

Financial Statements

The annual financial statements for the Foundation for 2003 appear on pages 65 through 72. A listing of awards in 2003 begins on page 27.

In 2003 the net assets of the Foundation increased 1.4 percent. Overall, our total fund return for the year was 6.48 percent (net). This performance was offset by the large amount of program payments to grantees and contractors in support of our mission. This past year was a high watermark in that regard, with program payments totaling \$441 million or 5.85 percent of our average asset value. When coupled with our program development, general administration and evaluation expenses (\$46.3 million), the Foundation spent 6.46 percent of its average asset value, substantially exceeding the 5 percent payout requirement mandated by the tax law governing private foundations.

Concurrent with the increase in our program payments, we continued to focus inward on our internal expenditures. As a result, general administration expenses for the year were \$20.8 million, a decrease of 9 percent compared to last year.

Investment expenses, comprised primarily of fees paid to outside investment managers, totaled \$24.5 million, an increase of \$319,000 compared to last year. Federal and state taxes amounted to \$5.7 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 2002 requirement of \$412 million. The 2003 requirement is approximately \$378 million.



Peter Goodwin
Vice President and Treasurer

REPORT OF INDEPENDENT AUDITORS

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, 2003 and 2002, 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 13, 2004

STATEMENTS OF FINANCIAL POSITION

At December 31, 2003 and 2002 (in thousands)

	2003	2002
Assets:		
Cash and cash equivalents	\$ 190,837	\$ 388,123
Receivable on pending securities transactions	32,875	52,613
Interest and dividends receivable	8,703	11,576
Contributions receivable	10,131	14,069
Investments at fair value:		
Johnson & Johnson common stock	4,158,589	4,664,886
Other equity investments	2,586,726	2,071,722
Fixed income investments	872,558	730,733
Program related investments	10,076	11,468
Other assets	63,266	67,177
Total assets	\$7,933,761	\$8,012,367
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 6,172	\$ 6,502
Payable on pending securities transactions	86,750	160,006
Unpaid grants	571,784	671,874
Deferred federal excise tax	87,913	89,518
Accrued postretirement benefit obligation	9,899	12,331
Total liabilities	762,518	940,231
Net assets:		
Unrestricted	7,161,112	7,056,656
Temporarily restricted	10,131	15,480
Total net assets	7,171,243	7,072,136
Total liabilities and net assets	\$7,933,761	\$8,012,367

See notes to financial statements.

STATEMENTS OF ACTIVITIES

For the years ended December 31, 2003 and 2002 (in thousands)

	2003	2002
Changes in unrestricted net assets		
Support and revenue:		
Investment income	\$ 150,525	\$ 143,151
Less: Federal and state tax	(1,288)	(1,186)
Investment expense	(24,503)	(24,184)
Contributions	11	—
Net assets released from restrictions	2,593	—
	127,338	117,781
Program costs and administrative expenses:		
Grants, net	285,107	443,000
Program contracts and related activities	55,399	56,044
Program development and evaluation	25,580	24,269
General administration	20,760	22,799
	386,846	546,112
Excess of program costs and expenses over income	(259,508)	(428,331)
Other changes to unrestricted net assets, net of related federal and state tax:		
Realized gains on sale of securities	446,758	284,683
Unrealized depreciation on investments	(82,794)	(942,281)
	363,964	(657,598)
Change in unrestricted net assets	104,456	(1,085,929)
Changes in temporarily restricted net assets		
Contributions	1,117	1,726
Change in value of charitable remainder trust	(3,873)	(610)
Net assets released from restrictions	(2,593)	—
Change in temporarily restricted net assets	(5,349)	1,116
Change in net assets	99,107	(1,084,813)
Net assets, beginning of year	7,072,136	8,156,949
Net assets, end of year	\$7,171,243	\$7,072,136

See notes to financial statements.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2003 and 2002 (in thousands)

	2003	2002
Cash flows from operating activities:		
Change in net assets	\$ 99,107	\$(1,084,813)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	5,650	4,614
Net realized and unrealized (gains) losses on investments	(363,964)	657,598
Change in assets and liabilities		
Decrease in interest and dividends receivable	2,873	1,782
Decrease in contributions receivable	3,938	295
Decrease in program related investments	1,392	1,392
Decrease in accounts payable and accrued expenses	(330)	(2,218)
(Decrease) increase in unpaid grants	(100,090)	91,343
(Decrease) increase in accrued postretirement benefit obligation	(2,432)	2,281
Decrease (increase) in other assets	979	(1,512)
Net cash used in operating activities	(352,877)	(329,238)
Cash flows from investing activities:		
Proceeds from sales of investments	3,498,223	3,533,519
Cost of investments purchased	(3,339,914)	(3,169,481)
Acquisition of property and equipment	(2,718)	(6,090)
Net cash provided by investing activities	155,591	357,948
Net (decrease) increase in cash and cash equivalents	(197,286)	28,710
Cash and cash equivalents at beginning of year	388,123	359,413
Cash and cash equivalents at end of year	\$ 190,837	\$ 388,123
Supplemental data:		
Federal and state taxes paid	\$ 5,745	\$ 5,056

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 quality health care at reasonable cost;
- to improve the quality of 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 \$5,650,312 in 2003 and \$4,613,564 in 2002 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 2002 has been met and the 2003 requirement is expected to be met during 2004.

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.

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 \$9,880,780 and \$13,754,429 at December 31, 2003 and 2002, respectively, related to a charitable remainder trust and \$250,000 and \$1,726,000 at December 31, 2003 and 2002, respectively, related to a special program.

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 limited partnership investments, discounts for contributions receivable and unpaid grants, and useful lives of property and equipment. Actual results could differ from these estimates.

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 2003 and 2002, the Foundation satisfied these requirements and is, therefore, eligible for the reduced rate.

In 2003 and 2002, the Foundation was liable for federal and state unrelated business income tax in connection with its limited partnership interests. The Foundation had no net liability for 2003. The amount paid in 2002 was \$1,855,593.

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 2003 on net investment income at 1 percent was \$5,758,728. The current provision for 2002 at 1 percent was \$4,037,118. 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 2003 and in 2002 resulted in a change of the deferred federal excise tax liability of (\$1,605,379) and (\$19,156,391), respectively.

4. Contributions Receivable:

Contributions receivable at December 31, 2003 and 2002 include \$9,880,780 and \$13,754,429 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 5.0 percent to 6.5 percent at December 31, 2003 and 6.0 percent to 6.5 percent at December 31, 2002.

5. Investments:

At December 31, 2003 and 2002, the cost and fair values of the investments are summarized as follows (in thousands):

	2003		2002	
	Cost	Fair Value	Cost	Fair Value
Johnson & Johnson Common Stock 80,499,208 and 86,853,208 shares in 2003 and 2002, respectively	\$ 48,076	\$ 4,158,589	\$ 51,871	\$ 4,664,886
Other equity investments				
Domestic equities	498,002	683,544	486,918	497,692
International equities	371,715	468,594	385,348	339,801
Alternative investments-limited partnerships	1,403,899	1,434,588	1,295,796	1,234,229
Fixed income investments	849,200	872,558	714,697	730,733
	\$ 3,170,892	\$ 7,617,873	\$ 2,934,630	\$ 7,467,341

Included in Domestic equities and International equities at December 31, 2003 and 2002 are approximately \$165 million and \$8 million, respectively, of securities on loan pursuant to a securities lending agreement.

Pursuant to its limited partnership agreements, as of December 31, 2003 and 2002, the Foundation had commitments of approximately \$801 million and \$748 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, 2003 and 2002, the Foundation had open forward foreign currency contracts with notional amounts totaling \$8.6 million and \$40.5 million, respectively. Included in the statement of financial position at fair value are pending receivables of \$8,853,246 and pending payables of \$8,992,275, resulting in an unrealized loss of \$139,029 at December 31, 2003 and 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. 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 2003 and 2002 were as follows (in thousands):

	2003	2002
Johnson & Johnson Common Stock	\$338,385	\$331,148
Other securities, net	112,830	(41,696)
Less, Federal and state tax	(4,457)	(4,769)
	\$446,758	\$284,683

6. Property and Equipment:

At December 31, 2003 and 2002, property and equipment, a component of other assets, consisted of (in thousands):

	2003	2002	Depreciable Life in Yrs.
Land and land improvements	\$ 2,761	\$ 2,677	15
Buildings	49,866	49,810	40
Furniture and equipment	17,519	14,941	3–5
Total	70,146	67,428	
Less, Accumulated depreciation	(12,324)	(6,674)	
Property and equipment, net	\$57,822	\$60,754	

7. Unpaid Grants:

At December 31, 2003 the unpaid grant liability is expected to be paid in future years as follows (in thousands):

2004	\$305,919
2005	158,563
2006	94,265
2007	47,532
2008 and thereafter	17,659
	623,938
Less, discounted to present value	(52,154)
	\$571,784

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, 2003, 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, 2002, the unpaid grant liability was discounted to present value by \$65,763,612.

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 \$3,027,579 and \$2,897,943 for 2003 and 2002, 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 had adopted supplemental benefit plans to provide additional benefits for certain key employees who met certain requirements. As of December 31, 2003, all amounts have been paid out on these supplemental benefit plans. The benefit obligation for 2003 and 2002 is summarized as follows (in thousands):

	2003	2002
Benefit obligation at December 31	\$ 13,659	\$ 14,762
Fair value of plan assets at December 31	—	—
Funded status	\$(13,659)	\$(14,762)
(Accrued) benefit cost recognized in the statement of financial position	\$ (9,899)	\$(12,331)

Weighted-average assumptions as of December 31

Discount rate:

Medical and dental plans 6.00% 6.50%

Supplemental benefit plans —% 5.00%

Expected return on plan assets N/A N/A

For measurement purposes, a 9.0 percent annual rate of increase in per capita cost of covered health care benefits was assumed for 2004. The rate was assumed to decrease gradually to 5.0 percent for 2010 and remain at that level thereafter. Benefit information for 2003 and 2002 is summarized as follows (in thousands):

	2003	2002
Benefit cost	\$1,849	\$2,635
Employer contributions	441	354
Plan participants' contributions	2	—
Benefits paid	443	354