s investment managers as part of their long-term investment strategies.

d - Fair Value
Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-based measurement. Generally accepted accounting principles establish a framework for measuring fair value which maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those the market participants would use in pricing the asset based on market date obtained from sources independent of the Foundation. Unobservable inputs reflect the Foundation's assumptions about the inputs market participants would use in pricing the asset developed based on the best information available in the circumstances. Fair value measurements are categorized into three levels as follows:

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 Inputs that are unobservable.

JOSIAH MACY JR. FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

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

d - Fair Value (continued)
A financial instrument'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.

e - Investments
The Foundation reflects investments with determinable fair values at their fair value in the statement of financial position. Unrealized gains and losses on investments are reflected in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

The Foundation’s alternative investments, which do not have readily determinable fair values, are reported based upon the underlying net asset value per share or its equivalent, which is estimated at fair value by the fund manager or general partner in a manner consistent with accounting principles generally accepted in the United States for investment companies. The Foundation reviewed and evaluated the values provided by the fund managers and general partners and agrees with the valuation methods and assumptions used in determining the net asset values of these investments. These estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed.

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds, as opposed to direct interests in those funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate fair value of the Fund’s interest therein, its classification in Level 2 or 3 is based on the Foundation's ability to redeem its interest at or near the measurement date. If the interests can be redeemed in the near term (within 90 days), the investment is classified as Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

f - Property and Equipment
Property and equipment are recorded at cost and are being depreciated using the straight-line method over the estimated useful lives of the assets ranging from five to forty years.

JOSIAH MACY JR. FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

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

g - 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.

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

i - 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.

j - Subsequent Events
The Foundation has evaluated subsequent events through October 17, 2012, the date that the financial statements are considered available to be issued.

Note 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, a federal excise tax of 1% or 2% is imposed on the net investment income of the Foundation.

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

JOSIAH MACY JR. FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

Note 2 - Income Tax Status (continued)

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, 2012.

Management evaluated all income tax positions, including the position that the Foundation is exempt from income taxes or not subject to income taxes on unrelated business income, and concluded that no disclosures relating to uncertain tax positions were required in the financial statements. The Foundation's tax returns for years prior to 2009 are no longer subject to examination by taxing authorities.

Note 3 - Investments

The cost and fair value of investments were as follows:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	$ 1,108,806	$ 1,108,806	$ 1,961,355	$ 1,961,355
Common stock	10,960,300	11,859,769	34,607,122	42,940,056
Fixed Income:				
U.S. government and agency obligations	11,284,834	11,404,812	7,186,323	7,340,758
Corporate obligations	2,897,873	3,082,708	9,074,119	9,330,894
Mutual funds - equity	15,233,338	17,174,015	24,264,413	30,335,102
Alternative Investments:				
Hedge funds	43,729,628	49,800,602	25,758,600	35,522,357
Global ex U.S. equity	18,228,215	17,523,015	17,030,949	19,359,691
Emerging markets equity	5,040,347	5,164,782	-	-
Commodities	4,422,781	4,216,397	-	-
Total	$112,906,122	$121,334,906	$119,882,881	$146,790,213

In Fiscal 2012 and 2011, the Foundation had investments in alternative investments that include limited partnerships, 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.

JOSIAH MACY JR. FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

Note 3 - Investments (continued)

Investment fees of approximately $1,384,879 related to the alternative investments were netted against the unrealized appreciation in 2012. Such fees approximated $1,642,000 in 2011.

The following summarizes the Foundation's investments carried at fair value by the levels within the fair value hierarchy used to measure their respective fair values:

	2012			
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 1,108,806	$ 1,108,806	$ -	$ -
Common stock	11,859,769	11,859,769	-	-
Fixed Income:				
U.S. government and agency obligations	11,404,812	11,404,812	-	-
Corporate obligations	3,082,708	3,082,708	-	-
Mutual funds - equity	17,174,015	17,174,015	-	-
Alternative Investments:				
Hedge Funds	49,800,602	-	27,384,752	22,415,850
Global ex U.S. Equity	17,523,015	-	17,523,015	-
Emerging markets equity	5,164,782	-	5,164,782	-
Commodities	4,216,397	-	4,216,397	-
	$121,334,906	$44,630,110	$54,288,946	$22,415,850

	2011			
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 1,961,355	$ 1,961,355	$ -	$ -
Common stock	42,940,056	42,940,056	-	-
Fixed Income:				
U.S. government and agency obligations	7,340,758	7,340,758	-	-
Corporate obligations	9,330,894	9,330,894	-	-
Mutual funds - equity	30,335,102	30,335,102	-	-
Alternative Investments:				
Hedge funds	35,522,357	-	15,031,603	20,490,754
Global ex U.S. Equity	19,359,691	-	19,359,691	-
	$146,790,213	$91,908,165	$34,391,294	$20,490,754

JOSIAH MACY JR. FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

Note 3 - Investments (continued)

The following summarizes the changes in fair value of the Foundation's Level 3 investments for the years ended June 30, 2012 and 2011:

	Level 3	
	2012	2011
Balance, July 1	$20,490,754	$18,049,135
Realized gain (loss)	(310,159)	309,980
Unrealized gain (loss)	(2,363,499)	2,968,276
Purchases	13,750,000	-
Sales	(5,669,850)	(836,637)
Transfer from Level 3 to Level 2	(3,481,396)	-
Balance, June 30	$22,415,850	$20,490,754

The Foundation recognizes transfers between levels of the fair value hierarchy on the date of the event or changes in circumstances that caused the transfer. There were no transfers to or from level 1.

The alternative investments included in the Foundation's investment portfolio at June 30, 2012 are redeemable based on the following terms and conditions:

Level 2		
Monthly with 5 - 30 days' notice	$26,904,194	
Quarterly with 30 days' notice	2,962,372	
Quarterly with 45 days' notice	5,701,270	
Quarterly with 60 - 65 days' notice	18,721,110	
		$54,288,946
Level 3		
Annually	8,223,490	
One year initial lockup; Quarterly with 45 days' notice	8,722,318	
One year initial lockup; Annually at anniversary of purchase with 45 days' notice	2,690,910	
Every two years at anniversary of purchase	2,779,132	
		22,415,850
		$76,704,796

JOSIAH MACY JR. FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

Note 3 - Investments (continued)

The following are descriptions of the investment strategies of the alternative investments:

Hedge Funds:	Invests in marketable alternative investment portfolios that span multiple strategies including long/short equity, arbitrage, relative value and geographic focused.
Emerging Markets Equity:	Invests in equity securities of companies located in emerging and frontier market countries.
Commodities:	Invests in commodities that include energy resources (coal, natural gas, oil), base metals (copper, steel, iron), precious metals (gold, silver, diamonds) and agricultural goods (corn, cotton, soybeans).
Global ex U.S. Equity:	Invests in equity securities of non-U.S. developed market small cap or mid-large cap companies. Some products may also have the flexibility to invest in emerging market and small cap equities.

Note 4 - Property and Equipment

Fixed assets at June 30 consist of the following:

	Life	2012	2011
Land		$1,922,700	$1,922,700
Buildings	40 years	1,291,072	1,291,072
Improvements	5 - 20 years	3,591,946	2,988,874
Furniture and fixtures	5 years	186,470	142,049
Website	5 years	62,000	62,000
Total		7,054,188	6,406,695
Less: Accumulated depreciation		(1,732,882)	(1,521,546)
Net Book Value		$5,321,306	$4,885,149

JOSIAH MACY JR. FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

Note 5 - <u>Grants Payable</u>

Grants payable as of June 30, 2012 and 2011 are payable within one year.

During the year ended June 30, 2012, the Foundation's Board of Directors had authorized grants of $3,856,722. Of this amount, $2,009,345 is to be paid in future years and 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. Total conditional grants to be paid in future years are $5,335,308.

Note 6 - <u>Related Parties</u>

Certain members of the Board of Directors of the Foundation have relationships with institutions that receive grants from the Foundation. Grants totaling $1,231,097 and $1,213,797 were paid to these institutions during the years ended June 30, 2012 and 2011, respectively. The Board members abstain from voting on grants to institutions with which they have a relationship.

Note 7 - <u>Functional Expenses</u>

Functional expenses were incurred for:

	2012	2011
Program services	$6,987,385	$7,176,311
Management and general	843,247	866,604
	$7,830,632	$8,042,915

JOSIAH MACY JR. FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

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 $106,676 and $99,521 were charged to operating expense for the years ended June 30, 2012 and 2011, 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 April 2011, the Foundation secured a $2,000,000 line of credit with The Bank of New York Mellon. The line of credit provides for an interest rate equal to the LIBOR rate plus 125 basis points. There was no outstanding balance as of June 30, 2012 and 2011.

Note 11 - Fair Value of Financial Instruments

Accounting standards 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.