

Cystic Fibrosis Foundation

Consolidated Financial Statements

For the year ended December 31, 2006

(with summarized totals for 2005)

Report of Independent Auditors

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, 2006, and the consolidated changes in their net assets and their cash flows for the year ended December 31, 2006, 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 2005 financial statements, and in our report dated March 21, 2006, 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.

PricewaterhouseCoopers LLP

March 23, 2007

Cystic Fibrosis Foundation
Consolidated Balance Sheets
As of December 31, 2006 (with summarized totals for 2005)

	2006	2005
Assets		
Cash and cash equivalents	\$ 30,457,217	\$ 27,815,925
Investments	200,542,669	166,870,909
Receivables, net	34,310,487	30,615,386
Inventories	5,050,302	4,273,945
Prepaid expenses and other assets	2,571,342	2,502,159
Fixed assets, net	1,713,909	1,267,442
Total assets	<u>\$ 274,645,926</u>	<u>\$ 233,345,766</u>
Liabilities and Net Assets		
Awards payable	\$ 58,823,921	\$ 49,185,435
Accounts payable and accrued expenses	20,941,630	19,726,942
Total liabilities	<u>79,765,551</u>	<u>68,912,377</u>
Unrestricted net assets	177,738,339	152,326,307
Temporarily restricted net assets	13,771,771	8,905,881
Permanently restricted net assets	3,370,265	3,201,201
Total net assets	<u>194,880,375</u>	<u>164,433,389</u>
Total liabilities and net assets	<u>\$ 274,645,926</u>	<u>\$ 233,345,766</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, 2006 (with summarized totals for 2005)

	2006	Percentage of Revenue	2005	Percentage of Revenue
Revenue				
Support received from the public				
Special event revenue (including \$899,242 in temporarily restricted revenue in 2006)	\$ 95,256,098		\$ 90,683,454	
Direct benefit expenses	(12,565,773)		(12,593,876)	
Net special event revenue	<u>82,690,325</u>	36.5 %	<u>78,089,578</u>	38.5 %
General contributions (including \$12,853,598 in temporarily restricted contributions in 2006) (Assets released from restriction amounted to \$8,916,674 for 2006)	51,255,747	22.6	52,295,529	25.8
Total support received from the public	<u>133,946,072</u>	<u>59.2</u>	<u>130,385,107</u>	<u>64.3</u>
Pharmacy services	61,503,035	27.2	57,000,527	28.1
Investment income (including \$29,724 in temporarily restricted revenue and \$169,064 in permanently restricted revenue in 2006)	25,436,064	11.2	13,079,493	6.5
Other	5,470,642	2.4	2,280,517	1.1
Total revenue	<u>226,355,813</u>	<u>100.0 %</u>	<u>202,745,644</u>	<u>100.0 %</u>
Costs of services				
Program services				
Medical programs	146,595,243	64.8 %	134,722,952	66.5 %
Public and professional information and education	19,013,125	8.4	17,787,873	8.8
Community services	6,641,103	2.9	6,345,111	3.1
Total program services	<u>172,249,471</u>	<u>76.1</u>	<u>158,855,936</u>	<u>78.4</u>
Supporting services				
Management and general	4,889,045	2.2	4,284,093	2.1
Fund raising	18,770,311	8.2	17,363,800	8.5
Total supporting services	<u>23,659,356</u>	<u>10.4</u>	<u>21,647,893</u>	<u>10.6</u>
Total costs of services	<u>195,908,827</u>	<u>86.5</u>	<u>180,503,829</u>	<u>89.0</u>
Increase in net assets (including increase in temporarily restricted net assets of \$4,865,889, and permanently restricted net assets of \$169,064 in 2006)	30,446,986	13.5	22,241,815	11.0
		<u>100.0 %</u>		<u>100.0 %</u>
Net assets, beginning of year (includes temporarily restricted net assets of \$8,905,881 and permanently restricted net assets of \$3,201,201 at January 1, 2006)	<u>164,433,389</u>		<u>142,191,574</u>	
Net assets, end of year (includes temporarily restricted net assets of \$13,771,771 and permanently restricted net assets of \$3,370,265 at December 31, 2006)	<u>\$ 194,880,375</u>		<u>\$ 164,433,389</u>	

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, 2006 (with summarized totals for 2005)

	2006	2005
Cash flows from operating activities		
Increase in net assets	\$ 30,446,986	\$ 22,241,815
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized and unrealized gains on investments	(20,560,982)	(8,994,847)
Increase in discount on pledges	749,536	946,371
Depreciation	743,199	707,732
Provision for losses on accounts receivable	1,749,411	703,864
Increase in receivables	(6,194,048)	(11,046,673)
Increase in inventories	(776,357)	(886,101)
Increase in prepaid and other assets	(69,183)	(606,229)
Increase (decrease) awards payable	9,638,486	(4,286,161)
Increase in accounts payable and accrued expenses	1,214,688	1,740,556
Net cash provided by operating activities	<u>16,941,736</u>	<u>520,327</u>
Cash flows from investing activities		
Net purchases of fixed assets	(1,189,666)	(595,498)
Maturities/sales of investments	129,799,730	226,016,518
Purchases of investments	(142,910,508)	(249,376,244)
Net cash used in investing activities	<u>(14,300,444)</u>	<u>(23,955,224)</u>
Net increase (decrease) in cash and cash equivalents	2,641,292	(23,434,897)
Cash and cash equivalents, beginning of year	27,815,925	51,250,822
Cash and cash equivalents, end of year	<u>\$ 30,457,217</u>	<u>\$ 27,815,925</u>
Other supplemental information:		
Income taxes paid	\$ 677,153	\$ 1,168,596

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, 2006 (with summarized totals for 2005)**

Nature of Costs of Services	Program Services			Supporting Services			2006	2005
	Medical Programs	Public and Professional Information and Education	Community Services	Management and General	Fund Raising			
Therapeutics Development Program awards	\$ 40,620,120	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 40,620,120	\$ 34,720,721
Research grants	11,695,196	-	-	-	-	-	11,695,196	13,613,680
Clinical research grants	6,963,865	-	-	-	-	-	6,963,865	5,317,708
Center grants for care and teaching	11,140,736	-	-	-	-	-	11,140,736	10,550,827
Clinical and research fellowship grants	1,999,573	-	-	-	-	-	1,999,573	2,503,195
Quality improvement training program	298,382	-	-	-	-	-	298,382	-
Pharmaceuticals	52,283,634	-	-	-	-	-	52,283,634	48,294,532
Salaries	7,667,402	8,340,143	3,967,236	3,186,216	5,806,035	-	28,967,032	26,454,281
Employee benefits and payroll taxes	1,391,075	1,955,644	934,341	611,619	1,374,179	-	6,266,858	5,655,829
Publications and printing	1,137,668	2,735,335	167,746	54,106	4,516,093	-	8,610,948	7,193,824
Occupancy and insurance	1,055,678	1,086,378	537,234	309,728	790,222	-	3,779,240	3,837,046
Postage and shipping	200,991	2,665,746	174,315	58,297	4,728,607	-	7,827,956	7,602,796
Travel and conferences	3,171,601	449,666	227,764	97,086	320,339	-	4,266,456	3,961,405
Data processing	1,362,941	697,191	204,380	175,529	546,070	-	2,986,111	2,484,611
Telephone	136,091	191,598	95,656	36,301	135,826	-	595,472	608,458
Licenses and taxes	539,527	14,866	8,036	6,529	11,250	-	580,208	1,054,973
Supplies	204,656	288,496	137,499	65,261	198,322	-	894,234	833,309
Professional fees	991,684	157,663	15,576	148,562	31,004	-	1,344,489	1,357,034
Depreciation	370,511	163,487	66,881	37,863	104,457	-	743,199	707,732
Equipment maintenance	62,150	48,979	20,183	13,113	35,316	-	179,741	145,176
Other, including allowance for patient receivables	3,301,762	217,933	84,256	88,835	172,591	-	3,865,377	3,606,692
Total	\$ 146,595,243	\$ 19,013,125	\$ 6,641,103	\$ 4,889,045	\$ 18,770,311	\$ -	\$ 195,908,827	\$ 180,503,829

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

Cystic Fibrosis Foundation
Notes to Consolidated Financial Statements
December 31, 2006

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, 2006. 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, 2006

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 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 \$33 million 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, 2006

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 year ended December 31, 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 as of December 31, 2006 consist of approximately \$2,277,000 restricted for specific programs and approximately \$11,495,000 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, 2006

2005 Financial information

The consolidated financial statements include certain 2005 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, 2005, from which the summarized information was derived. Certain figures presented in the 2005 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, 2006 are as follows:

	Cost	Fair Value
U.S. government/agency bonds	\$ 27,379,908	\$ 27,362,742
Corporate bonds	21,913,997	21,866,294
Equity mutual funds	78,694,918	98,536,454
Alternative investment mutual funds	30,400,000	33,077,422
Other mutual funds	15,807,830	19,699,757
	<u>\$ 174,196,653</u>	<u>\$ 200,542,669</u>

Interest and dividends amounted to approximately \$4,876,000 for the year ended December 31, 2006.

4. Receivables

Receivables consist of the following at December 31, 2006:

Special events	\$ 4,554,581
Pharmacy	9,746,809
Pledges receivable	24,072,396
Interest	431,775
Other	904,726
	<u>39,710,287</u>
Discount	(2,204,443)
Allowance for doubtful accounts	(3,195,357)
	<u>\$ 34,310,487</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: \$9.5 million within one year; \$9.4 million from one to five years; and \$1.8 million after five years. Pledges include \$3.4 million of permanently restricted funds.

Cystic Fibrosis Foundation
Notes to Consolidated Financial Statements
December 31, 2006

5. Fixed Assets

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

Equipment and software	\$	6,142,942
Furniture and fixtures		236,420
Leasehold improvements		312,328
		<u>6,691,690</u>
Accumulated depreciation		(4,977,781)
	\$	<u>1,713,909</u>

6. Awards payable and commitments

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

Awards payable, December 31, 2005	\$	49,185,435
Awards expensed in 2006		72,419,490
Awards disbursed in 2006		(62,781,004)
Awards payable, December 31, 2006	\$	<u>58,823,921</u>

The Foundation and CFFT have medical scientific grant commitments of approximately \$12.9 million, which extend through December 31, 2010, 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, 2006, total additional payments contingent on these milestones were approximately \$17.6 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 \$42.9 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 \$2.5 million for the year ended December 31, 2006. Certain of the Foundation's Trustees have made investments in companies to which CFFT has provided awards amounting to approximately \$3.4 million since 1998.

Cystic Fibrosis Foundation
Notes to Consolidated Financial Statements
December 31, 2006

7. Operating lease commitments

The Foundation and CF Services are obligated under various operating leases for office space as of December 31, 2006. The approximate future minimum rental commitments for each calendar year, subject to escalation, are as follows:

2007	\$	2,399,900
2008		1,752,186
2009		1,165,274
2010		938,741
2011		285,953
	\$	<u>6,542,054</u>

Rental costs for the year ended December 31, 2006 were approximately \$3.0 million.

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, which vests after employees complete five years of service, as defined by the plan. The Foundation, CFFT, and CF Services made contributions in accordance with the provisions of the plan, amounting to approximately \$1,254,000 for the year ended December 31, 2006.

9. Allocation of joint costs

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