

Financial Statements

The annual financial statements for the Foundation for 2002 appear on pages 79 through 86. A listing of awards in 2002 begins on page 31.

In 2002 the net assets of the Foundation decreased 13.3 percent. Three factors contributed to this decline. First, the net return on the investment portfolio was negative 6.73 percent, primarily a reflection of the current economic conditions. Second, continuing a strategy of aggressive program development started last year, the Foundation awarded grants and contracts totaling \$556 million. This is the second largest award year in the Foundation's history. Third, the Foundation spent 5.6 percent of its average asset value, exceeding the 5 percent payout requirement mandated by the tax law governing private foundations.

At the same time that we were ramping up our program development activities, we focused inward on our internal expenditures. As a result, program development, evaluation, and general administration for the year were \$47.1 million or 8.5 percent of total awards. This represents a decrease of \$132,000 compared to last year.

Investment expenses totaled \$24.2 million, a decrease of \$1.5 million compared to last year. This decrease is due to lower management fees as a result of a reduced asset base due to market conditions, coupled with some consolidation of investment managers. Federal and state taxes amounted to \$6 million.

The Internal Revenue Code requires private foundations to make qualifying distributions of 5 percent of the fair market value of assets not used in carrying out the charitable purpose of the Foundation. These distributions are to be completed within twelve months of year-end. The Foundation has fulfilled its 2001 requirement of \$406.3 million. The 2002 requirement is approximately \$412 million.



Peter Goodwin
Vice President and Treasurer

Report of Independent Accountants

To the Trustees of
The Robert Wood Johnson Foundation:

In our opinion, the accompanying statements of financial position and the related statements 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, 2002 and 2001, 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. 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, which 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

New York, New York

February 10, 2003

Statements of Financial Position

<i>At December 31, 2002 and 2001 (in thousands)</i>	2002	2001
Assets:		
Cash and cash equivalents	\$ 388,123	\$ 359,413
Receivable on pending securities transactions	52,613	124,611
Interest and dividends receivable	11,576	13,358
Contributions receivable	14,069	14,364
Investments at fair value:		
Johnson & Johnson common stock	4,664,886	5,461,869
Other equity investments	2,071,722	2,233,721
Fixed income investments	730,733	760,126
Program related investments	11,468	12,860
Other assets	67,177	64,189
Total assets	\$ 8,012,367	\$ 9,044,511
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	\$ 6,502	\$ 8,720
Payable on pending securities transactions	160,006	179,586
Unpaid grants	671,874	580,531
Deferred federal excise tax	89,518	108,675
Accrued postretirement benefit obligation	12,331	10,050
Total liabilities	940,231	887,562
Net assets:		
Unrestricted	7,056,656	8,142,585
Temporarily restricted	15,480	14,364
Total net assets	7,072,136	8,156,949
Total liabilities and net assets	\$ 8,012,367	\$ 9,044,511

See notes to financial statements.

Statements of Activities

For the years ended December 31, 2002 and 2001 (in thousands)

	2002	2001
Changes in unrestricted net assets		
Investment income:	\$ 143,151	\$ 148,356
Less: Federal and state tax	1,186	1,244
Investment expense	24,184	25,719
	117,781	121,393
Contributions	—	450
	117,781	121,843
Program costs and administrative expenses:		
Grants, net	443,000	487,692
Program contracts and related activities	56,044	54,771
Program development and evaluation	24,269	24,709
General administration	22,799	22,491
	546,112	589,663
Excess of program costs and expenses over income	(428,331)	(467,820)
Other changes to unrestricted net assets, net of related federal and state tax:		
Realized gains on sale of securities	284,683	345,279
Unrealized (depreciation) appreciation on investments	(942,281)	14,354
	(657,598)	359,633
Change in unrestricted net assets	(1,085,929)	(108,187)
Changes in temporarily restricted net assets		
Contributions	1,726	—
Change in value of charitable remainder trust	(610)	683
Change in temporarily restricted net assets	1,116	683
Change in net assets	(1,084,813)	(107,504)
Net assets at beginning of year	8,156,949	8,264,453
Net assets at end of year	\$7,072,136	\$8,156,949

See notes to financial statements.

Statements of Cash Flows

<i>For the years ended December 31, 2002 and 2001 (in thousands)</i>	2002	2001
Cash flows from operating activities:		
Change in net assets	\$(1,084,813)	\$ (107,504)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	4,614	7,129
Net realized and unrealized (gains) losses on investments	657,598	(359,633)
Change in assets and liabilities:		
Decrease in interest and dividends receivable	1,782	1,345
Decrease in contributions receivable	295	1,317
Decrease in program related investments	1,392	951
Decrease in accounts payable and accrued expenses	(2,218)	(2,891)
Increase in unpaid grants	91,343	224,932
Increase in accrued postretirement benefit obligation	2,281	1,763
Increase in other assets	—	4,327
Net cash used in operating activities	(327,726)	(228,264)
Cash flows from investing activities:		
Proceeds from sales of investments	3,533,519	2,598,799
Cost of investments purchased	(3,169,481)	(2,251,249)
Acquisition of property and equipment	(7,602)	(33,791)
Net cash provided by investing activities	356,436	313,759
Net increase in cash and cash equivalents	28,710	85,495
Cash and cash equivalents at beginning of year	359,413	273,918
Cash and cash equivalents at end of year	\$ 388,123	\$ 359,413
Supplemental data:		
Federal and state taxes paid	\$ 5,056	\$ 8,574

See notes to financial statements.

Notes to Financial Statements

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 health care of all Americans. The Foundation concentrates its grantmaking in four goal areas:*

- to assure that all Americans have access to basic health care at reasonable cost;
- to improve care and support for people with chronic health conditions;
- to promote healthy communities and lifestyles; and
- to reduce the personal, social and economic harm caused by substance abuse—tobacco, alcohol and illicit drugs.

2. Summary of Significant Accounting Policies:

The accompanying financial statements are prepared on the accrual basis, which is in conformity with accounting principles generally accepted in the United States of America.

Cash and cash equivalents represent cash and short term investments purchased with an original maturity of three months or less. The carrying value approximates fair value.

Marketable securities are reported on the basis of quoted market value as reported on the last business day of the year on securities exchanges throughout the world. Realized gains and losses on investments in securities are calculated based on the first-in, first-out method.

Investments in limited partnership interests are stated at fair value based on financial statements and other information received from the partnerships. Fair value is the estimated net realizable value of holdings priced at quoted market value (where market quotations are available), historical cost or other estimates including appraisals. Because of the uncertainty of valuations for certain of the underlying investments which do not have quoted market values, the values for those investments could differ had a ready market existed. The realization of the Foundation's investment in these partnership interests is dependent upon the general partners' distributions during the life of each partnership.

Property and equipment are capitalized and carried at cost. Maintenance and repairs are charged to expense as incurred. Depreciation of \$4,613,564 in 2002 and \$7,129,001 in 2001 was calculated using the straight-line method over the estimated useful lives of the depreciable assets.

The Internal Revenue Service provides that each year the Foundation must distribute within 12 months of the end of such year, approximately 5 percent of the average fair value of its assets not used in carrying out the charitable purpose of the Foundation. The distribution requirement for 2001 has been met and the 2002 requirement is expected to be met during 2003.

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 January 2003, the Foundation revised our access and chronic health conditions goals to reflect our commitment to improving the quality of care available to all Americans. The two revised goal statements are: *to assure that all Americans have access to quality health care at reasonable cost* and *to improve the quality of care and support for people with chronic health conditions*.

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 include \$13,754,429 and \$14,364,453 at December 31, 2002 and 2001, respectively, related to a charitable remainder trust and \$1,726,000 at December 31, 2002 related to a special program to be conducted in 2003.

The preparation of financial statements in conformity with generally accepted accounting principles 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 limited partnership investments, discounts for contributions receivable and unpaid grants, and useful lives of property and equipment. Actual results could differ from these estimates.

The prior year financial statements have been reclassified to conform to the current year presentation. The principal reclassification was an increase in temporarily restricted net assets and a decrease in unrestricted net assets at December 31, 2001 relating to a contribution receivable in the amount of \$14,364,453.

3. Federal Taxes:

The Internal Revenue Code imposes an excise tax on private foundations equal to 2 percent of net investment income (principally interest, dividends, and net realized capital gains, less expenses incurred in the production of investment income). This tax is reduced to 1 percent for foundations that meet certain distribution requirements. In 2002 and 2001, the Foundation satisfied these requirements and is, therefore, eligible for the reduced rate.

In 2002 and 2001, the Foundation was liable for federal and state unrelated business income tax in connection with its limited partnership interests. The amount paid in 2002 was \$1,855,593 and 2001 was \$4,173,771.

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 2002 on net investment income at 1 percent was \$4,037,118. The current provision for 2001 at 1 percent was \$4,713,453. 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 percent. The decrease in unrealized appreciation in 2002 and increase in 2001 resulted in a change of the deferred federal excise tax liability of (\$19,156,391) and \$408,492, respectively.

4. Contributions Receivable:

Contributions receivable at December 31, 2002 and 2001 include \$13,754,429 and \$14,364,453 respectively, representing 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 6.0 percent to 6.5 percent at December 31, 2002 and 5.5 percent to 6.5 percent at December 31, 2001.

5. Investments:

At December 31, 2002 and 2001, the cost and fair values of the investments are summarized as follows (in thousands):

	2002		2001	
	Cost	Fair Value	Cost	Fair Value
Johnson & Johnson Common Stock 86,853,208 and 92,417,408 shares in 2002 and 2001, respectively	\$ 51,871	\$ 4,664,886	\$ 55,194	\$ 5,461,869
Other equity investments:				
Domestic equities	486,918	497,692	569,490	676,011
International equities	385,348	339,801	427,654	407,630
Limited partnership interests	1,295,796	1,234,229	1,128,105	1,150,080
Fixed income investments	714,697	730,733	782,601	760,126
	\$2,934,630	\$ 7,467,341	\$ 2,963,044	\$ 8,455,716

Included in Domestic equities and International equities at December 31, 2002 and 2001 are approximately \$8 million and \$14 million, respectively, of securities on loan pursuant to a securities lending agreement.

Pursuant to its limited partnership agreements, as of December 31, 2002 and 2001, the Foundation had commitments of approximately \$748 million and \$814 million, respectively, which are expected to be funded over the next three to five years.

The Foundation purchases and sells forward foreign currency contracts whereby the Foundation agrees to exchange one currency for another on an agreed-upon date at an agreed-upon exchange rate to minimize the exposure of certain of its investments to adverse fluctuations in currency markets. At December 31, 2002 and 2001, the Foundation had open forward foreign currency contracts with notional amounts totaling \$40.5 million and \$79.6 million, respectively. Included in the Statement of Financial Position at fair value are pending receivables of \$41,175,899 and pending payables of \$41,740,617, resulting in an unrealized loss of \$564,718 at December 31, 2002 and pending receivables of \$79,519,547 and pending payables of \$78,256,987, resulting in an unrealized gain of \$1,262,560 at December 31, 2001. 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 gain or losses until such contracts are closed.

The net realized gains on sales of securities for 2002 and 2001 were as follows (in thousands):

	2002	2001
Johnson & Johnson Common Stock	\$ 331,148	\$ 441,712
Other securities, net	(41,696)	(88,755)
Less, Federal and state tax	(4,769)	(7,678)
	\$ 284,683	\$ 345,279

6. Property and Equipment:

At December 31, 2002 and 2001, property and equipment, a component of other assets, consisted of (in thousands):

	2002	2001	Depreciable Life in Yrs.
Land and land improvements	\$ 2,677	\$ 2,671	15
Buildings	49,810	48,062	40
Furniture and equipment	14,941	10,605	3–5
Total	67,428	61,338	
Less, Accumulated depreciation	(6,674)	(2,060)	
Property and equipment, net	\$ 60,754	\$ 59,278	

7. Unpaid Grants:

At December 31, 2002 the unpaid grant liability is expected to be paid in future years as follows (in thousands):

2003	\$ 301,236
2004	246,614
2005	116,569
2006	52,110
2007 and thereafter	21,109
	737,638
Less, Discounted to present value	(65,764)
	\$ 671,874

Generally accepted accounting principles require contributions made (“unpaid grants”) to be recorded at the present value of estimated future cash flows. As of December 31, 2002, the Foundation has discounted the amount of unpaid grant liability by applying interest rate factors ranging from 5.0 percent to 6.5 percent and an estimated cancellation rate of 3 percent. At December 31, 2001, the unpaid grant liability was discounted to present value by \$59,925,109.

8. 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 \$2,897,943 and \$2,564,806 for 2002 and 2001, respectively, under these plans.

Postretirement Benefits

The Foundation provides postretirement medical and dental benefits to all employees who meet eligibility requirements. In addition, the Foundation has adopted supplemental benefit plans to provide additional benefits for certain key employees who meet certain requirements. The benefit obligation for 2002 and 2001 is summarized as follows (in thousands):

	2002	2001
Benefit obligation at December 31	\$ 14,762	\$ 11,760
Fair value of plan assets at December 31	—	—
Funded status	\$ (14,762)	\$ (11,760)
(Accrued) benefit cost recognized in the statement of financial position	\$ (12,331)	\$ (10,050)
Weighted-average assumptions as of December 31		
Discount rate:		
Medical and dental plans	6.50%	7.00%
Supplemental benefit plans	5.00%	5.50%
Expected return on plan assets	N/A	N/A

For measurement purposes, a 10.0 percent annual rate of increase in per capita cost of covered health care benefits was assumed for 2003. The rate was assumed to decrease gradually to 5.0 percent for 2010 and remain at that level thereafter. Benefit information for 2002 and 2001 is summarized as follows (in thousands):

	2002	2001
Benefit cost	\$ 2,635	\$ 3,650
Employer contributions	354	1,887
Plan participants' contributions	—	—
Benefits paid	354	1,887