

# **The Robert Wood Johnson Foundation**

**Financial Statements**

**December 31, 2011 and 2010**

**The Robert Wood Johnson Foundation**  
**Index**  
**December 31, 2011 and 2010**

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	<b>Page(s)</b>
<b>Report of Independent Auditors</b> .....	1
<b>Financial Statements</b>	
Statements of Financial Position .....	2
Statements of Activities .....	3
Statements of Cash Flows .....	4
Notes to Financial Statements .....	5–20



## Report of Independent Auditors

To the Trustees of  
The Robert Wood Johnson Foundation:

In our opinion, the accompanying statement of financial position and the related statement of activities and cash flows present fairly, in all material respects, the financial position of The Robert Wood Johnson Foundation ("The Foundation") at December 31, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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 of these statements 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, 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.

*PricewaterhouseCoopers LLP*

May 25, 2012

**The Robert Wood Johnson Foundation**  
**Statements of Financial Position**  
**December 31, 2011 and 2010**

<i>(in thousands)</i>	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 220,449	\$ 357,970
Cash equivalents held as collateral	258,617	172,609
Investments at fair value		
Johnson & Johnson common stock	852,540	800,852
Other equity investments	7,118,615	6,803,393
Fixed income investments	376,631	971,353
Program related investments	7,584	8,318
Receivable on pending securities transactions	58,797	8,867
Interest and dividends receivable	931	4,136
Contributions receivable	10,437	9,653
Other assets	56,277	55,702
	<u>\$ 8,960,878</u>	<u>\$ 9,192,853</u>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 6,825	\$ 6,265
Payable under securities loan agreement	138,561	138,262
Payable on pending securities transactions	3,537	729
Unpaid grants	307,642	364,209
Deferred federal excise tax	31,384	31,544
Accrued postretirement benefit obligation	53,724	45,471
	<u>541,673</u>	<u>586,480</u>
Net assets		
Unrestricted	8,408,768	8,596,720
Temporarily restricted	10,437	9,653
	<u>8,419,205</u>	<u>8,606,373</u>
Total net assets	<u>8,419,205</u>	<u>8,606,373</u>
Total liabilities and net assets	<u>\$ 8,960,878</u>	<u>\$ 9,192,853</u>

The accompanying notes are an integral part of these financial statements.

**The Robert Wood Johnson Foundation**  
**Statements of Activities**  
**Years Ended December 31, 2011 and 2010**

<i>(in thousands)</i>	<b>2011</b>	<b>2010</b>
<b>Changes in unrestricted net assets</b>		
Support and revenue		
Investment income	\$ 132,361	\$ 111,935
Less: Federal and state tax	(745)	(584)
Investment expense	(57,994)	(49,291)
Contributions	1	16
	<u>73,623</u>	<u>62,076</u>
Program costs and administrative expenses		
Grants, net	326,708	254,882
Direct charitable activities	43,701	38,372
Program development and evaluation	29,629	30,944
General administration	19,817	18,645
	<u>419,855</u>	<u>342,843</u>
Excess of program costs and expenses over support and revenue	<u>(346,232)</u>	<u>(280,767)</u>
Other changes to unrestricted net assets, net of related federal and state tax		
Realized gains on sale of investments	310,632	147,126
Unrealized (depreciation) appreciation on investments	(147,086)	947,102
	<u>163,546</u>	<u>1,094,228</u>
Other changes in postretirement obligation	<u>(5,265)</u>	<u>(3,539)</u>
Change in unrestricted net assets	(187,951)	809,922
<b>Changes in temporarily restricted net assets</b>		
Change in value of charitable remainder trust	<u>783</u>	<u>(158)</u>
Change in net assets	(187,168)	809,764
Net assets, beginning of year	<u>8,606,373</u>	<u>7,796,609</u>
Net assets, end of year	<u>\$ 8,419,205</u>	<u>\$ 8,606,373</u>

The accompanying notes are an integral part of these financial statements.

**The Robert Wood Johnson Foundation**  
**Statements of Cash Flows**  
**Years Ended December 31, 2011 and 2010**

<i>(in thousands)</i>	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (187,168)	\$ 809,764
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	5,914	6,064
Net realized and unrealized gains on investments	(163,546)	(1,094,228)
Change in assets and liabilities		
Decrease (increase) in interest and dividends receivable	3,205	(839)
(Increase) decrease in contributions receivable	(784)	158
Decrease in program related investments	734	2,443
Increase (decrease) in accounts payable and accrued expenses	560	(3,033)
Increase in payable under securities loan agreement	299	-
Decrease in unpaid grants	(56,567)	(101,121)
Increase in accrued postretirement benefit obligation	8,253	6,546
(Increase) decrease in other assets	(679)	3,454
Net cash used in operating activities	<u>(389,779)</u>	<u>(370,792)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sales of investments	2,242,591	2,529,436
Cost of investments purchased	(1,984,522)	(2,058,134)
Acquisition of property and equipment	(5,811)	(4,202)
Net cash provided by investing activities	<u>252,258</u>	<u>467,100</u>
Net increase in cash and cash equivalents	(137,521)	96,308
<b>Cash and cash equivalents</b>		
Beginning of year	<u>357,970</u>	<u>261,662</u>
End of year	<u>\$ 220,449</u>	<u>\$ 357,970</u>
<b>Supplemental data</b>		
Federal and state taxes paid	\$ 4,904	\$ 71
Interest paid during the year	60	54

The accompanying notes are an integral part of these financial statements.

# The Robert Wood Johnson Foundation

## Notes to Financial Statements

### December 31, 2011 and 2010

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#### 1. Organization

The Foundation is an organization exempt from Federal income taxation under Section 501(c)(3) and is a private foundation as described in Section 509(a) of the Internal Revenue Code. The Foundation's mission is to improve the health and healthcare of all Americans. The Foundation focuses on pressing health and health care issues, and supports non-partisan programs to:

- Improve the quality of health care in the U.S. by measuring and reporting on quality, reducing disparities, and engaging consumers to make informed choices about their care.
- Promote new approaches to meet the health needs of low-income communities.
- Help reverse the epidemic of childhood obesity, particularly among children and families at greatest risk.
- Advance public awareness of health insurance coverage issues and the effects of health reform.
- Help revitalize public health systems, services and policies that protect, preserve and promote health.
- Create and promote innovations that may result in solutions at the cutting edge of health and health care.
- Foster leadership and skills development in the health and health care workforce.

#### 2. Summary of Significant Accounting Policies

##### **Basis of Presentation**

The accompanying financial statements are prepared on the accrual basis and in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Net Assets Accounting—The Foundation reports information regarding its financial position and activities according to the following two classes of net assets:

- Unrestricted net assets are not subject to donor-imposed stipulations or the restrictions have expired.
- Temporarily restricted net assets are subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation or that expire by the passage of time. Temporarily restricted net assets at December 31, 2011 and 2010 were solely related to a charitable remainder trust.

##### **Cash and Cash Equivalents**

Cash and cash equivalents represent cash and short term, liquid investments with an original maturity of three months or less, or amounts invested in registered money market funds.

##### **Investments**

Purchases and sales of securities are recorded on a trade date basis. Realized gains and losses on investments in securities are calculated based on the first-in, first-out method, and are reflected in the Statements of Activities. Dividend income is recorded on the ex-dividend date and interest income is recorded on an accrual basis.

# The Robert Wood Johnson Foundation

## Notes to Financial Statements

### December 31, 2011 and 2010

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Investments are recorded at estimated fair value in accordance with US GAAP, which established a framework used to measure fair value, and expanded disclosures about fair value measurements. Fair value is the amount that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price). The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ASC 820, previously known as SFAS 157, favors the use of market-based information over entity-specific information. The standard prescribes a three-level hierarchy for fair value measurements based on the transparency of information, such as the pricing source, used in the valuation of an asset as of the measurement date.

Investments measured and reported at fair value are classified and disclosed in one of the following categories.

- Level 1 - Quoted prices are available in active markets for identical investments as of the reporting date, without adjustment. Investments in this category include cash equivalents and publicly traded equities, publicly traded commingled funds, and publicly traded partnerships.
- Level 2 - Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the measurement date. Fair value is determined through the use of models or other valuation methodologies using publicly available inputs. Investments in this category include commingled funds that trade in less active markets, bond instruments, derivatives, mortgage backed securities and hedge funds reporting Net Asset Value ("NAV") and redeemable in the near term (90 days or less).
- Level 3 - Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. Investments in this category include privately held investments, hedge funds reporting NAV but which are not redeemable in the near term, and commingled funds whose inputs for valuation are not observable in the marketplace.

NAV is used as a practical expedient for commingled funds categorized in Level 2 and Level 3, privately held investments, and securities held in partnership format for which a readily determinable fair value is not available, unless the Foundation believes such NAV calculation is not measured in accordance with GAAP. These values may differ significantly from values that would have been used had a readily available market existed for such investments, and that difference could be material to the change in net assets of the Foundation.

The categorization of a financial instrument within the hierarchy is based upon pricing transparency and is not necessarily an indication of the Foundation's perceived risk of that instrument. See footnote 6 for a summary of assets by investment category and hierarchy level.

#### **Derivative Instruments Directly Owned**

The Foundation transacts in a variety of derivative instruments, including futures, options and forward contracts, primarily for trading purposes. Each instrument's primary risk exposure is related to interest rate, foreign exchange, and equity or commodity risk. The fair value of these derivative instruments, held in the Foundation's separately managed accounts, is included in the Statements of Financial Position. Their changes in fair value are reflected as realized gains (losses) or unrealized gains (losses) on investments within the Statements of Activities. Some

# **The Robert Wood Johnson Foundation**

## **Notes to Financial Statements**

### **December 31, 2011 and 2010**

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investment managers retained by the Foundation have been authorized to use certain financial derivative instruments in a manner set forth by either the Foundation's written investment policy, or through specific manager guidelines. Financial derivative instruments may be used for the following purposes: (1) currency forward contracts and options to hedge nondollar exposure in foreign investments, or to take positions in managed currency portfolios; (2) futures and options contracts to manage market exposures in managed portfolios.

Premiums received with respect to open options contracts at December 31, 2011 and 2010 were \$0 and \$2,338,943, respectively. The total value of investments pledged with respect to options and futures contracts at December 31, 2011 and 2010 was \$26,988,828 and \$34,167,391, respectively. The value of restricted cash held at brokers as collateral for variation margin at December 31, 2011 and 2010 was \$120,595,683 and \$22,567,047, respectively.

In the opinion of the Foundation's management, the use of financial derivative instruments in its investment program is appropriate and customary for the investment strategies employed, reducing certain investment risks. The instruments themselves, however, do involve investment and counterparty risk in amounts greater than what are reflected in the Foundation's financial statements. Management does not anticipate that losses, if any, from such instruments would materially affect the financial position of the Foundation.

#### **Cash Equivalents Held as Collateral**

Cash equivalents held as collateral represent short term, liquid investments with an original maturity of three months or less, or amounts invested in registered money market funds which are held as collateral for cash received pursuant to securities lending agreements, or cash collateral held by broker for variation margin.

#### **Payable Under Security Loan Agreement**

Payable under security loan agreement represents the fair market value of securities on loan pursuant to securities lending agreements.

#### **Receivable on Pending Securities Transactions**

Receivable for securities transactions include amounts due from the settlement of securities transactions for securities maintained with the custodian.

#### **Payable on Pending Securities Transactions**

Payable for securities transactions include amounts due for the settlement of securities transactions for securities maintained with the custodian.

#### **Foreign Currency Translation and Transactions**

Assets and liabilities denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of financial instruments, and their related income and expenses, are translated at the rate of exchange on the respective date of such transactions. Realized and unrealized gains and losses resulting from foreign currency changes are reflected in the Statements of Activities as a component of realized/unrealized gain and realized/unrealized depreciation on the respective investments.

#### **Property and Equipment**

Property and equipment are capitalized and carried at cost. Maintenance and repairs are charged to expense as incurred. Depreciation of approximately \$5.9 million and \$6.1 million in 2011 and 2010, respectively, was calculated using the straight-line method over the estimated useful lives of the depreciable assets.

# The Robert Wood Johnson Foundation

## Notes to Financial Statements

### December 31, 2011 and 2010

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#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. The Foundation makes significant estimates regarding the value of alternative investments, discounts for contributions receivable and unpaid grants, and useful lives of property and equipment. Actual results could differ from these estimates.

#### **3. Recent Accounting Pronouncements**

In May 2011, FASB issued new guidance on fair value measurement and disclosure requirements for GAAP that bring them into alignment with International Financial Reporting Standards ("IFRS"). The guidance requires enhanced disclosure on: (1) information about the sensitivity of a fair value measurement categorized within Level 3 of the fair value hierarchy to changes in unobservable inputs and any interrelationships between those unobservable inputs, (2) the use of a nonfinancial asset if it differs from the highest and best use assumed in the fair value measurement, and (3) the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position, but for which fair value of such items is required to be disclosed. The amended guidance is effective for annual periods beginning after December 15, 2011, and is to be applied prospectively.

In December 2011, FASB issued new guidance on offsetting assets and liabilities, which requires enhanced disclosure about certain financial and derivative instruments presented on the balance sheet on a net basis, and similar related arrangements. The disclosure will provide an understanding of the effect or potential effect of these arrangements on the financial statements. The amended guidance is effective for annual periods beginning on or after January 1, 2013.

Since the guidance is primarily limited to enhanced disclosures, adoption of these standards is not expected to have a material impact on the Foundation's financial statements.

#### **4. Taxes**

The Internal Revenue Service requires the Foundation to distribute within 12 months of the end of each year approximately 5% of the average fair value of its assets not used in carrying out the charitable purpose of the Foundation. The distribution requirement for 2011 and 2010 has been met.

The Internal Revenue Code imposes an excise tax on private foundations equal to 2% of net investment income (principally interest, dividends, and net realized capital gains, less expenses incurred in the production of investment income). This tax may be reduced to 1% for foundations that meet certain distribution requirements.

The provision for federal excise tax consists of a current provision on realized net investment income and a deferred provision on net unrealized appreciation of investments. The current provision for 2011 and 2010 on net investment income at 1% was approximately \$3.9 million and \$2.1 million, respectively. For 2011 and 2010, the change in unrealized appreciation reflected on the Statements of Activities includes a provision for deferred taxes based on net unrealized appreciation of investments at 2%. The (decrease) increase in unrealized appreciation in 2011 and in 2010 resulted in a change of the deferred federal excise tax liability of approximately (\$160,000) and \$19.0 million, respectively.

**The Robert Wood Johnson Foundation**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

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Deferred federal excise taxes are the result of unrealized appreciation on investments being reported for financial statement purposes in different periods than for tax purposes.

In 2011 and 2010, the Foundation was liable for federal and state unrelated business income tax in connection with its limited partnership interests. The Foundation paid or credited approximately \$404,000 and \$71,000 for this federal and state unrelated business income tax for 2011 and 2010, respectively.

**5. Contributions Receivable**

Contributions receivable at December 31, 2011 and 2010 of approximately \$10.4 million and \$9.7 million, respectively, represent the present value of the estimated future benefit to be received as a beneficiary in a charitable remainder trust. The interest rates used to discount the trust receivable to present value range from 1.9% to 6.5% at December 31, 2011 and 2010, respectively.

**6. Investments**

At December 31, 2011 and 2010, the cost and fair values of the investments are summarized as follows:

<i>(in thousands)</i>	<b>2011</b>		<b>2010</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
Johnson & Johnson common stock 13,000,000 shares in 2011 and 12,948,297 shares in 2010	\$ 11,063	\$ 852,540	\$ 7,733	\$ 800,852
Other equity investments				
Domestic equities	2,101,390	2,265,637	2,147,718	2,300,102
Global equities	1,341,712	1,366,869	1,144,991	1,376,632
Alternative investments-limited partnerships	3,117,990	3,486,109	2,736,182	3,126,659
Fixed income investments	291,540	376,631	918,856	971,353
	<u>\$ 6,863,695</u>	<u>\$ 8,347,786</u>	<u>\$ 6,955,480</u>	<u>\$ 8,575,598</u>

Included in Domestic equities at December 31, 2011 and 2010 were approximately \$134 million and \$133 million, respectively, of securities on loan pursuant to securities lending agreements. Cash collateral received for securities on loan was \$139 million and \$138 million at December 31, 2011 and 2010, respectively. Original collateral received on Domestic securities lent was at least 102% of market value. All cash collateral received is invested in approved money market and short term funds.

Pursuant to the limited partnership agreements of investee funds, as of December 31, 2011 and 2010, the Foundation had commitments of approximately \$1,340 million and \$1,350 million, respectively, which are expected to be funded over the next three to five years.

**The Robert Wood Johnson Foundation**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

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The Foundation purchases and sells forward currency contracts whereby the Foundation agrees to exchange one currency for another on an agreed-upon date at an agreed-upon exchange rate. At December 31, 2011 and 2010, the Foundation had open forward foreign currency contracts totaling approximately (\$5 million) and \$6 million, respectively. Such contracts involve, to varying degrees, the possible inability of counterparties to meet the terms of their contracts. Changes in the value of forward foreign currency contracts are recognized as unrealized gains and losses until such contracts are closed.

Financial instruments such as those described above involve, to varying degrees, elements of market risk and credit risk in excess of the amounts recorded on the balance sheet. For the Foundation, market risk represents the potential loss due to the decrease in the value of financial instruments; credit risk represents the maximum potential loss due to possible nonperformance of contract terms by obligors and counterparties.

Management does not anticipate that losses, if any, resulting from its market or credit risks would materially affect the financial position and operations of the Foundation.

The Foundation invests in a variety of fixed income securities and contractual instruments, which by their nature are interest rate sensitive. Changes in interest rates will affect the value of such securities and contractual instruments.

The net realized gains on sales of securities were as follows:

<i>(in thousands)</i>	<b>2011</b>	<b>2010</b>
Securities, net	\$ 314,178	\$ 148,684
Net, Federal and state tax	<u>(3,546)</u>	<u>(1,558)</u>
	<u>\$ 310,632</u>	<u>\$ 147,126</u>

**The Robert Wood Johnson Foundation**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

The following table summarizes the financial assets reported on the Foundation's Statements of Financial Position by caption and by level within the fair value hierarchy as of December 31, 2011:

<i>(in thousands)</i>	Unadjusted Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Cash equivalents	\$ 14,107	\$ 206,342	\$ -	\$ 220,449
Cash equivalents held as collateral	94,140	164,477		258,617
Commingled funds - equity oriented		793,870	182,249	976,119
Commingled funds - fixed income		340,293	247,039	587,332
Commingled funds - hedge funds		615,446	718,548	1,333,994
Commingled funds - public equity emerging markets	19,752	9,232	3,046	32,030
Commingled funds - public equity mid cap			7,275	7,275
Corporate bonds - public equity emerging markets		527		527
Derivatives - future equity		(8,995)		(8,995)
Derivatives - option equity		(4,752)		(4,752)
Derivatives - equity index swap		(8,420)		(8,420)
Derivatives - forward exchange*		(4,726)		(4,726)
Drawdown investments - below investment grade credit			833,438	833,438
Drawdown investments - private equity			2,458,143	2,458,143
Drawdown investments - real assets			943,192	943,192
International commingled funds	17,111	1,584		18,695
Johnson & Johnson common stock	852,540			852,540
Other bonds - fixed income		146,223	22,105	168,328
Other bonds - mortgage backed fixed income		549		549
Preferred security - credit			19,957	19,957
Public equity - mid cap	86,848			86,848
Public equity - small cap	997			997
Publicly traded partnerships	49,193			49,193
Registered mutual funds	775			775
US government and agency bonds		21		21
Grand Total	<u>\$ 1,135,463</u>	<u>\$ 2,251,671</u>	<u>\$ 5,434,992</u>	<u>\$ 8,822,126</u>

\* These financial assets are reported as either a receivable on pending securities transactions or a payable on pending securities transactions on the Statement of Financial Position.

The following table includes a roll forward of amounts for which the Foundation has classified within Level 3:

*(in thousands)*

<b>Balance at December 31, 2010</b>	<b>\$ 5,267,000</b>
Transfers out*	(145,758)
Transfers in*	214,912
Purchases	1,205,725
Sales	(1,449,451)
Realized gain/loss	376,667
Change in unrealized gain/loss	<u>(34,103)</u>
<b>Balance at December 31, 2011</b>	<b><u>\$ 5,434,992</u></b>

\* It is the Foundation's policy to recognize transfers between levels as of the end of the year. All transfers in and out of level 3 are due to change in liquidity terms of the underlying commingled

**The Robert Wood Johnson Foundation**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

funds. Commingled funds with a redemption notice period of greater than 90 days are classified as level 3 assets.

The amount included in the Statements of Activities for the period which is attributable to the change in unrealized gains related to level 3 assets still held at December 31, 2011 was approximately \$45 million.

The following table summarizes the financial assets reported on the Foundation's Statements of Financial Position by caption and by level within the fair value hierarchy as of December 31, 2010:

<i>(in thousands)</i>	Unadjusted Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Cash equivalents	\$ 14,267	\$ 343,703	\$ -	\$ 357,970
Cash equivalents held as collateral	385	172,224		172,609
Commingled funds - equity oriented		812,919	269,049	1,081,968
Commingled funds - fixed income	35,080	329,606	361,001	725,687
Commingled funds - hedge funds		631,094	523,440	1,154,534
Commingled funds - public equity emerging markets	49,955	12,309	9,226	71,490
Commingled funds - public equity mid cap	8,099			8,099
Corporate bonds - other		79,981		79,981
Corporate bonds - public equity emerging markets		1,820		1,820
Derivatives - future equity	595	4,271		4,866
Derivatives - swaps	22,567	15,407		37,974
Drawdown investments - below investment grade credit			949,676	949,676
Drawdown investments - private equity			2,444,406	2,444,406
Drawdown investments - real assets			669,620	669,620
International commingled funds	26,483	10,775		37,258
Johnson & Johnson common stock	800,852			800,852
Other bonds - fixed income		321,050	18,329	339,379
Other bonds - mortgage backed fixed income		606		606
Preferred security credit			22,253	22,253
Public equity - mid cap	100,575			100,575
Public equity - small cap	114			114
Publicly traded partnerships	43,060			43,060
Registered mutual funds	1,355			1,355
US government and agency bonds		26		26
Grand Total	<u>\$ 1,103,387</u>	<u>\$ 2,735,791</u>	<u>\$ 5,267,000</u>	<u>\$ 9,106,178</u>

The following table includes a roll forward of amounts for which the Foundation has classified within Level 3:

*(in thousands)*

<b>Balance at December 31, 2009</b>	<b>\$ 4,624,571</b>
Transfers out*	(522,281)
Transfers in*	351,806
Purchases	848,460
Sales	(880,162)
Realized gain/loss	146,226
Change in unrealized gain/loss	698,380
<b>Balance at December 31, 2010</b>	<b><u>\$ 5,267,000</u></b>

**The Robert Wood Johnson Foundation**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

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- \* It is the Foundation's policy to recognize transfers between levels as of the end of the year. All transfers in and out of level 3 are due to change in liquidity terms of the underlying commingled funds. Commingled funds with a redemption notice period of greater than 90 days are classified as level 3 assets.

The amount included in the Statements of Activities for the period which is attributable to the change in unrealized gains related to level 3 assets still held at December 31, 2010 was approximately \$661million.

**The Robert Wood Johnson Foundation**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

The Foundation uses Net Asset Value (NAV) to determine the fair value of all underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement policies of an investment company or have the attributes of an investment company. The following table lists Foundation investments in other investment companies by major category as of December 31, 2011:

<b>Category of Investment</b>	<b>Investment Strategy</b>	<b>Adjusted Fair Value Determined Using NAV (in 000's)</b>	<b>Number of Funds</b>	<b>Remaining Life</b>	<b>Unfunded Commitments (in 000's)</b>	<b>Redemption Terms</b>	<b>Redemption Restrictions and Terms</b>	<b>Redemption Restrictions and Terms in Place at Year End</b>
Drawdown Investments	Private Equity	\$ 2,458,143	187	1 to 10 years	\$ 735,312	n/a	n/a	n/a
	Real Assets	943,192	46	2 to 10 years	337,824	n/a	n/a	n/a
	Below Investment Grade Credit	833,438	52	1 to 5 years	267,163	n/a	n/a	n/a
Commingled Funds	Hedge Funds	1,333,994	29	n/a	n/a	Monthly, quarterly and annual redemptions with 3 -180 day written notice.	Two funds (\$152 million aggregate value) have remaining lockup periods of 1 - 2 years.	Two funds have gates on redemption. One has a 25% redemption cap and the other has a 10% redemption cap. Five funds are in liquidation and thirteen funds have less than 1% of their total fund size invested in side pockets, which are illiquid.
	Equity Oriented	976,119	21	n/a	n/a	Monthly, quarterly and annual redemptions, with 6 - 90 day written notice.	Three funds have remaining lockup periods of 1 - 2 years.	Six funds have investments in side pockets and those investments are illiquid.
	Fixed Income	587,332	16	n/a	n/a	Monthly, quarterly, semi-annual and annual redemptions, with 14 - 120 day written notice.	Four funds (\$54 million aggregate value) have no redemption during investment term; one fund (\$8 million) is winding down.	Two funds have indefinite gates on redemptions and two funds are in liquidation. Five funds have side pockets.
		<b>\$ 7,132,218</b>			<b>\$ 1,340,299</b>			

**The Robert Wood Johnson Foundation**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

The Foundation uses Net Asset Value (NAV) to determine the fair value of all underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement policies of an investment company or have the attributes of an investment company. The following table lists Foundation investments in other investment companies by major category as of December 31, 2010:

<u>Category of Investment</u>	<u>Investment Strategy</u>	<u>Adjusted Fair Value Determined Using NAV (in 000's)</u>	<u>Number of Funds</u>	<u>Remaining Life</u>	<u>Unfunded Commitments (in 000's)</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions and Terms</u>	<u>Redemption Restrictions and Terms in Place at Year End</u>
Drawdown Investments	Private Equity	\$ 2,444,406	181	1 to 10 years	\$ 681,480	n/a	n/a	n/a
	Real Assets	669,620	44	3 to 10 years	449,511	n/a	n/a	n/a
	Below Investment Grade Credit	949,676	50	1 to 8 years	219,274	n/a	n/a	n/a
Commingled Funds	Hedge Funds	1,154,534	29	n/a	n/a	Monthly, quarterly and annual redemptions with 3 -180 day written notice.	One fund (\$75 million aggregate value) has no redemption during investment term; seven funds have remaining lockup periods of 1 - 2 years.	Two funds have gates on redemption. One has a 25% redemption cap and the other has a 10% redemption cap. Five funds are in liquidation and thirteen funds have less than 1% of their total fund size invested in side pockets, which are illiquid.
	Equity Oriented	1,081,968	20	n/a	n/a	Monthly, quarterly and annual redemptions, with 6 - 90 day written notice.	Three funds have remaining lockup periods of 1 - 5 years.	Six funds have investments in side pockets and those investments are illiquid.
	Fixed Income	725,687	16	n/a	n/a	Monthly, quarterly, semi-annual and annual redemptions, with 14 - 120 day written notice.	Three funds (\$134 million aggregate value) have no redemption during investment term; one fund (\$8 million) is winding down.	Two funds have indefinite gates on redemptions and two funds are in liquidation. Five funds have side pockets.
		<u>\$ 7,025,891</u>			<u>\$ 1,350,265</u>			

**The Robert Wood Johnson Foundation**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

The following table summarizes the unrealized appreciation and unrealized depreciation reported on derivative financial instruments reported on the Statements of Financial Position at December 31, 2011:

(in thousands)

	<b>Gross Derivative Assets</b>		<b>Gross Derivative Liabilities</b>	
	<b>Notional/ Contractual Amount</b>	<b>Fair Market Value/ Unrealized Appreciation</b>	<b>Notional/ Contractual Amount</b>	<b>Fair Market Value/ Unrealized Depreciation</b>
Equity index swap contracts	213	\$ 296,270	(192)	\$ (304,690)
Option equity contracts	4	6,157	(4)	(10,909)
Future equity contracts	11,043	4,925	(690)	(13,921)
Forward exchange contracts	687,255	6,824	(818,024)	(11,550)
Total derivative designated as trading instruments on the Statements of Financial Position	698,515	\$ 314,176	(818,910)	\$ (341,070)

Notional amounts denominated in foreign currency have been converted into a U.S. dollar equivalent using the spot foreign currency exchange rate at December 31, 2011.

The following table summarizes the gains and losses reported in the Statements of Activities on derivative financial instruments designated as trading instruments for the year ended December 31, 2011:

	<b>Realized &amp; Unrealized Gain/Loss</b>
Equity index swap contracts	\$ (30,524)
Future index option contracts	(27,458)
Future equity contracts	(34,231)
Forward exchange contracts	(39,773)
Total derivative designated as trading instruments on the Statements of Activities	\$ (131,986)

The following table summarizes the unrealized appreciation and unrealized depreciation reported on derivative financial instruments reported on the Statements of Financial Position at December 31, 2010:

(in thousands)

	<b>Gross Derivative Assets</b>		<b>Gross Derivative Liabilities</b>	
	<b>Notional/ Contractual Amount</b>	<b>Fair Market Value/ Unrealized Appreciation</b>	<b>Notional/ Contractual Amount</b>	<b>Fair Market Value/ Unrealized Depreciation</b>
Option equity contracts	4	\$ 7,550	(4)	\$ (2,995)
Future equity contracts	418	5,727	(5,796)	(6,898)
Forward exchange contracts	377,881	22,074	(371,957)	(16,151)
Total derivative designated as trading instruments on the Statements of Financial Position	378,303	\$ 35,351	(377,757)	\$ (26,044)

**The Robert Wood Johnson Foundation**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

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The following table summarizes the gains and losses reported in Statements of Activities on derivative financial instruments for the year ended December 31, 2010:

	<b>Realized &amp; Unrealized Gain/Loss</b>
	<u>                    </u>
Option equity contracts	\$ 25,620
Future equity contracts	12,440
Forward exchange contracts	<u>28,172</u>
Total derivative designated as trading instruments on the Statements of Activities	<u>\$ 66,232</u>

**7. Property and Equipment**

At December 31, 2011 and 2010, property and equipment, a component of Other assets, consisted of:

<i>(in thousands)</i>	<b>Depreciable Life in Yrs.</b>	<b>2011</b>	<b>2010</b>
Land and land improvements	15	\$ 2,892	\$ 2,892
Buildings	40	51,566	51,505
Furniture and equipment	3-5	<u>20,734</u>	<u>18,696</u>
Total		75,192	73,093
Less, Accumulated depreciation and amortization		<u>(26,741)</u>	<u>(24,537)</u>
Property and equipment, net		<u>\$ 48,451</u>	<u>\$ 48,556</u>

**8. Unpaid Grants**

At December 31, 2011, the unpaid grant liability is expected to be paid in future years as follows:

<i>(in thousands)</i>	
2012	\$ 171,600
2013	102,478
2014	32,519
2015	11,767
2016 and thereafter	<u>2,753</u>
	321,117
Less: Discounted to present value	<u>(13,475)</u>
	<u>\$ 307,642</u>

**The Robert Wood Johnson Foundation**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

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For grants issued after January 1, 2009, the unpaid portion of future grant payments is recorded at fair value. For grants issued prior to December 31, 2008 the liability is recorded at the present value of estimated future cash flows. The Foundation discounted the amount of unpaid grant liability by applying interest rate factors ranging from 0.8% to 5.5% and an estimated cancellation rate of 3%. The risk-free rate of return is not materially different from the interest rate factors used. At December 31, 2011, the unpaid grant liability was discounted to present value by approximately \$13 million.

A significant component of the Foundation's program activity is accomplished through Program Authorizations ("Authorizations") and other appropriations. An Authorization is an approval of a designated amount to accomplish a specific programming objective through grant making and other program related activities. At December 31, 2011 and December 31, 2010, the gross unpaid grant liability and the remaining balance under approved authorizations and other appropriations were approximately \$624 million and \$719 million, respectively.

**9. Benefit Plans**

**Retirement Plans**

Substantially all employees of the Foundation are covered by two defined contribution retirement plans which provide for retirement benefits through a combination of the purchase of individually-owned annuities and cash payout. The Foundation's policy is to fund costs incurred. Pension expense amounted to approximately \$4.1 million for 2011 and 2010 under these plans.

**Postretirement Benefits**

The Foundation provides postretirement medical and dental benefits to all employees who meet eligibility requirements. The benefit obligation for 2011 and 2010 is summarized as follows:

<i>(in thousands)</i>	<b>2011</b>	<b>2010</b>
Benefit obligation at December 31	\$ (53,724)	\$ (45,471)
Fair value of plan assets at December 31	<u>-</u>	<u>-</u>
Funded status and accrued benefit obligation recognized in the statements of financial position	<u>\$ (53,724)</u>	<u>\$ (45,471)</u>

Amounts recognized in net assets as of December 31, 2011 and 2010 are as follows:

	<b>2011</b>	<b>2010</b>
Prior service credit	\$ 1,713	\$ 2,028
Accumulated (loss) gain	<u>(22,203)</u>	<u>(17,253)</u>
Change in net assets	<u>\$ (20,490)</u>	<u>\$ (15,225)</u>

**The Robert Wood Johnson Foundation**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

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Changes in unrestricted net assets as a result of actuarial gains/losses and amounts amortized for the years ended December 31, 2011 and 2010 are as follows:

	<b>2011</b>	<b>2010</b>
(Gains) or losses	\$ 5,588	\$ 3,850
Amortization of (gains) or losses	(639)	(627)
Amortization of prior service costs	316	316
Total change in unrestricted net assets	<u>\$ 5,265</u>	<u>\$ 3,539</u>

Information about assumptions as of December 31, 2011 and 2010 is as follows:

	<b>2011</b>	<b>2010</b>
Weighted-average assumptions		
Discount rate (benefit obligations)	4.50%	5.50%
Discount rate (net periodic costs)	5.50%	6.00%
Expected return on plan assets	N/A	N/A
Health care cost trend rate assumptions		
Trend rate for the next year	8.00%	8.00%
Ultimate trend rate	5.00%	5.00%
Year ultimate trend rate is reached	2023	2022

Benefit information for the years ended December 31, 2011 and 2010, is summarized as follows:

	<b>2011</b>	<b>2010</b>
Benefit cost	<u>\$ 4,580</u>	<u>\$ 4,537</u>
Employer contributions	\$ 1,592	\$ 1,531
Plan participants' contributions	<u>81</u>	<u>61</u>
Total benefits paid	<u>\$ 1,673</u>	<u>\$ 1,592</u>

The estimated future benefit payments are as follows:

2012	\$ 1,437
2013	1,559
2014	1,629
2015	1,797
2016	1,937
2017-2021	12,364

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 provides a prescription drug benefit under Medicare Part D as well as a Federal subsidy to employers whose plans provide an "actuarial equivalent" prescription drug benefit. Although the Foundation's

# The Robert Wood Johnson Foundation

## Notes to Financial Statements

### December 31, 2011 and 2010

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postretirement prescription drug benefits has been determined to qualify for this subsidy, the Plan does not intend to apply for the subsidy and so the actuarial valuation does not assume any current or future subsidy.

#### 10. Capital Lease Obligations

The Foundation has several noncancelable capital leases relating to computer hardware and office equipment. The future minimum rental payments required under these leases are as follows:

2012	\$	368
2013		237
2014		46
2015 & thereafter		<u>33</u>
		684
Less: Amounts representing interest		<u>(80)</u>
	\$	<u>604</u>

#### 11. Commitments and Contingencies

In June, 2011, the Foundation entered into an agreement with J.P. Morgan Chase Bank, N.A. for \$75 million and another separate \$75 million committed lines of credit, which expire on June 30, 2012 and June 30, 2013, respectively. The lines of credit are available for programmatic activities and administrative expenses. No amounts drawn on this line of credit are outstanding at December 31, 2011 and through May 25, 2012.

As part of its program related investment activities, the Foundation has entered into a guarantee arrangement with one grantee. The total outstanding guarantee was \$3.5 million at December 31, 2011 and 2010. The Foundation records a liability if it is likely that this guarantee will be called and the expected amount to be called can be estimated. No liability has been recorded at December 31, 2011 and 2010.

In addition, the Foundation has made commitments to provide low interest financing to not-for-profit institutions in furtherance of joint programmatic areas of interest. The outstanding amount of these commitments was \$10 million at December 31, 2011. No commitment amounts were outstanding at December 31, 2010.

#### 12. Subsequent Events

Management has performed an evaluation on subsequent events through May 25, 2012, the date the financial statements were available to be issued. Management has determined that there are no events which warrant disclosure in the Foundation's financial statements through May 25, 2012.