

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

**FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION**

**Years Ended December 31, 2005 and 2004**

**and**

**INDEPENDENT AUDITOR'S REPORT**

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

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WITH SUPPLEMENTARY INFORMATION**

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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, 2005 and 2004, 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, 2005 and 2004, 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*

February 24, 2006

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

BALANCE SHEETS

December 31, 2005 and 2004

ASSETS	<u>2005</u>	<u>2004</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 24,119,271	\$ 10,786,130
Appropriations receivable	495,000	497,000
Pledges receivable, less allowance for uncollectible pledges receivable of \$15,000 in 2005 and 2004	6,372,349	4,985,525
Other receivables	1,134,439	2,577
Accrued interest	432,852	163,088
Prepaid expenses	<u>37,982</u>	<u>41,186</u>
<b>TOTAL CURRENT ASSETS</b>	32,591,893	16,475,506
PLEDGES RECEIVABLE	176,183	959,061
INVESTMENTS	168,742,178	203,793,296
FURNITURE AND EQUIPMENT, less accumulated depreciation of \$199,538 in 2005 and \$139,729 in 2004	<u>67,744</u>	<u>118,204</u>
<b>TOTAL ASSETS</b>	<u>\$ 201,577,998</u>	<u>\$ 221,346,067</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,282,136	\$ 117,051
Accrued expenses	82,020	48,265
Funds held for others - agency transactions	9,913,980	2,619,789
Note payable - line of credit	<u>-</u>	<u>705,000</u>
<b>TOTAL CURRENT LIABILITIES</b>	11,278,136	3,490,105
DEFERRED GRANT REVENUE	<u>164,048,507</u>	<u>198,153,760</u>
<b>TOTAL LIABILITIES</b>	<u>175,326,643</u>	<u>201,643,865</u>
<b>NET ASSETS</b>		
Unrestricted	2,527,190	1,793,835
Temporarily restricted	20,502,240	14,692,416
Permanently restricted	<u>3,221,925</u>	<u>3,215,951</u>
<b>TOTAL NET ASSETS</b>	<u>26,251,355</u>	<u>19,702,202</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 201,577,998</u>	<u>\$ 221,346,067</u>

See accompanying notes.

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE</b>				
Contributions	\$ 252,755	\$ 12,826,640	\$ 13,262	\$ 13,092,657
Grants	34,734,508	-	-	34,734,508
In-kind contributions	246,263	-	-	246,263
Government appropriations	495,000	-	-	495,000
Donated services	336,203	-	-	336,203
Investment and interest revenue	472,099	6,051,856	-	6,523,955
Administrative fee - agency transactions and grants	765,839	-	-	765,839
Net assets released from restrictions:				
Satisfaction of administrative fee requirements	586,284	(586,284)	-	-
Satisfaction of program restrictions	12,489,676	(12,489,676)	-	-
Released by donor	-	26,885	(26,885)	-
<b>TOTAL REVENUE</b>	<b>50,378,627</b>	<b>5,829,421</b>	<b>(13,623)</b>	<b>56,194,425</b>
<b>EXPENSES</b>				
<b>PROGRAM SERVICES:</b>				
Fellowships and training programs	1,477,083	-	-	1,477,083
Memorials, awards and events	322,300	-	-	322,300
Capital projects	1,034,005	-	-	1,034,005
Research partnerships	44,781,202	-	-	44,781,202
Emerging areas	343,878	-	-	343,878
<b>TOTAL PROGRAM SERVICES</b>	<b>47,958,468</b>	<b>-</b>	<b>-</b>	<b>47,958,468</b>
<b>SUPPORTING SERVICES:</b>				
Management and general	1,424,525	-	-	1,424,525
Fundraising	262,279	-	-	262,279
<b>TOTAL SUPPORTING SERVICES</b>	<b>1,686,804</b>	<b>-</b>	<b>-</b>	<b>1,686,804</b>
<b>TOTAL EXPENSES</b>	<b>49,645,272</b>	<b>-</b>	<b>-</b>	<b>49,645,272</b>
<b>CHANGE IN NET ASSETS</b>	<b>733,355</b>	<b>5,829,421</b>	<b>(13,623)</b>	<b>6,549,153</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>1,793,835</b>	<b>14,692,416</b>	<b>3,215,951</b>	<b>19,702,202</b>
<b>TRANSFERS</b>	<b>-</b>	<b>(19,597)</b>	<b>19,597</b>	<b>-</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 2,527,190</b>	<b>\$ 20,502,240</b>	<b>\$ 3,221,925</b>	<b>\$ 26,251,355</b>

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
<b>REVENUE</b>				
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
Investment and interest revenue	101,623	2,689,717	-	2,771,340
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)	-	-
<b>TOTAL REVENUE</b>	<b>8,272,578</b>	<b>5,199,304</b>	<b>12,402</b>	<b>13,484,284</b>
<b>EXPENSES</b>				
<b>PROGRAM SERVICES:</b>				
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
<b>TOTAL PROGRAM SERVICES</b>	<b>6,590,682</b>	<b>-</b>	<b>-</b>	<b>6,590,682</b>
<b>SUPPORTING SERVICES:</b>				
Management and general	1,304,947	-	-	1,304,947
Fundraising	283,292	-	-	283,292
<b>TOTAL SUPPORTING SERVICES</b>	<b>1,588,239</b>	<b>-</b>	<b>-</b>	<b>1,588,239</b>
<b>TOTAL EXPENSES</b>	<b>8,178,921</b>	<b>-</b>	<b>-</b>	<b>8,178,921</b>
<b>CHANGE IN NET ASSETS</b>	<b>93,657</b>	<b>5,199,304</b>	<b>12,402</b>	<b>5,305,363</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>1,700,178</b>	<b>9,493,112</b>	<b>3,203,549</b>	<b>14,396,839</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 1,793,835</b>	<b>\$ 14,692,416</b>	<b>\$ 3,215,951</b>	<b>\$ 19,702,202</b>

See accompanying notes.

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 6,549,153	\$ 5,305,363
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	59,809	69,632
Contributions restricted for long-term purposes	(13,262)	(12,402)
Realized (gain) loss on investments	(610)	148
Unrealized (gain) loss on investments	22,215	(22,003)
(Increase) decrease in:		
Appropriations receivable	2,000	(301,000)
Pledges receivable	(603,946)	968,797
Grants receivable	-	97,215
Other receivables	(1,131,862)	7,510
Accrued interest	(269,764)	(109,107)
Prepaid expenses	3,204	(19,186)
Increase (decrease) in:		
Accounts payable	1,165,085	(2,329,975)
Accrued expenses	33,755	14,582
Funds held for others - agency transactions	7,294,191	(536,013)
Deferred grant revenue	(34,105,253)	(783,223)
	<u>(20,995,285)</u>	<u>2,350,338</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of furniture and equipment	(9,349)	(68,368)
Purchases of investments	(15,070,126,009)	(845,749,604)
Proceeds from sales of investments	15,105,155,522	846,440,073
	<u>35,020,164</u>	<u>622,101</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from contributions restricted for:		
Investment in permanent endowment	13,262	12,402
Proceeds from note payable - line of credit	-	205,000
Payments on note payable - line of credit	(705,000)	-
	<u>(691,738)</u>	<u>217,402</u>
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>		
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	13,333,141	3,189,841
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>10,786,130</u>	<u>7,596,289</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 24,119,271</u>	<u>\$ 10,786,130</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Cash paid during the year for:		
Interest	\$ 7,211	\$ 16,376
Income taxes	-	-

See accompanying notes.

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

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, 2005 and 2004

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, 2005 and 2004, based on a review of historical collections. Amounts recorded as appropriations 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.

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, 2005 and 2004

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, 2005, 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, 2005 and 2004

NOTE C - PLEDGES RECEIVABLE

As of December 31, 2005 and 2004, unconditional pledges receivable consisted of the following:

	<u>2005</u>	<u>2004</u>
Receivable in less than one year	\$ 6,387,349	\$ 5,000,525
Receivable in one to five years	<u>182,925</u>	<u>1,001,008</u>
TOTAL	6,570,274	6,001,533
Less: discounts to net present value using a discount rate of 4%	6,742	41,947
Less: allowance for uncollectible pledges receivable	<u>15,000</u>	<u>15,000</u>
TOTAL PLEDGES RECEIVABLE	<u>\$ 6,548,532</u>	<u>\$ 5,944,586</u>

NOTE D - CONDITIONAL PLEDGES RECEIVABLE

As of December 31, 2005 and 2004, the Foundation had temporarily restricted pledges for the Alzheimer's Disease Neuroimaging Initiative totaling \$10,125,000 and \$14,475,000, respectively, that contain donor conditions. Also as of December 31, 2005, the Foundation had temporarily restricted pledges for the Imaging Database Resources Initiative totaling \$543,745 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.

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

NOTE E - INVESTMENTS

Investments held by the Foundation consisted of the following as of December 31, 2005:

	Cost	Market Value	Unrealized Appreciation (Depreciation)
Money market accounts	\$ 72,271,968	\$ 72,271,968	\$ -
Certificates of deposit	1,199,783	1,199,783	-
Commercial paper	85,314,504	85,321,513	7,009
Discount notes	989,634	989,634	-
Corporate bonds	882,861	872,654	(10,207)
Government bonds	7,977,386	7,973,760	(3,626)
Bond mutual funds	41,088	40,812	(276)
Equity mutual funds	65,166	72,054	6,888
	<u>\$ 168,742,390</u>	<u>\$ 168,742,178</u>	<u>\$ (212)</u>
BALANCE, DECEMBER 31, 2005			
BALANCE, DECEMBER 31, 2004	<u>\$ 203,771,293</u>	<u>\$ 203,793,296</u>	<u>\$ 22,003</u>
			<u>\$ (22,215)</u>
			UNREALIZED LOSS ON INVESTMENTS

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

	Cost	Market Value	Unrealized Appreciation (Depreciation)
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	61,018	68,217	7,199
	<u>\$ 203,771,293</u>	<u>\$ 203,793,296</u>	<u>\$ 22,003</u>
BALANCE, DECEMBER 31, 2004			
BALANCE, DECEMBER 31, 2003	<u>\$ 204,461,910</u>	<u>\$ 204,461,910</u>	<u>\$ -</u>
			<u>\$ 22,003</u>
			UNREALIZED GAIN ON INVESTMENTS

Investment interest revenue, which is included in investment and interest revenue on the statements of activities, equaled \$6,302,090 and \$2,606,757 for the years ended December 31, 2005 and 2004, respectively. There was a realized gain on investments of \$610 for the year ended December 31, 2005 and a realized loss on investments of \$148 for the year ended December 31, 2004.

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2005 and 2004, temporarily restricted net assets were available for the following purposes:

	2005	2004
<b>Fellowships and Training Programs</b>		
Clinical Research Training Program	\$ 973,846	\$ 1,559,876
Dean R. O'Neill Renal Cell Cancer Research Fund	60,004	46,755
Dr. Edward T. Rancic Memorial Fund	46,333	1,000
Dr. John L. Barr Memorial Fund	15,884	18,129
Fogarty International Center 35th Anniversary Publications	4,650	4,650
Fourth MIM Pan-African Malaria Conference	50,716	25
John LaMontagne Memorial Fund	12,493	4,140
Norman P. Salzman Memorial Fund	21,392	17,753
Pain and Palliative Care Program	43,513	28,957
Pain and Palliative Care Pulmonary Hypertension Observership Program	-	15,307
Robert Whitney Newcomb Memorial Fund	149,719	155,483
Sallie Rosen Kaplan Fellowship for Women Scientists in Cancer Research	37,150	17,733
The intolerable Burden of Malaria II: What's New, What's Needed	52,293	52,293
The National Center for Complementary and Alternative Medicine Director's Fellowship Program	235	235
The Neuroscience Fellowship Program	-	90,667
The Penates Fellowship	70,114	70,114
Third MIM Pan-African Malaria Conference	-	153,418
Women's Health Fellowships -Clinical	301,880	-
Women's Health Fellowships - Shared Post Doctoral	215,723	95,239
<b>Memorials, Awards and Events</b>		
A Symposium in Honor of Martha Vaughn: Insights into Signal Transduction	9,995	9,995
Adam J. Berry Memorial Fund	12,220	12,120
Celebrating 50 Years of Brain Research: New Discoveries, New Hope	206,608	206,608
Clinical Research Training Program Alumni Reunion	23,539	23,539
Conference on Dietary Supplement Use in the Elderly	2,485	2,485
From Genome to Disease: A Symposium of High Throughput Biology	-	10,549
HIV Awareness Day Reception	1,600	1,600
Innovation in Prevention Awards	291,977	546,463
John Burke Memorial Fund	9,868	9,718
John Laws Decker Memorial Fund	22,561	21,884
Lloyd Law Memorial Fund	625	625
ODS/NHLBI Anti-Coagulation Conference	2,500	-
Symposium on Cardiovascular Regenerative Medicine	9,865	9,865
The Sayer Vision Research Fund	65,957	53,212
Vaccine Research Center Community Meeting	3,143	3,143
William McCormick Blair, III Memorial Fund	5,150	5,150
<b>Capital Projects</b>		
Edmond J. Safra Family Lodge Breakfast Sponsorship	3,743	-
Edmond J. Safra Family Lodge Enhancements	29,178	1,045
Edmond J. Safra Family Lodge Garden	500	-
GlaxoSmithKline Endowment Fund	49,066	-

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

NOTE F - TEMPORARILY RESTRICTED NET ASSETS (Continued)

	2005	2004
<b>Capital Projects (Continued)</b>		
Graduate Student Lounge	48,397	48,397
Harry and Jeanette Weinberg Endowment	23,288	19,597
John I. and Elaine K. Gallin Endowment	7,315	4,832
Tracy's Toy Box	6,656	7,032
<b>Research Partnerships</b>		
Alzheimer's Disease Neuroimaging Initiative	7,252,056	7,041,929
Best Pharmaceuticals for Children Fund	3,844,329	3,765,392
Cancer Research	6,488	5,743
Grand Challenges in Global Health	3,118	16,755
Imaging Database Resources Initiative	62,326	79,736
NCI Division of Clinical Services HIV/AIDS Malignancy	15,000	15,000
Overcoming Barriers to Early Phase Clinical Trials	374,275	375,150
The Genetic Code Revisited: The Impact of Functional Genomics in Medical Research	-	17,984
The Helix and the Genome: 50 Years from Model to Medicine	13,417	13,417
Vaccine Research Center Community Advisory Board	13,291	5,604
VaxGen Vaccine Trial in Thailand	22,898	22,898
<b>Emerging Areas</b>		
Adolescent and Young Adult Oncology - Progress Review Group	300,000	-
Bone Quality Initiative Meeting	20,728	-
FMF and Beyond: The Fourth Int'l Congress on Systemic Autoinflammatory Diseases	26,687	-
Genetic Association Identification Network	5,492,041	-
Genome to Disease II: A Symposium of High Throughput Biology	18,710	-
Minority Health Summit	61,784	-
NHLBI/Fogarty Int'l Center Molecular Monitoring of Patients with Chronic Myeloid Consensus Workshop	78,304	-
<b>Other Temporarily Restricted Programs</b>	<b>4,607</b>	<b>3,175</b>
<b>TOTAL</b>	<b>\$ 20,502,240</b>	<b>\$ 14,692,416</b>

NOTE G - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of endowment fund assets, included in investments on the balance sheets, 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.

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

NOTE G - PERMANENTLY RESTRICTED NET ASSETS (Continued)

As of December 31, 2005 and 2004, permanently restricted net assets consisted of the following endowed gifts to be held in perpetuity with the income to be used for:

	<u>2005</u>	<u>2004</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	769,597	750,000
John I. and Elaine K. Gallin Endowment	64,556	78,179
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>\$ 3,221,925</u>	<u>\$ 3,215,951</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 years ended December 31, 2005 and 2004, donated services of \$336,203 and \$472,164, 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 year ended December 31, 2004. 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

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

NOTE I - IN-KIND CONTRIBUTIONS (Continued)

like amount recorded as rent/housing expense, telephone expense, or communications expense. For the years ended December 31, 2005 and 2004, in-kind contributions of \$246,263 and \$203,857, 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, 2005 and 2004 was \$188,258 and \$128,563, respectively.

NOTE K - CONCENTRATION OF REVENUE

For the year ended December 31, 2005, the Foundation received approximately 61% of its revenue from contributions and grants from the Bill and Melinda Gates Foundation.

NOTE L - RELATIONSHIP WITH THE FOUNDATION FOR ADVANCED EDUCATION  
IN THE SCIENCES, INC.

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.

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. For the year ended December 31, 2005, any reclassifications of this type are shown as transfers on the statement of activities. There were no reclassifications of this type for the year ended December 31, 2004.

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

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 expired on March 31, 2005.

The line of credit was payable on demand and was 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 required 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 for the years ended December 31, 2005 and 2004. Interest on the outstanding balance was due monthly at the 30-day indexed LIBOR plus 1.25%. The note could be prepaid and matured on March 31, 2005. There was no outstanding loan balance as of December 31, 2005. As of December 31, 2004, the loan balance was \$705,000, and is reflected in the balance sheet 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.

Appropriations 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.

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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 - GRANT AWARDS CONTINGENCY

The Foundation has authorized conditional scientific grants under the Grand Challenges in Global Health Program which total \$140,500,000. These authorized awards would become a liability to the Foundation in the future, if the grantees meet certain conditions, including the Foundation's satisfaction with and approval of progress reports.

NOTE Q - RECLASSIFICATIONS

Certain reclassifications have been made to the 2004 financial statements to conform with the 2005 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, 2005 and 2004 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.

*Kamero, Weintraub + Swain, LLP*

February 24, 2006

FOUNDATION FOR THE NATIONAL INSTITUTES OF HEALTH, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

Year Ended December 31, 2005  
With Comparative Totals for 2004

	Program Services					Supporting Services			2004 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	\$ 20,693	\$ 12,300	\$ 26,194	\$ 1,149,182	\$ 181,001	\$ 1,389,370	\$ 1,006,571	\$ 152,276	\$ 1,158,847	\$ 2,548,217	\$ 1,893,008
Stipends	82,422	15,000	-	-	-	97,422	-	-	97,422	97,422	362,522
Program contracts	485,512	1,000	812,147	-	-	5,971,345	-	7,050	7,050	5,978,395	3,164,920
Grant awards	-	-	-	37,973,388	-	37,973,388	-	-	-	37,973,388	-
Meetings and conferences	380,829	124,251	7,929	12,855	131,941	657,805	14,642	3,493	18,135	675,940	488,294
Office supplies and expense	-	152	1,654	4,497	-	6,303	5,248	2,035	7,283	13,586	59,567
Telephone	-	-	-	62,630	634	63,264	42,397	6,121	48,518	111,782	81,344
Books and supplies	35,749	-	-	2,531	-	38,280	3,711	99	3,810	42,090	51,505
Tuition	-	-	-	6,430	-	6,430	825	20	845	7,275	6,181
Insurance	3,245	-	-	35,380	-	38,625	70,519	-	70,519	109,144	110,066
Consultants	203,646	133,523	117,642	357,164	13,607	825,582	38,344	19,734	58,078	883,660	674,788
Professional fees	-	-	-	108,174	-	108,174	64,752	-	64,752	172,926	272,096
Special events	189,218	5,344	7,753	98,069	2,500	7,844	-	-	7,844	311,402	1,959
Travel	-	532	-	-	13,774	309,346	1,551	505	2,056	59,809	108,577
Depreciation	-	-	-	22,572	-	22,572	58,809	-	58,809	59,632	69,632
Rent/housing	4,840	-	-	-	-	4,840	28,452	-	28,452	51,024	117,022
Recruiting	-	-	-	-	-	-	63	-	63	4,903	9,829
Relocation	-	-	-	-	-	-	-	-	-	-	15,384
Temporary services	-	-	-	-	-	-	-	-	-	-	114,761
Dues and subscriptions	-	-	-	1,462	-	1,462	9,020	1,435	10,455	11,937	11,682
Equipment rental and maintenance	-	-	-	9,279	-	9,279	9,947	9,023	18,970	28,249	24,841
Printing and photocopying	49,488	269	-	12,300	-	62,057	942	22,397	23,339	85,396	64,002
Postage and delivery	67	8,460	628	8,954	353	18,472	5,711	15,563	21,274	39,746	32,959
Service charges	1,085	60	30	181,442	-	182,617	22,457	-	22,457	205,074	139,222
Subcontracts	-	-	-	-	-	-	-	853	853	-	-
Interest expense	-	-	7,211	-	-	7,211	35,200	20,449	55,649	7,211	16,376
Communications	-	-	-	62,177	-	62,177	667	667	667	117,826	168,606
Advertising and promotion	-	-	-	-	-	-	4,364	559	4,923	667	5,079
Miscellaneous	20,289	21,409	52,817	-	68	94,583	-	-	-	99,506	114,699
<b>TOTAL EXPENSES</b>	<b>\$ 1,477,083</b>	<b>\$ 322,300</b>	<b>\$ 1,034,005</b>	<b>\$ 44,781,202</b>	<b>\$ 343,878</b>	<b>\$ 47,958,468</b>	<b>\$ 1,424,525</b>	<b>\$ 262,279</b>	<b>\$ 1,686,804</b>	<b>\$ 49,645,272</b>	<b>\$ 8,178,921</b>