KPMG

THE ROBERT WOOD JOHNSON FOUNDATION

Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

The 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, 2015 and 2014, and the related statements of activities 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, 2015 and 2014, 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

May 27, 2016

THE ROBERT WOOD JOHNSON FOUNDATION

Statements of Financial Position

December 31, 2015 and 2014

(In thousands)

Assets		2015	2014
Cash and cash equivalents	$	567,182	674,448
Cash equivalents held as collateral - restricted		123,290	91,610
Investments:			
Johnson & Johnson common stock		1,335,360	1,359,410
Other investments		8,059,040	8,183,687
Program related investments, net		32,143	26,350
Other investment related receivables		154,153	87,141
Charitable remainder trust		18,964	22,183
Fixed and other assets		49,507	50,907
Total assets	$	10,339,639	10,495,736
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	18,669	22,509
Payable under securities loan agreement		120,277	88,363
Payable on pending securities transactions		2,522	22,161
Unpaid grants		329,140	354,599
Current federal excise tax		4,396	53
Deferred federal excise tax		56,076	62,377
Accrued postretirement benefit obligation		71,164	73,955
Total liabilities		602,244	624,017
Net assets:			
Unrestricted		9,718,431	9,849,536
Temporarily restricted		18,964	22,183
Total net assets		9,737,395	9,871,719
Total liabilities and net assets	$	10,339,639	10,495,736

See accompanying notes to financial statements.

THE ROBERT WOOD JOHNSON FOUNDATION

Statements of Activities

Years ended December 31, 2015 and 2014

(In thousands)

		2015	2014
Unrestricted net assets:			
Operating activities:			
Investment income:			
Dividends	$	56,271	71,956
Interest		49,303	53,265
Net realized gains on sale of investments		513,418	448,186
Unrealized (depreciation) appreciation on investments		(215,318)	285,426
Total investment income		403,674	858,833
Investment expenses		83,931	81,053
Tax expense (benefit) on investment income:			
Current		21,295	14,420
Deferred		(6,301)	5,927
Net investment income		304,749	757,433
Contributions		5	3
Total net investment income and other support		304,754	757,436
Program costs and administrative expenses:			
Grants, net		318,418	361,967
Direct charitable activities		52,698	54,688
Provision for possible losses on program related investments		2,146	1,717
Program management		48,519	45,839
General management		23,395	21,591
Total program costs and administrative expenses		445,176	485,802
Change in unrestricted net assets from operating activities		(140,422)	271,634
Nonoperating activities:			
Other changes in postretirement benefit obligation		9,317	(15,209)
Change in unrestricted net assets		(131,105)	256,425
Temporarily restricted net assets:			
Change in value of charitable remainder trust		(3,219)	2,906
Change in total net assets		(134,324)	259,331
Net assets:			
Beginning of year		9,871,719	9,612,388
End of year	$	9,737,395	9,871,719

See accompanying notes to financial statements.

THE ROBERT WOOD JOHNSON FOUNDATION

Statements of Cash Flows

Years ended December 31, 2015 and 2014

(In thousands)

		2015	2014
Cash flows from operating activities:			
Change in net assets	$	(134,324)	259,331
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation		7,176	7,357
Deferred federal excise tax		(6,301)	5,927
Provision for possible losses on program related investments		2,146	1,717
Net realized and unrealized gains on investments		(298,100)	(733,612)
Change in value of charitable remainder trust		3,219	(2,906)
Changes in operating assets and liabilities:			
Other assets		(209)	30
Accounts payable and accrued expenses		(3,840)	9,340
Unpaid grants		(25,459)	21,341
Current federal excise tax		4,343	(871)
Accrued postretirement benefit obligation		(2,791)	19,234
Net cash used in operating activities		(454,140)	(413,112)
Cash flows from investing activities:			
Proceeds from sale of investments		1,717,707	2,167,021
Cost of investments purchased		(1,290,549)	(1,587,742)
Change in other investment related receivables		(67,012)	(197)
Change in cash equivalents held as collateral		(31,680)	13,412
Change in payable under securities loan agreement		31,914	18,470
Loans disbursed for program related investments		(19,497)	(18,638)
Repayments of program related investments		11,558	6,743
Acquisition of property and equipment		(5,567)	(6,130)
Net cash provided by investing activities		346,874	592,939
Net (decrease) increase in cash and cash equivalents		(107,266)	179,827
Cash and cash equivalents:			
Beginning of year		674,448	494,621
End of year	$	567,182	674,448
Supplemental data:			
Federal and state taxes paid	$	10,342	15,260
Interest paid		25	32

See accompanying notes to financial statements.

(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 mission is to improve the health and health care of everyone in America, and its vision is to work with others to build a Culture of Health throughout the country—enabling all in our diverse society to lead healthier lives, now and for generations to come.

The Foundation will support, fund, connect, and convene grantees and partners to make a Culture of Health a reality. Our goal is 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—whatever their ethnic, geographic, racial and socioeconomic circumstances happen to be—live longer, healthier lives.
- A nation where promoting health is as important as treating illness.
- A culture in which business, government, individuals, and organizations work together to foster healthy communities and lifestyles.
- A future in which everyone has access to affordable, quality health care; no one is excluded; health care is efficient and equitable; and the economy is less burdened by excessive and unwarranted health care spending.
- A future in which everyone has access to affordable, quality health care; no one is excluded; health care is efficient and equitable; and the economy is less burdened by excessive and unwarranted health care spending.

(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:

- 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, 2015 and 2014 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.

(Continued)

(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.

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) 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 an asset as of the measurement date.

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

Level 1 Quoted prices are available in active markets for identical investments as of the reporting date, without adjustment. Investments in this category include cash equivalents and publicly traded equities, publicly traded commingled funds, and publicly traded partnerships.

Level 2 Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the measurement date. Fair value is determined through the use of models or other valuation methodologies using publicly available inputs. Investments in this category include commingled funds that trade in less active markets, bond instruments, certain derivatives, and mortgage-backed securities.

Level 3 Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment.

Net Asset Value (NAV) is used as a practical expedient for certain commingled funds, 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.

In May 2015, the FASB issued Accounting Standards Update No. 2015-07 (Update No. 2015-07), *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The guidance removes the requirement to make certain disclosures and categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. The Foundation elected to early adopt the provisions of Update No. 2015-07 and applied the provisions of the update retrospectively to 2014.

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.

The categorization of a financial instrument within the hierarchy is based upon pricing transparency or liquidity and is not necessarily an indication of the Foundation's perceived risk of that instrument. See note 5 for a summary of assets by investment category and hierarchy level.

(d) Derivative Instruments Directly Owned

The Foundation engages in a variety of derivative instruments, including futures, options and forward contracts, primarily for trading purposes. Each instrument's primary risk exposure is related to interest rate, foreign exchange, 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 include amounts due from (to) the settlement of securities transactions for securities maintained with the custodian, and cash disbursed to an investment fund in advance of the due date 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 and unrealized appreciation 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 $7.2 million and $7.4 million in 2015 and 2014, respectively, was calculated using the straight-line method over the estimated useful lives of the depreciable assets.

(i) Grant Expense

Grant expense is recognized in the period the grant is awarded, provided the grant is not subject to significant 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 a present value of expected future payments.

(j) Presentation of Expenses on the Statements of Activities

The costs of providing the various programs and other activities have been allocated between grants, direct charitable activities, program management, and general management in the accompanying Statements of Activities based on management's estimates. Grants, direct charitable activities, and provision for possible losses on program-related investments are charitable expenses. Direct charitable activities are charitable efforts undertaken by the Foundation directly, rather than through grants awarded to other organizations. Program management expenses support the development and monitoring of programmatic activities; general management expenses comprise the Foundation's other operational costs.

(k) 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, net realizable value of program related investments, discount to present value of the charitable remainder trust and unpaid grants, valuation for the accrued postretirement benefit obligation and the allocation of expenses to their functional categories. 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 2015 and 2014 has been met.

(Continued)

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

The provision for federal excise tax consists of a current provision on realized net investment income and a deferred provision on net unrealized appreciation of investments. The current provision for 2015 and 2014 on net investment income at 2% was approximately $11.4 million and $9.9 million, respectively. The increase (decrease) in unrealized appreciation in 2015 and in 2014 resulted in a change of the deferred federal excise tax liability of approximately ($6.3) million and $5.9 million, respectively.

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

In 2015 and 2014, the Foundation was liable for federal and state unrelated business income tax in connection with its limited partnership interests. The Foundation paid approximately $9.9 million and $4.6 million for this federal and state unrelated business income tax expense for 2015 and 2014, respectively.

(4) Charitable Remainder Trust

At December 31, 2015 and 2014, approximately $19.0 million and $22.2 million, respectively, represent the present value of the estimated future benefit to be received as a beneficiary in a charitable remainder trust and is considered Level 3 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, 2015 and 2014, respectively.

(5) Investments

The following table summarizes the financial assets reported on the Foundation's Statements of Financial Position by caption as of December 31, 2015:

	Unadjusted quoted market prices (Level 1)	Significant other observable inputs (Level 2)	Investments measured at NAV	Total
		(In thousands)		
Cash and cash equivalents	$ 6,848	560,334	—	567,182
Cash and cash equivalents held as collateral - restricted	3,827	119,463	—	123,290
Derivatives – forward exchange*	—	—	—	—
Investments:				
Commingled funds – equity oriented	—	—	890,101	890,101
Commingled funds – fixed income	—	—	139,070	139,070
Commingled funds – multi-strategy hedge funds	—	—	2,501,831	2,501,831
Derivatives – equity index swap	—	107	—	107
Drawdown investments – below investment grade credit	—	—	809,652	809,652
Drawdown investments – private equity	—	—	2,662,528	2,662,528
Drawdown investments – real assets	—	—	842,552	842,552
Johnson & Johnson common stock	1,335,360	—	—	1,335,360
Public equity	210,046	—	—	210,046
Publicly traded partnerships	1,816	—	—	1,816
Warrants	—	1,337	—	1,337
Total investments	1,547,222	1,444	7,845,734	9,394,400
Grand total	$ 1,557,897	681,241	7,845,734	10,084,872

* These financial assets are reported as either an other investment related receivable or a payable on pending securities transactions on the Statements of Financial Position.

The following table summarizes the financial assets reported on the Foundation's Statements of Financial Position by caption as of December 31, 2014:

	Unadjusted quoted market prices (Level 1)	Significant other observable inputs (Level 2)	Investments measured at NAV	Total
		(In thousands)		
Cash and cash equivalents	$ 7,608	666,840	—	674,448
Cash and cash equivalents held as collateral - restricted	192	91,418	—	91,610
Derivatives – forward exchange*	—	448	—	448
Investments:				
Commingled funds – equity oriented	—	—	917,340	917,340
Commingled funds – fixed income	—	—	261,483	261,483
Commingled funds – multi-strategy hedge funds	—	—	2,411,375	2,411,375
Derivatives – equity index swap	—	2,337	—	2,337
Drawdown investments – below investment grade credit	—	—	734,595	734,595
Drawdown investments – private equity	—	—	2,486,402	2,486,402
Drawdown investments – real assets	—	—	1,015,067	1,015,067
Johnson & Johnson common stock	1,359,410	—	—	1,359,410
Public equity	349,881	—	—	349,881
Publicly traded partnerships	4,406	—	—	4,406
Warrants	—	801	—	801
Total investments	1,713,697	3,138	7,826,262	9,543,097
Grand total	$ 1,721,497	761,844	7,826,262	10,309,603

* These financial assets are reported as either an other investment related receivable or a payable on pending securities transactions on the Statements of Financial Position.

Included in investments at December 31, 2015 and 2014 were approximately $120.3 million and $88.4 million, respectively, of securities on loan pursuant to securities lending agreements. Cash collateral received for securities on loan was $120.1 million and $88.1 million at December 31, 2015 and 2014, respectively. Original collateral received on global securities lent was at least 102% of market value. All cash collateral received is invested in approved money market and short term funds.

Pursuant to the limited partnership agreements of investee funds, as of December 31, 2015 and 2014, the Foundation had commitments of approximately $2.0 billion and $1.8 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, 2015 and 2014, the Foundation had open forward foreign currency contracts at fair value totaling approximately $0 million and $0.5 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 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. Management does not anticipate that losses, if any, resulting from its market or credit risks would materially affect the financial position and operations of the Foundation. The Foundation invests in a variety of fixed income securities and contractual instruments, which by their nature are interest rate sensitive. Changes in interest rates will affect the value of such securities and contractual instruments.

(Continued)

The Foundation uses NAV to determine the fair value of certain investments by major category as of December 31, 2015:

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
Drawdown investments	Private equity	$ 2,662,528	229	1 to 10 years	$ 1,000,825	n/a	n/a	n/a
	Real assets	842,552	62	1 to 10 years	424,629	n/a	n/a	n/a
	Below investment grade credit	809,652	71	1 to 10 years	565,975	n/a	n/a	n/a
Commingled funds	Multi-strategy hedge funds	2,501,831	39	n/a	n/a	Daily, monthly, quarterly, bi-annually and annual redemptions with 5 - 180 day written notice.	Three funds ($235.3 million aggregate value) have remaining lockup periods expiring in one year.	Three funds have 25% fund level gates on redemptions. Two have 20% investor level gates on redemptions. One has 10% investor level gates on redemptions. Three funds are in liquidation with side pockets, plus another two funds have illiquid side pockets.
	Equity oriented	890,101	16	n/a	n/a	Weekly, monthly, quarterly and annual redemptions, with 6–90 day written notice.	Two funds ($38.7 million aggregate value) have remaining lockup periods expiring in one year.	One fund has a 10% gate. Five funds have investments in side pockets and those investments are illiquid. Five of those funds are in liquidation.
	Fixed income	139,070	10	n/a	n/a	Quarterly and annual redemptions, with 90–120 day written notice.	Three funds ($5.6 million aggregate value) allow no redemption during investment term; one fund ($699 thousand) is winding down.	Two funds have indefinite gates on redemptions with side pockets. Three funds are in liquidation. An additional two funds have side pockets.
		$ 7,845,734	427		$ 1,991,429			

The Foundation uses NAV to determine the fair value of certain investments by major category as of December 31, 2014:

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
Drawdown investments	Private equity	$ 2,486,402	214	1 to 10 years	$ 934,642	n/a	n/a	n/a
	Real assets	1,015,067	57	1 to 10 years	395,069	n/a	n/a	n/a
	Below investment grade credit	734,595	61	1 to 5 years	485,328	n/a	n/a	n/a
Commingled funds	Multi-strategy hedge funds	2,411,375	37	n/a	n/a	Daily, monthly, quarterly and annual redemptions with 5–180 day written notice.	Four funds ($252.6 million aggregate value) have remaining lockup periods of 1–2 years.	Three funds have 25% fund level gates on redemptions. Two have 20% investor level gates on redemptions. One has 10% investor level gates on redemptions. Four funds are in liquidation with side pockets, plus another seven funds have illiquid side pockets.
	Equity oriented	917,340	15	n/a	n/a	Weekly, monthly, quarterly and annual redemptions, with 6–90 day written notice.	No lockups or restrictions on redemption.	One fund has a 10% gate. Five funds have investments in side pockets and those investments are illiquid. Two of those funds are in liquidation.
	Fixed income	261,483	10	n/a	n/a	Quarterly and annual redemptions, with 90–120 day written notice.	Three funds ($18 million aggregate value) have no redemption during investment term; one fund ($1.6 million) is winding down.	Two funds have indefinite gates on redemptions with side pockets. Three funds are in liquidation. An additional four funds have side pockets.
		$ 7,826,262	394		$ 1,815,039			

The following table summarizes derivative financial instruments reported on the Statements of Financial Position at December 31, 2015:

	Gross derivative assets		Gross derivative liabilities	
	Notional/ contractual amount	Fair value	Notional/ contractual amount	Fair value
	(In thousands)			
Equity index swap contracts	$ 300,000	107	—	—
Forward exchange contracts	98	—	—	—
	$ 300,098	107	—	—

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, 2015.

The following table summarizes the gains and losses reported in Statements of Activities on derivative financial instruments for the year ended December 31, 2015 (in thousands):

	Realized and unrealized gain (loss)
Equity index swap contracts	$ 13,981
Forward exchange contracts	736
	$ 14,717

The following table summarizes derivative financial instruments reported on the Statements of Financial Position at December 31, 2014:

	Gross derivative assets		Gross derivative liabilities	
	Notional/ contractual amount	Fair value	Notional/ contractual amount	Fair value
	(In thousands)			
Equity index swap contracts	$ 688,090	4,558	528,130	(2,221)
Forward exchange contracts	6,415	512	(5,846)	(64)
	$ 694,505	5,070	522,284	(2,285)

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, 2014.

The following table summarizes the gains and losses reported in Statements of Activities on derivative financial instruments for the year ended December 31, 2014 (in thousands):

		Realized and unrealized gain (loss)
Credit default swap contracts	$	990
Equity index swap contracts		(30,649)
Futures contracts		(80,363)
Interest rate swap contracts		(2,215)
Option contracts		48
Forward exchange contracts		16,638
	$	(95,551)

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 right to set off, 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, 2015 and 2014. Gross fair values exclude the effects of both counterparty netting and collateral, and therefore, are not representative of the Foundation’s 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 $3.1 million and $3.4 million in December 31, 2015 and 2014, respectively.

Offsetting of assets as of December 31, 2015 (in thousands):

Derivative contracts		Gross amounts of recognized assets	Gross amounts offset in the statement of financial position	Net amounts presented in the statement of financial position
Equity index swap contracts	$	107	—	107
Forward exchange contracts		—	—	—
Total derivatives contracts	$	107	—	107

Offsetting of assets as of December 31, 2014 (in thousands):

Derivative contracts		Gross amounts of recognized assets	Gross amounts offset in the statement of financial position	Net amounts presented in the statement of financial position
Equity index swap contracts	$	4,558	(2,221)	2,337
Forward exchange contracts		512	(64)	448
Total derivatives contracts	$	5,070	(2,285)	2,785

(6) Program Related Investments

Program related investments in the Statements of Financial Position include below-market-rate loans with outstanding principal totaling approximately $38.7 million and $30.8 million as of December 31, 2015 and 2014, 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, 2015 and 2014, a provision of $6.6 million and $4.4 million, respectively, for possible losses on program related investments has been accrued.

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. The outstanding amount of these commitments was $4.8 million and $30.8 million at December 31, 2015 and 2014, respectively.

(7) Fixed Assets

At December 31, 2015 and 2014, fixed assets consisted of:

	Depreciable life in years		2015	2014
			(In thousands)	
Land and land improvements	15	$	2,903	2,892
Buildings	40		52,008	51,752
Furniture and equipment	3–5		23,766	23,498
			78,677	78,142
Less accumulated depreciation and amortization			(33,965)	(31,821)
Property and equipment, net		$	44,712	46,321

(8) Unpaid Grants

At December 31, 2015, the unpaid grant liability is expected to be paid in future years as follows (in thousands):

2016	$	219,066
2017		87,501
2018		32,730
2019		8,651
2020		1,259
2021 and thereafter		1,040
		350,247
Less discounted to present value		(21,107)
	$	329,140

The Foundation discounted the amount of unpaid grant liability by applying interest rate factors ranging from 0.7% to 4.7% 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.

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, 2015 and 2014, the gross unpaid grant liability and the remaining balance under approved authorizations and other appropriations were approximately $669 million and $661 million, respectively. Of the $669 million approved authorizations and other appropriations, $319 million has not met the criteria for expense recognition at December 31, 2015.

(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 $5.6 million and $5.2 million for 2015 and 2014, 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 2015 and 2014 is summarized as follows:

		2015	2014
		(In thousands)	
Benefit obligation at December 31	$	(71,164)	(73,955)
Fair value of plan assets at December 31		—	—
Funded status and accrued benefit obligation recognized in the statements of financial position	$	(71,164)	(73,955)

Amounts recognized in net assets as of December 31, 2015 and 2014 are as follows:

		2015	2014
Prior service credit	$	587	835
Accumulated loss		(18,770)	(28,335)
Change in net assets	$	(18,183)	(27,500)

Changes in unrestricted net assets as a result of actuarial gains/losses and amounts amortized for the years ended December 31, 2015 and 2014 are as follows:

		2015	2014
Gains (losses)	$	7,946	(15,480)
Amortization of gains		1,618	552
Amortization of prior service costs		(247)	(281)
Total change in unrestricted net assets	$	9,317	(15,209)

(Continued)

Information about assumptions as of December 31, 2015 and 2014 is as follows:

	2015	2014
Weighted average assumptions:		
Discount rate (benefit obligations)	4.9%	4.3%
Discount rate (net periodic costs)	4.3	5.2
Expected return on plan assets	N/A	N/A
Health care cost trend rate assumptions:		
Trend rate for the next year	6.8%	7.0%
Ultimate trend rate	5.0	5.0
Year ultimate trend rate is reached	2023	2023

Other benefit information for the years ended December 31, 2015 and 2014 (in thousands) is summarized as follows:

		2015	2014
Benefit cost	$	8,215	5,584
Employer contributions	$	1,689	1,559
Plan participants' contributions		97	84
Total benefits paid	$	1,786	1,643

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

2016	$	1,809
2017		2,075
2018		2,226
2019		2,375
2020		2,503
2021–2025		15,443

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.

(10) Commitments and Contingencies

The Foundation entered has two committed lines of credit of $75 million each, of which $75 million expires on June 30, 2016 and $75 million on June 30, 2017. The lines of credit are available for programmatic activities and administrative expenses. Interest rates are the greater of the Prime Rate, LIBOR plus 1%, or a fixed rate equal to a money market rate. No amounts drawn on these lines of credit are outstanding at December 31, 2015 and through May 27, 2016.

(11) Subsequent Events

Management has performed an evaluation on subsequent events through May 27, 2016, the date the financial statements were available to be issued. Management has determined that there are no events, which warrant disclosure in the Foundation's financial statements through May 27, 2016.