

LIFE SCIENCES RESEARCH FOUNDATION

FINANCIAL REPORT

MAY 31, 2004 AND 2003

LIFE SCIENCES RESEARCH FOUNDATION

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ACCOUNTANTS' REVIEW REPORT

To the Trustees
Life Sciences Research Foundation

We have reviewed the accompanying statements of assets, liabilities and net assets – modified cash basis of Life Sciences Research Foundation (the Foundation) as of May 31, 2004 and 2003, and the related statements of support and revenue, expenses, and changes in net assets – modified cash basis, and cash flows – modified cash basis for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Life Sciences Research Foundation.

A review consists principally of inquiries of Foundation personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting with unexpended restricted grants recorded as a liability until they are expended. This basis is a comprehensive basis of accounting other than generally accepted accounting principles.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the basis of accounting described in Note 1.

The accompanying supplementary information contained on pages 9 through 12 is presented for the purpose of additional analysis. Such information has not been subjected to the same inquiries and analytical procedures applied in the review of the basic financial statements, but has been compiled from information that is the representation of the management of Life Sciences Research Foundation, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on such supplementary information.

Walpert & Wolpoff, LLP

Baltimore, Maryland
August 13, 2004

LIFE SCIENCES RESEARCH FOUNDATION

STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS

MAY 31, 2004 AND 2003

	2004	2003
ASSETS		
ASSETS		
Cash and Certificates of Deposit	\$ 936,323	\$ 1,235,000
Money Market Funds - Note 2	<u>227,202</u>	<u>257,508</u>
TOTAL ASSETS	<u>\$ 1,163,525</u>	<u>\$ 1,492,508</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Escrow Payable - Note 4	\$ 110,585	\$ 110,585
Restricted Grant Advances - Notes 1 and 3	<u>790,739</u>	<u>833,427</u>
TOTAL LIABILITIES	901,324	944,012
COMMITMENTS - Note 3		
NET ASSETS, UNRESTRICTED	<u>262,201</u>	<u>548,496</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,163,525</u>	<u>\$ 1,492,508</u>

See Accountants' Review Report.

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

LIFE SCIENCES RESEARCH FOUNDATION

STATEMENTS OF SUPPORT AND REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS

YEARS ENDED MAY 31, 2004 AND 2003

UNRESTRICTED NET ASSETS	2004	2003
SUPPORT AND REVENUE - Note 1		
Restricted Grants	\$ 999,030	\$ 984,768
Unrestricted Grants, Baltimore - Note 7	22,000	24,000
Unrestricted Grants, Princeton - Note 7	8,000	8,000
Unrestricted Gifts - Note 7	2,500	4,500
Interest	40,357	60,862
Grant Forfeitures - Note 5	-0-	1,278
TOTAL SUPPORT AND REVENUE	1,071,887	1,083,408
EXPENSES		
Program Services		
Research Grants Paid	1,305,834	1,280,000
Supporting Services		
Administrative Expenses	52,348	55,376
TOTAL EXPENSES	1,358,182	1,335,376
EXCESS OF EXPENSES OVER SUPPORT AND REVENUE	(286,295)	(251,968)
NET ASSETS (UNRESTRICTED), BEGINNING	548,496	800,464
NET ASSETS (UNRESTRICTED), ENDING	\$ 262,201	\$ 548,496

See Accountants' Review Report.

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

LIFE SCIENCES RESEARCH FOUNDATION

STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS

YEARS ENDED MAY 31, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of Expenses Over Support and Revenue	\$ (286,295)	\$ (251,968)
Adjustments to Reconcile Excess of Expenses Over Support and Revenue to Net Cash Used by Operating Activities		
Changes in Operating Assets and Liabilities		
Restricted Grant Advances	(42,688)	47,742
Escrow Payable	-0-	(3,750)
Total Adjustments	(42,688)	43,992
Net Cash Used by Operating Activities	(328,983)	(207,976)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in Money Market Funds	30,306	172,976
NET DECREASE IN CASH AND CERTIFICATES OF DEPOSIT	(298,677)	(35,000)
CASH AND CERTIFICATES OF DEPOSIT, BEGINNING OF YEAR	1,235,000	1,270,000
CASH AND CERTIFICATES OF DEPOSIT, END OF YEAR	\$ 936,323	\$ 1,235,000

See Accountants' Review Report.

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

LIFE SCIENCES RESEARCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

MAY 31, 2004 AND 2003

Note 1 - Organization and Summary of Significant Accounting Policies

Organization and Activity

Life Sciences Research Foundation (the Foundation) has been recognized by the Internal Revenue Service as a tax-exempt organization as defined by §501(c)(3) of the Internal Revenue Code (IRC). The Foundation was incorporated in the District of Columbia on June 25, 1981, for the purpose of funding basic research in the biological sciences at various institutions. Postdoctoral fellowships are awarded to qualifying scientists selected by the Foundation's peer review committee. Funds to support the fellowships come from corporate sponsors and other foundations.

Election to be Treated as a Qualified Fund Under IRC §41(e)(6)(D)

The Foundation elected to be treated as a qualified fund under IRC §41(e)(6)(D). This election allows the Foundation to be treated as a pass-through qualifying organization, thereby enabling corporate contributions to be eligible for the credit for increased research activities. As a qualifying fund, the Foundation is subject to the rules governing private foundations.

Method of Accounting

The financial statements have been prepared on the modified cash basis of accounting, with the deferral of restricted grant revenue, which is recognized as revenue in proportion to the research grants paid. This basis differs from accounting principles generally accepted in the United States of America primarily because the Foundation has not recognized receivables, prepayments, and payables.

Financial Statement Presentation

The Foundation reports financial information according to 3 classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of May 31, 2004 and 2003, the Foundation had only unrestricted net assets.

Contributions and Grants

Contributions received and grants paid by the Foundation are presented at their market value on the date of such contribution or grant. For tax purposes, the Foundation records all contributions received at the donor's basis.

Revenue Recognition and Restricted Grant Advances

Substantially all of the Foundation's revenue is derived from restricted grants, which are recognized as revenue in proportion to the research grants paid. Unexpended research grants received are recorded as restricted grant advances in the statements of assets, liabilities, and net assets – modified cash basis. All other sources of revenue, such as unrestricted gifts and interest, are recognized when received.

Note 2 - Money Market Funds

The money market funds consisted of Smith Barney Money Funds Government Portfolio Class A, as of May 31, 2004 and 2003.

LIFE SCIENCES RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2004 AND 2003

Note 3 - Commitments

As of May 31, 2004, the Foundation was committed to make the following grants:

Recipient	Sponsor	Commitment From Program Years					Total
		2004	2003	2002	2001	2000	
Bader Al-Anzi, Ph.D.	Gilead Sciences	\$ 137,500					\$ 137,500
Anne Carpenter, Ph.D.	Norvartis Pharma AG	150,000					150,000
Anita Changela, Ph.D.	The Ellison Medical Foundation	150,000					150,000
Brett Chevalier, Ph.D.	Merck Research Laboratories	137,500					137,500
Christopher Ford, Ph.D.	Wyeth	137,500					137,500
Derek Goto, Ph.D.	Department of Energy, Energy Biosciences Research Division	137,500					137,500
Martin Jechlinger, Ph.D.	Lilly Research Laboratories	150,000					150,000
John Christopher Love, Ph.D.	Gilead Sciences	150,000					150,000
Markus Seeliger, Ph.D.	Johnson & Johnson	137,500					137,500
Michael Shapira, Ph.D.	The O'Donnell Foundation	150,000					150,000
Judith Sharp, Ph.D.	Pfizer	137,500					137,500
Naoyuki Uchida, Ph.D.	Department of Energy, Energy Biosciences Research Division	150,000					150,000
Simon Chan, Ph.D.	Department of Energy, Energy Biosciences Research Division		\$ 87,500				87,500
Matthew Guenther, Ph.D.	Amgen		100,000				100,000
Bernard Lam, Ph.D.	Department of Energy, Energy Biosciences Research Division		87,500				87,500
Dustin Maly, Ph.D.	Pfizer		87,500				87,500
Amit Mehta, Ph.D.	Rett Syndrome Research Foundation		100,000				100,000
Stephanie Palmer, Ph.D.	Novartis Pharma AG		87,500				87,500
David Raskin, Ph.D.	The Ellison Medical Foundation		105,000				105,000
Alan Sabhatelian, Ph.D.	Merck Research Laboratories		87,500				87,500
Huaiyu Sun, Ph.D.	Abbott Laboratories		100,000				100,000
Jianhua Cang, Ph.D.	Aventis Pharmaceuticals			\$ 50,000			50,000
Justin Crump, Ph.D.	The O'Donnell Foundation			50,000			50,000
Pablo Jenik, Ph.D.	Department of Energy, Energy Biosciences Research Division			37,500			37,500
Daniela Kaufer, Ph.D.	The Bristol-Myers Squibb Pharmaceutical Research Institute			37,500			37,500
Joseph Marcotrigiano, Ph.D.	Merck Research Laboratories			37,500			37,500
Jeffrey Moseley, Ph.D.	Department of Energy, Energy Biosciences Research Division			50,000			50,000
Michael Sohaskey, Ph.D.	Foundation for Advanced Cancer Studies and Merck Research Laboratories			50,000			50,000
Christine Pfund, Ph.D.	Department of Energy, Energy Biosciences Research Division				\$ 30,000		30,000
Daniel Gitler, Ph.D.	Pfizer				10,000		10,000
James Chou, Ph.D.	GlaxoSmithKline				50,000		50,000
Rebecca Tirabassi, Ph.D.	Novartis Pharma AG				40,000		40,000
Purnima Bhanot, Ph.D.	The Golden Family Foundation					\$ 36,497	36,497
		<u>\$ 1,725,000</u>	<u>\$ 842,500</u>	<u>\$ 312,500</u>	<u>\$ 130,000</u>	<u>\$ 36,497</u>	<u>\$ 3,046,497</u>

LIFE SCIENCES RESEARCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

MAY 31, 2004 AND 2003

Note 3 - (Cont.) These grant commitments resulted from the fellowship awards made by the Foundation's peer review committee. Most fellowships pay an established amount annually for a 3-year period. For fellowships awarded during the years ended May 31, 1999, through May 31, 2001, the annual amount is \$40,000. For fellowships awarded during the years ended May 31, 2002, through May 31, 2004, the annual amount is \$50,000. All committed amounts have been pledged by the sponsoring donors. As of May 31, 2004 and 2003, the Foundation had received \$790,739 and \$833,427, respectively, of the pledged amount from the sponsors. This amount is reflected on the statements of assets, liabilities, and net assets - modified cash basis as restricted grant advances.

Note 4 - Escrow Payable

Unexpended funds of a research grant may be held in escrow, if the recipient so elects, until the end of the 3-year fellowship. (This option is not available to recipients sponsored by the Department of Energy.) Otherwise, all unexpended funds must be returned to the sponsor. The maximum amount which can be set aside in escrow in any year is \$5,000. In order to receive the balance in the escrow fund at the end of the 3-year fellowship, the recipient cannot seek employment with a for-profit organization. All forfeited escrow balances are deemed to be gifts to the Foundation. The escrow balances do not earn interest.

As of May 31, 2004 and 2003, the escrow payable balance was \$110,585 for both years. There were no escrow forfeitures in 2004 or 2003.

Note 5 - Grant Forfeitures

At the discretion of the donors, any remaining restricted grant advances that are either held for recipients who terminated their research grants or remain unexpended at the end of the grant period may either be:

- a. Returned to the sponsor.
- b. Applied to another research grant recipient.
- c. Reclassified as a gift to the Foundation.

For the year ended May 31, 2003, grant forfeitures gifted to the Foundation totaled \$1,278. For the year ended May 31, 2004, there were no grant forfeitures.

Note 6 - Minimum Investment Return and Distribution Requirement

A private foundation must currently distribute its minimum investment return in order to avoid the excise tax for failure to distribute income. The minimum investment return is an income equivalent which is essentially determined by multiplying the aggregate fair market value of the Foundation's assets by 5%. For the years ended May 31, 2004 and 2003, the minimum amounted to \$68,385 and \$84,710, respectively.

The Foundation met these distribution requirements by making qualifying distributions in the years ended May 31, 2004 and 2003, of \$1,358,182 and \$1,335,376, respectively. The excesses generated can be applied to offset future distribution requirements.

LIFE SCIENCES RESEARCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

MAY 31, 2004 AND 2003

Note 6 - A summary of the excess distribution carryovers to future years is as follows:
(Cont.)

<u>Year Incurred</u>	<u>Amount</u>	<u>Expiration Date</u>
May 31, 2000	\$ 1,326,495	May 31, 2005
May 31, 2001	1,332,716	May 31, 2006
May 31, 2002	1,372,708	May 31, 2007
May 31, 2003	1,250,666	May 31, 2008
May 31, 2004	<u>1,289,797</u>	May 31, 2009
	<u>\$ 6,572,382</u>	

Note 7 - Unrestricted Grants and Gifts

The Foundation receives unrestricted grants from sponsors for administrative expenses. Administrative fees are assessed annually and are collected along with the sponsors' grant payments for fellowship awards. The total administrative fees collected for the years ended May 31, 2004 and 2003, were \$30,000 (Baltimore - \$22,000; Princeton - \$8,000) and \$32,000 (Baltimore - \$24,000; Princeton - \$8,000), respectively.

In addition, the Foundation received unrestricted gifts from the following:

	<u>Year Ended May 31,</u>	
	<u>2004</u>	<u>2003</u>
The Golden Family Foundation	\$ 2,500	\$ 2,500
Linda W. Brown	<u>-0-</u>	<u>2,000</u>
	<u>\$ 2,500</u>	<u>\$ 4,500</u>

LIFE SCIENCES RESEARCH FOUNDATION

SUPPLEMENTARY INFORMATION

YEARS ENDED MAY 31, 2004 AND 2003

SCHEDULES OF RESEARCH GRANTS PAID

		<u>2004</u>	<u>2003</u>
<u>1999 PROGRAM</u>			
Chau Huynh, Ph.D.	The Burroughs Wellcome Fund	\$ -0-	\$ 10,000
Peri Tate, Ph.D.	The Burroughs Wellcome Fund	-0-	10,000
		<u>-0-</u>	<u>20,000</u>
<u>2000 PROGRAM</u>			
Purnima Bhanot, Ph.D.	The Golden Family Foundation	10,000	40,000
Christina Bowers, Ph.D.	Department of Energy, Energy Biosciences Research Division	-0- (1)	-0-
Ryan Case, Ph.D.	The Burroughs Wellcome Fund	-0-	30,000
Seth Davis, Ph.D.	Department of Energy, Energy Biosciences Research Division	-0-	40,000
Douglas Guarnieri, Ph.D.	The Burroughs Wellcome Fund	10,000	40,000
Elizabeth Haswell, Ph.D.	Department of Energy, Energy Biosciences Research Division	-0-	40,000
Coleen Murphy, Ph.D.	The Bristol-Myers Squibb Pharmaceutical Research Institute	-0-	30,000
Aravinthan Samuel, Ph.D.	Amgen	-0-	30,000
		<u>20,000</u>	<u>250,000</u>
Carryforward		<u>20,000</u>	<u>270,000</u>

See Accountants' Review Report.

LIFE SCIENCES RESEARCH FOUNDATION

SUPPLEMENTARY INFORMATION

YEARS ENDED MAY 31, 2004 AND 2003

SCHEDULES OF RESEARCH GRANTS PAID

		2004	2003
Balance Forward		\$ 20,000	\$ 270,000
<u>2001 PROGRAM</u>			
James Chou, Ph.D.	GlaxoSmithKline	-0-	20,000
Richard Gardner, Ph.D.	The Bristol-Myers Squibb Pharmaceutical Research Institute	30,000	40,000
Daniel Gitler, Ph.D.	Pfizer	40,000	40,000
Franklin Harmon, Ph.D.	Department of Energy, Energy Biosciences Research Division	30,000	40,000
Sheri Holmen, Ph.D.	Pfizer	40,000	40,000
Dana Leanne Jones, Ph.D.	Lilly Research Laboratories	30,000	40,000
Maki Kaneko, Ph.D.	The O'Donnell Foundation	30,000	40,000
Diane McFadden, Ph.D.	The Burroughs Wellcome Fund	40,000	40,000
Gretchen Murphy, Ph.D.	Merck Research Laboratories	30,000	40,000
Christine Pfund, Ph.D.	Department of Energy, Energy Biosciences Research Division	-0- (2)	40,000
Kathrin Plath, Ph.D.	The O'Donnell Foundation	30,000	40,000
Dominique Stickens, Ph.D.	Wyeth	30,000	40,000
Rebecca Tirabassi, Ph.D.	Novartis Pharma AG	-0-	30,000
Scott Walsh, Ph.D.	The Burroughs Wellcome Fund	3,334 (2)	40,000
Robert Wheeler, Ph.D.	The Burroughs Wellcome Fund	40,000	40,000
Xuelin Wu, Ph.D.	Department of Energy, Energy Biosciences Research Division	30,000	40,000
		<u>403,334</u>	<u>610,000</u>
<u>2002 PROGRAM</u>			
Jianhua Cang, Ph.D.	Aventis Pharmaceuticals	50,000	50,000
Justin Crump, Ph.D.	The O'Donnell Foundation	50,000	50,000
Pablo Jenik, Ph.D.	Department of Energy, Energy Biosciences Research Division	50,000 (3)	50,000
Daniela Kaufer, Ph.D.	The Bristol-Myers Squibb Pharmaceutical Research Institute	50,000	50,000
Joseph Marcotrigiano, Ph.D.	Merck Research Laboratories	50,000 (3)	50,000
Jeffrey Moseley, Ph.D.	Department of Energy, Energy Biosciences Research Division	50,000	50,000
Michael Sohaskey, Ph.D.	Foundation for Advanced Cancer Studies and Merck Research Laboratories	50,000 (4)	50,000
		<u>350,000</u>	<u>350,000</u>
Carryforward		<u>773,334</u>	<u>1,230,000</u>

See Accountants' Review Report.

LIFE SCIENCES RESEARCH FOUNDATION

SUPPLEMENTARY INFORMATION

YEARS ENDED MAY 31, 2004 AND 2003

SCHEDULES OF RESEARCH GRANTS PAID

		<u>2004</u>	<u>2003</u>
Balance Forward		\$ 773,334	\$ 1,230,000
<u>2003 PROGRAM</u>			
Simon Chan, Ph.D.	Department of Energy, Energy Biosciences Research Division	50,000 (3)	12,500
Bernard Lam, Ph.D.	Department of Energy, Energy Biosciences Research Division	50,000 (3)	12,500
Huaiyu Sun, Ph.D.	Abbott Laboratories	50,000	-0-
Dustin Maly, Ph.D.	Pfizer	50,000 (3)	12,500
Stephanie Palmer, Ph.D.	Novartis Pharma AG	62,500 (3)	-0-
David Raskin, Ph.D.	The Ellison Medical Foundation	45,000	-0-
Amit Mehta, Ph.D.	Rett Syndrome Research Foundation	50,000 (3)	-0-
Matthew Guenther, Ph.D.	Amgen	50,000	-0-
Alan Sabhatelian, Ph.D.	Merck Research Laboratories	50,000 (3)	12,500
		<u>457,500</u>	<u>50,000</u>
<u>2004 PROGRAM</u>			
Bader Al-Anzi, Ph.D.	Gilead Sciences	12,500	-0-
Derek Goto, Ph.D.	Department of Energy, Energy Biosciences Research Division	12,500 (3)	-0-
		12,500 (3)	-0-
Markus Seeliger, Ph.D.	Johnson & Johnson	12,500	-0-
Brett Chevalier, Ph.D.	Merck Research Laboratories	12,500 (3)	-0-
Judith Sharp, Ph.D.	Pfizer	12,500	-0-
Christopher Ford, Ph.D.	Wyeth	75,000	-0-
		<u>75,000</u>	<u>-0-</u>
TOTAL RESEARCH GRANTS PAID		<u>\$ 1,305,834</u>	<u>\$ 1,280,000</u>

- (1) Recipient on medical leave.
- (2) Recipient cancelled the remainder of this research grant in the year ended May 31, 2004.
- (3) \$12,500 of this research grant was paid out of unrestricted funds. The sponsor's matching grant will be received in the year ending May 31, 2005.
- (4) \$20,000 of this research grant was paid out of unrestricted funds. The sponsor's matching grant will be received in the year ending May 31, 2005.

See Accountants' Review Report.

LIFE SCIENCES RESEARCH FOUNDATION

SUPPLEMENTARY INFORMATION

YEARS ENDED MAY 31, 2004 AND 2003

SCHEDULES OF ADMINISTRATIVE EXPENSES

	<u>2004</u>	<u>2003</u>
Annual Conference	\$ 16,805	\$ 16,942
Office Expenses	16,408	23,671
Administrative Expenses (Princeton University)	11,068	4,012
Legal and Accounting	7,795	7,675
Peer Review Committee Meetings	<u>272</u>	<u>3,076</u>
	<u>\$ 52,348</u>	<u>\$ 55,376</u>

See Accountants' Review Report.