
2006 Financial Statements

Table of Contents



Robert Wood Johnson Foundation

Letter From the Chief Financial Officer and Treasurer	2
Letter from the Chief Investment Officer	3
Report of Independent Auditors	5
FINANCIAL STATEMENTS	
Statements of Financial Position	6
Statements of Activities	7
Statements of Cash Flows	8
Notes to Financial Statements	9–14

2006 Financial Statements

Letter From the CFO and Treasurer



Robert Wood Johnson Foundation

In 2006 the Foundation's total assets surpassed \$10 billion, driven by a return of 14 percent on the Foundation's endowment. Net assets increased by 8.9 percent or \$760 million, reflecting the income and gains generated by our investment portfolio net of the costs associated with our charitable activities.

During 2006 the Foundation completed another active year of programming, awarding \$403 million in grants and contracts, up 9 percent compared with activity in 2005 (see statistical highlights). Program Development and Evaluation expenses and General Administration costs totaled \$51.3 million, a 4.4 percent increase over 2005 and reflective of the Foundation's efforts to contain costs as grantmaking expands.

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 Robert Wood Johnson Foundation completed its 2005 distribution requirement in 2006; the 2006 distribution requirement was met during the first quarter of 2007.

MARGARET H. EINHORN
CHIEF FINANCIAL OFFICER AND TREASURER

2006 Financial Statements

Letter from the Chief Investment Officer



Robert Wood Johnson Foundation

The Robert Wood Johnson Foundation's mission is to improve the health and health care of all Americans. In working to achieve this goal, we recognize, as part of our Guiding Principles, that as a private foundation, "We are stewards of private resources that must be used in the public's interest."

The Foundation was established as a national philanthropy in 1972 with a generous bequest of shares of Johnson & Johnson (J&J) from its chief executive, General Robert Wood Johnson. For most of our history, the Foundation's investments were held mainly in the form of shares in that company but, in recent years, we have substantially diversified our investment portfolio.

Because we focus our philanthropy on meeting many of our nation's most critical health challenges, our long-standing policy has been not to invest in companies whose products may conflict with our health and health care mission, namely those whose business is predominantly related to the manufacture or sale of tobacco, alcohol or firearms.

And because achieving comprehensive and meaningful change in health and health care will require sustained attention over many years to come, our Board of Trustees has established long-term guidelines for investment return and spending to spread risk and promote a steady, stable flow of support for our grantees.

As part of its actions to implement these policies, over the past several years the Foundation has further diversified its investment portfolio through a planned program of reduced holdings of J&J stock. Our current target asset allocation policy calls for:

- Between 60 percent and 70 percent in equity investments. Equity investments include J&J stock and other publicly traded securities, as well as investments in private equity limited partnerships. Our equity investments are in both U.S.-based and international companies.
- Between 22 percent and 32 percent in "alternative" asset classes. These asset classes include investments in below investment grade credit instruments, absolute return hedge funds, hedged long/short equity funds, real estate and a variety of commodity oriented investments, primarily in energy and related fields.
- Between 5 percent and 10 percent in investment grade bonds and short-term securities.

2006 Financial Statements

Letter from the Chief Investment Officer



Robert Wood Johnson Foundation

During 2006, the value of the Foundation's investment portfolio increased from \$9.4 billion to \$10.1 billion, reflecting an investment return of 14 percent.

The oversight, review and implementation of the investment policy are the responsibility of the Board of Trustees and its Investment Subcommittee. This subcommittee works closely with the Foundation's investment team to review investment activity and results and to consider modifications to the target asset allocation. The investment team retains outside investment organizations to manage the Foundation's assets, other than its holdings in J&J; those are overseen by the investment staff, except for a small managed sales program handled externally. As the Foundation's portfolio has become more diversified, we have added investment professionals to our staff to select and monitor the performance of these outside investment organizations. The Investment Subcommittee receives periodic reports from the investment team on the status of the portfolio.

BRIAN S. O'NEIL
CHIEF INVESTMENT OFFICER
OCTOBER 2007

2006 Financial Statements

Report of Independent Auditors



Robert Wood Johnson Foundation

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, 2006 and 2005, 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. 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

New York, NY

May 25, 2007

2006 Financial Statements

Statements of Financial Position



Robert Wood Johnson Foundation

At December 31, 2006 and 2005 (in thousands)

	2006	2005
Assets:		
Cash and cash equivalents	\$ 202,299	\$ 297,205
Cash held as collateral	206,803	156,976
Receivable on pending securities transactions	13,618	51,762
Interest and dividends receivable	16,624	8,266
Contributions receivable	12,438	11,017
Investments at fair value		
Johnson & Johnson common stock	3,696,018	3,807,684
Other equity investments	5,151,768	4,163,332
Fixed income investments	729,630	795,275
Program related investments	8,840	9,260
Other assets	56,646	58,584
Total assets	\$10,094,684	\$9,359,361
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 22,449	\$ 35,767
Payable under securities loan agreement	206,803	156,976
Payable on pending securities transactions	52,839	119,552
Unpaid grants	405,268	400,652
Deferred federal excise tax	86,172	88,076
Accrued postretirement benefit obligation	16,786	14,157
Total liabilities	790,317	815,180
Net assets:		
Unrestricted	9,291,929	8,533,164
Temporarily restricted	12,438	11,017
Total net assets	9,304,367	8,544,181
Total liabilities and net assets	\$10,094,684	\$9,359,361

See notes to financial statements.

2006 Financial Statements

Statements of Activities



Robert Wood Johnson Foundation

For the years ended December 31, 2006 and 2005 (in thousands)

	2006	2005
Changes in unrestricted net assets		
Support and revenue:		
Investment income	\$ 213,335	\$ 220,311
Less: Federal and state tax	(3,417)	(2,127)
Investment expense	(34,091)	(40,494)
Contributions	7	12
Net assets released from restrictions	517	450
	176,351	178,152
Program costs and administrative expenses:		
Grants, net	333,912	300,480
Program contracts and related activities	37,146	29,497
Program development and evaluation	30,411	27,980
General administration	20,858	21,114
	422,327	379,071
Excess of program costs and expenses over support and revenue	(245,976)	(200,919)
Other changes to unrestricted net assets, net of related federal and state tax:		
Realized gains on sale of securities	1,044,900	820,107
Unrealized (depreciation) appreciation on investments	(40,159)	(407,528)
	1,004,741	412,579
Change in unrestricted net assets	758,765	211,660
Changes in temporarily restricted net assets:		
Contributions	517	450
Change in value of charitable remainder trust	1,421	(361)
Net assets released from restrictions	(517)	(450)
Change in temporarily restricted net assets	1,421	(361)
Change in net assets	760,186	211,299
Net assets, beginning of year	8,544,181	8,332,882
Net assets, end of year	\$ 9,304,367	\$ 8,544,181

See notes to financial statements.

2006 Financial Statements

Statements of Cash Flows



Robert Wood Johnson Foundation

For the years ended December 31, 2006 and 2005 (in thousands)

	2006	2005
Cash flows from operating activities:		
Change in net assets	\$ 760,186	\$ 211,299
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	5,492	6,237
Net realized and unrealized (gains) on investments	(1,004,741)	(412,579)
Change in assets and liabilities		
Increase in interest and dividends receivable	(8,358)	(495)
(Increase) Decrease in contributions receivable	(1,421)	361
Decrease in program related investments	420	412
Increase (Decrease) in accounts payable and accrued expenses	(2,377)	(9,454)
Increase (Decrease) in unpaid grants	4,616	(43,858)
Increase in accrued postretirement benefit obligation	2,629	2,402
(Increase) Decrease in other assets	(67)	(131)
Net cash used in operating activities	(243,621)	(245,806)
Cash flows from investing activities:		
Proceeds from sales of investments	3,770,262	4,103,817
Cost of investments purchased	(3,607,117)	(3,803,043)
Acquisition of property and equipment	(3,489)	(4,099)
Net cash provided by investing activities	159,656	296,675
Cash flows from financing activities:		
(Decrease) Increase in book overdrafts	(10,941)	25,500
Net cash provided by financing activities	(10,941)	25,500
Net (decrease) increase in cash and cash equivalents	(94,906)	76,369
Cash and cash equivalents:		
Beginning of year	297,205	220,836
End of year	\$ 202,299	\$ 297,205
Supplemental data:		
Federal and state taxes paid	\$ 25,801	\$ 23,222
Assets acquired through capital leases	\$ —	\$ 574

See notes to financial statements.

2006 Financial Statements

Notes to Financial Statements



Robert Wood Johnson Foundation

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 stated value approximates fair value. Book overdrafts, representing cash accounts with negative book balances, are considered current liabilities. In this regard, book overdrafts of \$14.5 million at December 31, 2006 and \$25.5 million at December 31, 2005 were included in accounts payable in the accompanying balance sheet.

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. 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 Statement of Activities. Dividend income is recorded on the ex-dividend date and interest income is recorded on an accrual basis.

Alternative investments include investments in limited partnership funds (hedge funds and private equity). Alternative investment interests are stated at fair value based on financial statements and other information received from the funds. 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. The Foundation believes that the stated value of its alternative investments was a reasonable estimate of its fair value as of December 31, 2006 and 2005. However, alternative investments are not marketable and many alternative investments have underlying investments which do not have quoted market values. The estimated value is subject to uncertainty and could differ had a ready market existed. Such differences could be material. The amount of gain or loss associated with these investments is reflected in the accompanying financial statements using the equity method of accounting. Actual gains or losses are 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 approximately \$5.5 million in 2006 and \$6.2 million in 2005 was calculated using the straight-line method over the estimated useful lives of the depreciable assets.

2006 Financial Statements

Notes to Financial Statements



Robert Wood Johnson Foundation

The Internal Revenue Service requires the Foundation to distribute within 12 months of the end of each 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 2005 has been met and the 2006 requirement is expected to be met during 2007.

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 at December 31, 2006 and 2005, were solely related to a charitable remainder trust.

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 may be reduced to 1 percent 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 2006 and 2005 on net investment income at 2 percent was approximately \$24.6 million and \$9.5 million, respectively. 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 increase (decrease) in unrealized appreciation in 2006 and in 2005 resulted in a change of the deferred federal excise tax liability of approximately (\$1.9 million) and (\$8.3 million), respectively.

In 2006 and 2005 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 \$550,000 and \$2.5 million for this federal and state unrelated business income tax for 2006 and 2005, respectively.

4. Contributions Receivable

Contributions receivable at December 31, 2006 and 2005 include approximately \$12.4 million and \$11.0 million, 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 4.5 percent to 6.5 percent at December 31, 2006 and 2005, respectively.

2006 Financial Statements

Notes to Financial Statements



Robert Wood Johnson Foundation

5. Investments

At December 31, 2006 and 2005 the cost and fair values of the investments are summarized as follows (in thousands):				
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
Johnson & Johnson common stock 55,983,308 and 63,355,808 shares in 2006 and 2005, respectively	\$ 33,434	\$3,696,018	\$ 37,837	\$3,807,684
Other equity investments				
Domestic equities	1,816,493	2,034,872	1,664,812	1,937,403
International equities	436,570	657,184	490,938	663,580
Alternative investments-limited partnerships	2,125,153	2,459,712	1,303,525	1,562,349
Fixed income investments	744,896	729,630	807,427	795,275
	\$5,156,546	\$9,577,416	\$4,304,539	\$8,766,291

Other equity investments include approximately \$73 million and \$100 million transferred at year-end and held in non-interest bearing accounts and a money market account, respectively, by several limited partnerships pending investment subscription start dates of January 1, 2007.

Included in Domestic equities and International equities at December 31, 2006 and 2005 were approximately \$198 million and \$148 million, respectively, of securities on loan pursuant to a securities lending agreement. Cash collateral received for securities on loan was \$207 million and \$157 million at December 31, 2006 and 2005, respectively. Original collateral received on domestic and international securities lent was at least 102 percent of market value. All cash collateral received is invested in approved money market and short-term funds.

Pursuant to its limited partnership agreements, as of December 31, 2006 and 2005, the Foundation had commitments of approximately \$1,955 million and \$1,562 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, 2006 and 2005, the Foundation had open forward foreign currency contracts with notional amounts totaling \$650,000 and \$4.2 million, respectively. Included in the statement of financial position at December 31, 2006 at fair value were pending receivables and pending payables of approximately \$660,000 and \$680,000, respectively, and pending receivables and pending payables of approximately \$4.1 million at December 31, 2005. 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 or losses until such contracts are closed.

2006 Financial Statements

Notes to Financial Statements



Robert Wood Johnson Foundation

The net realized gains on sales of securities for 2006 and 2005 were as follows (in thousands):

	2006	2005
Johnson & Johnson common stock	\$ 460,441	\$ 427,603
Other securities, net	605,660	399,848
Less, Federal and state tax	(21,201)	(7,344)
	\$1,044,900	\$820,107

6. Property and Equipment

At December 31, 2006 and 2005 property and equipment, a component of other assets, consisted of (in thousands):

	Depreciable Life in Years	2006	2005
Land and land improvements	15	\$ 2,761	\$ 2,761
Buildings	40	50,135	49,935
Furniture and equipment	3-5	20,537	17,251
Total		73,433	69,947
Less, Accumulated depreciation and amortization		(21,882)	(16,391)
Property and equipment, net		\$51,551	\$53,556

7. Unpaid Grants

At December 31, 2006 the unpaid grant liability is expected to be paid in future years as follows (in thousands):

2007	\$ 156,249
2008	123,920
2009	78,258
2010	55,736
2011 and thereafter	36,198
	450,361
Less, discounted to present value	(45,093)
	\$405,268

Generally accepted accounting principles require the unpaid portion of future grant payments to be recorded at the present value of estimated future cash flows. As of December 31, 2006 the Foundation discounted the amount of unpaid grant liability by applying interest rate factors ranging from 4.4 percent to 6.5 percent and an estimated cancellation rate of 3 percent. At December 31, 2006 the unpaid grant liability was discounted to present value by approximately \$45.1 million.

2006 Financial Statements

Notes to Financial Statements



Robert Wood Johnson Foundation

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, 2006 and December 31, 2005 the gross unpaid grant liability and the remaining balance under approved authorizations and other appropriations were approximately \$868 million and \$865 million, respectively.

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 approximately \$3.6 million and \$3.4 million for 2006 and 2005, respectively, under these plans.

POSTRETIREMENT BENEFITS

The Foundation provides postretirement medical and dental benefits to all employees who meet eligibility requirements.

The benefit obligation for 2006 and 2005 is summarized as follows (in thousands):		
	2006	2005
Benefit obligation at December 31	\$ 22,363	\$ 20,077
Fair value of plan assets at December 31	—	—
Funded status	\$(22,363)	\$(20,077)
(Accrued) benefit cost recognized in the statement of financial position	\$(16,786)	\$(14,157)
Weighted-average assumptions used to determine obligations as of December 31		
Discount rate	6.00%	5.50%
Expected return on plan assets	N/A	N/A
The benefit information for 2006 and 2005 is summarized as follows (in thousands):		
	2006	2005
Benefit cost	\$ 3,426	\$ 2,977
Employer contributions	797	575
Plan participants' contributions	29	12
Benefits paid	826	587
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31		
Discount rate	5.50%	5.75%
Expected return on plan assets	N/A	N/A
Assumed health care cost trend rates at December 31		
Health care cost trend rate for the next year	9.00%	10.00%
Rate to which the cost trend rate is assumed to decline	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2013	2013

2006 Financial Statements

Notes to Financial Statements



Robert Wood Johnson Foundation

The estimated future benefit payments are as follows (in thousands):

2007	\$ 612
2008	640
2009	713
2010	793
2011	832
2012–2015	\$5,343

In December 2003 the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the “Act”) was signed in to law. The Act introduces 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. The Foundation’s postretirement prescription drug benefits should qualify for this subsidy. The Foundation will treat the effects of the Act as an actuarial gain upon adoption of the Financial Accounting Standards Board Staff Position No. 106-2, “Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003” as of December 31, 2006.

9. Capital Lease Obligations

The Foundation has several noncancellable capital leases relating to computer hardware and office equipment.

The future minimum rental payments required under these leases are as follows:

2007	\$ 195,177
2008	142,880
2009	134,724
2010	70,524
	543,305
Less amounts representing interest	(152,586)
	\$390,719

10. New Accounting Pronouncements

In September 2006 the FASB issued Statement of Financial Accounting Standards No. 158, Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132R (SFAS 158). This statement requires recognition of the overfunded or underfunded status of defined benefit pension and other postretirement plans (other than a multiemployer plan) as an asset or liability in the statement of financial position and to recognize changes in that funded status in the year in which the changes occur in unrestricted net assets. FASB 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position with limited exceptions. SFAS 158 also requires measurement of the funded status of a plan as of the date of the statement of financial position. The recognition provisions of SFAS 158 are effective for December 31, 2007, while the measurement date provisions are not effective until December 31, 2008. It is not expected that this statement will significantly affect the Foundations’ financial position.