

Financial Statements
Years Ended
December 31, 2008 and 2007

Foundation for the National Institutes of Health, Inc.

Goodman
& COMPANY

Certified Public Accountants
Specialized Services
Business Solutions

Foundation for the National Institutes of Health, Inc.

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Report of Independent Auditors

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

We have audited the accompanying statements of financial position of *Foundation for the National Institutes of Health, Inc.* (a not-for-profit organization) as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of *Foundation for the National Institutes of Health, Inc.* 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 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 *Foundation for the National Institutes of Health, Inc.* as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Goodman & Company, LLP

Rockville, Maryland
May 13, 2009

Foundation for the National Institutes of Health, Inc.

Statements of Financial Position

December 31,	2008	2007
Assets		
Current assets		
Cash and cash equivalents	\$ 23,434,000	\$ 33,254,693
Investments	27,379,208	9,422,157
Appropriations receivable	-	500,000
Contributions receivable - net	14,234,164	9,407,688
Accrued interest	255,566	350,483
Prepaid expenses and other receivables	80,943	51,701
Total current assets	65,383,881	52,986,722
Contributions receivable	2,652,412	2,835,304
Investments	62,171,948	101,105,240
Furniture and equipment - net	184,476	33,847
	\$ 130,392,717	\$ 156,961,113
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 552,390	\$ 1,641,253
Funds held for others - agency transactions	8,126,591	7,944,332
Total current liabilities	8,678,981	9,585,585
Deferred grant revenue	56,695,432	95,852,136
Total liabilities	65,374,413	105,437,721
Net assets		
Unrestricted	6,038,559	5,423,815
Temporarily restricted	55,524,753	42,647,655
Permanently restricted	3,454,992	3,451,922
Total net assets	65,018,304	51,523,392
	\$ 130,392,717	\$ 156,961,113

The accompanying notes are an integral part of these financial statements.

Foundation for the National Institutes of Health, Inc.

Statement of Activities

Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, support and other changes				
Contributions	\$ 1,007,088	\$ 40,864,751	\$ 3,070	\$ 41,874,909
Grants	38,889,595	-	-	38,889,595
In-kind contributions	394,232	-	-	394,232
Government appropriations	500,000	-	-	500,000
Donated services	229,194	-	-	229,194
Investment and interest revenue	900,863	2,902,943	-	3,803,806
Administrative fee - agency transactions and grants	564,709	-	-	564,709
Net assets released from restrictions:				
Satisfaction of administrative fee requirements	1,254,265	(1,254,265)	-	-
Satisfaction of program restrictions	29,636,331	(29,636,331)	-	-
Total revenue, support and other changes	73,376,277	12,877,098	3,070	86,256,445
Expenses				
Program services				
Fellowships and training programs	1,225,728	-	-	1,225,728
Memorials, awards and events	589,849	-	-	589,849
Capital projects	112,374	-	-	112,374
Research partnerships	67,219,711	-	-	67,219,711
Total program services	69,147,662	-	-	69,147,662
Supporting services				
Management and general	3,473,739	-	-	3,473,739
Fundraising	140,132	-	-	140,132
Total supporting services	3,613,871	-	-	3,613,871
Total expenses	72,761,533	-	-	72,761,533
Change in net assets	614,744	12,877,098	3,070	13,494,912
Net assets - beginning of year	5,423,815	42,647,655	3,451,922	51,523,392
Net assets - end of year	\$ 6,038,559	\$ 55,524,753	\$ 3,454,992	\$ 65,018,304

The accompanying notes are an integral part of these financial statements.

Foundation for the National Institutes of Health, Inc.

Statement of Activities

Year Ended December 31, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, support and other changes				
Contributions	\$ 466,763	\$21,101,543	\$ 6,869	\$21,575,175
Grants	34,822,284	-	-	34,822,284
In-kind contributions	23,288,249	-	-	23,288,249
Government appropriations	500,000	-	-	500,000
Donated services	192,839	-	-	192,839
Investment and interest revenue	1,548,575	6,658,712	-	8,207,287
Administrative fee - agency transactions and grants	349,698	-	-	349,698
Net assets released from restrictions:				
Satisfaction of administrative fee requirements	1,199,124	(1,199,124)	-	-
Satisfaction of program restrictions	23,720,674	(23,720,674)	-	-
Total revenue, support and other changes	86,088,206	2,840,457	6,869	88,935,532
Expenses				
Program services				
Fellowships and training programs	710,349	-	-	710,349
Memorials, awards and events	919,593	-	-	919,593
Capital projects	24,802	-	-	24,802
Research partnerships	80,328,753	-	-	80,328,753
Total program services	81,983,497	-	-	81,983,497
Supporting services				
Management and general	2,789,382	-	-	2,789,382
Fundraising	164,476	-	-	164,476
Total supporting services	2,953,858	-	-	2,953,858
Total expenses	84,937,355	-	-	84,937,355
Change in net assets	1,150,851	2,840,457	6,869	3,998,177
Net assets - beginning of year	4,271,653	39,846,518	3,407,044	47,525,215
Transfers	1,311	(39,320)	38,009	-
Net assets - end of year	\$ 5,423,815	\$42,647,655	\$ 3,451,922	\$51,523,392

The accompanying notes are an integral part of these financial statements.

Foundation for the National Institutes of Health, Inc.

Statements of Cash Flows

Years Ended December 31,	2008	2007
Cash flows from operating activities		
Change in net assets	\$ 13,494,912	\$ 3,998,177
Adjustments to reconcile to net cash from operating activities:		
Depreciation	36,964	25,566
Contributions restricted for long-term purposes	(3,070)	(6,869)
Net realized and unrealized gains on investments	(104,905)	(35,980)
Change in:		
Appropriations receivable	500,000	-
Contributions receivable	(4,643,584)	4,872,750
Accrued interest	94,917	530,532
Prepaid expenses and other receivables	(29,242)	(12,146)
Accounts payable and accrued expenses	(1,088,863)	1,284,510
Funds held for others - agency transactions	182,259	(1,397,236)
Deferred grant revenue	(39,156,704)	(35,102,259)
Net cash from operating activities	<u>(30,717,316)</u>	<u>(25,842,955)</u>
Cash flows from investing activities		
Furniture and equipment acquisitions	(187,593)	(17,838)
Sales and maturities of investments	654,183,467	511,521,158
Purchase of investments	(633,102,321)	(478,569,600)
Net cash from investing activities	<u>20,893,553</u>	<u>32,933,720</u>
Cash flows from financing activities		
Proceeds from contributions restricted for: Investment in permanent endowment	<u>3,070</u>	<u>6,869</u>
Net change in cash and cash equivalents	(9,820,693)	7,097,634
Cash and cash equivalents - beginning of year	<u>33,254,693</u>	<u>26,157,059</u>
Cash and cash equivalents - end of year	<u>\$ 23,434,000</u>	<u>\$ 33,254,693</u>

The accompanying notes are an integral part of these financial statements.

Foundation for the National Institutes of Health, Inc.

Notes to Financial Statements

December 31, 2008 and 2007

1. Organization and Nature of Activities

Foundation for the National Institutes of Health, Inc. (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.

2. Summary of Significant Accounting Policies

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.

Basis of Presentation

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.

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, excluding temporarily uninvested money market funds held in brokerage accounts. At December 31, 2008 and 2007, the Foundation held cash and cash equivalents in one financial institution which were in excess of the amount insured by the Federal Deposit Insurance Corporation, the Securities Investor Protection Corporation and the U.S. Treasury Guarantee Program for Money Market Funds. The maximum potential loss that could have resulted from this concentration was approximately \$11,600,000 and \$32,500,000 at December 31, 2008 and 2007, respectively.

Investments

Investments are recorded at market value. Realized gains or losses are recognized upon sale or disposal. Interest income is recorded on the accrual basis. Unrealized gains and losses, due to market fluctuations during the year, are recognized at year-end.

Contributions and Appropriations Receivable

Unconditional contributions receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional contributions to be collected in more than one year are recorded at net present value, which approximates fair value. Conditional contributions receivable are recognized when the conditions on which they depend are substantially met. Appropriations receivable are recorded at the amount appropriated by governmental agencies. Credit risk for contributions receivable is concentrated, as a significant amount of contributions receivable are received from a few donor organizations. Approximately \$400,000 is included in contributions receivable for the estimated amount expected to be received from a bequest in which the Foundation is named as the residual beneficiary. Management has estimated the amount based on information available from the personal representative of the estate. It is at least reasonably possible that management's estimate of this receivable will change in the near term, although the amount of change cannot be estimated.

Allowance for Uncollectible Receivables

Management has established an allowance for uncollectible contributions receivable in the amount of \$15,000 as of December 31, 2008 and 2007, 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.

Furniture and Equipment

Furniture and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is three to five years. The Foundation's policy is to capitalize furniture and equipment purchased with a cost of \$1,000 or more. Donated equipment is recorded at fair market value at the date of contribution. As of December 31, 2008 and 2007, furniture and equipment was \$503,742 and \$316,149, respectively, and accumulated depreciation was \$319,266 and \$282,302, respectively.

Contributions

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 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 by the Foundation as a liability to the specified beneficiary concurrent with recognition of the assets received from the donor.

Grant Revenue Recognition

Amounts received under grant awards are considered exchange transactions and are recognized as unrestricted revenue when the related expenses are incurred. Unexpended amounts received are recorded as deferred grant revenue. Expenditures in excess of receipts are recorded as grants receivable.

Appropriations 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.

3. Investments

Investments as of December 31, 2008, are summarized as follows:

	<u>Cost</u>	<u>Market Value</u>
Money market funds	\$ 25,130,221	\$ 25,130,221
Certificates of deposit	2,299,763	2,302,439
Commercial paper	8,122,792	8,143,022
Stocks	15,565	15,565
Discount notes	45,342,800	45,505,628
Corporate bonds	699,983	694,693
Government bonds	7,612,511	7,633,212
Bond mutual funds	51,501	53,828
Equity mutual funds	116,084	72,548
	<u>\$ 89,391,220</u>	<u>\$ 89,551,156</u>

The following schedule summarized the investment return and its classification for 2008.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 887,380	\$ 2,811,521	\$ 3,698,901
Realized losses	(21,560)	-	(21,560)
Unrealized gains	35,043	91,422	126,465
Total investment return	<u>\$ 900,863</u>	<u>\$ 2,902,943</u>	<u>\$ 3,803,806</u>

Investments as of December 31, 2007, are summarized as follows:

	<u>Cost</u>	<u>Market Value</u>
Money market funds	\$ 21,243,665	\$ 21,243,665
Certificates of deposit	1,149,337	1,149,337
Commercial paper	77,784,382	77,812,411
Stocks	30,102	30,102
Discount notes	2,079,978	2,079,978
Corporate bonds	2,344,858	2,353,949
Government bonds	5,695,181	5,696,091
Bond mutual funds	51,884	53,122
Equity mutual funds	114,539	108,742
	<u>\$ 110,493,926</u>	<u>\$ 110,527,397</u>

The following schedule summarized the investment return and its classification for 2007.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 1,537,626	\$ 6,633,681	\$ 8,171,307
Realized gains	15,979	-	15,979
Unrealized gains (losses)	(5,030)	25,031	20,001
	<u>\$ 1,548,575</u>	<u>\$ 6,658,712</u>	<u>\$ 8,207,287</u>

4. Contributions Receivable

Contributions receivable at December 31, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Receivable in less than one year	\$ 14,249,164	\$ 9,422,688
Receivable in one to five years	2,810,848	2,948,675
Total unconditional contributions receivable	17,060,012	12,371,363
Less - discounts to net present value	(158,436)	(113,371)
Less - allowance for uncollectible contributions receivable	(15,000)	(15,000)
Net unconditional contributions receivable	<u>\$ 16,886,576</u>	<u>\$ 12,242,992</u>

The discount rate used on long-term contributions receivable was 4% in 2008 and 2007.

5. Conditional Contributions Receivable

As of December 31, 2008 and 2007, the Foundation had the following contributions receivable subject to donor conditions:

	<u>2008</u>	<u>2007</u>
Alzheimer's Disease Neuroimaging Initiative	\$ 800,000	\$ 2,675,000
Alzheimer's Disease Neuroimaging Initiative Supplement Study	-	764,160
Fluorodeoxyglucose-Positron Emission Tomography Lung and Lymphoma Projects	1,330,000	2,310,000
Comparison of Two PET Radioligands to Quantify the Peripheral Baenodiazepine Receptor	186,834	-
Head Off Environmental Asthma in Louisiana	-	550,000
Cognitive Impairment (MATRICS)	-	420,907
	<u>\$ 2,316,834</u>	<u>\$ 6,720,067</u>

Since these contributions receivable represent conditional contributions receivable, they are not recorded as contributions receivable and contribution revenue until donor conditions are met.

6. Temporarily Restricted Net Assets

As of December 31, 2008 and 2007, temporarily restricted net assets were available for the following purposes:

	<u>2008</u>	<u>2007</u>
Fellowships and Training Programs		
Clinical Research Training Program	\$ 991,764	\$ 1,598,127
Dean R. O'Neill Renal Cell Cancer Research Fund	114,802	100,019
Dr. Edward T. Rancic Memorial Fund	46,333	46,333
Dr. John L. Barr Memorial Fund	17,347	17,779
35 th Anniversary Fogarty International Center Celebration	4,650	4,650
Fourth MIM Pan-African Malaria Conference	111	111
John LaMontagne International Fellowship	13,743	13,743
Norman P. Salzman Memorial Award and Lecture in Virology	41,602	40,687
Pain and Palliative Care General Agreement	41,898	41,898
Robert Whitney Newcomb Memorial Lecture and Internship	268,503	276,798
Sallie Rosen Kaplan Fellowship for Women Scientists in Cancer Research	40,788	50,128
The Intolerable Burden of Malaria II: What's New, What's Needed	15,765	95,893
National Center for Complementary and Alternative Medicine Director's Award	235	235
The Penates Fellowship	70,114	70,114
Women's Health Clinic Fellowship - AstraZeneca	2,326	189,527
Women's Health Postdoctoral Fellowship - Battelle Shared Post-Doctoral	74,933	142,368
The Bernard Osher Foundation NCCAM Practitioner Research Career Development Award	1,424,312	3,771,606
Action to Cure Kidney Cancer (ACKC) Fellowship	-	32

Robert Welch Memorial Fund	1,322	-
Principles of Clinical Pharmacology Course	58,884	-
Memorials, Awards and Events		
A Symposium in Honor of Martha Vaughn: Insights into Signal Transduction	9,995	9,995
Adam J. Berry Memorial Fund	12,355	11,420
Bone Quality Initiative	32,811	32,811
Breast Cancer Summit	66,500	-
Carcinoid Summit Workshop	23,344	26,633
Celebrating 50 Years of Brain Research: New Discoveries, New Hope	206,608	206,608
Clinical Research Training Program 10-Year Reunion	23,642	28,042
CVRM Symposium	10,674	11,024
Dietary Supplements, Coagulation, and Antithrombotic Conference, January 13-14, 2005	2,485	2,485
Edna Williams Curl & Myron	63,110	61,482
HIV Awareness Day Reception	1,600	1,600
Innovation in Prevention Awards	9,473	9,473
John Burke Cancer Research Fund	100	100
John Laws Decker Memorial Fund	28,765	26,160
Lloyd Law Memorial Fund	625	625
Minority Health Summit	4,738	4,738
Dr. Jane M. Sayer Vision Research Lecture and Award	146,164	126,703
Vaccine Research Center Open House Community Meeting	3,143	3,143
William McCormick Blair, III Memorial Fund	5,150	5,150
Polio Conference	40,728	40,728
Swanson Family Fellowship in Generic Thyroid Benign Chorea and IgA Deficiency (TTF-1)	92,500	67,500
Richard A. Lauderbaugh Memorial Fund	3,550	3,990
Stephen E. Straus Award	13,237	9,030
Jerry D. Jennings Memorial Fund	3,580	3,330
Dr. Anita Roberts Memorial Fund	17,255	19,155
Promise of Public-Private Partnerships: Forging New Alliances In Global Health	4,236	-
NIH Director's Fund	17,219	-
NIH Summit on "The Science of Eliminating Health Disparities"	23,360	-
Capital Projects		
Edmond J. Safra Family Lodge Dinner & Pantry	311	61
Edmond J. Safra Family Lodge Bricks and Mortar	5,000	-
Edmond J. Safra Family Lodge All Programs	8,897	14,320
Edmond J. Safra Family Lodge GSK Endowment	218,534	169,839
Edmond J. Safra Family Lodge Weinberg Endowment	6,615	42,599
Edmond J. Safra Family Lodge Gallin Endowment	15,725	13,288
Tracy's Toy Box	9,756	8,756
The Ellen Shaw Fund	-	8,500
Research Partnerships		
Adolescent and Young Adult Oncology - Progress Review Group	2,793	2,874
Alzheimer's Disease Neuroimaging Initiative	9,456,100	11,175,868
Best Pharmaceuticals for Children Fund	3,127,003	3,127,008
Cancer Research Fund	37,700	33,803
Cognitive Aging Summit	404	404
Genetic Association Identification Network	529,288	853,671

Grand Challenges in Global Health	119,058	27,637
Imaging Database Resources Initiative	10,402	10,402
“I Can Do It, You Can Do It”	181,277	225,000
NCI Division of Clinical Services HIV/AIDS Malignancy	15,000	15,000
Observational Medical Outcomes Pilot (OMOP)	10,360,269	1,206,015
Overcoming Barriers to Early Phase Clinical Trials	354,001	354,001
Helix and Genome - 50 Year Event	13,417	13,417
Vaccine Research Center Community Advisory Board	9,758	10,025
VaxGen Vaccine Trial in Thailand	22,898	22,898
Comprehensive T Cell Vaccine Immune Monitoring Consortium	5,681,754	6,789,775
Frequent Hemodialysis	203,080	365,961
Fluorodeoxyglucose-Positron Emission Tomography (FDG- PET) Lung and Lymphoma	3,703,176	2,920,067
Schizophrenia Cognition Project	573,989	292,257
Schizophrenia Metabolic Initiative	1,536,058	3,203,259
Biomarker Consortium	688,431	1,350,674
Head-Off Environmental Asthma in Louisiana	968,416	1,044,609
Biotechnology Resource for Innovation and Development in Genomedicine	-	724,973
Alzheimer's Disease Neuroimaging Initiative – PIB	856,950	911,616
Alzheimer's Disease Neuroimaging Initiative – Genotyping	-	4,153
Alzheimer's Disease Neuroimaging Initiative – CSF Extension	376,696	224,726
Alzheimer's Disease Neuroimaging Initiative – Genotyping Analysis	1,318	66,649
Understanding Targeted Cancer Therapies Tutorials	152,858	212,480
Comparison of Two PET Radioligands to Quantify the Peripheral Baenodiazepine Receptor	41,627	-
Carotid MRI Reproducibility Study via an AIMHIGH Sub Study	592,085	-
I-SPY TRIAL-2 (Investigation of Serial Studies to Predict Your Therapeutic Response with Imaging and Molecular Analysis)	457,644	-
Heart Truth Community Grant Award Program	221,506	-
Comprehensive Investigation into the Risk Factors of Malnutrition and the Consequences for Child Health	10,701,001	-
Nanotechnology Projects	8,635	-
Psychiatric GWAS Consortium	112,500	-
Other Temporarily Restricted Programs	46,444	29,097
	<u>\$ 55,524,753</u>	<u>\$ 42,647,655</u>

7. Permanently Restricted Net Assets

Permanently restricted net assets consist of endowment fund assets, included in investments on the statements of financial position 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, 2008 and 2007, permanently restricted net assets consisted of the following endowed gifts to be held in perpetuity with the income to be used for:

	<u>2008</u>	<u>2007</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	830,894	830,894
John I. and Elaine K. Gallin Endowment	86,326	83,256
Sallie Rosen Kaplan Fellowship for Women Scientists in Cancer Research	787,772	787,772
Norman P. Salzman Memorial Fund	100,000	100,000
Stephen E. Straus Award	150,000	150,000
	<u>\$ 3,454,992</u>	<u>\$ 3,451,922</u>

8. Endowments

The Foundation's endowments consist of individual donor-restricted endowment funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the Uniform Management of Institutional Funds Act (UMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of the accumulation to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditures by the Foundation in a manner consistent with the standard of prudence prescribed by UMIFA. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

The endowment net asset composition by type of fund were as follows as of December 31, 2008:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 336,501	\$ 3,454,992	\$ 3,791,493

The changes in endowment assets were as follows for 2008:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 325,571	\$ 3,451,922	\$ 3,777,493
Investment return:			
Investment income	127,267	-	127,267
Net depreciation (realized and unrealized)	(22,506)	-	(22,506)
Total investment return	104,761	-	104,761
Contributions	7,375	3,070	10,445
Appropriation of endowment assets for expenditure	(101,206)	-	(101,206)
Endowment net assets, end of year	\$ 336,501	\$ 3,454,992	\$ 3,791,493

The endowment net asset composition by type of fund were as follows as of December 31, 2007:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 325,571	\$ 3,451,922	\$ 3,777,493

The changes in endowment assets were as follows for 2007:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 241,622	\$ 3,407,044	\$ 3,648,666
Investment return:			
Investment income	190,711	-	190,711
Net appreciation (realized and unrealized)	1,154	-	1,154
Total investment return	191,865	-	191,865
Contributions	24,200	6,869	31,069
Appropriation of endowment assets for expenditure	(94,107)	-	(94,107)
Transfers	(38,009)	38,009	-
Endowment net assets, end of year	\$ 325,571	\$ 3,451,922	\$ 3,777,493

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to maximize long-term results, consistent with a prudent level of risk while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period or purpose. Under this policy, as approved by the Board of Directors, the endowment assets are invested to maximize long-term results, consistent with a prudent level of risk. The goal is to produce a return on the assets to support the programmatic purposes, while also achieving growth of principal in order to maintain real purchasing power. This approach helps assure that gifts to endowment funds keep pace with inflation and always support the designated activity.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which the investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that balances fixed-income and equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Consistent with the Foundation's objective to ensure long-term results of its endowments, the Foundation has adopted the following spending policy:

1. There will be no payouts during the first 15 months the endowment is invested.
2. For gifts that have been with the Foundation for more than 15 months, and less than 48 months, spending shall be limited to the lower of (a) 50% of the net investment earnings or (b) 5% of the fair market value for the preceding trailing 12 quarters, lagged for one additional quarter.

3. For gifts that have been invested for 48 months, the Board of Directors currently permits the Foundation to spend up to 5 percent annually of the fair market value for the preceding trailing 12 quarters, lagged for one additional quarter.

The lower spending thresholds in the first 48 months ensure that the endowment gets a secure start and avoids a situation where the fair market value falls below that of the original gift. The Foundation's objective is to maintain the purchasing power of the endowment assets held in perpetuity of for a specified term as well as to provide additional real growth through new gifts and investment return.

In order to comply with UMIFA, spending from donor-restricted funds must stop when the fair market value of the endowment is less than the original gift. Unless agreed by the donor, spending will be suspended or curtailed in such an event until the asset market value exceeds the value of the original gift.

9. Grant Revenue

The Foundation receives a portion of its support under certain grants and contributions that may be audited by the donors and the ultimate determination of allowable costs is determined by such audits.

10. In-Kind Contributions

Telephone expense and on-line communication costs for the Foundation are 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 2008 and 2007, these in-kind contributions from NIH of \$394,232 and \$422,459, respectively, are reflected in the financial statements.

In 2007, the Foundation received DNA sequencing from Pfizer, Perlegen Sciences Inc., The Broad Institute and Affymetrix for the Genetic Association Information Network project. The estimated fair value of the DNA sequencing was determined by the donor and has been reflected in the accompanying financial statements as in-kind contributions with a like amount recorded as program contracts. For 2007, in-kind contributions for the DNA sequencing of \$22,865,790 are reflected in the financial statements.

11. 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 employees. 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 2008 and 2007, donated services of \$229,194 and \$192,839, respectively, are reflected in the financial statements.

12. 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 2008 and 2007 was \$394,404 and \$330,234, respectively.

13. Concentration of Revenue

For 2008 and 2007, the Foundation received approximately 66% and 46%, respectively, of its revenue from contributions and grants from the Bill and Melinda Gates Foundation.

14. 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.

15. Reclassifications of Support and Transfers

In the normal course of business, the Foundation often receives support in which there is a delay between when the support is received and the time when the donor and the Foundation finalize the donor restrictions or other matters affecting the treatment of the support. The results of these negotiations determine the ultimate accounting classification for these funds. Because of this situation, certain reclassifications of support may need to be recorded as terms, restrictions and conditions are finalized. For 2007, there were reclassifications of this type shown as transfers on the statement of activities.

16. Fair Value of Financial Instruments

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 statements of financial position 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.

Appropriations and Other Receivables

The carrying amount reported in the statements of financial position approximates fair value because of the short maturity of those instruments.

Contributions Receivable

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

Accrued Interest

The carrying amount reported in the statements of financial position approximates fair value because of the short maturity of those instruments.

Funds Held for Others - Agency Transactions

The carrying amount reported in the statements of financial position approximates fair value due to the short-term nature of the liability.

For all these financial instruments, the carrying value, as shown on the statements of financial position, approximates fair value.

Fair Value Measurements

Fair values of assets measured on a recurring basis at December 31, 2008 are as follows:

	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments	\$ 89,551,156	\$ 89,551,156	\$ -
Long-term contributions receivable	2,652,412	-	2,652,412
Total assets	<u>\$ 92,203,568</u>	<u>\$ 89,551,156</u>	<u>\$ 2,652,412</u>

Fair values of assets measured on a recurring basis at December 31, 2007 are as follows:

	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments	\$ 110,527,397	\$ 110,527,397	\$ -
Long-term contributions receivable	2,835,304	-	2,835,304
Total assets	<u>\$ 113,362,701</u>	<u>\$ 110,527,397</u>	<u>\$ 2,835,304</u>

17. Conditional Grant Awards

As of December 31, 2008 and 2007, the Foundation has authorized conditional scientific grants under the following programs:

	<u>2008</u>	<u>2007</u>
Schizophrenia Metabolic Initiative	\$ 1,496,784	\$ 3,056,816
Grand Challenges in Global Health	32,715,029	58,131,932
Comprehensive T Cell Vaccine Immune Monitoring Consortium	<u>13,168,332</u>	<u>20,797,984</u>
	<u>\$ 47,380,145</u>	<u>\$ 81,986,732</u>

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.

18. Lease

The Foundation has an office location in Bethesda, Maryland under a lease agreement with the Federation of American Societies for Experimental Biology (FASEB). Beginning in 2007, the Foundation entered into a new lease agreement with FASEB for a ten year period which expires October 31, 2017. The Foundation does have the option to terminate this lease on a one-time basis effective November 30, 2012 if FASEB is given notice of an intention to terminate not later than February 28, 2012. The Foundation also has an option to extend the lease for two additional five year terms.

The future minimum lease payments required under the operating lease for the years ended December 31, are as follows:

2009	\$ 333,094
2010	346,403
2011	360,232
2012	374,664
2013	389,636
Thereafter	<u>1,642,493</u>
	<u>\$ 3,446,522</u>

Rent expense under this lease was \$320,285 and \$53,027, respectively for 2008 and 2007.

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Report of Independent Auditors on Supplementary Information

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

Our report on our audits of the basic financial statements of *Foundation for the National Institutes of Health, Inc.* for 2008 and 2007 appears on page one. Those audits were conducted 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.

Goodman & Company, LLP

Rockville, Maryland
May 13, 2009

Foundation for the National Institutes of Health, Inc.

Schedule of Functional Expenses

Year Ended December 31, 2008 with Comparative Totals for 2007

	Program Services					Supporting Services			Total 2007	
	Fellowships and Training Programs	Memorials, Awards and Events	Capital Projects	Research Partnerships	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Salaries and benefits	\$ 26,770	\$ 111,560	\$ 7,327	\$ 2,868,837	\$ 3,014,494	\$ 2,069,337	\$ 85,356	\$ 2,154,693	\$ 5,169,187	\$ 4,259,538
Stipends	80,000	32,728	-	400	113,128	-	-	-	113,128	34,750
Program contracts	936,450	20,083	22,870	10,930,317	11,909,720	-	-	-	11,909,720	31,066,542
Grant awards	-	-	-	48,393,442	48,393,442	-	-	-	48,393,442	43,583,338
Meetings and conferences	28,060	36,108	18,289	498,193	580,650	77,524	20	77,544	658,194	590,092
Office supplies and expense	-	7,220	347	14,587	22,154	23,497	-	23,497	45,651	24,211
Telephone	15	198	-	149,196	149,409	89,983	3,414	93,397	242,806	204,145
Books and supplies	32,355	24,229	-	13,058	69,642	16,925	-	16,925	86,567	110,111
Tuition	-	-	-	19,781	19,781	597	-	597	20,378	10,258
Insurance	-	-	-	66,073	66,073	52,676	-	52,676	118,749	120,264
Consultants	60	16,395	14,820	3,353,134	3,384,409	355,784	14,063	369,847	3,754,256	2,577,634
Professional fees	-	-	-	158,613	158,613	83,877	-	83,877	242,490	277,578
Special events	11,901	177,553	4,000	41,506	234,960	11,934	-	11,934	246,894	313,935
Travel	20,921	83,007	324	274,954	379,206	6,148	3,501	9,649	388,855	469,363
Depreciation	-	-	-	-	-	36,964	-	36,964	36,964	25,566
Rent/housing	-	-	-	143,155	143,155	192,245	-	192,245	335,400	135,541
Recruiting	9,185	-	-	7,813	16,998	15,008	-	15,008	32,006	60,042
Relocation	-	-	-	5,050	5,050	1,040	-	1,040	6,090	198,519
Temporary services	-	-	-	5,179	5,179	45,178	-	45,178	50,357	79,740
Dues and subscriptions	-	-	-	1,813	1,813	23,214	325	23,539	25,352	7,516
Equipment rental and maintenance	-	-	14,347	14,483	28,830	16,116	-	16,116	44,946	35,053
Printing and photocopying	65,102	60,312	15,219	50,112	190,745	52,317	450	52,767	243,512	76,091
Postage and delivery	31	3,727	119	5,635	9,512	12,520	20,472	32,992	42,504	34,580
Service charges	185	185	45	100,428	100,843	80,671	-	80,671	181,514	240,328
Communications	-	-	14,528	95,877	110,405	186,994	12,512	199,506	309,911	233,611
Advertising and promotion	-	15,650	-	5,535	21,185	184	-	184	21,369	48,484
Miscellaneous	14,693	894	139	2,540	18,266	23,006	19	23,025	41,291	120,525
	\$ 1,225,728	\$ 589,849	\$ 112,374	\$ 67,219,711	\$ 69,147,662	\$ 3,473,739	\$ 140,132	\$ 3,613,871	\$ 72,761,533	\$ 84,937,355

See report of independent auditors on supplementary information.