

# Foundation for the National Institutes of Health, Inc.

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## Financial Statements

Years Ended December 31, 2018 and 2017

## **Table of Contents**

<b>Independent Auditors' Report</b> .....	1
<b>Financial Statements:</b>	
Statements of Financial Position .....	3
Statements of Activities .....	4
Statements of Functional Expenses .....	6
Statements of Cash Flows.....	7
Notes to Financial Statements .....	8

## **Independent Auditors' Report**

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

We have audited the accompanying financial statements of Foundation for the National Institutes of Health, Inc., which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Foundation for the National Institutes of Health, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



***Change in Accounting Principle***

As discussed in Note 2 to the financial statements, the Foundation adopted FASB ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in 2018. Our opinion is not modified with respect to that matter.

*Dixon Hughes Goodman LLP*

**Richmond, Virginia**  
**May 24, 2019**

**Foundation for the National Institutes of Health, Inc.**  
**Statements of Financial Position**  
**December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b> <b>(As Adjusted)</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 20,568,739	\$ 24,083,896
NIH receivable	-	500,000
Contributions receivable, net	17,013,499	21,674,301
Accrued interest	465,834	203,819
Prepaid expenses and other receivables	249,754	171,707
Total current assets	<b>38,297,826</b>	46,633,723
Contributions receivable	257,048	1,305,711
Investments	102,785,676	70,839,704
Property and equipment, net	1,553,424	1,653,277
Total assets	<b>\$ 142,893,974</b>	<b>\$ 120,432,415</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,884,772	\$ 3,704,459
Funds held for others, agency transactions	1,235,000	1,240,626
Charitable gift annuity	137,937	144,193
Total current liabilities	<b>5,257,709</b>	5,089,278
Deferred grant revenue	2,870,167	2,947,073
Other deferred revenue	3,200,000	435,000
Deferred lease incentive	1,279,514	1,372,009
Deferred rent liability	383,777	101,436
Total liabilities	<b>12,991,167</b>	9,944,796
Net assets:		
Without donor restrictions:		
Unrestricted, general	6,730,390	5,952,742
Board designated	11,337,000	10,018,000
Total without donor restrictions	<b>18,067,390</b>	15,970,742
With donor restrictions	111,835,417	94,516,877
Total net assets	<b>129,902,807</b>	110,487,619
Total liabilities and net assets	<b>\$ 142,893,974</b>	<b>\$ 120,432,415</b>

See accompanying notes.

**Foundation for the National Institutes of Health, Inc.**  
**Statement of Activities**  
**Year Ended December 31, 2018**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue, support and other changes:			
Contributions	\$ 561,548	\$ 57,700,175	\$ 58,261,723
Grants	116,338	-	116,338
In-kind contributions	256,859	-	256,859
Transfers from NIH (2018 FY)	750,000	-	750,000
Transfers from NIH (2019 FY)	1,250,000	-	1,250,000
Donated services	60,000	-	60,000
Fundraising event	368,156	-	368,156
Investment and interest income (loss), net	1,030,225	(112,527)	917,698
Administrative fee, agency transactions and grants	64,723	-	64,723
Net assets released from restrictions:			
Satisfaction of indirect cost requirements	4,126,804	(4,126,804)	-
Satisfaction of program restrictions	36,092,304	(36,092,304)	-
 Total revenue, support and other changes	 <u>44,676,957</u>	 <u>17,368,540</u>	 <u>62,045,497</u>
Expenses:			
Program services:			
Fellowships and training programs	1,074,653	-	1,074,653
Memorials, awards and events	486,093	-	486,093
Capital projects	852,380	-	852,380
Research programs	34,264,962	-	34,264,962
 Total program services	 <u>36,678,088</u>	 <u>-</u>	 <u>36,678,088</u>
Supporting services:			
Management and general	5,436,683	-	5,436,683
Fundraising	515,538	-	515,538
 Total supporting services	 <u>5,952,221</u>	 <u>-</u>	 <u>5,952,221</u>
 Total expenses	 <u>42,630,309</u>	 <u>-</u>	 <u>42,630,309</u>
Change in donor designation	50,000	(50,000)	-
Change in net assets	2,096,648	17,318,540	19,415,188
Net assets, beginning of year	15,970,742	94,516,877	110,487,619
Net assets, end of year	<u>\$ 18,067,390</u>	<u>\$ 111,835,417</u>	<u>\$ 129,902,807</u>

See accompanying notes.

**Foundation for the National Institutes of Health, Inc.**  
**Statement of Activities**  
**Year Ended December 31, 2017**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions (As Adjusted)</u>	<u>Total</u>
Revenue, support and other changes:			
Contributions	\$ 789,982	\$ 57,728,502	\$ 58,518,484
Grants	381,969	-	381,969
In-kind contributions	1,490,818	-	1,490,818
Transfers from NIH (2017 FY)	610,000	-	610,000
Transfers from NIH (2018 FY)	500,000	-	500,000
Donated services	39,000	-	39,000
Fundraising event	324,700	-	324,700
Investment and interest income, net	1,497,064	824,779	2,321,843
Administrative fee, agency transactions and grants	111,660	-	111,660
Net assets released from restrictions:			
Satisfaction of indirect cost requirements	4,066,870	(4,066,870)	-
Satisfaction of program restrictions	49,874,924	(49,874,924)	-
	<u>59,686,987</u>	<u>4,611,487</u>	<u>64,298,474</u>
Total revenue, support and other changes			
	<u>59,686,987</u>	<u>4,611,487</u>	<u>64,298,474</u>
Expenses:			
Program services:			
Fellowships and training programs	958,145	-	958,145
Memorials, awards and events	813,509	-	813,509
Capital projects	66,782	-	66,782
Research programs	49,897,652	-	49,897,652
	<u>51,736,088</u>	<u>-</u>	<u>51,736,088</u>
Total program services			
	<u>51,736,088</u>	<u>-</u>	<u>51,736,088</u>
Supporting services:			
Management and general	4,864,695	-	4,864,695
Fundraising	438,402	-	438,402
	<u>5,303,097</u>	<u>-</u>	<u>5,303,097</u>
Total supporting services			
	<u>5,303,097</u>	<u>-</u>	<u>5,303,097</u>
Total expenses			
	<u>57,039,185</u>	<u>-</u>	<u>57,039,185</u>
Change in net assets			
	2,647,802	4,611,487	7,259,289
Net assets, beginning of year			
	<u>13,322,940</u>	<u>89,905,390</u>	<u>103,228,330</u>
Net assets, end of year			
	<u>\$ 15,970,742</u>	<u>\$ 94,516,877</u>	<u>\$ 110,487,619</u>

See accompanying notes.

**Foundation for the National Institutes of Health, Inc.**  
**Statements of Functional Expenses**  
**Year Ended December 31, 2018, with Comparative Totals for 2017**

	Program Services				Supporting Services				Total 2018	Total 2017
	Fellowships and Training Programs	Memorials, Awards and Events	Capital Projects	Research Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Salaries and benefits	\$ 49,988	\$ 60,175	\$ 82,437	\$ 4,433,468	\$ 4,626,068	\$ 3,921,523	\$ 173,868	\$ 4,095,391	\$ 8,721,459	\$ 7,237,344
Stipends	500	110,997	10,000	15,250	136,747	-	50,000	50,000	186,747	185,522
Programs contracts	892,062	128,568	602,282	16,512,076	18,134,988	-	-	-	18,134,988	32,693,116
Grant awards	-	-	-	9,744,585	9,744,585	-	-	-	9,744,585	11,428,707
Meetings and travel	105,345	174,089	31,854	1,180,650	1,491,938	68,194	104,943	173,137	1,665,075	2,050,206
Office supplies and expense	1,433	1,389	30	-	2,852	18,497	481	18,978	21,830	22,414
Telephone	-	-	-	70,723	70,723	88,559	7,356	95,915	166,638	150,563
Books and supplies	3,612	-	-	14,692	18,304	8,498	-	8,498	26,802	7,068
Tuition	-	-	-	674	674	2,177	-	2,177	2,851	6,884
Insurance	-	-	-	104,525	104,525	69,968	-	69,968	174,493	198,275
Consultants	-	-	118,420	1,665,555	1,783,975	233,850	95,113	328,963	2,112,938	1,249,273
Professional fees	-	-	-	132,198	132,198	153,052	-	153,052	285,250	169,307
Depreciation	-	-	-	-	-	173,807	-	173,807	173,807	51,250
Rent/housing	9,172	-	-	131,886	141,058	408,696	-	408,696	549,754	502,811
Recruiting	-	-	-	8,767	8,767	80,865	-	80,865	89,632	105,697
Relocation	-	-	-	0	-	-	-	-	-	352,047
Temporary services	-	503	-	3,151	3,654	2,268	450	2,718	6,372	183,653
Dues and subscriptions	-	-	-	10,492	10,492	12,495	-	12,495	22,987	19,896
Equipment and rental and maintenance	10,851	-	-	8,985	19,836	40,287	-	40,287	60,123	62,467
Printing and photocopying	-	2,472	2,005	38,352	42,829	20,757	46,472	67,229	110,058	49,223
Postage and delivery	-	28	1,071	99,499	100,598	3,805	6,965	10,770	111,368	33,309
Service charges	1,645	325	176	6,611	8,757	22,200	2,080	24,280	33,037	43,099
Communication	45	5,047	8	80,054	85,154	90,075	13,244	103,319	188,473	171,938
Advertising and promotion	-	-	-	1,438	1,438	6,052	4,873	10,925	12,363	13,779
Miscellaneous	-	2,500	4,097	1,331	7,928	11,058	9,693	20,751	28,679	51,337
	<u>\$ 1,074,653</u>	<u>\$ 486,093</u>	<u>\$ 852,380</u>	<u>\$ 34,264,962</u>	<u>\$ 36,678,088</u>	<u>\$ 5,436,683</u>	<u>\$ 515,538</u>	<u>\$ 5,952,221</u>	<u>\$ 42,630,309</u>	<u>\$ 57,039,185</u>

See accompanying notes.



**Foundation for the National Institutes of Health, Inc.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 19,415,188	\$ 7,259,289
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	173,807	51,250
Contributions restricted for long-term purposes	(109,617)	(9,915)
Net realized and unrealized loss (gain) on investments	979,685	(1,377,208)
Deferred lease incentive amortization	(92,495)	(15,416)
Change in assets and liabilities:		
Contributions receivable	5,709,465	2,858,784
NIH receivable	500,000	-
Accrued interest	(262,015)	(80,710)
Prepaid expenses and other receivables	(78,047)	(65,788)
Accounts payable and accrued expenses	180,313	(4,372,186)
Funds held for others, agency transactions	(5,626)	786,750
Charitable gift annuity	(6,256)	(6,349)
Deferred grant revenue	(76,906)	(443,957)
Other deferred revenue	2,765,000	(648,500)
Net cash provided by operating activities	<u>29,092,496</u>	<u>3,936,044</u>
Cash flows from investing activities:		
Furniture and equipment acquisitions	(73,954)	(274,497)
Sales and maturities of investments	90,642,144	11,608,561
Purchase of investments	(123,567,801)	(35,700,120)
Net cash used by investing activities	<u>(32,999,611)</u>	<u>(24,366,056)</u>
Cash flows from financing activities:		
Deferred rent liability	282,341	101,436
Contributions restricted for investment in permanent endowment	109,617	9,915
Net cash provided by financing activities	<u>391,958</u>	<u>111,351</u>
Net decrease in cash and cash equivalents	<u>(3,515,157)</u>	<u>(20,318,661)</u>
Cash and cash equivalents, beginning of year	<u>24,083,896</u>	<u>44,402,557</u>
Cash and cash equivalents, end of year	<u>\$ 20,568,739</u>	<u>\$ 24,083,896</u>
Supplemental disclosure of noncash transactions:		
Leasehold improvements acquired with lease incentive	<u>\$ -</u>	<u>\$ 1,387,425</u>

See accompanying notes.

## **Notes to Financial Statements**

### **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 reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

- Net assets without donor restrictions – not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation's management and the board of directors.
- Net assets with donor restrictions – subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

#### ***Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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.

#### ***Investments***

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

**Foundation for the National Institutes of Health, Inc.**  
**Notes to Financial Statements**

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***Contributions and other 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. Credit risk for contributions receivable is concentrated, as a significant amount of contributions receivable are received from a few donor organizations. Other receivables are stated at net realizable value and are deemed fully collectible by management.

***Allowance for uncollectible receivables***

Contributions receivable are stated at unpaid balances, less an allowance for doubtful accounts. Management has established an allowance for uncollectible contributions receivable in the amount of \$15,000 as of December 31, 2018 and 2017, based on a review of historical collections. Receivables are considered delinquent if full principal payments are not received in accordance with the contractual terms. It is the Foundation's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Amounts recorded as other receivables are deemed to be fully collectible by management. Accordingly, an allowance has not been recorded for those receivables.

***Property and equipment***

Property and equipment purchases are recorded at cost. Depreciation is computed using the straight-line method based on the following estimated useful lives:

Furniture & equipment	3 - 5 years
Leasehold improvements	15 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.

***Deferred rent and incentives***

Deferred rent is recorded and amortized to the extent the total minimum rental payments allocated to the current period on a straight-line basis exceed or are less than the cash payments required. Deferred leasehold incentives are recorded and amortized over the life of the lease.

***Contributions***

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

***Agency transactions***

The Foundation recognizes a liability equal to the fair value of 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.

***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.

**Foundation for the National Institutes of Health, Inc.**  
**Notes to Financial Statements**

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***Transfers from NIH revenue recognition***

Transfers from NIH are recognized as revenue in the year they are approved.

***Functional expenses***

The costs of providing program and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and benefits	Time and effort
Stipends	Time and effort
Program contracts	Time and effort
Grant awards	Time and effort
Meetings and travel	Time and effort
Office supplies and expense	Time and effort
Telephone	Headcount/Time and effort
Books and supplies	Headcount/Time and effort
Tuition	Time and effort
Insurance	Headcount
Consultants	Time and effort
Professional fees	Time and effort
Depreciation	Time and effort
Rent and housing	Square footage
Recruiting	Time and effort
Relocation	Time and effort
Temporary services	Time and effort
Dues and subscriptions	Time and effort
Equipment and rental	Headcount/Time and effort
Printing and photocopying	Time and effort
Postage and delivery	Time and effort
Service charges	Time and effort
Communications	Time and effort
Advertising and promotion	Time and effort
Miscellaneous	Time and effort

***Income taxes***

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. The Foundation has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2018 and 2017.

***New Accounting Pronouncement***

During 2018, the Foundation adopted ASU No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity of available resources, and the lack of consistency in the type of information provided about expenses and investment return. The 2017 financial statements have been adjusted to reflect retrospective application of the new accounting guidance, except for the disclosures around liquidity and availability of resources and analysis of expenses by functional and natural categories. These disclosures have been presented for 2018 as allowed by ASU No. 2016-14. The retrospective application resulted in temporarily restricted net assets of \$91,433,211 and permanently restricted net assets of \$3,083,666 being reported as net assets with donor restrictions and unrestricted net assets of \$15,970,742 being reported as net assets without donor restrictions as of December 31, 2017.

***Reclassification***

Certain reclassifications have been made to the 2017 financial statements to confirm to the 2018 financial statement presentation. Such reclassifications had no impact on previously reported changes in net assets.

***Subsequent events***

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 24, 2019, the date the financial statements were available to be issued.

***Recently issued accounting standards***

**Revenue from Contracts with Customers**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, “Revenue from Contracts with Customers (Topic 606)”. The core principle of this standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. The FASB issued four additional standards that amended and/or clarified certain guidance and provisions in ASU 2014-09, all of which are effective for the Foundation January 1, 2019. The Foundation is currently evaluating the impact on its financial statements as a result of the adoption of these new standards.

**Leases**

In February 2016, the FASB issued ASU 2016-02, “Leases”. Under the new standards, lessees will need to recognize a right-of-use asset and a lease liability for virtually all their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. For income statement purposes, the FASB continued the dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied to current lease accounting. Extensive quantitative and qualitative disclosures will be required to provide greater insight into the extent of revenue and expense recognized and expected to be recognized from existing contracts. The new standard will be effective for the Foundation January 1, 2020, and the Foundation is currently evaluating the effect this accounting standard may have on its financial statements.

**Foundation for the National Institutes of Health, Inc.**  
**Notes to Financial Statements**

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**3. Availability and Liquidity**

The following represents the Foundation's financial assets at December 31, 2018:

Financial assets:

Cash and cash equivalents	\$ 20,568,739
Contributions receivable	17,013,499
Investments	<u>102,785,676</u>

Total financial assets 140,367,914

Less amounts not available to be used within one year:

Net assets with donor restrictions	111,935,414
Legacy Fund established by the board	1,550,000
Quasi endowment established by the board	<u>8,887,000</u>

122,372,414

Financial assets available to meet general expenditures  
over the next twelve months \$ 17,995,500

The Foundation's goal is to maintain financial assets to meet one year of Supporting Services (approximately \$7 million). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and high quality fixed income securities with a maximum maturity of 3 years.

**4. Concentration of Credit Risk**

Financial instruments that potentially subject the Foundation to concentration of credit risk consist of cash transaction accounts. The Foundation places its cash transaction accounts with high credit quality financial institutions. On December 31, 2018 and 2017, the Foundation had deposits in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). The Foundation has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

**5. Cash and Cash Equivalents**

Elements of cash and cash equivalents consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Cash in banks	\$ 438,308	\$ 1,032,985
Money market funds	<u>20,130,431</u>	<u>23,050,911</u>
	<u>\$ 20,568,739</u>	<u>\$ 24,083,896</u>

**Foundation for the National Institutes of Health, Inc.**  
**Notes to Financial Statements**

**6. Property and Equipment**

Major classes of property and equipment consisted of the following:

	<u>2018</u>	<u>2017</u>
Furniture and equipment	\$ 1,041,295	\$ 967,341
Leasehold improvements	<u>1,387,425</u>	<u>1,372,009</u>
	2,428,720	2,339,350
Accumulated depreciation and amortization	<u>(875,296)</u>	<u>(686,073)</u>
	<u>\$ 1,553,424</u>	<u>\$ 1,653,277</u>

**7. Investments**

Investments as of December 31, 2018, are summarized as follows:

	<u>Cost</u>	<u>Market Value</u>
Money market funds	\$ 3,231,655	\$ 3,231,655
U.S. government bonds	87,831,681	87,965,203
Exchange traded funds	1,595,842	1,499,212
Mutual funds	<u>10,950,208</u>	<u>10,089,606</u>
	<u>\$ 103,609,386</u>	<u>\$ 102,785,676</u>

The following schedule summarizes the investment return and its classification for 2018.

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividends	\$ 1,709,521	\$ 347,637	\$ 2,057,158
Realized gains	366,349	503,162	869,511
Unrealized losses	(885,870)	(963,326)	(1,849,196)
Investment fees	<u>(159,775)</u>	<u>-</u>	<u>(159,775)</u>
Total investment return	<u>\$ 1,030,225</u>	<u>\$ (112,527)</u>	<u>\$ 917,698</u>

Investments as of December 31, 2017, are summarized as follows:

	<u>Cost</u>	<u>Market Value</u>
Money market funds	\$ 1,113,648	\$ 1,113,648
Stocks	499,651	870,417
Corporate bonds	236,083	301,650
U.S. government bonds	56,828,181	56,524,690
Exchange traded funds	2,337,006	2,168,144
Mutual funds	<u>8,790,300</u>	<u>9,861,155</u>
	<u>\$ 69,804,869</u>	<u>\$ 70,839,704</u>

**Foundation for the National Institutes of Health, Inc.**  
**Notes to Financial Statements**

The following schedule summarizes the investment return and its classification for 2017.

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividends	\$ 794,286	\$ 271,766	\$ 1,066,052
Realized gains	198,937	133,209	332,146
Unrealized gains	625,258	419,804	1,045,062
Investment fees	<u>(121,417)</u>	<u>-</u>	<u>(121,417)</u>
Total investment return	<u>\$ 1,497,064</u>	<u>\$ 824,779</u>	<u>\$ 2,321,843</u>

**8. Contributions Receivable**

Contributions receivable at December 31, were as follows:

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 5,703,499	\$ 21,689,301
Receivable in one to five years	<u>11,865,000</u>	<u>1,344,000</u>
Total unconditional contributions receivable	<u>17,568,499</u>	23,033,301
Discounts to net present value	<u>(282,952)</u>	(38,289)
Allowance for uncollectible contributions receivable	<u>(15,000)</u>	<u>(15,000)</u>
Net unconditional contributions receivable	<u>\$ 17,270,547</u>	<u>\$ 22,980,012</u>

The discount rate used on long-term contributions receivable was 2.25% in 2018 and 2017.

**9. Conditional Contributions Receivable**

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

	<u>2018</u>	<u>2017</u>
Conditioned upon the funder not notifying the Foundation by a specific date that they do not wish to fund the program:		
Comprehensive Cellular Vaccine Immune Monitoring Consortium	\$ 3,245,488	\$ 6,781,274
Developing Leads to Shorten Duration of TB Chemotherapy	1,464,744	3,375,351
Using Biomarkers to Predict TB Treatment Duration	5,800,002	8,672,115
Lurie Prize in Biomedical Research	300,000	400,000
Support functions for Vector-based Control of Transmission Research	262,225	1,017,445
Pew Latin American Fellows Awards	199,500	238,875
Lifespan Connectome Project	580,645	1,161,290
Transitional Support for Gene Drive Research	1,850,599	5,287,190
Efficacy of Heterodimeric IL-15 Treatment Regimens in Reducing SIV Reservoir	765,405	2,002,514
Health Effects of Moderate Drinking	-	51,550,000
Biomarkers Consortium Novel Cardiac Biomarkers in the General US Population	25,000	100,000



**Foundation for the National Institutes of Health, Inc.**  
**Notes to Financial Statements**

Conditioned upon meeting certain milestones and/or the funder not cancelling:

NIH Medical Research Scholars Program	210,000	240,000
Follicular Lymphoma Research Fund	20,000	40,000
Charles A. Sanders Legacy Fund	-	50,000
Alzheimer's Disease Neuroimaging Initiative-3	5,280,000	7,905,000
Accelerating Medicines Partnership: RA, SLE & Related Autoimmune Disorders	690,000	-
Biomarkers Consortium Treatments Against Rheumatoid Arthritis and Effect on FDG PET-CT	226,250	512,500
Biomarkers Consortium Advanced Metrics and Modeling with Volumetric CT for Precision Analysis of Clinical Trial Results	308,333	1,008,333
Longitudinal Proteomic Changes in CSF from ADNI: Towards Better Defining the Trajectory of Prodromal and Early Alzheimer's Disease	22,000	22,000
Amgen NIH Scholars Program	502,500	-
Pamela Anne Cafritz Renal Cell Carcinoma Award	300,000	400,000
Biomarkers Consortium Osteoarthritis Biomarkers Qualification	1,345,500	1,041,000
Structure-based Vaccine Design Against HIV-1	125,000	250,000
Biomarkers Consortium Inflammatory Markers for Neurodegenerative and Mood Disorders	477,000	188,500
Partnership for Accelerating Cancer Therapies	36,150,000	9,200,000
Accelerating Medicines Partnership: Parkinson's Disease	6,000,000	6,800,000
NCTN Data Archive De-Identification Project	60,000	120,000
Biomarkers Consortium ctDNA Reference Standards	774,122	154,822
Chemotherapeutic Impact on the Immune MicroEnvironment Project (ChIIME)	1,250,000	-
Participation of Native American Students in the National Institute for Neurological Disorders and Stroke (NINDS)	120,000	-
Non-Invasive BioMarkers of Metabolic Liver Disease (NIMBLE) (Project is not yet launched)	6,545,888	-
Understanding NHP protection against TB induced by Intravenous BCG	916,656	-
Single Cell Mass Accumulation Rate (MAR) Biomarker for Drug Efficacy (Multiple Myeloma Leukemia)	272,000	-
	<u>\$ 76,088,847</u>	<u>\$ 108,518,209</u>

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

**10. Board Designated Net Assets**

The Board of Directors has established three board designated funds as follows at December 31:

	<u>2018</u>	<u>2017</u>
Endowment Fund	\$ 8,887,000	\$ 7,968,000
Contingency Fund	900,000	500,000
Legacy Fund	<u>1,550,000</u>	<u>1,550,000</u>
	<u>\$ 11,337,000</u>	<u>\$ 10,018,000</u>

**Foundation for the National Institutes of Health, Inc.**  
**Notes to Financial Statements**

**11. Net Assets with Donor Restrictions**

As of December 31, net assets with donor restrictions were available for the following purposes:

	<u>2018</u>	<u>2017</u>
Fellowships and Training Programs:		
Amgen Scholars Program	\$ 147,803	\$ 176,812
Amgen Scholars Science Education Fellowship at NIH	-	183
Clinical Research Training Program	-	292,561
Dean R. O'Neill Renal Cell Cancer Research Fund	210,452	188,625
Dr. Edward T. Rancic Memorial Fund	6,515	6,431
Dr. John L. Barr Memorial Fund	686	257
Neva Fund	27,880	27,851
NIH Medical Research Scholarship Program	1,618,803	709,447
NINDS/CNS Getch Scholar	-	200,000
NOB Fund	7,652	8,152
Norman P. Salzman Memorial Award and Lecture in Virology	208,444	241,605
Pew Latin American Fellow	-	30,000
Robert Whitney Newcomb Memorial Lecture and Internship	1,129,261	1,171,991
Sallie Rosen Kaplan Fellowship for Women Scientists in Cancer Research	58,738	150,210
Swanson Family Fellowship in Generic Thyroid Benign Chorea and IgA Deficiency (TTF-1)	92,500	92,500
Notkins biomedical Research Fund	200,000	-
Memorials, Awards and Events:		
2019 Alzheimer's Disease-Related Dementia (ADRD) Summit	87	-
2017 AD Caregiving Summit	44,717	45,689
Adam J. Berry Memorial Fund	5,992	4,890
Alzheimer's Disease 2018	-	56,922
Breast Cancer Summit 2	65,198	65,198
Carcinoid Summit Workshop	17,594	17,594
Celebrating 50 Years of Brain Research: New Discoveries, New Hope	171,451	171,451
Clinical Research Training Program 10-Year Reunion	-	23,642
Dr. Anita Roberts Memorial Fund	32,238	32,247
Dr. Jane M. Sayer Vision Research Lecture and Award	252,485	227,580
Edna Williams Curl & Myron R. Curl Endowment for Multiple Sclerosis Research	65,458	64,615
Human Genome Exhibition	17,481	75,969
International Summit in Human Genetics and Genomics	-	37,089
John Laws Decker Memorial Fund	2,279	2,156
Lurie Prize	100,000	100,000
Pamela Ana Cafritz	197,000	100,000
Polio Conference	40,698	40,698
Stephen E. Straus Award	105,475	104,565
Capital Projects:		
Edmond J. Safra Family Lodge Bricks and Mortar	79,759	79,759
Edmond J. Safra Family Lodge All Programs	16,175	16,563
Edmond J. Safra Family Lodge GSK Endowment	77,188	307,469
Edmond J. Safra Family Lodge Weinberg Endowment	87,874	163,664
Edmond J. Safra Family Lodge Gallin Endowment	106,689	118,942
Edmond J. Safra Family Lodge Lifecycle Renewal Project	-	354,919
Tracy's Toy Box	7,941	7,941
Research Partnerships:		
Accelerating Medicines Partnership Membership	1,026,605	1,480,355
Accelerating Medicines Partnership: Type 2 Diabetes	10,795,122	14,225,557
Accelerating Medicines Partnership: Alzheimer's	11,444,566	12,691,443
Accelerating Medicines Partnership: Rheumatoid Arthritis and Lupus	7,213,091	5,766,189

**Foundation for the National Institutes of Health, Inc.**  
**Notes to Financial Statements**

Accelerating Medicines Partnership: Parkinson's Disease	<b>2,914,828</b>	3,152,729
ADNI - Amyloid PET Early Frames Add on Study	<b>347,585</b>	-
ADNI - Optimization of Alzheimer's Disease Cognitive Measures Project	<b>15,980</b>	15,980
Alzheimer's Disease Neuroimaging Initiative – 2	-	8,461
Alzheimer's Disease Neuroimaging Initiative – 3	<b>7,971,047</b>	5,733,526
Biomarker Consortium	<b>2,651,567</b>	2,030,738
Biomarkers Consortium: Atherosclerosis Computer Modeling	<b>596,504</b>	741,009
Biomarkers Consortium: Autism Spectrum Disorder	<b>563,194</b>	571,921
Biomarkers Consortium: Beta Cell Clinical Trial	<b>30,720</b>	185,817
Biomarkers Consortium: Bone Quality Project	<b>310,391</b>	721,831
Biomarkers Consortium: CABP-Skin Infection	<b>19,736</b>	19,736
Biomarkers Consortium: CSF-Based Biomarkers in AD	<b>10,838</b>	10,838
Biomarkers Consortium: HABP/VABP Working Group	<b>20,863</b>	65,311
Biomarkers Consortium: HD-SCA in CRC (High Definition Single Cell Analysis of Blood and Tissue Biopsies)	<b>161,037</b>	575,184
Biomarkers Consortium: Inflammatory Markers for Neurodegenerative and Mood Disorders	<b>456,637</b>	385,334
Biomarkers Consortium: Kidney Safety	<b>34,196</b>	169,113
Biomarkers Consortium: Longitudinal CSF Proteomics	<b>113,292</b>	399,059
Biomarkers Consortium: MRD Project	<b>1,174,882</b>	1,214,564
Biomarkers Consortium: Novel Cardiac Biomarkers in the General US Population	<b>387,122</b>	541,931
Biomarkers Consortium: Osteoarthritis Project	-	216,472
Biomarkers Consortium: OA BMxQ	<b>1,342,168</b>	691,000
Biomarkers Consortium: Placebo Data Analysis Project in AD	<b>13,154</b>	44,525
Biomarkers Consortium: Target BMx	<b>413,793</b>	433,081
Biomarkers Consortium: Vol-PACT	<b>1,439,628</b>	1,731,000
Biomarkers Consortium: PACT Implementation	<b>21,015,886</b>	8,200,000
Bradley Charitable Gift Annuity	<b>24,808</b>	32,031
Cancer Research Fund	<b>644,690</b>	161,379
Cancer Research Major Gift	<b>4,737,225</b>	4,737,225
Charles A. Sanders Legacy Fund	<b>1,380,269</b>	1,445,432
Chemotherapeutic Impact on the Immune MicroEnvironment	<b>696,699</b>	-
Comprehensive Cellular Vaccine Immune Monitoring Consortium (CVIMC)	<b>2,284,976</b>	1,641,684
Comprehensive Investigation into the Risk Factors of Malnutrition and the Consequences for Child Health	-	262,867
Comprehensive T Cell Vaccine Immune Monitoring Consortium	-	298,731
Comprehensive T Cell Vaccine Immune Monitoring Consortium (CTVIMCS2)	-	609,341
Consensus Pathway for Gene Drive in Mosquitoes	<b>205,385</b>	346,087
ctDNA Reference Standards	<b>464,467</b>	154,823
Development of a Second Generation Broadly Neutralizing Antibody (2GVRC01)	<b>35,678</b>	35,060
Deeda Blair Research Initiative Fund for Disorders of the Brain	<b>200,318</b>	-
Essential Strategies to Combat Ebola in West Africa: Social Mobilization and Communications	-	162,291
Effects of Moderate Drinking	<b>418,372</b>	4,423,218
Eliminate Dengue	<b>3,320</b>	3,320
Epilepsy Research in the Laboratory of Kareem Zaghloul, M.D., Ph.D	<b>148,212</b>	148,212
FDG-PET Lung/Lymphoma	<b>14,599</b>	372,025
FNIIH Travel support for NIH Scientists	<b>590,539</b>	777,096
Follicular Lymphoma Research Fund	<b>20,700</b>	-
Fojo Laboratory	-	104,185
Gilead HIV Cure Grants	<b>1,237,109</b>	696,775
Gramlich Melanoma Research Trust	<b>178,606</b>	154,617
Grand Challenges in Global Health	<b>119,258</b>	119,258

**Foundation for the National Institutes of Health, Inc.**  
**Notes to Financial Statements**

Heart Truth Community Grant Award Program	-	61,321
HIT-TB	<b>26,676</b>	133,249
IL 2 Reactivation HIV	-	191,440
I-SPY TRIAL-2 (Investigation of Serial Studies to Predict Your Therapeutic Response with Imaging and Molecular Analysis)	-	176,311
Kidney Cancer Research	<b>100,298</b>	106,964
Lifespan Connectome Project	<b>180,003</b>	360,002
Lung Cancer Master Protocol (LungMAP)	<b>1,448,758</b>	1,000,928
Multiple Myeloma Accumulation Rate (MAR)	<b>136,000</b>	-
NCTN Data Archive De-Identification Project	<b>276,773</b>	100,584
Non-Invasive Biomarkers of Metabolic Liver Disease	<b>6,319,682</b>	-
OPIOID	-	22,717
OPIOIDS Stakeholder	<b>100,000</b>	-
Partnership for Accelerating Cancer Therapies	<b>79,376</b>	86,146
PREDICT-TB	<b>1,535,173</b>	329,700
Rapid identification of individuals with viable adult female worms of <i>Onchocerca volvulus</i> : a means to the end	<b>80</b>	560
Sarcopenia 2	<b>78,203</b>	295,307
SHORTEN-TB	<b>203,453</b>	408,814
Solarz Memorial Fund	<b>264,345</b>	258,179
Spiromic Project	<b>3,396</b>	3,396
Structure-Based Vaccine D	<b>33,622</b>	28,518
Support functions for VCTR	<b>511,289</b>	752,502
The Lowy Cancer Research Support Fund	<b>13,182</b>	20,000
The Sports and Health Research Program	-	5,801
Transitional Support Gene Drive Research	<b>3,322,342</b>	2,531,552
Tuberculosis Vaccine	<b>2,422,497</b>	-
Other Temporarily Restricted Programs	<b>494,940</b>	<b>334,672</b>
Total Temporarily Restricted Net Assets	<b>108,642,245</b>	91,433,211
Perpetual Endowments:		
Edmond J. Safra Family Lodge:		
GlaxoSmithKline Endowment Fund	<b>1,500,000</b>	1,500,000
Harry and Jeanette Weinberg Endowment at the Edmond J. Safra Family Lodge	<b>830,894</b>	831,005
Sallie Rosen Kaplan Fellowship for Women Scientists in Cancer Research	<b>707,772</b>	707,772
CarMollNat Muscular Dystrophy Endowment	<b>54,506</b>	44,889
Futures Fund	<b>100,000</b>	-
Total Perpetual Endowments	<b>3,193,172</b>	3,083,666
	<b><u>\$ 111,835,417</u></b>	<b><u>\$ 94,516,877</u></b>

## 12. Endowments

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

**Foundation for the National Institutes of Health, Inc.**  
**Notes to Financial Statements**

***Interpretation of relevant law***

The Board of Directors of the Foundation has interpreted the Maryland State Prudent Management of Institutional Funds Act (SPMIFA) 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 retains in perpetuity (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. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditures by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. 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, was as follows as of December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 8,887,000	\$ -	\$ 8,887,000
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	3,193,172	3,193,172
Accumulated investment gains	-	434,639	434,639
Total endowment funds	<u>\$ 8,887,000</u>	<u>\$ 3,627,811</u>	<u>\$ 12,514,811</u>

The changes in endowment assets were as follows for 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 7,968,000	\$ 3,952,726	\$ 11,920,726
Investment return:			
Investment income	-	117,481	117,481
Net depreciation (realized and unrealized)	-	(384,712)	(384,712)
Total investment return	-	(267,231)	(267,231)
Contributions	-	113,217	113,217
Additional board designation	<u>919,000</u>	-	<u>919,000</u>

**Foundation for the National Institutes of Health, Inc.**  
**Notes to Financial Statements**

Appropriation of endowment assets for expenditure	-	(67,504)	(67,504)
Transfers	-	(103,397)	(103,397)
Endowment net assets, end of year	<u>\$ 8,887,000</u>	<u>\$ 3,627,811</u>	<u>\$ 12,514,811</u>

The endowment net asset composition, by type of fund, was as follows as of December 31, 2017:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 7,968,000	\$ -	\$ 7,968,000
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	3,083,666	3,083,666
Accumulated investment gains	-	869,060	869,060
Total endowment funds	<u>\$ 7,968,000</u>	<u>\$ 3,952,726</u>	<u>\$ 11,920,726</u>

The changes in endowment assets were as follows for 2017:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 6,259,011	\$ 3,445,019	\$ 9,704,030
Investment return:			
Investment income	-	116,158	116,158
Net appreciation (realized and unrealized)	-	436,670	436,670
Total investment return	-	552,828	552,828
Contributions	-	12,215	12,215
Additional board designation	1,708,989	-	1,708,989
Appropriation of endowment assets for expenditure	-	(57,336)	(57,336)
Endowment net assets, end of year	<u>\$ 7,968,000</u>	<u>\$ 3,952,726</u>	<u>\$ 11,920,726</u>

***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.

**13. 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.

**14. In-Kind Contributions**

Telephone expense, on-line communication costs, and some office space for the Foundation are donated by NIH. The value of the telephone expense, value of the on-line communication costs, and estimated rental value of the office space, has been reflected in the accompanying financial statements as in-kind contributions with a like amount recorded as telephone expense, communications expense, or rent/housing expense. For 2018 and 2017, these in-kind contributions from NIH of \$250,908 and \$234,612, respectively, are reflected in the financial statements.

In 2017 the Foundation received medical supplies from Novartis. The estimated value of the goods and services is determined by the donor, based on costs and current market value and has been reflected in the accompanying financial statements as in-kind contributions with a like amount recorded as program contracts. For 2017, in-kind contributions for these materials of \$1,098,661 are reflected in the financial statements.

Various other items were donated during 2018 and 2017 in the amount of \$5,951 and \$157,545, respectively.

**15. Donated Services**

The Foundation receives benefit from services donated by 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 2018 and 2017, donated services of \$60,000 and \$39,000, respectively, are reflected in the financial statements.

**16. 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. Retirement plan expense for 2018 and 2017 was \$661,485 and \$526,775, respectively.

## **17. Concentration of Revenue**

For 2018, the Foundation received approximately 25% of its revenue from contributions and grants from the Bill and Melinda Gates Foundation. For 2017, the Foundation received approximately 12% of its revenue from contributions and grants from Bristol-Myers Squibb Company.

## **18. 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 NIH and to conduct specific other activities that support 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.

## **19. Fair Value of Financial Instruments**

Accounting Standards Codification (ASC) Topic 820 provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

**Level 1** Inputs to the valuation methodology are unadjusted quoted market prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

**Level 2** Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

### U.S. government and corporate bonds

Valued at quoted market price per number of units held at year-end.

### Equity mutual funds

Valued at net asset value (NAV) of shares held at year-end.

### Bond mutual funds

Valued at net asset value (NAV) of shares held at year-end.



**Foundation for the National Institutes of Health, Inc.**  
**Notes to Financial Statements**

Exchange traded funds

Valued at net asset value (NAV) of shares held at year-end.

Common stocks

Valued at quoted market values of shares held at year-end.

All assets have been valued using a market approach. Fair values for assets in Level 2 are calculated using quoted market prices for similar assets in markets that are not active. There were no changes in the valuation techniques during the current year.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2018 and 2017:

	<b>Assets at Fair Value as of December 31, 2018</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
U.S. government bonds	\$ 87,965,203	\$ -	\$ -	\$ 87,965,203
Equity mutual funds	6,491,923	-	-	6,491,923
Bond mutual funds	3,597,683	-	-	3,597,683
Exchange traded funds	<u>1,499,212</u>	-	-	<u>1,499,212</u>
Total investments	<u>\$ 99,554,021</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 99,554,021</u>

	<b>Assets at Fair Value as of December 31, 2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Corporate bonds	\$ 301,650	\$ -	\$ -	\$ 301,650
U.S. government bonds	56,524,691	-	-	56,524,691
Equity mutual funds	6,098,675	-	-	6,098,675
Bond mutual funds	3,762,480	-	-	3,762,480
Exchange traded funds	2,168,144	-	-	2,168,144
Common stocks	<u>870,416</u>	-	-	<u>870,416</u>
Total investments	<u>\$ 69,726,056</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,726,056</u>

**Foundation for the National Institutes of Health, Inc.**  
**Notes to Financial Statements**

**20. Conditional Grant Awards**

As of December 31, 2018 and 2017, the Foundation has authorized conditional scientific grants under the following programs:

	<u>2018</u>	<u>2017</u>
Accelerating Medicines Partnership: Type 2 Diabetes	\$ 2,712,069	\$ 2,882,518
Biomarkers Consortium – HD-SCA in CRC Project	100,000	490,151
Using Biomarkers to Predict TB Treatment Duration	5,609,994	6,922,446
Developing Leads to Shorten Duration of TB Chemotherapy	1,383,390	3,382,189
Support Functions of VCTR	-	447,584
Transitional Support for Gene Drive	348,323	1,302,745
Biomarkers Consortium – Cardiac Troponin Project	221,136	433,833
Biomarkers Consortium – Bone Quality Project	-	257,500
Biomarkers – Target BMx	482,078	730,048
LungMaP (Lung Cancer Master Protocol)	50,000	200,000
Osteoarthritis (OA) Biomarkers Qualification (OA BMxQ)	98,432	-
Biomarkers Consortium – Sarcopenia 2 Project	-	227,125
Accelerating Medicines Partnership: Alzheimer’s Disease	3,934,043	4,292,566
Efficacy of Heterodimeric IL-15 Treatment Regimens	1,741,317	473,729
Understanding the Mechanisms of Intravenous BCG-induced Protection against TB in NHP	1,701,200	-
NIH Travel for Gates (FNIH Travel support for NIH Scientists)	279,739	-
Comprehensive Cellular Vaccine Immune Monitoring Consortium	4,552,057	6,368,223
Structure-based Vaccine Design against HIV-1	108,333	216,666
	<u>\$ 23,322,111</u>	<u>\$ 28,627,323</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.

**21. Lease**

The Foundation had 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 lease agreement with FASEB for a ten year period which expired October 31, 2017 and was not renewed.

In January 2017, the Foundation entered into a new lease agreement with Hines USVF North Bethesda Place LP for a fifteen-year period which expires October 31, 2032. This lease is effective November 2017 and contains a rent abatement period for the first seven months.

Rent expense was \$549,754 and \$502,811, respectively, for 2018 and 2017.

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

2019	\$ 572,845
2020	588,599
2021	604,785
2022	515,485
2023	426,641
Thereafter	<u>6,094,617</u>
	<u>\$ 8,802,972</u>

## **22. Risks and Uncertainties**

The Foundation invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the Foundation's account balances and amounts reported in the statements of financial position.