

Cystic Fibrosis Foundation

Consolidated Financial Statements

For the year ended December 31, 2007

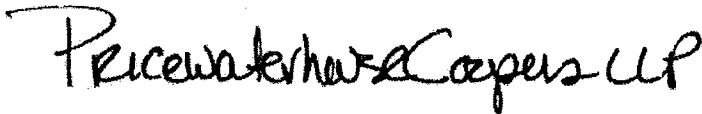
(with summarized totals for 2006)

PricewaterhouseCoopers LLP
1800 Tysons Boulevard
McLean, VA 22102-4261
Telephone (703) 918 3000
Facsimile (703) 918 3100

Report of Independent Auditors

To the Board of Trustees of
Cystic Fibrosis Foundation

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of activities, cash flows, and functional costs of services present fairly, in all material respects, the consolidated financial position of the Cystic Fibrosis Foundation, subsidiary and affiliates (the Foundation) at December 31, 2007, and the consolidated changes in their net assets and their cash flows for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2006 financial statements, and in our report dated March 23, 2007, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.



March 14, 2008

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

Cystic Fibrosis Foundation
Consolidated Statement of Financial Position
For the year ended December 31, 2007 (with summarized totals for 2006)

	2007	2006
Assets		
Cash and cash equivalents	\$ 19,214,324	\$ 30,457,217
Investments	233,217,111	200,542,669
Receivables, net	35,711,388	34,310,487
Inventories	7,685,044	5,050,302
Prepaid expenses and other assets	4,560,543	2,571,342
Fixed assets, net	1,515,013	1,713,909
Total assets	<u>\$ 301,903,423</u>	<u>\$ 274,645,926</u>
Liabilities and Net Assets		
Awards payable	\$ 59,847,849	\$ 58,823,921
Accounts payable and accrued expenses	22,301,786	20,941,630
Total liabilities	<u>82,149,635</u>	<u>79,765,551</u>
Unrestricted net assets	202,166,344	177,738,339
Temporarily restricted net assets	14,140,798	13,771,771
Permanently restricted net assets	3,446,646	3,370,265
Total net assets	<u>219,753,788</u>	<u>194,880,375</u>
Total liabilities and net assets	<u>\$ 301,903,423</u>	<u>\$ 274,645,926</u>

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

Cystic Fibrosis Foundation
Consolidated Statement of Activities
For the year ended December 31, 2007 (with summarized totals for 2006)

	2007	Percentage of Revenue	2006	Percentage of Revenue
Revenue				
Support received from the public				
Special event revenue (including \$402,025 and \$899,422 in temporarily restricted revenue in 2007 and 2006, respectively)	\$ 103,944,627		\$ 95,256,098	
Direct benefit expenses	(12,713,180)		(12,565,773)	
Net special event revenue	91,231,447	37.0 %	82,690,325	36.5 %
General contributions (including \$6,065,621 and \$12,853,598 in temporarily restricted contributions in 2007 and 2006, respectively) (Assets released from restriction amounted to \$6,116,613 and \$8,916,674 for 2007 and 2006, respectively)	58,695,811	23.8	51,255,747	22.6
Total support received from the public	149,927,258	60.8	133,946,072	59.2
Pharmacy services	67,195,185	27.2	61,503,035	27.2
Investment income (including \$17,994 and \$29,724 in temporarily restricted revenue and \$76,381 and \$169,064 in permanently restricted revenue in 2007 and 2006, respectively)	27,347,455	11.1	25,436,064	11.2
Other	2,121,452	0.9	5,470,642	2.4
Total revenue	246,591,350	100.0 %	226,355,813	100.0 %
Costs of services				
Program services				
Medical programs	169,160,704	68.6 %	146,595,243	66.5 %
Public and professional information and education	20,329,019	8.2	19,013,125	8.4
Community services	7,275,989	3.0	6,641,103	2.9
Total program services	196,765,712	79.8	172,249,471	76.1
Supporting services				
Management and general	4,908,507	2.0	4,889,045	2.2
Fund raising	20,043,718	8.1	18,770,311	8.5
Total supporting services	24,952,225	10.1	23,659,356	10.6
Total costs of services	221,717,937	89.9	195,908,827	86.5
Increase in net assets (including increase in temporarily restricted net assets of \$369,027 and \$4,865,889 and permanently restricted net assets of \$76,381 and \$169,064 in 2007 and 2006, respectively)	24,873,413	10.1 100.0 %	30,446,986	13.5 100.0 %
Net assets, beginning of year (includes temporarily restricted net assets of \$13,771,771 and \$8,905,881 and permanently restricted net assets of \$3,370,265 and \$3,201,201 at January 1, 2007 and 2006, respectively)	194,880,375		164,433,389	
Net assets, end of year (includes temporarily restricted net assets of \$14,140,798 and \$13,771,771 and permanently restricted net assets of \$3,446,646 and \$3,370,265 at December 31, 2007 and 2006, respectively)	\$ 219,753,788		\$ 194,880,375	

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

Cystic Fibrosis Foundation
Consolidated Statement of Cash Flows
For the year ended December 31, 2007 (with summarized totals for 2006)

	2007	2006
Cash flows from operating activities		
Increase in net assets	\$ 24,873,413	\$ 30,446,986
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized and unrealized gains on investments	(17,432,788)	(20,560,982)
Receipt of contributed securities	(3,165,828)	(6,234,429)
Increase in discount on pledges	81,781	749,536
Depreciation	881,304	743,199
Provision for losses on accounts receivable	1,600,551	1,749,411
Increase in receivables	(3,083,233)	(6,194,048)
Increase in inventories	(2,634,742)	(776,357)
Increase in prepaid and other assets	(1,989,201)	(69,183)
Increase awards payable	1,023,928	9,638,486
Increase in accounts payable and accrued expenses	1,360,156	1,214,688
Net cash provided by operating activities	<u>1,515,341</u>	<u>10,707,307</u>
Cash flows from investing activities		
Net purchases of fixed assets	(682,408)	(1,189,666)
Maturities/sales of investments	220,560,243	136,034,159
Purchases of investments	<u>(232,636,069)</u>	<u>(142,910,508)</u>
Net cash used in investing activities	<u>(12,758,234)</u>	<u>(8,066,015)</u>
Net increase (decrease) in cash and cash equivalents	(11,242,893)	2,641,292
Cash and cash equivalents, beginning of year	30,457,217	27,815,925
Cash and cash equivalents, end of year	<u>\$ 19,214,324</u>	<u>\$ 30,457,217</u>
Other supplemental information:		
Income taxes paid	\$ -	\$ 677,153

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

**Cystic Fibrosis Foundation
Consolidated Statement of Functional Costs of Services
For the year ended December 31, 2007 (with summarized totals for 2006)**

Nature of Costs of Services	Program Services			Supporting Services		
	Medical Programs	Public and Professional Information and Education		Community Services	Management and General	Fund Raising
	\$ 52,379,153	\$ -	\$ -	\$ -	\$ -	\$ -
Therapeutics Development Program awards	12,724,213	-	-	-	-	-
Research grants	9,782,139	-	-	-	-	-
Clinical research grants	11,808,884	-	-	-	-	-
Center grants for care and teaching	2,492,886	-	-	-	-	-
Clinical and research fellowship grants	245,229	-	-	-	-	-
Quality improvement training program	57,270,317	-	-	-	-	-
Pharmaceuticals	9,099,335	9,214,304	4,329,962	-	2,988,307	6,344,134
Salaries	1,850,387	2,208,125	1,062,247	-	656,956	1,559,766
Employee benefits and payroll taxes	1,296,852	2,862,182	245,504	-	72,118	4,856,031
Publications and printing	1,064,559	1,124,498	558,164	-	303,361	819,288
Occupancy and insurance	231,593	2,581,408	171,434	-	61,653	4,768,344
Postage and shipping	3,514,646	503,482	254,485	-	99,867	358,549
Travel and conferences	1,663,994	769,787	218,293	-	148,757	648,664
Data processing	217,441	195,203	97,114	-	35,281	138,639
Telephone	208,536	280,847	137,092	-	59,381	198,540
Supplies	1,196,717	160,767	36,820	-	133,475	51,554
Professional fees	416,024	203,093	82,122	-	47,160	132,905
Depreciation	41,845	54,091	19,147	-	10,260	32,510
Equipment maintenance	1,655,954	171,232	63,605	-	291,931	134,794
Other, including allowance for patient receivables	\$ 169,160,704	\$ 20,329,019	\$ 7,275,989	\$ 4,908,507	\$ 20,043,718	\$ 195,908,827
Total						
	\$ 52,379,153	\$ 40,620,120	\$ 11,695,196	\$ 9,782,139	\$ 6,963,865	\$ 11,140,736
	12,724,213	11,808,884	2,492,886	245,229	57,270,317	52,283,634
	9,782,139	11,808,884	2,492,886	245,229	31,976,042	28,967,032
	11,808,884	11,140,736	1,999,573	298,382	7,337,481	6,266,858
	2,492,886	245,229	57,270,317	52,283,634	9,332,687	8,610,948
	57,270,317	52,283,634	28,967,032	6,266,858	3,869,870	3,779,240
	9,099,335	9,214,304	4,329,962	-	7,814,432	7,827,956
	1,850,387	2,208,125	1,062,247	-	4,731,029	4,266,456
	1,296,852	2,862,182	245,504	-	3,449,495	2,986,111
	1,064,559	1,124,498	558,164	-	683,678	595,472
	231,593	2,581,408	171,434	-	884,396	894,234
	3,514,646	503,482	254,485	-	1,579,333	1,344,489
	1,663,994	769,787	218,293	-	881,304	743,199
	217,441	195,203	97,114	-	157,853	179,741
	208,536	280,847	137,092	-	2,317,516	4,445,585
	1,196,717	160,767	36,820	-	\$ 221,717,937	\$ 195,908,827
	416,024	203,093	82,122	-		
	41,845	54,091	19,147	-		
	1,655,954	171,232	63,605	-		
	\$ 169,160,704	\$ 20,329,019	\$ 7,275,989	\$ 4,908,507	\$ 20,043,718	\$ 195,908,827

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

Cystic Fibrosis Foundation
Notes to Consolidated Financial Statements
December 31, 2007

1. Organization

The accompanying consolidated financial statements include the operations of the Cystic Fibrosis Foundation, including all of its chapters (the Foundation), Cystic Fibrosis Foundation Therapeutics, Inc. (CFFT), Cystic Fibrosis Services, Inc. (CF Services), and Cystic Fibrosis Foundation Pharmacy, LLC (CFFP). CFFT, an affiliate of the Foundation, operates the Therapeutics Development Program and clinical research projects. The primary mission of the Foundation and CFFT is to develop the means to cure and control cystic fibrosis and to improve the quality of life for those with the disease.

The Foundation, CFFT and CFFP are not-for-profit voluntary health organizations exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and from state taxes and have been classified as organizations that are not private foundations under Section 509(a) of the Code. The Foundation does not have any unrelated business income tax liability as of December 31, 2007. Contributions to the Foundation qualify for the charitable contributions deduction to the extent provided by Section 170 of the Code.

CF Services is a taxable entity which provides pharmacy services for the benefit of Cystic Fibrosis patients. Payment for these services is provided by individuals, commercial insurance carriers, and other third party payors.

2. Summary of significant accounting policies

Basis of accounting

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to voluntary health and welfare organizations. All inter-entity balances at year-end and transactions during the year have been eliminated in the consolidated financial statements. The financial statements are presented on an accrual basis. The expenses reported in the consolidated statement of revenues and costs of services are classified by function.

Use of estimates

The preparation of consolidated 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 dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Revenue recognition

Support received directly or indirectly from the public is recorded as revenue when received or when the donor has made an unconditional promise to give. CF Services records revenue from sales upon shipment of pharmaceuticals and net of contractual discounts.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

Cystic Fibrosis Foundation

Notes to Consolidated Financial Statements

December 31, 2007

All donor-restricted support, including related investment income and realized and unrealized gains and losses, 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 Consolidated Statement of Revenues and Costs of Services as net assets released from restrictions.

Grants, contracts and awards

The Foundation and CFFT generally award medical/scientific grants and contracts for periods of three years or less. Grants are awarded contingent upon the availability of funds at the beginning of each award period. Awards are expensed at the time that the Foundation or CFFT unconditionally commits to fund the grant or incurs the contract expense.

Cash and cash equivalents

Cash and cash equivalents represent demand deposits and money funds that consist of U.S. government and corporate securities. The Foundation considers these investments to be cash equivalents because they are highly liquid with original maturities of three months or less and present an insignificant risk of change in value.

Concentration of credit risk

Financial instruments which potentially subject the Foundation to a concentration of credit risk principally consist of deposits in banks in excess of Federally insured limits, investments, and accounts receivable. Investments are pooled in diversified portfolios consisting of corporate marketable debt and U.S. government securities as well as equity securities and other funds. The Foundation has not experienced any credit losses on these financial instruments. CF Services grants credit without collateral to its customers throughout the country, most of whom are insured under third-party payor agreements.

Investments

Investments are reported at fair market value. Fair value is based on quoted prices for securities traded on public exchanges. Fair values for certain alternative equity and fixed income investments amount to approximately \$44 million and \$33 million as of December 31, 2007 and 2006, respectively, and are estimated by the third-party administrators of the respective external investment managers if market values are not readily ascertainable. These valuations necessarily involve assumptions and estimation methods that are reviewed by the Foundation.

Investment income is reported when earned. The change in unrealized appreciation or depreciation of investments is reflected in the consolidated statement of revenue and costs of services. Realized gains and losses on sales of investments are computed on a specific identification basis and are recorded on the trade date of the transaction.

Inventories

Inventories consist primarily of pharmaceuticals and supplies and are stated at the lower of first-in, first-out cost or market.

Cystic Fibrosis Foundation

Notes to Consolidated Financial Statements

December 31, 2007

Fixed assets

Fixed assets consisting of furniture, fixtures, equipment, software, and leasehold improvements are recorded at cost and are depreciated over their estimated useful lives, ranging from three to ten years, on a straight-line basis. The cost and related accumulated depreciation of furniture, fixtures, equipment and software are removed from the accounts upon sale or disposition and any resulting gain or loss is reflected in revenue and costs of services and changes in net assets at that time.

Functional expenses

The costs of various Foundation activities have been accounted for on a functional basis in the consolidated statement of revenue and costs of services and changes in net assets. Accordingly, certain costs have been allocated among the various activities.

Guarantees and Indemnifications

The Foundation, and in particular CFFT, its affiliate, may from time to time enter into agreements with service providers in which it agrees to indemnify the service providers against certain losses and liabilities arising from the service providers' performance under the agreements. Generally, such indemnification obligations do not apply in situations in which a service provider is grossly negligent, engages in willful misconduct, or acts in bad faith. The indemnifications serve to place the Foundation in a liability position no different than if it had performed the services for itself. The Foundation was not aware of any liability under such service agreements for the years ended December 31, 2007 and 2006.

Net assets

The Foundation's net assets have been grouped into the following three classes:

Unrestricted Net Assets – Unrestricted net assets generally result from revenues derived from receiving unrestricted contributions, less expenses incurred in providing program services, raising contributions, and performing administrative functions.

Temporarily Restricted Net Assets – Temporarily restricted net assets generally result from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation and CFFT pursuant to those stipulations. Temporarily restricted net assets consist of approximately \$3,061,000 and \$2,277,000 restricted for specific programs and approximately \$11,080,000 and \$11,495,000 restricted only as to time as of December 31, 2007 and 2006, respectively.

Permanently Restricted Net Assets – Permanently restricted net assets generally result from contributions to trusts, whereby, under the trust agreement, the corpus is to be maintained in perpetuity and a portion or all of the net income from the trust is to be used for Foundation operations.

Unrealized and realized gains and losses and dividends and interest from investing in marketable securities may be included in any of these net asset classifications depending on donor restrictions.

Income taxes

CF Services accrues income taxes currently payable and also recognizes deferred tax assets and liabilities for the estimated future tax consequences of temporary differences.

Cystic Fibrosis Foundation
Notes to Consolidated Financial Statements
December 31, 2007

2006 Financial information

The consolidated financial statements include certain 2006 summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Foundation's consolidated financial statements as of and for the year ended December 31, 2006, from which the summarized information was derived. Certain figures presented in the 2006 consolidated financial statements have been reclassified to conform to the presentation in these financial statements.

3. Investments

The cost and fair value of investments as of December 31, 2007 and 2006 are as follows:

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
U.S. government/agency bonds	\$ 22,603,689	\$ 22,982,382	\$ 27,379,908	\$ 27,362,742
Corporate bonds	35,324,065	36,380,142	21,913,997	21,866,294
Equity mutual funds	91,253,039	114,578,357	83,011,382	103,426,551
Alternative investment mutual funds	35,400,000	44,022,559	30,400,000	33,077,422
Other mutual funds	9,484,619	15,253,671	11,491,366	14,809,660
	<u>\$194,065,412</u>	<u>\$233,217,111</u>	<u>\$174,196,653</u>	<u>\$200,542,669</u>

Interest and dividends amounted to approximately \$9,915,000 and \$4,876,000 for the years ended December 31, 2007 and 2006, respectively.

4. Receivables

Receivables consist of the following at December 31, 2007 and 2006:

	2007	2006
Special events	\$ 5,005,832	\$ 4,554,581
Pharmacy	8,420,597	9,746,809
Pledges receivable	25,690,893	24,072,396
Interest	478,397	431,775
Other	754,248	904,726
	<u>40,349,967</u>	<u>39,710,287</u>
Discount	(2,286,224)	(2,204,443)
Allowance for doubtful accounts	(2,352,355)	(3,195,357)
	<u>\$ 35,711,388</u>	<u>\$ 34,310,487</u>

Contributions are recorded at present value, discounted using a rate averaging 3%-5%, representing the short-term risk-free interest rate in effect on the date the respective commitments were made. The pledges receivable as of December 31, 2007 are payable in the following periods: \$11.1 million

Cystic Fibrosis Foundation
Notes to Consolidated Financial Statements
December 31, 2007

within one year; \$9.3 million from one to five years; and \$1.8 million after five years. As of December 31, 2007, pledges receivable include \$3.5 million of permanently restricted funds.

5. Fixed Assets

Fixed assets at December 31, 2007 and 2006 consisted of the following:

	2007	2006
Equipment and software	\$ 6,700,018	\$ 6,142,942
Furniture and fixtures	237,525	236,420
Leasehold improvements	312,328	312,328
	<u>7,249,871</u>	<u>6,691,690</u>
Accumulated depreciation	(5,734,858)	(4,977,781)
	<u>\$ 1,515,013</u>	<u>\$ 1,713,909</u>

6. Awards payable and commitments

Changes in awards payable during the years ended December 31, 2007 and 2006 are summarized as follows:

	2007	2006
Awards payable, beginning of year	\$ 58,823,920	\$ 49,185,435
Awards expensed	89,187,275	72,419,490
Awards disbursed	(88,163,346)	(62,781,004)
Awards payable, end of year	<u>\$ 59,847,849</u>	<u>\$ 58,823,921</u>

As of December 31, 2007, the Foundation and CFFT have medical scientific grant commitments of approximately \$30.1 million, which extend through December 31, 2011, in addition to those presented on the consolidated balance sheet. Subsequent year awards are contingent upon renewal criteria, and therefore, the costs and liabilities are not reflected in the consolidated financial statements.

Certain awards contain clauses whereby CFFT is obligated to make additional payments if awardees achieve certain CF drug discovery or development milestones. As of December 31, 2007, total additional payments contingent on these milestones were approximately \$37.5 million. These contingent payments are not recognized as liabilities as the likelihood that the milestones will be achieved cannot be determined at this time. Additionally, certain agreements provide for future contracted drug discovery and development research payments amounting to \$48.2 million. These costs will be expensed when the services are provided.

Volunteers from the medical and scientific community are included among the Foundation's Trustees and CFFT/CF Services Board members. These volunteers provide valuable leadership and assistance to the Foundation, but do not participate in decisions regarding awards to institutions with which they are affiliated. Awards to institutions affiliated with these volunteers totalled \$2.7 million and \$2.5 million for the years ended December 31, 2007 and 2006, respectively.

Cystic Fibrosis Foundation
Notes to Consolidated Financial Statements
December 31, 2007

7. Operating lease commitments

The Foundation and CF Services are obligated under various operating leases for office space as of December 31, 2007. The approximate future minimum rental commitments for each calendar year, subject to escalation, are as follows:

2008	\$ 2,181,719
2009	1,648,307
2010	1,290,906
2011	363,073
2012	77,475
	<u>\$ 5,561,480</u>

Rental costs for the years ended December 31, 2007 and 2006 were approximately \$3.1 million and \$3.0 million, respectively.

8. Retirement plan

Under the provisions of the Foundation's 401(k) retirement plan, after one year of service employees who defer wages are eligible for an employer match, which vests immediately. In addition, eligible employees receive a non-matching employer contribution that, for service in 2007 and beyond, vests after employees complete three years of service, as defined in the plan. The Foundation, CFFT, and CF Services made contributions in accordance with the provisions of the plan amounting to approximately \$1,449,000 and \$1,254,000, respectively, for the years ended December 31, 2007 and 2006.

9. Allocation of joint costs

The Foundation conducted direct mail activities in the years ended December 31, 2007 and 2006 that included requests for contributions as well as program components. The costs of conducting those activities included a total of approximately \$14,609,000 and \$14,233,000 of joint costs during the years ended December 31, 2007 and 2006, respectively. These costs were not specifically attributable to particular components of the activities. Of those costs, \$9,804,000 and \$9,429,000 was allocated to fund-raising expense and \$4,805,000 and \$4,804,000 was allocated to public and professional information and education program services for the years ended December 31, 2007 and 2006, respectively.