



THE ROBERT WOOD JOHNSON FOUNDATION

Financial Statements

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Trustees
The Robert Wood Johnson Foundation:

We have audited the accompanying financial statements of The Robert Wood Johnson Foundation, which comprise the Statements of Financial Position as of December 31, 2019 and 2018, and the related Statements of Activities, Functional Expenses, and Cash Flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Robert Wood Johnson Foundation as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

June 26, 2020

THE ROBERT WOOD JOHNSON FOUNDATION

Statements of Financial Position

December 31, 2019 and 2018

(In thousands)

Assets	2019	2018
Cash and cash equivalents	\$ 353,370	321,619
Cash and cash equivalents held as collateral – restricted	106,487	69,538
Other investment related receivables	109,030	187,198
Investments:		
Johnson & Johnson common stock	1,896,310	1,677,650
Other investments	9,346,341	8,781,398
Program related investments, net	29,942	33,048
Charitable remainder trust	28,972	24,139
Fixed and other assets	41,134	42,787
Total assets	\$ <u>11,911,586</u>	<u>11,137,377</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 16,529	15,484
Payable under securities loan agreement	100,460	65,048
Payable on pending securities transactions	45,631	10,547
Unpaid grants, net	250,030	284,969
Current federal excise tax	8,378	13,268
Deferred federal excise tax	59,561	70,325
Accrued postretirement benefit obligation	132,892	100,980
Total liabilities	<u>613,481</u>	<u>560,621</u>
Net assets:		
Without donor restrictions	11,269,133	10,552,617
With donor restrictions	28,972	24,139
Total net assets	<u>11,298,105</u>	<u>10,576,756</u>
Total liabilities and net assets	\$ <u>11,911,586</u>	<u>11,137,377</u>

See accompanying notes to financial statements.

THE ROBERT WOOD JOHNSON FOUNDATION

Statements of Activities

Years ended December 31, 2019 and 2018

(In thousands)

	2019	2018
Net assets without donor restrictions:		
Operating activities:		
Investment income:		
Dividends	\$ 68,370	69,437
Interest	71,904	100,324
Net realized gains on sale of investments	430,379	378,637
Net unrealized appreciation (depreciation) on investments	763,176	(139,452)
Miscellaneous investment income	197	245
Total investment income	1,334,026	409,191
Investment expenses	72,465	64,685
Tax expense (benefit), net on investment income:		
Current	(778)	10,487
Deferred	(10,764)	(3,525)
Net investment income	1,273,103	337,544
Other income	43	46
Total net investment income and other support	1,273,146	337,590
Program costs and administrative expenses:		
Grants, net	396,565	424,339
Direct charitable activities	49,939	44,530
Program management	50,504	49,473
General management	27,783	26,014
Investments administration	2,960	2,267
Total program costs and administrative expenses	527,751	546,623
Change in net assets without donor restrictions from operating activities	745,395	(209,033)
Nonoperating activities:		
Change in provision for possible losses on program related investments	(1,746)	(659)
Other changes in postretirement benefit obligation	(24,173)	3,751
Net postretirement benefit cost, excluding service cost	(2,960)	(4,081)
Change in net assets without donor restrictions	716,516	(210,022)
Net assets with donor restrictions:		
Change in value of charitable remainder trust	4,833	(1,914)
Change in net assets	721,349	(211,936)
Net assets:		
Beginning of year	10,576,756	10,788,692
End of year	\$ 11,298,105	10,576,756

See accompanying notes to financial statements.

THE ROBERT WOOD JOHNSON FOUNDATION

Statements of Cash Flows

Years ended December 31, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 721,349	(211,936)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	5,445	5,658
Deferred federal excise tax	(10,764)	(3,525)
Change in provision for possible losses on program related investments	1,746	659
Net realized and unrealized gains on investments	(1,193,555)	(239,185)
Change in value of charitable remainder trust	(4,833)	1,914
Changes in operating assets and liabilities:		
Other assets	52	1,295
Accounts payable and accrued expenses	1,045	(148)
Unpaid grants, net	(34,939)	17,709
Current federal excise tax	(4,890)	3,792
Accrued postretirement benefit obligation	31,912	5,756
Net cash used in operating activities	<u>(487,432)</u>	<u>(418,011)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	2,115,215	1,633,752
Purchases of investments	(1,670,179)	(1,172,015)
Change in other investment related receivables	78,168	(15,276)
Change in payable under securities loan agreement	35,412	(51,156)
Loans disbursed for program related investments	(140)	(2,575)
Repayments of program related investments	1,500	954
Acquisition of property and equipment	(3,844)	(4,101)
Net cash provided by investing activities	<u>556,132</u>	<u>389,583</u>
Net increase (decrease) in cash and cash equivalents, including restricted cash	68,700	(28,428)
Cash and cash equivalents, including restricted cash:		
Beginning of year	<u>391,157</u>	<u>419,585</u>
End of year	\$ <u>459,857</u>	\$ <u>391,157</u>
Supplemental data:		
Federal and state taxes paid	\$ 10,747	7,547
Interest paid	29	24

See accompanying notes to financial statements.

THE ROBERT WOOD JOHNSON FOUNDATION

Notes to Financial Statements

December 31, 2019 and 2018

(1) Organization

The Robert Wood Johnson Foundation (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 vision is to work alongside others to build a national Culture of Health that provides everyone in America a fair and just opportunity for health and well-being.

The Foundation will support, fund, connect, and convene grantees and partners to make a Culture of Health a reality. Our aspirational and ambitious vision drives us to help build:

- A society where getting healthy and staying healthy is a fundamental and guiding social value that helps define American culture.
- An America in which all people – regardless of their ethnic, geographic, racial and socioeconomic circumstances – live longer, healthier lives.
- A nation where being healthy means more than simply not being sick – it means having a sense of well-being and personal fulfillment.
- A culture in which business, government, individuals, and organizations work together to foster healthy communities and lifestyles.
- A future in which everyone has an honest chance at access to good jobs with fair pay, good schools, affordable housing, safe neighborhoods, and quality medical care.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements are prepared on the accrual basis and in conformity with U.S. generally accepted accounting principles (GAAP).

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

- Net assets without donor restrictions are not subject to donor-imposed stipulations or the restrictions have expired and/or satisfied.
- Net assets with donor restrictions are subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation or that expire by the passage of time. Net assets with donor restrictions at December 31, 2019 and 2018 were solely related to a charitable remainder trust.

(b) Cash and Cash Equivalents

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

(c) Investments and Fair Value Measurement

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 the accrual basis.

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Notes to Financial Statements

December 31, 2019 and 2018

Investments are recorded at estimated fair value in accordance with 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) Topic 820, *Fair Value Measurement*, 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 assets or liabilities 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 or published net asset value (NAV) 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, certain commingled funds, and U.S. Treasury notes.
- 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 bond instruments and certain derivatives.
- Level 3 Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment.

NAV is used as a practical expedient for 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 fair value. 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 valuation process for investment funds are performed on a monthly basis by the investment managers, and the valuations reported are subject to review and analysis by the Foundation. In connection with this process, the Foundation reviews the details of the reported information obtained from the investment managers. When appropriate, valuations are adjusted for various factors and such factors are generally based on available market evidence. Consistent with the measurement principles of the Foundation's fair value policy, the Foundation, in consultation with the investment managers, may make adjustments to the NAV of various investment funds to reflect the best estimate of fair value, which will not be considered at NAV as a practical expedient.

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. Investments that are reported using NAV per share (or its equivalent) as a practical expedient have not been categorized in the hierarchy. The fair value amounts presented in the hierarchy are intended to permit

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December 31, 2019 and 2018

reconciliation of the fair value hierarchy to the amounts presented in the Statements of Financial Position. See note 5 for a summary of assets by investment category and hierarchy level.

(d) *Derivative Instruments Directly Owned*

The Foundation may engage in a variety of derivative instruments, including futures, options and forward contracts, primarily for trading purposes. An instrument's risk exposure can include interest rate, foreign exchange, equity or commodity, and counterparty 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.

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.

(e) *Program Related Investments*

The Foundation invests in projects that advance philanthropic purposes. These program related investments are generally below-market-rate loans. These loans are treated as qualifying distributions for tax reporting purposes when disbursed. Loans are recorded as assets and are monitored to determine net realizable value based on an evaluation of recoverability that utilizes experience and may reflect periodic adjustments to terms as deemed appropriate. Program related investments are recorded when disbursed.

(f) *Other Investment Related Receivables and Payables*

Other investment related receivables/(payables) include amounts from the settlement of securities transactions for securities maintained with the custodian and not yet credited to the Foundation's capital account as of year-end.

(g) *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 related changes are reflected in the Statements of Activities as a component of net realized gain (loss) and net unrealized appreciation (depreciation) on the respective investments.

(h) *Fixed Assets*

Fixed assets are capitalized and carried at cost. Maintenance and repairs are charged to expense as incurred. Depreciation of approximately \$5.4 million and \$5.7 million in 2019 and 2018, respectively, was calculated using the straight-line method over the estimated useful lives of the depreciable assets.

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(i) Grant Expense

Grant expense is recognized in the period the grant is awarded and the grantee has returned the memorandum of understanding, provided the grant is not subject to future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee substantially meets the terms of the conditions. Grants payable that are expected to be paid in future years are recorded at the present value of expected future payments.

(j) Presentation of Expenses on the Statements of Activities and Functional Expenses

The costs of providing support to the various programs and other activities have been allocated between grants, direct charitable activities, program management, general management, and investment administration in the accompanying Statements of Activities and Functional Expenses based on management's estimates of time spent by employees on various activities. Direct charitable activities are charitable efforts undertaken by the Foundation directly rather than through grants awarded to other organizations. Investment expenses reported on the Statements of Activities include those incurred directly by the Foundation and excludes investment manager fees which are recorded net of investment income on the Statements of Activities. Investment administration expenses support the investment function that are not directly attributable to investment strategy or oversight, including staff and office costs for investment recordkeeping and financial reporting; program management expenses support the development and monitoring of programmatic activities; general management expenses comprise the Foundation's other operational costs incurred to provide support services for the Foundation's primary mission and program functions.

(k) Upcoming Adoption of Accounting Standards

In June 2018, the FASB issued Accounting Standards Update (ASU) No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies how entities determine whether to account for a transfer of assets (or a reduction, settlement or cancellation of a liability) as an exchange transaction or a contribution based on whether commensurate value has been received or transferred. The new guidance also clarifies that a contribution is conditional if the agreement includes both a barrier that must be overcome for the recipient to be entitled to the assets transferred and a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets. The clarified guidance applies to all entities that receive or make contributions (grants). The new guidance is effective for the Foundation as a grant maker beginning January 1, 2020. The Foundation does not expect the standard to have a material effect on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its statement of financial position. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The new guidance is effective for the Foundation beginning January 1, 2022. The Foundation is currently evaluating the effect that ASU 2016-02 will have on its financial statements.

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(I) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Significant estimates made in the preparation of these financial statements include the estimated fair value of alternative investments, discount to present value of the charitable remainder trust and unpaid grants and valuation for the accrued postretirement benefit obligation. Actual results could differ from those estimates.

(3) 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 2019 and 2018 has been met.

Through December 31, 2019, the Foundation was subject to federal excise taxes imposed on private foundations at 2%, or at 1% if certain conditions are met. The excise tax is imposed on net investment income, as defined under federal laws, which includes interest, dividends, and net realized capital gains, less expenses incurred in the production of investment income.

Effective January 1, 2020, the Foundation will be subject to federal excise taxes at 1.39% under the Taxpayer Certainty and Disaster Tax Relief Act, which was signed into law on December 20, 2019. The Act simplifies the private foundation excise tax on net investment income by replacing the two-tier system (1% and 2%) with a flat rate of 1.39%.

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 2019 and 2018 on net investment income at 1% and 2%, respectively, was approximately \$(0.8) million and \$10.4 million, respectively.

Deferred federal excise taxes are the result of unrealized (depreciation) appreciation on investments being reported for financial statements purposes in different periods than for tax purposes. The increase (decrease) in unrealized appreciation (depreciation) in 2019 and in 2018 resulted in a change of the deferred federal excise tax liability of approximately \$(10.8) million and \$(3.5) million, respectively.

In 2019 and 2018, the Foundation was liable for federal and state unrelated business income tax in connection with its limited partnership interests. The Foundation paid approximately \$0.6 million and \$1.0 million for this federal and state unrelated business income tax expense for 2019 and 2018, respectively, and received refunds of approximately \$6.8 million and \$0.9 million for this federal and state unrelated business income tax expense for 2019 and 2018, respectively.

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Notes to Financial Statements

December 31, 2019 and 2018

(4) Charitable Remainder Trust

At December 31, 2019 and 2018, approximately \$28.9 million and \$24.1 million, respectively, including the change in value of charitable remainder trust of \$4.8 million and \$(1.9) million for the years ended December 31, 2019 and 2018, respectively, represent the present value of the estimated future benefit to be received as a beneficiary in a charitable remainder trust and is considered a Level 3 financial asset in accordance with FASB ASC 820. The interest rates used to discount the trust receivable to present value range from 1.8% to 6.5% at December 31, 2019 and 2018.

(5) Investments

The following table summarizes the financial assets reported on the Foundation's Statements of Financial Position by caption as of December 31, 2019 (in thousands):

	Unadjusted quoted and published market prices (Level 1)	Significant other observable inputs (Level 2)	Investments measured at NAV	Total
Derivatives – forward exchange*	\$ —	187	—	187
Investments:				
Commingled funds – below investment grade credit	—	—	1,347	1,347
Commingled funds – equity oriented	—	—	1,197,328	1,197,328
Commingled funds – fixed income	—	—	4,127	4,127
Commingled funds – multi-strategy hedge funds	134,870	—	1,835,936	1,970,806
Derivatives – futures	(1,443)	—	—	(1,443)
Derivatives – options	—	6,678	—	6,678
Drawdown investments – below investment grade credit	—	—	1,186,774	1,186,774
Drawdown investments – private equity	—	—	3,572,075	3,572,075
Drawdown investments – real assets	—	—	567,498	567,498
Johnson & Johnson common stock	1,896,310	—	—	1,896,310
Public credit	11,714	—	—	11,714
Public equity	324,956	—	—	324,956
U.S. government and agency bonds	396,815	107,666	—	504,481
Total investments	<u>2,763,222</u>	<u>114,344</u>	<u>8,365,085</u>	<u>11,242,651</u>
Grand total	<u>\$ 2,763,222</u>	<u>114,531</u>	<u>8,365,085</u>	<u>11,242,838</u>

* These financial instruments are reported as payable on pending securities transactions on the Statements of Financial Position.

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Notes to Financial Statements

December 31, 2019 and 2018

The following table summarizes the financial assets reported on the Foundation's Statements of Financial Position by caption as of December 31, 2018 (in thousands):

	Unadjusted quoted and published market prices (Level 1)	Significant other observable inputs (Level 2)	Investments measured at NAV	Total
Derivatives – forward exchange*	\$ —	2,477	—	2,477
Investments:				
Commingled funds – below investment grade credit	—	—	116,128	116,128
Commingled funds – equity oriented	—	—	955,447	955,447
Commingled funds – fixed income	—	—	6,027	6,027
Commingled funds – multi-strategy hedge funds	114,005	—	1,768,991	1,882,996
Derivatives – futures	2,734	—	—	2,734
Derivatives – options	—	9,087	—	9,087
Drawdown investments – below investment grade credit	—	—	1,094,186	1,094,186
Drawdown investments – private equity	—	—	3,226,067	3,226,067
Drawdown investments – real assets	—	—	673,924	673,924
Johnson & Johnson common stock	1,677,650	—	—	1,677,650
Public equity	241,239	—	—	241,239
U.S. government and agency bonds	300,557	265,995	—	566,552
Warrants	—	7,011	—	7,011
Total investments	<u>2,336,185</u>	<u>282,093</u>	<u>7,840,770</u>	<u>10,459,048</u>
Grand total	<u>\$ 2,336,185</u>	<u>284,570</u>	<u>7,840,770</u>	<u>10,461,525</u>

* These financial instruments are reported as payable on pending securities transactions on the Statements of Financial Position.

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Notes to Financial Statements

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Included in investments at December 31, 2019 and 2018 is approximately \$100.5 million and \$65.0 million, respectively, of securities on loan pursuant to securities lending agreements. Original collateral received on global securities lent was at least 103% of market value. All cash collateral received is invested in approved money market and short term funds (considered Level 1 in accordance with FASB ASC 820) and is recorded as cash and cash equivalents held as collateral – restricted on the Statements of Financial Position.

Pursuant to the limited partnership agreements of investee funds, as of December 31, 2019 and 2018, the Foundation had commitments of approximately \$2.3 billion and \$2.2 billion, respectively, which are expected to be funded over the next ten years.

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, 2019 and 2018, the Foundation had open forward foreign currency contracts at fair value totaling approximately \$0.2 million and \$2.5 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 net 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 Statements of Financial Position. For the financial instruments, credit risk represents the potential loss due to possible nonperformance of contract terms by obligors and counterparties. 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.

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Notes to Financial Statements

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The Foundation uses NAV to determine the fair value of certain investments by major category as of December 31, 2019:

<u>Category of investment</u>	<u>Investment strategy</u>	<u>Determined using NAV</u> (In thousands)	<u>Number of funds</u>	<u>Remaining life</u>	<u>Unfunded commitments</u> (In thousands)	<u>Redemption terms</u>	<u>Redemption restrictions and terms</u>	<u>Restrictions and terms in place at year-end</u>
Draw down investments	Private equity	\$ 3,572,075	271	1 to 10 years	\$ 1,025,868	n/a	n/a	n/a
	Real assets	567,498	68	1 to 10 years	374,138	n/a	n/a	n/a
Commingled funds	Below investment grade credit	1,186,774	92	1 to 10 years	912,046	n/a	n/a	n/a
	Multistrategy hedge funds	1,835,936	33	n/a	—	Monthly (26%), quarterly (43%), biannually (5%), and annual (26%) redemptions with 4–180-day written notice.	Three funds (\$139.7 million) have remaining lockups through June 2020.	One fund has a 20% fund level gate on redemptions and two funds have 25% fund level gates on redemptions. Four funds have investor level gates aggregating to \$492.9 million. Six funds have side pockets aggregating to \$4.5 million.
	Below investment grade credit	1,347	2	n/a	—	Monthly (100%) with 15 day written notice.	None of these funds have remaining lockups.	None of these funds have gates in place.
	Equity oriented	1,197,328	8	n/a	—	Monthly (32%) and quarterly (68%) redemptions, with 6–90-day written notice.	None of these funds have remaining lockups.	None of these funds have gates in place.
	Fixed income	4,127	9	n/a	—	Quarterly (30%), annual (45%), and no redemption term (25%), with 90-120-day written notice.	Two funds (\$1.0 million aggregate value) (24%) have no redemption during the investment term.	None of these funds have gates in place. Five funds have side pockets aggregating \$1.2 million.
		<u>\$ 8,365,085</u>	<u>483</u>		<u>\$ 2,312,052</u>			

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December 31, 2019 and 2018

The Foundation uses NAV to determine the fair value of certain investments by major category as of December 31, 2018:

Category of investment	Investment strategy	Determined using NAV (In thousands)	Number of funds	Remaining life	Unfunded commitments (In thousands)	Redemption terms	Redemption restrictions and terms	Restrictions and terms in place at year-end
Draw down investments	Private equity	\$ 3,226,067	258	1 to 10 years	\$ 957,890	n/a	n/a	n/a
	Real assets	673,924	64	1 to 10 years	315,180	n/a	n/a	n/a
Commingled funds	Below investment grade credit	1,094,186	84	1 to 7 years	915,619	n/a	n/a	n/a
	Multistrategy hedge funds	1,768,991	37	n/a	53,091	Monthly (21%), quarterly (50%), biannually (5%), and annual (24%) redemptions with 4–180-day written notice.	None of these funds have remaining lockups.	One fund has a 20% fund level gate on redemptions and three funds have 25% fund level gates on redemptions. Four funds have investor level gates aggregating to \$261.4 million. Seven funds have side pockets aggregating to \$5.2 million.
	Below investment grade credit	116,128	2	n/a	—	Monthly (74%) and quarterly (26%) redemptions, with 15–90-day written notice.	One fund (\$30 million) (26%) has a lockup through September 2019.	None of these funds have gates in place.
	Equity oriented	955,447	9	n/a	—	Monthly (28%) and quarterly (72%) redemptions, with 6–90-day written notice.	None of these funds have remaining lockups.	None of these funds have gates in place.
	Fixed income	6,027	9	n/a	—	Quarterly (31%), annual (28%), and no redemption term (41%), with 90-120-day written notice.	Two funds (\$5.7 million aggregate value) (95%) have no redemption during the investment term.	None of these funds have gates in place. Five funds have side pockets aggregating \$2.1 million.
		<u>\$ 7,840,770</u>	<u>463</u>		<u>\$ 2,241,780</u>			

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The following table summarizes derivative financial instruments reported on the Statements of Financial Position and the Statements of Activities as of and for the year ended December 31, 2019 (in thousands):

	Gross derivative assets		Gross derivative liabilities		Realized and unrealized gain (loss)
	Notional/ contractual amount	Fair value	Notional/ contractual amount	Fair value	
Future contracts	\$ —	—	598	1,443	(20,718)
Option contract	1,054,000	6,678	—	—	(17,327)
Forward exchange contracts	111,329	1,521	50,553	1,334	7,634
	<u>\$ 1,165,329</u>	<u>8,199</u>	<u>51,151</u>	<u>2,777</u>	<u>(30,411)</u>

The following table summarizes derivative financial instruments reported on the Statements of Financial Position and the Statements of Activities as of and for the year ended December 31, 2018 (in thousands):

	Gross derivative assets		Gross derivative liabilities		Realized and unrealized gain (loss)
	Notional/ contractual amount	Fair value	Notional/ contractual amount	Fair value	
Future contracts	\$ 577	2,734	—	—	3,109
Option contract	960,000	9,087	—	—	(6,739)
Forward exchange contracts	131,814	2,724	31,118	247	2,470
	<u>\$ 1,092,391</u>	<u>14,545</u>	<u>31,118</u>	<u>247</u>	<u>(1,160)</u>

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, 2019 and 2018.

Netting of Assets and Liabilities

The Foundation may utilize master netting agreements to mitigate counterparty credit risk. Master netting agreements are contracts with counterparties that permit the Foundation to net settle multiple transactions with the specified counterparty in the event of a default (e.g. bankruptcy, failure to make a required payment or securities transfer, or deliver collateral or margin when due after expiration of any grace period). All transactions with counterparties that are governed by netting agreements are subject to offset, which allows for one net amount to be calculated and exchanged upon the exercise of termination rights by a nondefaulting party. The type of transactions that may be covered by the netting arrangements include derivative transactions and securities lending. In addition, the Foundation posts and receives cash and securities collateral on its derivatives, and securities lending, subject to the terms of the related master netting agreement. An enforceable master netting agreement grants the nondefaulting party exercising termination rights the right to liquidate the collateral and apply the proceeds to any amounts owed. In order to assess enforceability of the Foundation's right to offset, the Foundation evaluates several factors including applicable bankruptcy laws, local statutes, and regulations provisions in the jurisdiction of the parties to the netting agreements. The tables below present fair value of certain assets and liabilities by instrument type on a gross basis as of December 31, 2019 and 2018. Gross fair values exclude the effects of both counterparty netting and collateral and, therefore, are not representative of the Foundation's

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exposure. The tables below also present the effect of counterparty netting and collateral that have been offset in the Statements of Financial Position. Total assets and liabilities are adjusted on an aggregate basis to take into consideration the effects of legally enforceable netting arrangements and have been reduced by the collateral pledged of \$61.0 million and \$59.1 million in December 31, 2019 and 2018, respectively.

Offsetting of assets as of December 31, 2019 (in thousands):

Derivative contracts	Gross amounts of recognized assets	Gross amounts offset in the statement of financial position	Net amounts presented in the statements of financial position
Futures contracts	\$ —	(1,443)	(1,443)
Option contract	6,678	—	6,678
Forward exchange contracts	1,521	(1,334)	187
Total derivatives contracts	\$ 8,199	(2,777)	5,422

Offsetting of assets as of December 31, 2018 (in thousands):

Derivative contracts	Gross amounts of recognized assets	Gross amounts offset in the statement of financial position	Net amounts presented in the statements of financial position
Futures contracts	\$ 2,734	—	2,734
Option contract	9,087	—	9,087
Forward exchange contracts	2,724	(247)	2,477
Total derivatives contracts	\$ 14,545	(247)	14,298

(6) Program Related Investments

Program related investments in the Statements of Financial Position include below-market-rate loans with outstanding principal totaling approximately \$38.0 million and \$39.3 million as of December 31, 2019 and 2018, respectively. Interest rates range from 1.0% to 2.5% and are repayable over 1 to 10 years. Loans are individually monitored to determine net realizable value based on an evaluation of recoverability. As of December 31, 2019 and 2018, a provision of \$8.0 million and \$6.3 million, respectively, for possible losses on program related investments has been accrued.

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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, which have not been recorded in the financial statements. There were no outstanding amount of these commitments as of December 31, 2019 and \$0.1 million at December 31, 2018.

(7) Fixed and Other Assets

At December 31, 2019 and 2018, fixed and other assets consisted of the following (in thousands):

	<u>Depreciable life in years</u>	<u>2019</u>	<u>2018</u>
Land and land improvements	15	\$ 2,463	2,547
Buildings	40	51,921	51,921
Furniture and equipment	3–5	17,385	18,845
		<u>71,769</u>	<u>73,313</u>
Less accumulated depreciation and amortization		<u>(34,736)</u>	<u>(34,679)</u>
Property and equipment, net		37,033	38,634
Other assets		<u>4,101</u>	<u>4,153</u>
		<u>\$ 41,134</u>	<u>42,787</u>

(8) Unpaid Grants

At December 31, 2019 and 2018, the unpaid grant liability is expected to be paid in future years as follows (in thousands):

	<u>2019</u>	<u>2018</u>
2019	\$ —	179,249
2020	162,513	97,159
2021	76,523	24,332
2022	24,088	4,419
2023	2,921	222
2024 and thereafter	<u>283</u>	<u>—</u>
	266,328	305,381
Less discounted to present value	<u>(16,298)</u>	<u>(20,412)</u>
	<u>\$ 250,030</u>	<u>284,969</u>

The Foundation discounted the amount of unpaid grant liability by applying interest rate factors ranging from 0.7% to 2.5% and an estimated cancellation rate of approximately 3.3%. The risk-free rate of return is not materially different from the interest rate factors used.

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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, 2019 and 2018, the gross unpaid grant liability and the remaining balance under approved Authorizations and other appropriations were approximately \$652 million and \$609 million, respectively. Of the \$652 million approved Authorizations and other appropriations, \$386 million has not met the criteria for expense recognition at December 31, 2019. The Foundation expects such amounts to be recognized as grants when the expense recognition criteria is met.

(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 \$6.5 million and \$6.3 million for 2019 and 2018, respectively, under these plans.

Postretirement Benefits

The Foundation provides postretirement medical and dental benefits to all employees who meet eligibility requirements. The postretirement benefit obligation for 2019 and 2018 is summarized as follows (in thousands):

	2019	2018
Accrued postretirement benefit obligation recognized in the statements of financial position	\$ (132,892)	(100,980)

Amounts recognized in net assets as of December 31, 2019 and 2018 are as follows (in thousands):

	2019	2018
Accumulated loss	\$ (50,475)	(26,302)

Changes in net assets without donor restrictions as a result of actuarial gains/losses and amounts amortized for the years ended December 31, 2019 and 2018 are as follows (in thousands):

	2019	2018
Gains (losses)	\$ (25,368)	1,260
Amortization of gains	1,195	2,610
Amortization of prior service costs	—	(119)
Total change in net assets without donor restrictions	\$ (24,173)	3,751

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Information about assumptions as of December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Weighted average assumptions:		
Discount rate (benefit obligations)	3.6 %	4.5 %
Discount rate (net periodic costs)	4.5	3.9
Expected return on plan assets	N/A	N/A
Health care cost trend rate assumptions:		
Trend rate for the next year	6.5	7.0
Ultimate trend rate	4.5	4.5
Year ultimate trend rate is reached	2028	2028

Other benefit information for the years ended December 31, 2019 and 2018 is summarized as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Benefit cost	\$ 10,457	12,063
Employer contributions	\$ 2,718	2,556
Plan participants' contributions	151	132
Total benefits paid	<u>\$ 2,869</u>	<u>2,688</u>

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

2020	\$ 2,890
2021	3,128
2022	3,315
2023	3,593
2024	3,953
2025–2029	25,424

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 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.

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(10) Liquidity and Available Resources

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing mission-related activities as well as the expenditures undertaken to support those activities to be general expenditures.

The Foundation's financial assets available within one year of December 31, 2019 and 2018 to meet general expenditures include (in thousands):

	<u>2019</u>	<u>2018</u>
Financial assets available:		
Cash and cash equivalents	\$ 353,370	321,619
Publically traded equities, certain commingled funds, and U.S. government and agency bonds	2,763,222	2,336,185
Other investment related receivables	109,030	187,198
Liquidity resources:		
Bank line of credit (no balance outstanding at December 31, 2019 and 2018)	<u>150,000</u>	<u>150,000</u>
Total financial assets and other liquidity resources	<u>\$ 3,375,622</u>	<u>2,995,002</u>

In addition to the available financial assets listed above, there are likely to be additional components of the Foundation's investments that may be available and liquid within one year to meet aggregate cash needs. These components include certain portions of marketable alternatives as well as return of capital from both private equity and real asset holdings. The Foundation's projected aggregate cash needs for fiscal year 2020 is approximately \$651.0 million.

(11) Lines of Credit

The Foundation has a committed line of credit of \$150 million which expires June 30, 2023. The line of credit is available for programmatic activities and administrative expenses. The interest rate is LIBOR plus 1.15%. No amounts have been drawn on these lines of credit nor are outstanding at December 31, 2019 and through June 26, 2020.

(12) Subsequent Events

Management has performed an evaluation of subsequent events from December 31, 2019 through June 26, 2020, the date the financial statements were available to be issued. On March 11, 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) a pandemic. The effects of this global public health emergency have not materially or adversely impacted the Foundation's operations, but the pandemic has impacted the financial markets. This effect on the markets could materially and adversely impact the value and performance of the Foundation's investments in the future; management continues to monitor conditions.