

CYSTIC FIBROSIS RESEARCH, INC.
INDEPENDENT AUDITORS' REPORT
and
FINANCIAL STATEMENTS

For Years ended December 31, 2011 and 2010

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Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

March 15, 2012

To the Board of Directors
CYSTIC FIBROSIS RESEARCH, INC.

We have audited the accompanying statements of financial position of Cystic Fibrosis Research, Inc. (a nonprofit organization) as of December 31, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the management of Cystic Fibrosis Research, Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cystic Fibrosis Research, Inc. as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

CYSTIC FIBROSIS RESEARCH, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 516,745	\$ 448,753
Accounts receivable	12,653	9,162
Prepaid expenses	8,866	5,104
Total current assets	<u>538,264</u>	<u>463,019</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	23,154	23,154
Website development	32,500	32,500
Software	30,883	8,399
Less accumulated depreciation	<u>(48,900)</u>	<u>(32,315)</u>
Net furniture and equipment	<u>37,637</u>	<u>31,738</u>
DEPOSITS		
	<u>2,365</u>	<u>5,577</u>
TOTAL ASSETS	<u>\$ 578,266</u>	<u>\$ 500,334</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 3,635	\$ 2,980
Accrued compensated absences	11,221	12,814
Research grants payable	<u>120,000</u>	<u>155,000</u>
Total current liabilities	<u>134,856</u>	<u>170,794</u>
COMMITMENTS		
	-	-
UNRESTRICTED NET ASSETS		
Undesignated	323,410	329,540
Board-designated for research grants	<u>120,000</u>	<u>-</u>
Total unrestricted net assets	<u>443,410</u>	<u>329,540</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 578,266</u>	<u>\$ 500,334</u>

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

CYSTIC FIBROSIS RESEARCH, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
CHANGES IN NET ASSETS:			
Revenue and gains:			
Contributions	\$ 601,462	\$ -	\$ 601,462
Education conference and retreat	212,771	-	212,771
Special events	116,125	-	116,125
Interest income	4,551	-	4,551
Total unrestricted revenues, gains, and other support	<u>934,909</u>	<u>-</u>	<u>934,909</u>
Expenses and losses:			
Program services:			
Research	209,327	-	209,327
Education, assistance and retreat	486,077	-	486,077
Total program services	<u>695,404</u>	<u>-</u>	<u>695,404</u>
Supporting services:			
Management and general	28,915	-	28,915
Fundraising	96,720	-	96,720
Total supporting services	<u>125,635</u>	<u>-</u>	<u>125,635</u>
Total expenses	<u>821,039</u>	<u>-</u>	<u>821,039</u>
INCREASE (DECREASE) IN NET ASSETS	113,870	-	113,870
NET ASSETS AT BEGINNING OF YEAR	<u>329,540</u>	<u>-</u>	<u>329,540</u>
NET ASSETS AT END OF YEAR	<u>\$ 443,410</u>	<u>\$ -</u>	<u>\$ 443,410</u>

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

CYSTIC FIBROSIS RESEARCH, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
CHANGES IN NET ASSETS:			
Revenue and gains:			
Contributions	\$ 632,040	\$ -	\$ 632,040
Education conference and retreat	193,962	-	193,962
Special events	119,545	-	119,545
Interest income	10,217	-	10,217
Total unrestricted revenues, gains, and other support	<u>955,764</u>	<u>-</u>	<u>955,764</u>
Expenses and losses:			
Program services:			
Research	292,379	-	292,379
Education, assistance and retreat	472,205	-	472,205
Total program services	<u>764,584</u>	<u>-</u>	<u>764,584</u>
Supporting services:			
Management and general	37,171	-	37,171
Fundraising	109,913	-	109,913
Total supporting services	<u>147,084</u>	<u>-</u>	<u>147,084</u>
Total expenses	<u>911,668</u>	<u>-</u>	<u>911,668</u>
INCREASE (DECREASE) IN NET ASSETS	44,096	-	44,096
NET ASSETS AT BEGINNING OF YEAR	<u>285,444</u>	<u>-</u>	<u>285,444</u>
NET ASSETS AT END OF YEAR	<u>\$ 329,540</u>	<u>\$ -</u>	<u>\$ 329,540</u>

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

CYSTIC FIBROSIS RESEARCH, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2011

	Program Services		Supporting Services		Total Expenses
	Research	Education, Assistance, and Retreat	Management and	Fundraising	
Salaries	\$ 9,984	\$ 214,396	\$ 19,432	\$ 35,208	\$ 54,640
Payroll taxes and benefits	1,381	29,148	2,884	4,862	7,746
Total personnel costs	11,365	243,544	22,316	40,070	62,386
Research grants	194,600	-	-	-	194,600
Conferences, meetings and events	-	99,851	-	23,258	123,109
Newsletter	-	39,247	-	5,437	44,684
Rent	1,015	21,807	1,976	3,581	28,379
Educational outreach	-	25,950	-	-	25,950
Audit and accounting	682	14,639	1,327	2,404	19,052
Mothers Day Tea	-	-	-	9,681	9,681
Other expenses	220	6,274	371	691	7,556
Professional fees	243	5,209	472	855	6,779
Postage	19	3,412	37	1,994	5,462
Mail solicitations	-	-	-	4,996	4,996
Insurance	155	3,324	301	546	4,326
Printing	-	3,099	-	-	3,099
Supplies	87	1,994	170	452	2,703
Bank charges	93	1,987	180	326	2,586
Telephone	88	1,884	183	309	2,464
Professional development	-	982	-	-	982
Mileage	160	-	413	6	579
Tax and licenses	4	87	8	14	113
Dues and subscription	2	46	4	8	60
Total expenses before depreciation	208,733	473,336	27,758	94,628	804,455
Depreciation	594	12,741	1,157	2,092	16,584
	\$ 209,327	\$ 486,077	\$ 28,915	\$ 96,720	\$ 821,039
Percent of total expenses	25.7%	59.9%	3.6%	10.8%	100.00%

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

CYSTIC FIBROSIS RESEARCH, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2010

	Program Services		Supporting Services		Total Expenses
	Research	Education, Assistance, and Retreat	Management and General	Fundraising	
Salaries	\$ 7,327	\$ 218,617	\$ 22,116	\$ 34,539	\$ 282,599
Payroll taxes and benefits	1,021	30,338	3,136	4,794	39,289
Total personnel costs	8,348	248,955	25,252	39,333	321,888
Research grants	281,833	-	-	-	281,833
Conferences, meetings and events	-	91,645	1,370	25,524	118,539
Newsletter	-	35,234	-	4,779	40,013
Rent	856	25,529	2,582	4,033	33,000
Educational outreach	-	25,000	-	-	25,000
Audit and accounting	525	15,666	1,585	2,475	20,251
Professional fees	162	8,446	3,839	4,214	16,661
Mail solicitations	-	-	-	12,329	12,329
Mothers Day Tea	-	-	-	10,268	10,268
Postage	71	3,186	61	2,401	5,719
Other expenses	79	2,713	755	2,462	5,714
Supplies	62	2,764	187	2,167	3,324
Bank charges	73	2,186	221	311	2,825
Telephone	64	1,914	192	301	2,471
Insurance	40	1,179	119	186	1,524
Printing	6	156	16	25	203
Tax and licenses	-	-	120	-	120
Dues and subscription	3	87	10	14	114
Mileage	-	69	-	15	84
Total expenses before depreciation	292,122	464,729	36,309	108,720	901,880
Depreciation	257	7,476	862	1,193	9,788
	\$ 292,379	\$ 472,205	\$ 37,171	\$ 109,913	\$ 911,668
Percent of total expenses	32.1%	51.8%	4.1%	12.0%	100.0%

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

CYSTIC FIBROSIS RESEARCH, INC.

STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS (TO) FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 113,870	\$ 44,096
Noncash items included in revenues and expenses:		
In-kind contributions of property and equipment	-	(10,480)
Adjustments to reconcile increase in net assets to net cash used in operations:		
Depreciation	16,584	9,788
(Increase) decrease in prepaid expenses	(3,762)	(514)
(Increase) decrease in accounts receivable	(3,491)	(9,162)
(Increase) decrease in deposit	3,212	(532)
Increase (decrease) in accounts payable	655	491
Increase (decrease) in accrued vacation compensation	(1,593)	2,611
Increase (decrease) in research grants payable	<u>(35,000)</u>	<u>(150,000)</u>
Net cash flow (to) from operating activities	<u>90,475</u>	<u>(113,702)</u>
CASH FLOWS (TO) FROM INVESTING ACTIVITIES		
Equipment purchases	<u>(22,483)</u>	-
Net cash to investing activities	<u>(22,483)</u>	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	67,992	(113,702)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>448,753</u>	<u>562,455</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 516,745</u>	<u>\$ 448,753</u>

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

CYSTIC FIBROSIS RESEARCH, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE 1 - OPERATIONS DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES

(a) Cystic Fibrosis Research, Inc., (CFRI) is a 501(C) 3 nonprofit organization incorporated in 1975. CFRI funds biomedical research, and provides education, outreach, awareness and support to patients and their families. CFRI is recognized as a national and global advocate for the cystic fibrosis community.

Cystic Fibrosis (CF) is a disorder of the cells that line the respiratory, digestive, and reproductive systems. This disease affects primarily the lungs and digestive system causing progressive disability. In addition, those with CF are susceptible to diabetes, dehydration, sinus, liver, and other organ disorders.

Having been awarded the highest, four-star rating from Charity Navigator at <http://www.charitynavigator.org/index.cfm>; the Guidestar Exchange Seal, demonstrating commitment to transparency, at <http://www2.guidestar.org/Home.aspx>; and high-rated reviews from Great Nonprofits at <http://greatnonprofits.org>, CFRI receives donations from various public, private and nonprofit organizations and individuals.

(b) The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles. Those principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. CFRI's significant estimates include the expected useful lives of property and equipment, the value of in-kind contributions, and the determination of functional expense allocations.

(c) CFRI reports information regarding its financial position and activities according to three classes of assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

1. Unrestricted Net Assets: Net assets that are currently available at the discretion of the board of directors for use in CFRI's operation. The board-designated fund of \$120,000 on December 31, 2011 is reserved for research grants.

2. Temporarily Restricted Net Assets: Net assets that are subject to donor-imposed restrictions, generally with regard to time or purpose of the use of the funds. CFRI currently has no temporarily restricted net assets.

3. Permanently Restricted Net Assets: Net assets that are subject to permanent donor-imposed restrictions, with the earnings from the original donation generally available for use by the organization. CFRI currently has no permanently restricted net assets.

d) Contributions received are to be recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions. If a restriction expires in the same accounting period as the contributions is received, the revenue is shown as unrestricted. Unconditional promises to give are recognized as revenue at the same time the promise is made by the donor; conditional promises to give are disclosed but not recognized as revenue until the conditions are met.

CYSTIC FIBROSIS RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

DECEMBER 31, 2011 AND 2010

NOTE 1 - OPERATIONS DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) CFRI considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. CFRI's bank accounts are at institutions insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest bearing accounts and for an unlimited amount for non-interest bearing account. At December 31, 2011, CFRI had approximately \$19,000 in excess of FDIC limits, and zero at December 31, 2010. CFRI places its cash and cash equivalents in quality financial institutions and believes no significant credit risk exists with respect to these accounts.

(f) Property and equipment are stated at cost. Purchased or donated assets in excess of \$1,000 are capitalized and depreciated on the straight-line method over estimated useful lives ranging from three to seven years.

(g) Expenses are charged directly to the applicable programs and supporting services based on specific identification provided by CFRI's management. Indirect expenses have been allocated based on salary expenditures.

(h) Fundraising activities are performed primarily by CFRI employees and volunteers. Special events that are major and/or ongoing are reported as gross proceeds with related expenses reported separately. Joint costs incurred in fundraising activities are allocated between program and support services in the statement of functional expenses based on management's estimates.

(i) CFRI has adopted *Fair Value Measurements*, whereby it measures the fair value of its cash and cash equivalents and liabilities under a three-level hierarchy, as follows:

Level 1: Quoted market prices for identical assets or liabilities to which an entity has access at the measurement date.

Level 2: Observable inputs and information other than quoted market indices included in Level 1.

Level 3: Unobservable inputs for the asset or liabilities.

CFRI's carrying amounts of its assets and liabilities approximate fair value under Level 1 for the years ended December 31, 2011 and 2010.

(j) CFRI's management has evaluated events and transactions subsequent to December 31, 2011 for potential recognition or disclosure in the financial statements. CFRI had no subsequent events requiring recognition or disclosure in the financial statements for the fiscal year ended December 31, 2011. Subsequent events have been evaluated through March 15, 2012, the date that the financial statements were available to be issued.

(k) Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications have no effect on previously reported results of operations or net assets.

NOTE 2 - LEASE COMMITMENTS

On August 22, 2000, CFRI entered into a lease agreement to rent office space in Mountain View, California. The lease was renewed, effective January 1, 2011, and the monthly rent was reduced to \$2,365. This lease will expire on December 31, 2014. Future minimum lease payments for 2012, 2013, and 2014 are \$28,380 per year.

Rent expenses were \$28,380 and \$33,000 in 2011 and 2010, respectively.

CYSTIC FIBROSIS RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

DECEMBER 31, 2011 AND 2010

NOTE 3 - INCOME TAXES

CFRI's income from and related to its charitable and educational purposes is exempt from federal income taxes under Internal Revenue Code 501 (c)(3) and from California income taxes under 23701 (d) of the California Revenue and Taxation. Accordingly, no provision for federal income taxes of California franchise taxes has been made.

CFRI has been classified as a publicly supported organization which is not a private foundation under IRS Code Section 509(a).

CFRI has adopted the provision of *Accounting for Uncertainty in Income Taxes*. Management believes that it has no uncertain tax positions which impact its financial position, statement of activities or change in net assets. CFRI, which is subject to taxation in the United States and California jurisdictions, has incurred no interest or penalties related to its tax positions. CFRI's 2008 through 2010 tax years remain subject to examination by the Internal Revenue Service for federal tax purposes, and 2007 through 2010 tax years remain subject to examination by state tax authority.

NOTE 4 - DONATED MATERIALS AND SERVICES

The estimated fair value of donated expert services and supplies are recorded as contributions. During the years ended December 31, the following in-kind contributions were received by CFRI:

	<u>2011</u>	<u>2010</u>
Professional Fees	\$ -	\$ 10,050
Advertising	25,950	25,000
Supplies and other	21,230	10,480
Total	<u>\$ 47,180</u>	<u>\$ 45,530</u>

Volunteers also donated 5,000 and 4,000 hours of non-professional services for the years ended December 31, 2011 and 2010, respectively. Since these services did not require specialized skills, they have not been recorded as support and expense in the financial statements.

NOTE 5 - EFFECT OF SPECIAL EVENTS ON FUNCTIONAL EXPENSE PERCENTAGES

CFRI organizes a golf tournament each year to raise funds for research and education. Although the majority of the duties related to the golf tournament are carried out by board members and other volunteers, there are significant expenses associated with the tournament. Because this special event is "major and ongoing," the revenue and expenses for the tournament must be reported at their gross amounts as described in Note 1.

The requirement to report these special event revenues and expenses at their gross amounts results in the organization having a higher fundraising expense percentage (8% versus 6%) than if CFRI were allowed to report only the net proceeds. CFRI's management believes that these tournaments, which provided more than 8% of the organization's revenue in 2011, are vital to CFRI's efforts to raise funds for research and education.

CYSTIC FIBROSIS RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

DECEMBER 31, 2011 AND 2010

NOTE 6 - ALLOCATION OF JOINT COSTS

CFRI incurred expenses that were identifiable with a particular function but served joint purpose. The organization issued newsletters that included appeals for contributions. These joint costs were allocated as follows:

	<u>2011</u>	<u>2010</u>
Fundraising	\$ 5,437	\$ 4,779
Program - Education	<u>39,247</u>	<u>35,234</u>
Total	<u>\$ 44,684</u>	<u>\$ 40,013</u>