

**FOUNDATION FOR THE NATIONAL
INSTITUTES OF HEALTH, INC.**

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

Years Ended December 31, 2004 and 2003

and

INDEPENDENT AUDITOR'S REPORT

FOUNDATION FOR THE NATIONAL
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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Foundation for the National
Institutes of Health, Inc.
Bethesda, Maryland

We have audited the accompanying balance sheets of the Foundation for the National Institutes of Health, Inc. (a not-for-profit organization) as of December 31, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. 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 in accordance with U.S. generally accepted auditing standards. 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation for the National Institutes of Health, Inc. as of December 31, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Kamerow, Weintraub & Swain, LLP

March 18, 2005

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

BALANCE SHEETS

December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 10,786,130	\$ 7,596,289
Appropriations receivable	497,000	196,000
Pledges receivable, less allowance for uncollectible pledges receivable of \$15,000 in 2004 and 2003	4,985,525	5,126,998
Grants receivable	-	97,215
Other receivables	2,577	10,087
Accrued interest	163,088	53,981
Prepaid expenses	41,186	22,000
	<u>16,475,506</u>	<u>13,102,570</u>
TOTAL CURRENT ASSETS	16,475,506	13,102,570
PLEDGES RECEIVABLE	959,061	1,786,385
INVESTMENTS	203,793,296	204,461,910
FURNITURE AND EQUIPMENT, less accumulated depreciation of \$139,729 in 2004 and \$70,097 in 2003	<u>118,204</u>	<u>119,468</u>
TOTAL ASSETS	<u>\$ 221,346,067</u>	<u>\$ 219,470,333</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 117,051	\$ 2,447,026
Accrued expenses	48,265	33,683
Funds held for others - agency transactions	2,619,789	3,155,802
Note payable - line of credit	705,000	500,000
	<u>3,490,105</u>	<u>6,136,511</u>
TOTAL CURRENT LIABILITIES	3,490,105	6,136,511
DEFERRED GRANT REVENUE	<u>198,153,760</u>	<u>198,936,983</u>
TOTAL LIABILITIES	<u>201,643,865</u>	<u>205,073,494</u>
NET ASSETS		
Unrestricted	1,793,835	1,700,178
Temporarily restricted	14,692,416	9,493,112
Permanently restricted	3,215,951	3,203,549
	<u>19,702,202</u>	<u>14,396,839</u>
TOTAL NET ASSETS	19,702,202	14,396,839
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 221,346,067</u>	<u>\$ 219,470,333</u>

See accompanying notes.

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE				
Contributions	\$ 201,207	\$ 8,235,184	\$ 12,402	\$ 8,448,793
Grants	427,367	-	-	427,367
In-kind contributions	203,857	-	-	203,857
Government appropriations	497,000	-	-	497,000
Donated services	472,164	-	-	472,164
Interest revenue	96,523	2,652,962	-	2,749,485
Realized loss on investments	(148)	-	-	(148)
Unrealized gain on investments	5,248	16,755	-	22,003
Administrative fee - agency transactions and grants	663,763	-	-	663,763
Net assets released from restrictions:				
Satisfaction of administrative fee requirements	386,687	(386,687)	-	-
Satisfaction of program restrictions	5,318,910	(5,318,910)	-	-
TOTAL REVENUE	8,272,578	5,199,304	12,402	13,484,284
EXPENSES				
PROGRAM SERVICES:				
Fellowships and training programs	1,061,225	-	-	1,061,225
Memorials, awards and events	129,360	-	-	129,360
Capital projects	286,260	-	-	286,260
Research partnerships	4,628,236	-	-	4,628,236
Emerging areas	485,601	-	-	485,601
TOTAL PROGRAM SERVICES	6,590,682	-	-	6,590,682
SUPPORTING SERVICES:				
Management and general	1,304,947	-	-	1,304,947
Fundraising	283,292	-	-	283,292
TOTAL SUPPORTING SERVICES	1,588,239	-	-	1,588,239
TOTAL EXPENSES	8,178,921	-	-	8,178,921
CHANGE IN NET ASSETS	93,657	5,199,304	12,402	5,305,363
NET ASSETS AT BEGINNING OF YEAR	1,700,178	9,493,112	3,203,549	14,396,839
NET ASSETS AT END OF YEAR	\$ 1,793,835	\$ 14,692,416	\$ 3,215,951	\$ 19,702,202

See accompanying notes.

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE				
Contributions	\$ 188,072	\$ 10,068,894	\$ 7,622	\$ 10,264,588
Grants	1,082,876	-	-	1,082,876
In-kind contributions	113,569	-	-	113,569
Government appropriations	496,000	-	-	496,000
Donated services	365,966	-	-	365,966
Interest revenue	65,174	42,325	-	107,499
Administrative fee - agency transactions and grants	213,299	-	-	213,299
Miscellaneous	7,626	-	-	7,626
Net assets released from restrictions:				
Satisfaction of administrative fee requirements	426,238	(426,238)	-	-
Satisfaction of program restrictions	6,063,318	(6,063,318)	-	-
TOTAL REVENUE	9,022,138	3,621,663	7,622	12,651,423
EXPENSES				
PROGRAM SERVICES:				
Fellowships and training programs	738,290	-	-	738,290
Memorials, awards and events	126,743	-	-	126,743
Capital projects	836,848	-	-	836,848
Research partnerships	2,773,644	-	-	2,773,644
Emerging areas	2,743,965	-	-	2,743,965
TOTAL PROGRAM SERVICES	7,219,490	-	-	7,219,490
SUPPORTING SERVICES:				
Management and general	1,176,366	-	-	1,176,366
Fundraising	111,617	-	-	111,617
TOTAL SUPPORTING SERVICES	1,287,983	-	-	1,287,983
TOTAL EXPENSES	8,507,473	-	-	8,507,473
CHANGE IN NET ASSETS	514,665	3,621,663	7,622	4,143,950
NET ASSETS AT BEGINNING OF YEAR	1,185,513	5,971,449	3,095,927	10,252,889
TRANSFERS	-	(100,000)	100,000	-
NET ASSETS AT END OF YEAR	\$ 1,700,178	\$ 9,493,112	\$ 3,203,549	\$ 14,396,839

See accompanying notes.

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 5,305,363	\$ 4,143,950
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	69,632	18,267
Contributions restricted for long-term purposes	(12,402)	(7,622)
Realized loss on investments	148	-
Unrealized gain on investments	(22,003)	-
(Increase) decrease in:		
Appropriations receivable	(301,000)	301,000
Pledges receivable	968,797	(3,089,953)
Grants receivable	97,215	(97,215)
Other receivables	7,510	(9,987)
Accrued interest	(109,107)	(43,206)
Prepaid expenses	(19,186)	(22,000)
Increase (decrease) in:		
Accounts payable	(2,329,975)	2,386,609
Accrued expenses	14,582	17,801
Funds held for others - agency transactions	(536,013)	855,802
Deferred grant revenue	(783,223)	198,936,983
	<u>2,350,338</u>	<u>203,390,429</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of furniture and equipment	(68,368)	(93,050)
Purchases of investments	(845,749,604)	(598,156,691)
Proceeds from sales of investments	<u>846,440,073</u>	<u>397,980,310</u>
	<u>622,101</u>	<u>(200,269,431)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for:		
Investment in permanent endowment	12,402	7,622
Proceeds from note payable - line of credit	205,000	500,000
Payments on note payable - line of credit	<u>-</u>	<u>(1,860,000)</u>
	<u>217,402</u>	<u>(1,352,378)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES		
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,189,841	1,768,620
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>7,596,289</u>	<u>5,827,669</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 10,786,130</u>	<u>\$ 7,596,289</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for:		
Interest	\$ 16,376	\$ 16,185
Income taxes	-	-

See accompanying notes.

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Foundation for the National Institutes of Health, Inc. (the Foundation) is a not-for-profit organization whose mission is to support the National Institutes of Health (NIH) in its mission, and to advance collaboration with biomedical researchers from universities, industry, and nonprofit organizations.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Foundation is required to present a statement of cash flows.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the financial statement presentation, cash and cash equivalents includes all cash on hand, demand accounts, and highly-liquid investments with original maturities of three months or less for which it is not the intention of management to hold for long-term purposes.

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges and Appropriations Receivables

Unconditional pledges receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges to be collected in more than one year are recorded at net present value, which approximates fair value. Conditional pledges receivable are recognized when the conditions on which they depend are substantially met. Appropriations receivable are recorded at the appropriated amount.

Allowance for Uncollectible Receivables

Management has established an allowance for uncollectible pledges receivable in the amount of \$15,000 as of December 31, 2004 and 2003, based on a review of historical collections. Amounts recorded as appropriations, grants and other receivables are deemed to be fully collectible by management. Accordingly, an allowance has not been recorded for those receivables.

Investments

Investments are recorded at market value. When applicable, gains or losses are recognized upon sale or disposal. Interest revenue is recorded on the accrual basis. Unrealized gains and losses, due to market fluctuations during the year, are recognized at year end. For the year ended December 31, 2003, the market value of the investments approximated cost.

Furniture and Equipment

Furniture and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is three to five years. It is the Foundation's policy to capitalize purchases of furniture and equipment that cost \$1,000 or more. Donated equipment is recorded at fair market value at the date of contribution.

Contributions

In accordance with SFAS No. 116, "Accounting for Contributions Received and Contributions Made," contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted revenue depending on the existence and/or nature of any donor restrictions. Donor-restricted revenue is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions (Continued)

accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

The Foundation follows the accounting principles required under SFAS No. 136, "Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others." Accordingly, any assets received by the Foundation for which the donor stipulates that the assets are to be used on behalf of the donor or another entity (the beneficiary) or to be transferred to another entity are recorded on the Foundation's books as a liability to the specified beneficiary concurrent with recognition of the assets received from the donor.

Revenue Recognition

Government appropriations are recognized as revenue in the year they are appropriated.

Allocation of Expenses

Salaries and benefits have been allocated to program and supporting services based on estimates made by management.

Income Taxes

The Foundation has been granted an exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation.

NOTE B - CASH AND CASH EQUIVALENTS

As of December 31, 2004, the Foundation had bank deposits in excess of federally insured limits.

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE C - PLEDGES RECEIVABLE

As of December 31, 2004 and 2003, unconditional pledges receivable consisted of the following:

	<u>2004</u>	<u>2003</u>
Receivable in less than one year	\$ 5,000,525	\$ 5,141,998
Receivable in one to five years	<u>1,001,008</u>	<u>1,900,000</u>
TOTAL	6,001,533	7,041,998
Less: discounts to net present value using a discount rate of 4% - 8.25%	41,947	113,615
Less: allowance for uncollectible pledges receivable	<u>15,000</u>	<u>15,000</u>
TOTAL PLEDGES RECEIVABLE	<u>\$ 5,944,586</u>	<u>\$ 6,913,383</u>

NOTE D - CONDITIONAL PLEDGES RECEIVABLE

As of December 31, 2004 and 2003, the Foundation had temporarily restricted pledges for the Alzheimer's Disease Neuroimaging Initiative totaling \$14,475,000 and \$2,000,000, respectively, that contain donor conditions. Since these pledges represent conditional pledges receivable, they are not recorded as pledges receivable and contribution revenue until donor conditions are met.

NOTE E - INVESTMENTS

Investments held by the Foundation consisted of the following as of December 31, 2004:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Money market accounts	\$ 63,053,842	\$ 63,053,842	\$ -
Certificates of deposit	350,000	350,000	-
Commercial paper	55,357,623	55,357,623	-
Discount notes	84,553,892	84,570,422	16,530
Corporate bonds	305,413	303,539	(1,874)
Government bonds	49,953	49,769	(184)
Bond mutual funds	39,552	39,884	332
Equity mutual funds	<u>61,018</u>	<u>68,217</u>	<u>7,199</u>
BALANCE, DECEMBER 31, 2004	<u>\$ 203,771,293</u>	<u>\$ 203,793,296</u>	<u>\$ 22,003</u>
BALANCE, DECEMBER 31, 2003	<u>\$ 204,461,910</u>	<u>\$ 204,461,910</u>	<u>\$ -</u>
UNREALIZED GAIN ON INVESTMENTS			<u>\$ 22,003</u>

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE E - INVESTMENTS (Continued)

Investments held by the Foundation consisted of the following as of December 31, 2003:

	Cost	Market Value
Money market accounts	\$ 204,363,094	\$ 204,363,094
Bonds	98,816	98,816
BALANCE, DECEMBER 31, 2003	\$ 204,461,910	\$ 204,461,910

Investment interest revenue, which is included in interest revenue on the statements of activities, equaled \$2,606,757 and \$70,897 for the years ended December 31, 2004 and 2003, respectively. There was a realized loss on investments of \$148 for the year ended December 31, 2004. There were no realized or unrealized gains or losses for the year ended December 31, 2003.

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2004 and 2003, temporarily restricted net assets were available for the following purposes:

	2004	2003
Fellowships and Training Programs		
Clinical Research Training Program	\$ 1,559,876	\$ 2,251,221
Dr. Edward T. Rancic Memorial Fund	1,000	-
Dr. John L. Barr Memorial Fund	18,129	-
Fogarty International Center 35th Anniversary Publications	4,650	-
John LaMontagne Memorial Fund	4,140	-
Norman P. Salzman Memorial Fund	17,753	6,107
Pain and Palliative Care Program	28,957	28,932
Pain and Palliative Care Pulmonary Hypertension Observership Program	15,307	16,401
Robert Whitney Newcomb Memorial Fund	155,483	163,546
Sallie Rosen Kaplan Fellowship for Women Scientists in Cancer Research	17,733	12,879
The Intolerable Burden of Malaria II: What's New, What's Needed	52,293	71,720
The National Center for Complementary and Alternative Medicine Director's Fellowship Program	235	75,000
The Neuroscience Fellowship Program	90,667	181,764
The Penates Fellowship	70,114	70,114
The Sayer Vision Research Fund	53,212	42,294
Third MIM Pan-African Malaria Conference	153,418	153,418
Women's Health Fellowships	95,239	-
Memorials, Awards and Events		
A Symposium in Honor of Martha Vaughn: Insights into Signal Transduction	9,995	13,000
Adam J. Berry Memorial Fund	12,120	1,983

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE F - TEMPORARILY RESTRICTED NET ASSETS (Continued)

	2004	2003
Celebrating 50 Years of Brain Research: New Discoveries, New Hope	206,608	206,608
Clinical Research Training Program Alumni Reunion	23,539	23,540
Conference on Dietary Supplement Use in the Elderly	2,485	10,885
Dean R. O'Neill Renal Cell Cancer Research Fund	46,755	28,170
From Genome to Disease: A Symposium of High Throughput Biology	10,549	4,019
HIV Awareness Day Reception	1,600	1,600
Innovation in Prevention Awards	546,463	557,121
John Laws Decker Memorial Fund	21,884	20,029
Lloyd Law Memorial Fund	625	625
Methods for Enhancing the Efficiency of Dental/Oral Health Clinical Trials: Current Status, Future Directions	-	29,300
Genetic Code Revisited: Impact of Functional Genomics in Medical Research, IHO Marshall Nirenberg	-	2,455
Symposium on Cardiovascular Regenerative Medicine	9,865	-
Vaccine Research Center Community Meeting	3,143	3,143
William McCormick Blair, III Memorial Fund	5,150	-
Capital Projects		
Edmond J. Safra Family Lodge Enhancements	1,045	5,003
Graduate Student Lounge	48,397	48,397
Harry and Jeanette Weinberg Endowment	19,597	7,487
John I. and Elaine K. Gallin Endowment	4,832	956
Tracy's Toy Box	7,032	-
Research Partnerships		
Alzheimer's Disease Neuroimaging Initiative	7,041,929	499,959
Best Pharmaceuticals for Children Fund	3,765,392	3,357,803
Cancer Research	5,743	5,243
Grand Challenges in Global Health	16,755	-
Imaging Database Resources Initiative	79,736	-
John Burke Memorial Fund	9,718	-
NCI Division of Clinical Services HIV/AIDS Malignancy	15,000	15,000
Overcoming Barriers to Early Phase Clinical Trials	375,150	1,416,142
The Genetic Code Revisited: The Impact of Functional Genomics in Medical Research	17,984	17,984
The Helix and the Genome: 50 Years from Model to Medicine	13,417	81,098
Vaccine Research Center Community Advisory Board	5,604	7,901
VaxGen Vaccine Trial in Thailand	22,898	8,848
Other Temporarily Restricted Programs	3,200	45,417
TOTAL	<u>\$ 14,692,416</u>	<u>\$ 9,493,112</u>

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE G - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The earnings from these assets are to be used for the purposes established by the donors and are recorded as temporarily restricted interest revenue for those purposes.

As of December 31, 2004 and 2003, permanently restricted net assets consisted of the following endowed gifts to be held in perpetuity with the income to be used for:

	<u>2004</u>	<u>2003</u>
Edmond J. Safra Family Lodge GlaxoSmithKline Endowment Fund	\$ 1,500,000	\$ 1,500,000
Harry and Jeanette Weinberg Endowment at the Edmond J. Safra Family Lodge	750,000	750,000
John I. and Elaine K. Gallin Endowment	78,179	65,777
Sallie Rosen Kaplan Fellowship for Women Scientists in Cancer Research	787,772	787,772
Norman P. Salzman Memorial Fund	<u>100,000</u>	<u>100,000</u>
TOTAL	<u>\$ 3,215,951</u>	<u>\$ 3,203,549</u>

NOTE H - DONATED SERVICES

The Foundation receives benefit from services donated by the NIH, which include various administrative and technical services performed by NIH employees. The estimated value of these services is based on the hourly rate and average benefit amount of the NIH employee. The estimated amount of these services has been reflected in the accompanying financial statements as donated services with a like amount recorded as salaries and benefits expense.

The Foundation also receives benefit from donated legal services. The value of these services has been reflected in the financial statements as donated services with a like amount recorded as professional fees expense.

For the year ended December 31, 2003, the Foundation received donated services for the design of the Edmond J. Safra Family Lodge garden. The value of these services has been reflected in the financial statements as donated services with a like amount recorded as consultants expense.

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE H - DONATED SERVICES (Continued)

For the years ended December 31, 2004 and 2003, donated services of \$472,164 and \$365,966, respectively, are reflected in the financial statements.

NOTE I - IN-KIND CONTRIBUTIONS

Office space for the Foundation is donated by the NIH. This space expanded during the years ended December 31, 2004 and 2003. The estimated rental value is determined by the current market rent for other offices within the buildings. Telephone expense and on-line communication costs for the Foundation are also donated by the NIH. The estimated rental value, value of the telephone expense, and value of the on-line communication costs has been reflected in the accompanying financial statements as in-kind contributions with a like amount recorded as rent/housing expense, telephone expense, or communications expense. For the years ended December 31, 2004 and 2003, in-kind contributions of \$203,857 and \$113,569, respectively, are reflected in the financial statements.

NOTE J - RETIREMENT PLAN

The Foundation has a retirement plan through TIAA-CREF. The plan calls for a mandatory contribution of at least 2% of annual salary from participating employees and an additional contribution of 10% of annual salary from the Foundation. Pension expense for the years ended December 31, 2004 and 2003 was \$128,563 and \$66,881, respectively.

NOTE K - CONCENTRATION OF REVENUE

For the year ended December 31, 2003, the Foundation received approximately 26% of its revenue from contributions and grants from the Bill and Melinda Gates Foundation.

NOTE L - MEMORANDUM OF UNDERSTANDING

The Foundation was established under legislation that authorized it to be the sole entity responsible for soliciting funds on behalf of the NIH, and to conduct specific other activities that support the NIH in its mission. Certain of the activities described in the legislation are conducted by the Foundation for Advanced Education in the Sciences, Inc. (FAES) under a Memorandum of Understanding (MOU) with the Foundation. This MOU preserves the prerogatives conferred on the Foundation by its authorizing legislation but also allows the FAES to carry on its current activities under the authority of the Foundation.

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE M - RECLASSIFICATIONS OF NET ASSETS AND TRANSFERS

In the normal course of business, the Foundation often receives contributions in which there is a delay between when the contribution is received and the time when the donor and the Foundation finalize the donor restrictions or other matters affecting the treatment of the contribution. The results of these negotiations determine the ultimate accounting classification for these funds. Because of this situation, certain reclassifications of contributions may need to be recorded as terms, restrictions and conditions are finalized. There were no reclassifications of this type for the year ended December 31, 2004. For the year ended December 31, 2003, any reclassifications of this type are shown as transfers on the statement of activities.

NOTE N - LINE OF CREDIT

The Foundation entered into a commercial note with SunTrust Bank on September 24, 2002. A revolving line of credit was established with a limit of \$2,300,000 for the purpose of constructing the Edmond J. Safra Family Lodge, located on the grounds of the National Institutes of Health in Bethesda, Maryland.

The line of credit is payable on demand and is secured by the Foundation's pledges receivable directed to the construction of the Edmond J. Safra Family Lodge and a blanket lien on all business assets. The line of credit requires the Foundation to maintain an interest reserve account for the life of the loan and to not incur additional external debt. The interest reserve account is included in cash and cash equivalents on the balance sheets and had a balance of \$180,053 and \$180,040 for the years ended December 31, 2004 and 2003, respectively. Interest on the outstanding balance is due monthly at the 30-day indexed LIBOR plus 1.25%. The note can be prepaid and matures on March 31, 2005. As of December 31, 2004 and 2003, the loan balance was \$705,000 and \$500,000, respectively, and is reflected in the balance sheets as note payable - line of credit.

NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Foundation in estimating the fair value of its financial instruments:

Cash and Cash Equivalents

The carrying amount reported in the balance sheets approximates fair value because of the short maturity of those instruments.

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Appropriations, Grants and Other Receivables

The carrying amount reported in the balance sheets approximates fair value because of the short maturity of those instruments.

Pledges Receivable

For short-term pledges receivable, the carrying amount reported in the balance sheets approximates fair value because of the short maturity of those instruments. The fair value of long-term pledges receivable is estimated by discounting the future cash flows using average Treasury bond rates with similar remaining maturities.

Accrued Interest Receivable

The carrying amount reported in the balance sheets approximates fair value because of the short maturity of those instruments.

Investments

The fair value of investments in marketable equity and debt securities is based on quoted market prices.

Funds Held for Others - Agency Transactions

The carrying amount reported in the balance sheets approximates fair value due to the short-term nature of the liability.

Note Payable - Line of Credit

The carrying amount reported in the balance sheets approximates fair value because the Foundation can obtain similar loans at the same terms.

For all these financial instruments, the carrying value, as shown on the balance sheets, approximates fair value.

NOTE P - RECLASSIFICATIONS

Certain reclassifications have been made to the 2003 financial statements to conform with the 2004 financial statement presentation. Such reclassifications had no effect on the change in net assets as previously reported.

SUPPLEMENTARY INFORMATION



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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Foundation for the National
Institutes of Health, Inc.
Bethesda, Maryland

Our report on our audits of the basic financial statements of the Foundation for the National Institutes of Health, Inc. for the years ended December 31, 2004 and 2003 appears on page one. We conducted our audits in accordance with U.S. generally accepted auditing standards for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kamerow, Weintraub & Swain, LLP

March 18, 2005

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

Year Ended December 31, 2004
With Comparative Totals for 2003

	Program Services				Supporting Services			2003 Total			
	Fellowships and Training Programs	Memorials, Awards and Events	Capital Projects	Research Partnerships	Emerging Areas	Total Program Services	Management and General		Fundraising	Total Supporting Services	
Salaries and benefits	\$ 18,938	\$ 4,774	\$ 3,244	\$ 853,396	\$ 99,221	\$ 979,573	\$ 749,399	\$ 164,036	\$ 913,435	\$ 1,893,008	\$ 1,113,120
Stipends	355,022	7,500	-	-	-	362,522	-	-	-	362,522	452,375
Program contracts	393,082	33,103	143,000	2,573,955	15,035	3,158,175	-	6,745	6,745	3,164,920	4,063,520
Meetings and conferences	24,556	50,094	-	46,450	353,780	474,880	6,828	6,586	13,414	488,294	698,015
Office supplies and expense	38,104	98	-	8,946	-	47,148	11,625	794	12,419	59,567	18,319
Telephone	-	-	-	43,770	-	43,770	31,013	6,561	37,574	81,344	2,821
Books and supplies	40,486	-	-	6,123	-	46,609	4,655	241	4,896	51,505	27,154
Tuition	2,379	-	-	3,382	-	5,761	200	220	420	6,181	14,313
Insurance	27,211	-	-	46,351	-	73,562	36,504	-	36,504	110,066	85,063
Consultants	7,000	11,987	118,716	457,731	-	595,434	61,824	17,530	79,354	674,788	988,037
Professional fees	-	-	-	160,014	-	160,014	112,082	-	112,082	272,096	165,602
Special events	-	1,959	-	-	-	1,959	-	-	-	1,959	165,299
Travel	14,216	1,640	1,600	80,372	10	97,838	4,818	5,921	10,739	108,577	94,522
Depreciation	-	-	-	-	-	-	69,632	-	69,632	69,632	18,267
Rent/housing	71,284	-	-	21,552	-	92,836	24,186	-	24,186	117,022	98,663
Recruiting	595	-	-	1,845	-	2,440	7,389	-	7,389	9,829	8,155
Relocation	8,384	-	-	7,000	-	15,384	-	-	-	15,384	10,552
Temporary services	-	-	-	-	-	-	114,761	-	114,761	114,761	6,300
Dues and subscriptions	-	-	-	1,665	-	1,665	7,617	2,400	10,017	11,682	9,042
Equipment rental and maintenance	-	-	-	7,868	-	7,868	10,769	6,204	16,973	24,841	29,605
Printing and photocopying	-	17,617	2,025	7,268	5,026	31,936	5,151	26,915	32,066	64,002	83,063
Postage and delivery	137	88	461	12,224	26	12,936	7,474	12,549	20,023	32,959	12,884
Service charges	-	-	20	130,273	310	130,603	8,619	-	8,619	139,222	36,668
Subcontracts	-	-	-	-	-	-	-	-	-	-	5,988
Interest expense	-	-	16,376	-	-	16,376	-	-	-	16,376	16,185
Communications	4,548	-	-	112,235	-	116,783	30,401	21,422	51,823	168,606	150,059
Advertising and promotion	-	-	-	-	-	-	-	5,079	5,079	5,079	100,915
Miscellaneous	55,283	500	818	45,816	12,193	114,610	-	89	89	114,699	32,967
TOTAL EXPENSES	\$ 1,061,225	\$ 129,360	\$ 286,260	\$ 4,628,236	\$ 485,601	\$ 6,590,682	\$ 1,304,947	\$ 283,292	\$ 1,588,239	\$ 8,178,921	\$ 8,507,473