

Cystic Fibrosis Foundation
Consolidated Financial Statements
For the year ended December 31, 2008
(with summarized totals for 2007)

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, its subsidiaries and affiliates (the Foundation) at December 31, 2008, and the consolidated changes in their net assets and their cash flows for the year then ended, 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 2007 financial statements, and in our report dated March 14, 2008, 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.

As discussed in Note 2 to the financial statements, on January 1, 2008, the Foundation adopted Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements*.



April 14, 2009

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

Cystic Fibrosis Foundation
Consolidated Statement of Financial Position
As of December 31, 2008 (with summarized totals for 2007)

| | 2008 | 2007 |
|---------------------------------------|-----------------------|-----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 27,750,046 | \$ 19,214,324 |
| Investments | 138,303,572 | 233,217,111 |
| Receivables, net | 41,094,105 | 35,711,388 |
| Inventories | 6,693,981 | 7,685,044 |
| Prepaid expenses and other assets | 2,717,594 | 4,560,543 |
| Fixed assets, net | 2,023,295 | 1,515,013 |
| Total assets | <u>\$ 218,582,593</u> | <u>\$ 301,903,423</u> |
| Liabilities and Net Assets | | |
| Awards payable | \$ 53,929,305 | \$ 59,847,849 |
| Accounts payable and accrued expenses | 22,234,973 | 22,301,786 |
| Total liabilities | <u>76,164,278</u> | <u>82,149,635</u> |
| Unrestricted net assets | 118,160,384 | 202,166,344 |
| Temporarily restricted net assets | 21,828,910 | 14,140,798 |
| Permanently restricted net assets | 2,429,021 | 3,446,646 |
| Total net assets | <u>142,418,315</u> | <u>219,753,788</u> |
| Total liabilities and net assets | <u>\$ 218,582,593</u> | <u>\$ 301,903,423</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, 2008 (with summarized totals for 2007)

| | 2008 | 2007 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| Revenue | | |
| Support received from the public | | |
| Special event revenue (including \$802,747 and \$402,025 in temporarily restricted revenue in 2008 and 2007, respectively) | \$ 99,884,598 | \$ 103,944,627 |
| Direct benefit expenses | <u>(12,647,035)</u> | <u>(12,713,180)</u> |
| Net special event revenue | 87,237,563 | 91,231,447 |
| General contributions (including \$15,512,463 and \$6,065,621 in temporarily restricted contributions in 2008 and 2007, respectively) (Assets released from restriction amounted to \$8,604,864 and \$6,116,613 for 2008 and 2007, respectively) | 51,121,860 | 58,695,811 |
| Total support received from the public | <u>138,359,423</u> | <u>149,927,258</u> |
| Pharmacy services | 84,790,010 | 67,195,185 |
| Investment income (including \$22,234 decrease and \$17,994 increase in temporarily restricted revenue in 2008 and 2007, respectively) | 299,700 | 1,891,705 |
| Other | <u>2,447,034</u> | <u>2,121,452</u> |
| Total revenue | <u>225,896,167</u> | <u>221,135,600</u> |
| Costs of services | | |
| Program services | | |
| Medical programs | 185,573,535 | 169,160,704 |
| Public and professional information and education | 21,071,325 | 20,329,019 |
| Community services | <u>7,864,129</u> | <u>7,275,989</u> |
| Total program services | <u>214,508,989</u> | <u>196,765,712</u> |
| Supporting services | | |
| Management and general | 5,647,153 | 4,908,507 |
| Fund raising | <u>20,585,092</u> | <u>20,043,718</u> |
| Total supporting services | <u>26,232,245</u> | <u>24,952,225</u> |
| Total costs of services | <u>240,741,234</u> | <u>221,717,937</u> |
| Decrease in net assets from operations | (14,845,067) | (582,337) |
| Other changes in net assets | | |
| Net realized and unrealized (losses) gains on investments (including decrease of \$1,017,625 and increase of \$76,381 in permanently restricted net assets in 2008 and 2007, respectively) | <u>(62,490,406)</u> | <u>25,455,750</u> |
| (Decrease) Increase in net assets (including increase in temporarily restricted net assets of \$7,688,112 and \$369,027 and decrease of \$1,017,625 and increase of \$76,381 in permanently restricted net assets in 2008 and 2007, respectively) | (77,335,473) | 24,873,413 |
| Net assets, beginning 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 January 1, 2008 and 2007, respectively) | <u>219,753,788</u> | <u>194,880,375</u> |
| Net assets, end of year (includes temporarily restricted net assets of \$21,828,910 and \$14,140,798 and permanently restricted net assets of \$2,429,021 and \$3,446,646 at December 31, 2008 and 2007, respectively) | <u>\$ 142,418,315</u> | <u>\$ 219,753,788</u> |

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, 2008 (with summarized totals for 2007)

| | 2008 | 2007 |
|--------------------------------------------------------------------------------------------------|----------------------|----------------------|
| Cash flows from operating activities | | |
| (Decrease) increase in net assets | \$ (77,335,473) | \$ 24,873,413 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Net realized and unrealized gains and losses on investments | 67,035,314 | (17,432,788) |
| Receipt of contributed securities | (1,078,231) | (3,165,828) |
| Increase in discount on pledges | 499,371 | 81,781 |
| Depreciation | 891,578 | 881,304 |
| Provision for losses on accounts receivable | 2,672,416 | 1,600,551 |
| Increase in receivables | (8,554,504) | (3,083,233) |
| (Increase) decrease in inventories | 991,063 | (2,634,742) |
| (Increase) decrease in prepaid and other assets | 1,842,949 | (1,989,201) |
| (Decrease) increase in awards payable | (5,918,544) | 1,023,928 |
| (Decrease) increase in accounts payable and accrued expenses | (66,813) | 1,360,156 |
| Net cash (used in) provided by operating activities | <u>(19,020,874)</u> | <u>1,515,341</u> |
| Cash flows from investing activities | | |
| Purchases of fixed assets | (1,399,860) | (682,408) |
| Maturities/sales of investments | 116,023,243 | 220,560,243 |
| Purchases of investments | (87,066,787) | (232,636,069) |
| Net cash provided by (used in) investing activities | <u>27,556,596</u> | <u>(12,758,234)</u> |
| Net increase (decrease) in cash and cash equivalents | 8,535,722 | (11,242,893) |
| Cash and cash equivalents, beginning of year | 19,214,324 | 30,457,217 |
| Cash and cash equivalents, end of year | <u>\$ 27,750,046</u> | <u>\$ 19,214,324</u> |
| Other supplemental information: | | |
| Income taxes paid | \$ - | \$ - |
| Contributed securities | \$ 1,078,231 | \$ 3,165,828 |

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, 2008 (with summarized totals for 2007)

| Nature of Costs of Services | Program Services | | | Supporting Services | | 2008 | 2007 |
|-----------------------------------------|------------------|---------------------------------------------------|--------------------|------------------------|---------------|----------------|----------------|
| | Medical Programs | Public and Professional Information and Education | Community Services | Management and General | Fund Raising | | |
| Therapeutics Development Program awards | \$ 49,228,079 | \$ - | \$ - | \$ - | \$ - | \$ 49,228,079 | \$ 52,379,153 |
| Research grants | 12,856,911 | - | - | - | - | 12,856,911 | 12,278,357 |
| Clinical research grants | 6,529,628 | - | - | - | - | 6,529,628 | 9,782,139 |
| Center grants for care and teaching | 12,366,064 | - | - | - | - | 12,366,064 | 11,808,884 |
| Clinical and research fellowship grants | 2,963,379 | - | - | - | - | 2,963,379 | 2,492,886 |
| Adult Care Excellence grants | 905,032 | - | - | - | - | 905,032 | - |
| Quality improvement training program | 739,742 | - | - | - | - | 739,742 | 245,229 |
| Pharmaceuticals | 71,178,558 | - | - | - | - | 71,178,558 | 57,270,317 |
| Salaries | 10,694,669 | 10,244,698 | 4,785,380 | 3,501,537 | 6,997,217 | 36,223,501 | 31,976,042 |
| Employee benefits and payroll taxes | 2,146,189 | 2,452,356 | 1,168,725 | 700,721 | 1,709,482 | 8,177,473 | 7,337,481 |
| Publications and printing | 724,411 | 2,422,402 | 171,136 | 47,894 | 4,694,951 | 8,060,794 | 9,082,687 |
| Occupancy and insurance | 1,255,802 | 1,156,376 | 577,121 | 296,142 | 846,024 | 4,131,465 | 3,869,870 |
| Postage and shipping | 242,803 | 2,184,607 | 165,605 | 60,295 | 4,448,145 | 7,101,455 | 7,814,432 |
| Travel and conferences | 3,904,774 | 439,810 | 217,979 | 79,626 | 306,409 | 4,948,598 | 4,731,029 |
| Data processing | 2,128,043 | 907,297 | 250,878 | 199,831 | 754,725 | 4,240,774 | 3,449,495 |
| Telephone | 246,065 | 196,803 | 99,151 | 34,111 | 141,099 | 717,229 | 683,678 |
| Supplies | 310,158 | 298,644 | 146,108 | 70,190 | 209,966 | 1,035,066 | 884,396 |
| Professional fees and honoraria | 2,105,102 | 180,993 | 30,829 | 262,647 | 43,160 | 2,622,731 | 2,025,189 |
| Depreciation | 397,450 | 215,111 | 87,945 | 48,636 | 142,436 | 891,578 | 881,304 |
| Equipment maintenance | 56,658 | 46,470 | 19,190 | 14,785 | 34,133 | 171,236 | 157,853 |
| Provision for patient receivables | 2,357,368 | - | - | - | - | 2,357,368 | 1,407,458 |
| Other | 2,236,650 | 325,758 | 144,082 | 330,738 | 257,345 | 3,294,573 | 1,160,058 |
| Total | \$ 185,573,535 | \$ 21,071,325 | \$ 7,864,129 | \$ 5,647,153 | \$ 20,585,092 | \$ 240,741,234 | \$ 221,717,937 |

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

Cystic Fibrosis Foundation

Notes to Consolidated Financial Statements

December 31, 2008

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), Cystic Fibrosis Foundation Pharmacy, LLC (CFFP) and Cystic Fibrosis Patient Assistance Foundation (CFPAF). 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, 2008. 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.

The CFPAF is a non-profit organization that provides financial assistance to cystic fibrosis patients who need FDA-approved medications for inhalation and paired drug delivery devices for the on-label, nebulized treatment of cystic fibrosis pulmonary disease.

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 activities are classified by function.

Recently adopted accounting pronouncements

Effective January 1, 2008, the Foundation adopted SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. SFAS 157 expands disclosures about instruments measured at fair value. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, SFAS 157 does not require any new fair value measurements. The adoption of SFAS 157 had no impact on the Foundation's beginning balance of net assets as of January 1, 2008. Subsequent changes in fair value of these financial assets and liabilities are recognized in earnings when they occur.

Cystic Fibrosis Foundation

Notes to Consolidated Financial Statements

December 31, 2008

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 (SFAS 159)*, which, among other things, provides an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. The Foundation did not elect fair value accounting for any assets or liabilities that are not currently required to be measured at fair value.

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.

Measure of Operations

The Foundation includes in its measure of operations all support received from the public, pharmacy services revenue, income on investments designated for operations including interest and dividends and realized and unrealized gains and losses, other revenue and all costs of program and supporting services. The measure of operations excludes gains or losses on non-operating investments.

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.

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 activities 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.

Cystic Fibrosis Foundation

Notes to Consolidated Financial Statements

December 31, 2008

Concentration of credit risk

Financial instruments that potentially subject the Foundation to significant concentrations of credit risk principally consist of cash and cash equivalents, accounts receivable and investments. The Foundation places its cash and investments in various financial institutions that are fully insured under the Federal Depository Insurance Corporation Act (FDICA) as of December 31, 2008 and for \$500,000 under the Securities Investor Protection Corporation (SIPC), respectively. Interest bearing cash accounts in banks were insured for \$250,000 by FDICA. In addition, the Foundation maintained money market deposits amounting to \$7,508,000 as of December 31, 2008 insured by the U.S. Department of Treasury's Temporary Guarantee Program for Money Market Funds. At December 31, 2008 and 2007, the aggregate balances were in excess of the insurance and therefore, bear some risk as they are not collateralized. The Foundation's investments were diversified among 15 and 14 different managers and funds of funds in 2008 and 2007, respectively. Uninsured deposits and investments not covered by FDICA and SIPC, respectively, amounted to approximately \$13.7 million and \$130.6 million as of December 31, 2008 and \$16.9 million and \$226.2 million as of December 31, 2007. The Foundation has not experienced any losses on its cash and cash equivalents, and investments to date related to FDICA, Department of Treasury and SIPC insurance limits. Of the total general contributions reflected on the consolidated statement of activities for 2008, \$7.5 million related to a pledge from one foundation. CF Services grants credit without collateral to its customers throughout the country, most of whom are insured under third-party payor agreements.

Investments

Investment assets are recorded at fair value, which is primarily based on actively traded markets where prices are based on either direct market quotes or observed transactions. Liquidity is a significant factor in the determination of the fair value of investment assets.

Market price quotes are not readily available for certain marketable alternative investment assets. In these instances, fair value is determined based on limited available market information and other factors, principally from reviewing information related to the funds' published net asset values and the liquidity features of the Foundation's investment.

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 an average cost 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.

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.

Cystic Fibrosis Foundation

Notes to Consolidated Financial Statements

December 31, 2008

Functional expenses

The costs of various Foundation activities have been accounted for on a functional basis in the consolidated statement of activities. 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, 2008 and 2007.

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 \$5,969,000 and \$3,122,000 restricted for specific programs, including approximately \$2,700,000 and \$0 for financial assistance for CF patients and approximately \$15,860,000 and \$11,019,000 restricted only as to time as of December 31, 2008 and 2007, respectively.

Permanently Restricted Net Assets – The Foundation's permanently restricted assets consist of six donor-restricted funds that must be maintained in perpetuity. As required by GAAP, net assets associated with perpetual trusts are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation has a policy of appropriating for operations each year the income from the perpetual trusts.

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.

Fair Value Measurements

As noted above, SFAS 157 requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value: Level 1 - Quoted prices in active markets for identical assets or liabilities. Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets. Level 3 - Unobservable inputs that are supported by little or no market activity and

Cystic Fibrosis Foundation
Notes to Consolidated Financial Statements
December 31, 2008

that are significant to the fair value of the assets. The Foundation carries its cash and cash equivalents, all investment balances and certain other assets at fair value.

Financial instruments measured at fair value on a recurring basis are summarized below.

| Description | 12/31/2008 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|-------------------------------------|-----------------------|-------------------------------------------------------------------------|-----------------------------------------------------|-------------------------------------------------|
| Cash equivalents | \$ 13,901,780 | \$ 13,901,780 | \$ - | \$ - |
| U.S. government/agency bonds | 11,285,337 | 11,285,337 | - | - |
| Corporate bonds | 25,880,823 | - | 25,880,823 | - |
| Equity mutual funds | 60,405,359 | 30,118,661 | 30,286,698 | - |
| Alternative investment mutual funds | 33,316,778 | - | - | 33,316,778 |
| Other mutual funds | 7,415,275 | 2,183,631 | 5,231,644 | - |
| | <u>\$ 152,205,352</u> | <u>\$ 57,489,409</u> | <u>\$ 61,399,165</u> | <u>\$ 33,316,778</u> |

The table below presents reconciliation for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2008.

| | <u>Alternative Investment Mutual Funds</u> |
|-----------------------------------------|----------------------------------------------------|
| Beginning balance as of January 1, 2008 | \$ 44,022,559 |
| Total gains or losses | |
| Net realized gains/losses | 377,731 |
| Net change in unrealized depreciation | (11,583,512) |
| Net purchases, sales and settlements | 500,000 |
| Transfers in and out of level 3 | - |
| Ending balance as of December 31, 2008 | <u>\$ 33,316,778</u> |

The amount of net unrealized losses relating to Level 3 assets still held at December 31, 2008 are approximately \$2,960,000.

2007 Financial information

The consolidated financial statements include certain 2007 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, 2007, from which the summarized information was derived. Certain figures presented in the 2007 consolidated financial statements have been reclassified to conform to the presentation in these financial statements.

Cystic Fibrosis Foundation
Notes to Consolidated Financial Statements
December 31, 2008

3. Investments

The cost and fair value of investments as of December 31, 2008 and 2007 are as follows:

| | 2008 | | 2007 | |
|-------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | Cost | Fair Value | Cost | Fair Value |
| U.S. government/agency bonds | \$ 10,718,531 | \$ 11,285,337 | \$ 22,603,689 | \$ 22,982,382 |
| Corporate bonds | 25,757,119 | 25,880,823 | 35,324,065 | 36,380,142 |
| Equity mutual funds | 88,872,342 | 60,405,359 | 91,253,039 | 114,578,357 |
| Alternative investment mutual funds | 36,277,731 | 33,316,778 | 35,400,000 | 44,022,559 |
| Other mutual funds | 8,404,087 | 7,415,275 | 9,484,619 | 15,253,671 |
| | <u>\$ 170,029,810</u> | <u>\$ 138,303,572</u> | <u>\$ 194,065,412</u> | <u>\$ 233,217,111</u> |

At December 31, 2008 \$33,316,778, or 24.1%, of investment balances were classified as Level 3 fair value assets. The alternative investments include hedge funds of funds and are subject to holdbacks. The Foundation has not incurred any losses related to holdbacks. Upon liquidation, approximately 10% of the alternative investment mutual fund balances will be held back until the funds' financial statement audits are complete.

Investment return (loss) is as follows for the years ended December 31:

| | 2008 | 2007 |
|-----------------------------|------------------------|----------------------|
| Interest and dividends | \$ 5,809,985 | \$ 9,927,657 |
| Net realized gains | 4,176,925 | 4,694,011 |
| Net unrealized gains (loss) | (71,726,410) | 13,228,110 |
| Investment expenses | (451,206) | (502,323) |
| | <u>\$ (62,190,706)</u> | <u>\$ 27,347,455</u> |

Investment return (loss) during the years ended December 31, 2008 and 2007 are reflected on the consolidated statement of activities as follows:

| | 2008 | 2007 |
|------------------------------------------------------------------------------|------------------------|----------------------|
| Investment income (operating) | \$ 299,700 | \$ 1,891,705 |
| Net realized and unrealized gains (losses) on investments (non-operating) | (62,490,406) | 25,455,750 |
| | <u>\$ (62,190,706)</u> | <u>\$ 27,347,455</u> |

Unaudited

Subsequent to year end the financial markets continued to experience significant declines, due in part to current economic conditions and declines in the financial sector. In 2009, the portfolio was allocated to a higher level of short term fixed income investments to reduce volatility and ensure funding for the Foundation's medical research programs. Additional realized losses of \$15,950,000

Cystic Fibrosis Foundation
Notes to Consolidated Financial Statements
December 31, 2008

were incurred in March 2009.

4. Receivables

Receivables consist of the following at December 31, 2008 and 2007:

| | 2008 | 2007 |
|---------------------------------|----------------------|----------------------|
| Special events | \$ 3,366,704 | \$ 5,005,832 |
| Pharmacy | 11,208,548 | 8,420,597 |
| Pledges receivable | 29,304,108 | 25,690,893 |
| Interest | 382,696 | 478,397 |
| Other | 2,876,248 | 754,248 |
| | <u>47,138,304</u> | <u>40,349,967</u> |
| Discount | (2,785,595) | (2,286,224) |
| Allowance for doubtful accounts | (3,258,604) | (2,352,355) |
| | <u>\$ 41,094,105</u> | <u>\$ 35,711,388</u> |

New pledges received in 2008 were recorded at present value using a discount rate that is reflective of market considerations as required by Financial Accounting Standards Board Statement No. 157, Fair Value Measurements (FAS157). Pledges received prior to 2008 were 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, 2008 are payable in the following periods: \$11.8 million within one year; \$11.3 million from one to five years; and \$1.0 million after five years. As of December 31, 2008, pledges receivable include \$2.4 million of permanently restricted funds. As of December 31, 2008 and 2007, pledges receivable amounting to approximately \$10,587,000 and \$6,775,000, respectively, were due from members of the Board of Trustees or related organizations.

5. Fixed Assets

Fixed assets at December 31, 2008 and 2007 consisted of the following:

| | 2008 | 2007 |
|--------------------------|---------------------|---------------------|
| Equipment and software | \$ 7,155,774 | \$ 6,700,018 |
| Furniture and fixtures | 299,529 | 237,525 |
| Leasehold improvements | 712,663 | 312,328 |
| | <u>8,167,966</u> | <u>7,249,871</u> |
| Accumulated depreciation | (6,144,671) | (5,734,858) |
| | <u>\$ 2,023,295</u> | <u>\$ 1,515,013</u> |

Cystic Fibrosis Foundation
Notes to Consolidated Financial Statements
December 31, 2008

6. Awards payable and commitments

Changes in awards payable during the years ended December 31, 2008 and 2007 are summarized as follows:

| | 2008 | 2007 |
|-----------------------------------|----------------------|----------------------|
| Awards payable, beginning of year | \$ 59,847,849 | \$ 58,823,921 |
| Awards expensed | 84,849,092 | 89,187,275 |
| Awards disbursed | (90,767,636) | (88,163,347) |
| Awards payable, end of year | <u>\$ 53,929,305</u> | <u>\$ 59,847,849</u> |

As of December 31, 2008, the Foundation and CFFT have medical scientific grant commitments of approximately \$25.9 million, which extend through December 31, 2011, in addition to those presented on the consolidated statement of financial position. 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, 2008, total additional payments contingent on these milestones were approximately \$53.7 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 \$52.3 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 \$5.5 million and \$2.7 million for the years ended December 31, 2008 and 2007, respectively.

7. Operating lease commitments

The Foundation and CFFP are obligated under various operating leases for office space as of December 31, 2008. The approximate future minimum rental commitments for each calendar year, subject to escalation, are as follows:

| | |
|------------|----------------------|
| 2009 | \$ 2,826,730 |
| 2010 | 2,398,033 |
| 2011 | 2,028,171 |
| 2012 | 1,801,808 |
| 2013 | 1,750,944 |
| Thereafter | <u>8,562,588</u> |
| | <u>\$ 19,368,274</u> |

Rental costs for the years ended December 31, 2008 and 2007 were approximately \$3.4 million and \$3.1 million, respectively.

Cystic Fibrosis Foundation
Notes to Consolidated Financial Statements
December 31, 2008

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 CFFP made contributions in accordance with the provisions of the plan amounting to approximately \$1,732,000 and \$1,449,000, respectively, for the years ended December 31, 2008 and 2007.

9. Allocation of joint costs

The Foundation conducted direct mail activities in the years ended December 31, 2008 and 2007 that included requests for contributions as well as program components. The costs of conducting those activities included a total of approximately \$13,659,000 and \$14,609,000 of joint costs during the years ended December 31, 2008 and 2007, respectively. These costs were not specifically attributable to particular components of the activities. Of those costs, \$9,526,000 and \$9,804,000 was allocated to fund-raising expense and \$4,133,000 and \$4,805,000 was allocated to public and professional information and education program services for the years ended December 31, 2008 and 2007, respectively.