JOSIAH MACY JR. FOUNDATION

FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

LUTZ AND CARR
CERTIFIED PUBLIC ACCOUNTANTS, LLP
300 EAST 42ND ST., NEW YORK, NY 10017
212-697-2299 Fax 212-949-1768

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Josiah Macy Jr. Foundation

We have audited the accompanying financial statements of Josiah Macy Jr. Foundation (a nonprofit corporation), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

LUTZ AND CARR
CERTIFIED PUBLIC ACCOUNTANTS, LLP

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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lutz + Carr, LLP

New York, New York
October 16, 2013

JOSIAH MACY JR. FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2013 AND 2012

	2013	2012
Assets		
Cash and cash equivalents (Notes 1c and 9)	$ 4,178,538	$ 7,386,349
Investments, at fair value (Notes 1d, 1e and 3)	134,360,932	121,334,906
Due from broker	-	3,830,690
Accrued interest and dividends receivable	15,657	74,629
Prepaid expenses and other assets	83,405	67,648
Property and equipment, at cost, less accumulated depreciation (Notes 1f and 4)	5,398,971	5,321,306
Total Assets	$144,037,503	$138,015,528
Liabilities and Net Assets		
Liabilities		
Grants payable (Notes 1g and 5)	$ 578,044	$ 635,794
Other accrued liabilities	70,755	125,550
Deferred federal excise tax (Note 2)	188,757	84,288
Accrued retirement benefits (Note 8)	4,490	2,397
Due to broker	19,398	-
Total Liabilities	861,444	848,029
Net Assets		
Unrestricted	143,176,059	137,167,499
Total Liabilities and Net Assets	$144,037,503	$138,015,528

See notes to financial statements.

JOSIAH MACY JR. FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012 *
Revenue		
Dividends and interest on investments	$ 1,583,231	$ 2,219,145
Net realized and unrealized gain (loss) on investments	14,009,687	(9,461,738)
Investment counsel and custodian fees	(795,549)	(829,489)
Provision for taxes (Note 2)		
Current excise tax	(41,055)	(102,040)
Deferred excise (tax) benefit	(104,469)	184,785
Total Revenue (Loss)	14,651,845	(7,989,337)
Expenses (Note 7)		
Salaries	1,367,240	1,226,260
Employee benefits (Note 8)	273,708	269,703
Professional services	277,807	246,030
Equipment and minor improvements	66,639	65,895
Utilities, insurance and building maintenance	69,795	71,106
Travel	83,162	49,370
Director meetings expense	53,107	52,926
Other administrative expenses	158,462	147,583
Depreciation	240,266	211,336
Grants and Conferences, and Publications		
Health professional education grants	3,762,814	3,776,551
Grant refunds	(144,489)	(17,784)
President's discretionary grants	499,608	500,000
Matching gift grants	181,710	181,765
Macy faculty scholars grants and related expenses	1,422,153	743,557
Conference expenses	144,888	167,579
Publications	148,445	100,785
Organizational dues	37,970	37,970
Total Expenses	8,643,285	7,830,632
Increase (decrease) in net assets	6,008,560	(15,819,969)
Net assets, beginning of year	137,167,499	152,987,468
Net Assets, End of Year	$143,176,059	$137,167,499

* 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, 2013 AND 2012

	2013	2012
Cash Flows From Operating Activities		
Increase (decrease) in net assets	$ 6,008,560	$ (15,819,969)
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:		
Depreciation	240,266	211,336
Net realized and unrealized (gain) loss on investments	(14,009,687)	9,461,738
Provision for deferred federal excise tax (benefit)	104,469	(184,785)
Changes in operating assets and liabilities:		
Accrued interest and dividends receivable	58,972	115,349
Prepaid expenses and other assets	(15,757)	57,996
Grants payable	(57,750)	(71,443)
Other accrued liabilities	1,276	5,004
Accrued retirement benefits	2,093	(2,008)
Net Cash Used By Operating Activities	(7,667,558)	(6,226,782)
Cash Flows From Investing Activities		
Purchases of investments	(58,146,533)	(86,713,101)
Proceeds from sales of investments	62,980,283	99,045,911
Payment for property and equipment additions	(374,003)	(591,422)
Net Cash Provided By Investing Activities	4,459,747	11,741,388
Net increase (decrease) in cash and cash equivalents	(3,207,811)	5,514,606
Cash and cash equivalents, beginning of year	7,386,349	1,871,743
Cash and Cash Equivalents, End of Year	$ 4,178,538	$ 7,386,349

See notes to financial statements.

JOSIAH MACY JR. FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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 that market participants would use in pricing the asset based on market data 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.

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 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 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, 2013 AND 2012

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 16, 2013, 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, 2013 AND 2012

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, 2013.

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 2010 are generally no longer subject to examination by taxing authorities.

Note 3 - Investments

The cost and fair value of investments were as follows:

	2013		2012	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Cash and cash equivalents	$ 840,592	$ 840,592	$ 1,108,806	$ 1,108,806
Common stock	9,709,000	12,680,191	10,960,300	11,859,769
Mutual Funds:				
Equity	23,502,640	28,085,126	15,233,338	17,174,015
Bonds	12,376,289	11,774,473	-	-
Fixed Income:				
U.S. government and agency obligations	848	890	11,284,834	11,404,812
Corporate obligations	-	-	2,897,873	3,082,708
Alternative Investments:				
Hedge funds	40,380,142	51,177,616	43,729,628	49,800,602
Global ex U.S. equity	17,089,156	18,788,063	18,228,215	17,523,015
Emerging markets equity	5,233,384	5,328,612	5,040,347	5,164,782
Commodities	6,353,154	5,685,369	4,422,781	4,216,397
Total	$115,485,205	$134,360,932	$112,906,122	$121,334,906

In Fiscal 2013 and 2012, the Foundation had investments in alternative investments that include limited partnerships, limited liability corporations and offshore corporations. 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 $1,733,000 related to the alternative investments were netted against the unrealized appreciation in 2013. Such fees approximated $1,151,000 in 2012.

JOSIAH MACY JR. FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 3 - Investments (continued)

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:

	2013			
	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 840,592	$ 840,592	$ -	$ -
Common stock	12,680,191	12,680,191	-	-
Mutual Funds:				
Equity	28,085,126	28,085,126	-	-
Bonds	11,774,473	11,774,473	-	-
U.S. government and agency obligations	890	890	-	-
Alternative Investments:				
Hedge funds	51,177,616	-	33,768,521	17,409,095
Global ex U.S. Equity	18,788,063	-	18,788,063	-
Emerging markets equity	5,328,612	-	5,328,612	-
Commodities	5,685,369	-	5,685,369	-
	$134,360,932	$53,381,272	$63,570,565	$17,409,095

	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	-	-
Mutual funds - equity	17,174,015	17,174,015	-	-
U.S. government and agency obligations	11,404,812	11,404,812	-	-
Corporate obligations	3,082,708	3,082,708	-	-
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

JOSIAH MACY JR. FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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, 2013 and 2012:

	Level 3	
	2013	2012
Balance, July 1	$22,415,850	$20,490,754
Realized gain (loss)	159,661	(310,159)
Unrealized gain (loss)	1,807,330	(2,363,499)
Purchases	2,750,000	13,750,000
Sales	(322,182)	(5,669,850)
Transfer from Level 3 to Level 2	(9,401,564)	(3,481,396)
Balance, June 30	$17,409,095	$22,415,850

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, 2013 and 2012 are redeemable based on the following terms and conditions:

	2013	2012
Level 2		
Monthly with 5 - 30 days' notice	$29,802,044	$26,904,194
Quarterly with 30 days' notice	3,148,978	2,962,372
Quarterly with 45 days' notice	16,273,651	5,701,270
Quarterly with 60 - 65 days' notice	14,345,892	18,721,110
Total Level 2	63,570,565	54,288,946
Level 3		
Annually	8,340,920	8,223,490
One year initial lockup; Annually at anniversary of purchase with 45 days' notice	2,932,038	2,690,910
Two year initial lockup; Annually with 45 days' notice	2,816,749	-
Every two years at anniversary of purchase	3,319,388	2,779,132
One year initial lockup; Quarterly with 45 days' notice	-	8,722,318
Total Level 3	17,409,095	22,415,850
Total	$80,979,660	$76,704,796

JOSIAH MACY JR. FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 3 - Investments (continued)

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

Hedge Funds:	Invests in marketable alternative investment portfolios that span multiple strategies including long/short equity, arbitrage, relative value and geographic focused.
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.
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).

Note 4 - Property and Equipment

Fixed assets at June 30 consist of the following:

	Life	2013	2012
Land		$1,922,700	$1,922,700
Buildings	40 years	1,291,072	1,291,072
Improvements	5 - 20 years	3,819,771	3,591,946
Furniture and fixtures	5 years	269,107	186,470
Website	5 years	69,469	62,000
Total		7,372,119	7,054,188
Less: Accumulated depreciation		(1,973,148)	(1,732,882)
Net Book Value		$5,398,971	$5,321,306

JOSIAH MACY JR. FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 5 - Grants Payable

Grants payable as of June 30, 2013 and 2012 are payable within one year.

During the year ended June 30, 2013 the Foundation's Board of Directors had authorized grants of $5,608,525. Of this amount, $3,541,430 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 $5,929,905.

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 $1,000,409 and $1,231,097 were paid to these institutions during the years ended June 30, 2013 and 2012, respectively. 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:

	2013	2012
Program services	$7,853,188	$6,987,385
Management and general	788,443	843,247
	$8,641,631	$7,830,632

Note 8 - Retirement Plan

The Foundation has a noncontributory employee retirement plan with Teachers Insurance and Annuity Association (TIAA-CREF) 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 $108,321 and $106,676 were charged to operating expense for the years ended June 30, 2013 and 2012, respectively.

JOSIAH MACY JR. FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 8 - Retirement Plan (continued)

In addition, the Foundation's employees have the option to participate in supplemental retirement plans with TIAA-CREF 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

The Foundation has a secured $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, 2013 and 2012.

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.