

Cystic Fibrosis Foundation

Consolidated Financial Statements

And Supplementary Chapter Information

For the year ended December 31, 2005

(with summarized totals for 2004)

Report of Independent Auditors

PricewaterhouseCoopers LLP
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To the Board of Trustees of
Cystic Fibrosis Foundation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of revenue and costs of services and changes in net assets, cash flows, and functional costs of services present fairly, in all material respects, the consolidated financial position of the Cystic Fibrosis Foundation, subsidiary and affiliate (the Foundation) at December 31, 2005, and the changes in their net assets and their cash flows for the year ended December 31, 2005, 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 2004 financial statements, and in our report dated March 16, 2005, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

Our audit was conducted for the purpose of forming an opinion on the 2005 basic consolidated financial statements taken as a whole. The 2005 supplementary chapter information included in the statements of revenue and costs of services is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing purposes applied in the audit of the 2005 basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

March 21, 2006

Cystic Fibrosis Foundation
Consolidated Balance Sheets
As of December 31, 2005 (with summarized totals for 2004)

	2005	2004
Assets		
Cash and cash equivalents	\$ 27,815,925	\$ 51,250,822
Investments	166,870,909	134,516,336
Receivables, net	30,615,386	21,218,948
Inventories	4,273,945	3,387,844
Prepaid expenses and other assets	2,502,159	1,895,930
Fixed assets, net	1,267,442	1,379,676
Total assets	<u>\$ 233,345,766</u>	<u>\$ 213,649,556</u>
Liabilities and Net Assets		
Awards payable	\$ 49,185,435	\$ 53,471,596
Accounts payable and accrued expenses	19,726,942	17,986,386
Total liabilities	<u>68,912,377</u>	<u>71,457,982</u>
Unrestricted net assets	152,326,307	131,776,355
Temporarily restricted net assets	8,905,881	7,418,705
Permanently restricted net assets	3,201,201	2,996,514
Total net assets	<u>164,433,389</u>	<u>142,191,574</u>
Total liabilities and net assets	<u>\$ 233,345,766</u>	<u>\$ 213,649,556</u>

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

Cystic Fibrosis Foundation
Consolidated Statement of Revenue and Costs of
Services and Changes in Net Assets
For the year ended December 31, 2005 (with summarized totals for 2004)

	2005	Percentage of Revenue	2004	Percentage of Revenue
Revenue				
Support received from the public				
Special event revenue (including \$684,734 in temporarily restricted revenue in 2005)	\$ 90,683,454		\$ 82,647,601	
Direct benefit expenses	(12,593,876)		(12,174,102)	
Net special event revenue	78,089,578	38.5 %	70,473,499	39.8 %
General contributions (including \$7,150,519 in temporarily restricted contributions in 2005 and \$181,215 in permanently restricted revenue in 2005) (Assets released from restricted amounted to \$6,353,776 for 2005)	52,295,529	25.8	48,225,423	27.2
Total support received from the public	130,385,107	64.3	118,698,922	67.0
Pharmacy services	57,000,527	28.1	48,233,662	27.3
Investment income (including \$5,699 in temporarily restricted revenue and \$23,472 in permanently restricted revenue in 2005)	13,079,493	6.5	7,617,054	4.3
Other	2,280,517	1.1	2,442,495	1.4
Total revenue	202,745,644	100.0 %	176,992,133	100.0 %
Costs of services				
Program services				
Medical programs	134,722,952	66.5 %	113,473,536	64.1 %
Public and professional information and education	17,787,873	8.8	22,276,125	12.5
Community services	6,345,111	3.1	6,008,387	3.4
Total program services	158,855,936	78.4	141,758,048	80.0
Supporting services				
Management and general	4,284,093	2.1	3,967,573	2.2
Fund raising	17,363,800	8.5	11,717,032	6.7
Total supporting services	21,647,893	10.6	15,684,605	8.9
Total costs of services	180,503,829	89.0	157,442,653	88.9
Increase in net assets (including increase in temporarily restricted net assets of \$1,487,176, and permanently restricted net assets of \$204,687 in 2005)	22,241,815	11.0 100.0 %	19,549,480	11.1 100.0 %
Net assets, beginning of year (includes temporarily restricted net assets of \$7,418,705 and permanently restricted net assets of \$2,996,514 at January 1, 2005)	142,191,574		122,642,094	
Net assets, end of year (includes temporarily restricted net assets of \$8,905,881 and permanently restricted net assets of \$3,201,201 at December 31, 2005)	\$ 164,433,389		\$ 142,191,574	

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

Cystic Fibrosis Foundation
Consolidated Statements of Cash Flows
For the year ended December 31, 2005 (with summarized totals for 2004)

	2005	2004
Cash flows from operating activities		
Increase in net assets	\$ 22,241,815	\$ 19,549,480
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized and unrealized gains on investments	(8,994,847)	(2,701,836)
Increase in discount on pledges	946,371	36,537
Depreciation	707,732	702,604
Provision for losses on accounts receivable	75,319	70,229
Increase in receivables	(10,418,128)	(8,513,784)
Increase in inventories	(886,101)	(150,452)
Increase in prepaid and other assets	(606,229)	(73,954)
Decrease (increase) in awards payable	(4,286,161)	4,507,356
Increase in accounts payable and accrued expenses	1,740,556	1,774,961
Net cash provided by operating activities	<u>520,327</u>	<u>15,201,141</u>
Cash flows from investing activities		
Net purchases of fixed assets	(595,498)	(554,606)
Maturities/sales of investments	226,016,518	101,020,462
Purchases of investments	(249,376,244)	(102,562,624)
Net cash used in investing activities	<u>(23,955,224)</u>	<u>(2,096,768)</u>
Net (decrease) increase in cash and cash equivalents	(23,434,897)	13,104,373
Cash and cash equivalents, beginning of year	51,250,822	38,146,449
Cash and cash equivalents, end of year	<u>\$ 27,815,925</u>	<u>\$ 51,250,822</u>
Other supplemental information:		
Income taxes paid	\$ 1,168,596	\$ 918,000

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, 2005 (with summarized totals for 2004)

Nature of Costs of Services	Program Services			Supporting Services			2005	2004
	Medical Programs	Public and Professional Information and Education	Community Services	Management and General	Fund Raising			
Research grants	\$ 13,613,680	\$ -	\$ -	\$ -	\$ -	\$	13,613,680	\$ 10,832,267
Clinical research grants	5,317,708	-	-	-	-		5,317,708	6,091,792
Therapeutics Development Program awards	34,720,721	-	-	-	-		34,720,721	26,894,754
Center grants for care and teaching	10,550,827	-	-	-	-		10,550,827	9,046,132
Clinical and research fellowship grants	2,503,195	-	-	-	-		2,503,195	2,338,981
Pharmaceuticals	48,294,532	-	-	-	-		48,294,532	40,677,701
Salaries	6,781,862	7,822,628	3,805,644	2,473,373	5,570,774		26,454,281	24,616,998
Employee benefits and payroll taxes	1,089,435	1,828,465	895,157	535,909	1,306,863		5,655,829	5,641,206
Publications and printing	1,072,469	2,265,366	161,974	46,147	3,647,868		7,193,824	7,462,638
Occupancy and insurance	1,017,400	1,118,149	541,898	344,060	815,539		3,837,046	3,735,580
Postage and shipping	201,385	2,665,314	182,453	61,002	4,492,642		7,602,796	7,272,619
Travel and conferences	2,996,370	396,016	201,793	82,909	284,317		3,961,405	3,464,108
Data processing	962,939	611,066	167,088	161,422	582,096		2,484,611	2,607,701
Telephone	151,905	191,480	92,983	37,140	134,950		608,458	553,507
Licenses and taxes	1,015,979	14,190	7,667	6,395	10,742		1,054,973	989,762
Supplies	184,581	282,257	123,991	61,008	181,472		833,309	789,121
Professional fees	927,078	117,533	26,303	231,270	54,850		1,357,034	899,049
Depreciation	369,465	143,560	60,194	40,483	94,030		707,732	702,604
Equipment maintenance	47,284	40,258	17,801	10,104	29,729		145,176	126,992
Other, including allowance for patient receivables	2,904,137	291,591	60,165	192,871	157,928		3,606,692	2,699,141
Total	\$ 134,722,952	\$ 17,787,873	\$ 6,345,111	\$ 4,284,093	\$ 17,363,800	\$	180,503,829	\$ 157,442,653

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

Cystic Fibrosis Foundation

Notes to Consolidated Financial Statements

December 31, 2005

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), and Cystic Fibrosis Services, Inc. (CF Services), a wholly-owned subsidiary of the Foundation. 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 and CFFT 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, 2005. 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, 2005

All donor-restricted support, including related investment income, 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 Statements of Revenues and Costs of Services as net assets are 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 the 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 consist of 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 equity securities as well as U.S. government securities and money market 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 amounting to approximately \$13 million are estimated by the respective external investment managers if market values are not readily ascertainable. These valuations necessarily involve assumptions and estimation methods that are uncertain.

Investment income is reported when earned. The change in unrealized appreciation or depreciation of investments is reflected in the statements of activities. 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, 2005

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. The allocation of costs changed in 2005 for the chapter activity based upon time analyses performed during the year.

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 year ended December 31, 2005.

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 as of December 31, 2005 consist of the following: approximately \$189,000 restricted for use in the CFFT Therapeutics Development Program, approximately \$360,000 restricted for other specific programs, approximately \$8,357,000 restricted only as to time.

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, 2005

2004 Financial information

The consolidated financial statements include certain 2004 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, 2004, from which the summarized information was derived. Certain figures presented in the 2004 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, 2005 are as follows:

	Cost	Fair Value
U.S. government/agency bonds	\$ 42,311,898	\$ 42,019,089
Corporate bonds	23,041,470	22,792,914
Equity mutual funds	72,453,826	79,866,817
Alternative investment mutual funds	13,400,000	13,896,449
Other mutual funds	7,100,304	8,295,640
	<u>\$ 158,307,498</u>	<u>\$ 166,870,909</u>

Interest and dividends amounted to approximately \$4,242,000 for the year ended December 31, 2005.

4. Receivables

Receivables consist of the following at December 31, 2005:

Special events	\$ 5,176,888
Pharmacy	8,978,670
Pledges receivable	19,026,137
Interest	593,741
Other	862,110
	<u>34,637,546</u>
Discount	(1,454,907)
Allowance for doubtful accounts / pledges	(2,567,253)
	<u>\$ 30,615,386</u>

Contributions are recorded at present value, discounted using a rate averaging 3%-4%, representing the short-term risk-free interest rate in effect on the date the respective commitments were made. The pledges are payable in the following periods: \$8.5 million within one year; \$5.6 million from one to five years; and \$1.7 million after five years. Pledges include \$3.2 million of permanently restricted funds.

Cystic Fibrosis Foundation
Notes to Consolidated Financial Statements
December 31, 2005

5. Fixed Assets

Fixed assets at December 31, 2005 consisted of the following:

Equipment and software	\$ 5,405,333
Furniture and fixtures	208,975
Leasehold improvements	303,769
	<u>5,918,077</u>
Accumulated depreciation	(4,650,635)
	<u>\$ 1,267,442</u>

6. Awards payable and commitments

Changes in awards payable during the year ended December 31 are summarized as follows:

Awards payable, December 31, 2004	\$ 53,471,596
Awards expensed in 2005	66,706,131
Awards disbursed in 2005	<u>(70,992,292)</u>
Awards payable, December 31, 2005	<u>\$ 49,185,435</u>

The Foundation and CFFT have medical scientific grant commitments of approximately \$12.3 million, which extend through December 31, 2008, 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, 2005, total additional payments contingent on these milestones were approximately \$24.9 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 research payments amounting to \$11.2 million.

Subsequent to December 31, 2005, an agreement was executed providing for additional contracted research payments totalling \$21.8 million.

Volunteers from the medical and scientific community are included among the Foundation's Trustees and CFFT/CF Services directors and serve on various committees of the Board. These volunteers provide valuable leadership and assistance to the Foundation, but do not participate in decisions regarding awards to individuals or institutions with which they are affiliated. Awards to institutions affiliated with these volunteers approximated \$1.2 million for the year ended December 31, 2005.

Cystic Fibrosis Foundation
Notes to Consolidated Financial Statements
December 31, 2005

Certain of the Foundation's Trustees have made investments in two companies to which CFFT has provided awards amounting to approximately \$3.4 million over the past few years.

6. Operating lease commitments

The Foundation and CF Services are obligated under various operating leases for office space as of December 31, 2005. The approximate future minimum rental commitments for each calendar year, subject to escalation, are as follows:

2006	\$ 2,323,279
2007	1,837,867
2008	1,263,969
2009	809,997
2010	661,464
Thereafter	118,255
	<u>\$ 7,014,831</u>

Rental costs for the year ended December 31, 2005 were approximately \$3.1 million.

7. Retirement plan

Effective January 1, 2005, the Foundation established a 401(k) plan, which merged with the money purchase pension plan previously in effect, the provisions of which were frozen. Under the provisions of the 401(k) 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, which vests after employees complete five years of service as defined by the plan. The Foundation, CFFT, and CF Services made contributions to the plan in accordance with the provisions of the plan. Employer contributions to the plan were approximately \$1,295,000 for the year ended December 31, 2005.

8. Allocation of joint costs

The Foundation conducted direct mail activities in the year ended December 31, 2005 that included requests for contributions as well as program components. The costs of conducting those activities included a total of \$13,001,000 of joint costs, which were not specifically attributable to particular components of the activities. Of those costs, \$8,451,000 was allocated to fund-raising expense, and \$4,550,000 was allocated to public and professional information and education program services.

SUPPLEMENTARY CHAPTER INFORMATION

**CYSTIC FIBROSIS FOUNDATION
CHAPTERS
NOTES TO STATEMENTS OF REVENUE AND COSTS OF SERVICES
December 31, 2005**

1. Summary of significant accounting policies

The accompanying statements of revenue and costs of services reflect the activity of the individual Chapters of the Cystic Fibrosis Foundation (the Foundation). This supplementary Chapter information is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements.

All contributions are recognized as revenue when received or when the donor has made an unconditional promise to give. Contributions are considered to be available for unrestricted use unless specifically restricted by the donors. The National Office of the Cystic Fibrosis Foundation (the National Office) coordinates the Foundation's medical/scientific grants and contracts program. All cash received by the Chapters is transferred to the National Office.

The statements of revenue and costs of services have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to voluntary health and welfare organizations. 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 revenue and costs of services during the reporting period. Actual results could differ from those estimates.

The costs of services of the Chapters are allocated among the functional classifications based on guidelines developed by the National Office.

No amounts have been included in the statement for donated services since no objective basis is available to measure the value of such services.

The Foundation considers Chapter executive directors to be employees of the National Office and their compensation is included in the costs of services of the National Office, not of the local Chapters.

2. Operating lease commitments

The Chapters are obligated under various operating leases for office space.

CYSTIC FIBROSIS FOUNDATION
CHAPTERS
NOTES TO STATEMENTS OF REVENUE AND COSTS OF SERVICES
December 31, 2005

3. Retirement Plan

Effective January 1, 2005, the Foundation established a 401(k) plan, which merged with the money purchase pension plan previously in effect, the provisions of which were frozen. Under the provisions of the 401(k) plan, after one year of service, chapter employees who defer wages are eligible for an employer match, which vests immediately. In addition, eligible employees receive a non-matching employer contribution, which vests after employees complete five years of service as defined by the plan. The Foundation contributes to the plan in accordance with the provisions of the plan.

CYSTIC FIBROSIS FOUNDATION

TENNESSEE CHAPTER
STATEMENT OF REVENUE AND COSTS OF SERVICES
FOR THE YEAR ENDED DECEMBER 31, 2005

REVENUE:

Received directly from public:

Special events (net of direct costs of \$150,770)	\$1,326,930
General contributions	614,029
Memorial tributes	<u>12,660</u>

Total 1,953,619

Received indirectly from public:

Allocations from federated and Federal service campaigns	<u>35,025</u>
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Total revenue 1,988,644

COSTS OF SERVICES:

Program services:

Medical programs	36,465
Public and professional information and education	168,648
Community services	<u>91,161</u>

Total program services 296,274

Supporting services:

Management and general	31,906
Fundraising	<u>127,626</u>

Total supporting services 159,532

Total costs of services 455,806

Increase in net assets available for
National Programs

\$1,532,838

The accompanying notes are an integral part of this financial statement