

FINANCIAL STATEMENTS

Muscular Dystrophy Association, Inc.

Nine Month Period Ended December 31, 2007

Muscular Dystrophy Association, Inc.

Financial Statements

Nine Month Period Ended December 31, 2007

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Report of Independent Auditors

Board of Directors
Muscular Dystrophy Association, Inc.

We have audited the accompanying statement of financial position of Muscular Dystrophy Association, Inc. (the Association) as of December 31, 2007, and the related statements of activities, cash flows, and functional expenses for the nine month period then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Association's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. Our audit also 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Muscular Dystrophy Association, Inc. at December 31, 2007, and changes in its net assets, cash flows, and functional expenses for the nine month period then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

July 9, 2008

Muscular Dystrophy Association, Inc.

Statement of Financial Position

December 31, 2007

Assets

Cash and cash equivalents	\$ 43,662,876
Contributions receivable	2,718,499
Prepaid expenses and other assets	8,329,145
Investments	146,684,974
Fixed assets, net	9,335,400
Total assets	<u>\$ 210,730,894</u>

Liabilities and net assets

Liabilities:

Accounts payable and accrued expenses	\$ 17,048,316
Research awards, grants and fellowships payable	28,684,380
Total liabilities	<u>45,732,696</u>

Net assets:

Unrestricted:	
Available for program and supporting services	155,662,798
Net investment in fixed assets	9,335,400
Total net assets	<u>164,998,198</u>
Total liabilities and net assets	<u>\$ 210,730,894</u>

See accompanying notes.

Muscular Dystrophy Association, Inc.

Statement of Activities

Nine Month Period Ended December 31, 2007

Revenue

Public support:

Received directly:

Special events, including Telethon

\$ 138,892,306

Less fund-raising direct benefit costs

(30,943,848)

Special events, net

107,948,458

Contributions

22,745,888

Bequests and legacies

6,128,472

Total received directly

136,822,818

Received indirectly – Combined Federal Campaign

and Combined Health Appeals

763,392

Total revenue from the public

137,586,210

Investment income and other revenue

4,316,328

Total revenue

141,902,538

Expenses

Program services:

Patient and community services, net of third-party reimbursements

of \$1,106,717

66,255,196

Research

37,313,847

Professional and public health education

17,268,434

Total program services

120,837,477

Supporting services:

Fund raising

21,736,621

Management and general

11,551,825

Total supporting services

33,288,446

Total expenses

154,125,923

Decrease in net assets, before changes in unrecognized benefit plan costs

(12,223,385)

Changes in unrecognized benefit plan costs

10,191,682

Decrease in net assets

(2,031,703)

Net assets at beginning of period

167,029,901

Net assets at end of period

\$ 164,998,198

See accompanying notes.

Muscular Dystrophy Association, Inc.

Statement of Cash Flows

Nine Month Period Ended December 31, 2007

Operating activities

Change in net assets	\$ (2,031,703)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	1,002,024
Trading securities	7,822,407
Changes in unrecognized benefit plan costs	(10,191,682)
Contributions of marketable securities	(537,185)
Changes in operating assets and liabilities:	
Contributions receivable	16,717,566
Prepaid expenses and other assets	(5,354,857)
Accounts payable and accrued expenses	(1,612,971)
Research awards, grants and fellowships payable	8,486,417
Net cash provided by operating activities	<u>14,300,016</u>

Investing activities

Acquisition of fixed assets	<u>(786,635)</u>
Net cash used in investing activities	<u>(786,635)</u>
Net increase in cash and cash equivalents	13,513,381

Cash and cash equivalents at beginning of period	<u>30,149,495</u>
Cash and cash equivalents at end of period	<u><u>\$ 43,662,876</u></u>

See accompanying notes.

Muscular Dystrophy Association, Inc.

Statement of Functional Expenses

Nine Month Period Ended December 31, 2007

	Patient and Community Services	Research	Professional and Public Health Education	Fund Raising	Management and General	Total	Fund-Raising Direct Benefit Costs
Awards, grants and fellowships	\$ -	\$ 33,971,877	\$ -	\$ -	\$ -	\$ 33,971,877	\$ -
Disbursements made on behalf of individuals – including medical services and equipment (exclusive of \$51.3 million in related patient and community services):							
Aggregate charges	16,026,230	-	-	-	-	16,026,230	-
Third-party reimbursements	(1,106,717)	-	-	-	-	(1,106,717)	-
Salaries	28,165,206	1,645,003	7,987,291	1,945,959	4,119,741	43,863,200	-
Payroll taxes	2,457,994	131,845	703,639	171,239	298,644	3,763,361	-
Employee benefits	5,764,047	295,238	1,480,476	378,606	668,550	8,586,917	-
Occupancy	4,910,446	245,454	1,665,788	541,879	480,121	7,843,688	611,204
Telephone	1,656,878	77,954	465,287	1,312,439	78,971	3,591,529	456,111
Travel, lodging, conferences and meetings	4,236,510	315,724	1,062,040	579,219	463,905	6,657,398	204,675
Office supplies and equipment	1,079,724	48,331	412,944	317,123	206,790	2,064,912	69,200
Printing, visual aids, etc.	402,566	169,483	1,304,331	2,985,862	703,563	5,565,805	942,248
Postage and shipping	627,415	159,749	1,179,972	3,469,761	805,013	6,241,910	172,025
Contract services and professional fees	919,026	195,531	495,767	9,597,353	908,680	12,116,357	18,891,060
Miscellaneous	745,661	35,490	320,582	399,827	2,435,872	3,937,432	9,597,325
Depreciation	370,210	22,168	190,317	37,354	381,975	1,002,024	-
Total functional expenses	\$ 66,255,196	\$ 37,313,847	\$ 17,268,434	\$ 21,736,621	\$ 11,551,825	\$ 154,125,923	\$ 30,943,848

See accompanying notes.

Muscular Dystrophy Association, Inc.

Notes to Financial Statements

December 31, 2007

1. Organization

The Muscular Dystrophy Association, Inc. (the Association) is a not-for-profit national voluntary health agency supporting worldwide research at hundreds of universities and hospitals to find effective treatments and cures for neuromuscular diseases. Through 225 Association-supported, hospital-affiliated clinics and its field offices nationwide, the Association offers comprehensive medical services, education and support to patients and their families. The Association produces and distributes educational information about neuromuscular diseases in the form of an annual Labor Day Telethon, publications and seminars for the medical and scientific community and the general public. The Association receives the vast majority of its revenue from individual contributors.

The Association is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Association has been classified as a publicly supported charitable organization under Section 509(a)(1) of the Internal Revenue Code and qualifies for the maximum charitable contribution deduction by donors.

On March 30, 2007, the Board of Directors unanimously approved changing the Association's fiscal year to a calendar year ending December 31, beginning April 1, 2007. The Association's reporting period reflected in the accompanying financial statements is the nine month period from April 1, 2007 to December 31, 2007. Hereafter, the reporting period will be the calendar year.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements include the accounts of the Association and its unincorporated, affiliated Chapters. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Muscular Dystrophy Association, Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Association considers all highly liquid short-term investments with a maturity of three months or less when purchased to be cash equivalents.

Contributions Receivable

The Association sponsors conduct fund-raising programs whereby they collect donations from their patrons and remit the proceeds to the Association. The Association records contributions receivable for those funds which have been collected on their behalf before period-end but not remitted.

Investments

Marketable debt and equity securities are recorded at fair value as determined by quoted prices and have been designated as trading securities. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in total revenues.

Fixed Assets

Fixed assets are stated at cost or estimated fair value at date of donation. Depreciation is provided over the estimated useful lives of the related assets on a straight-line basis. Estimated useful lives range from five to 40 years.

Research Awards, Grants and Fellowships Payable

The Association makes research awards, grants and fellowships (grants) each year to physicians and scientists in the United States and abroad who are seeking the causes of, and cures or effective treatments for, the neuromuscular disorders covered by the Association's programs. These grants generally extend over a period of one to three years. The Association records the initial year's liability and related expense for these grants after they have been recommended for approval by the Association's scientific or medical advisory committees and approved by the Board of Directors. Funding of the remaining committed future amounts of grants is contingent upon satisfactory scientific and/or medical review and the availability of funds (see Note 9).

Muscular Dystrophy Association, Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Contributions

All contributions are considered to be available for the program or supporting services of the Association unless explicitly restricted by the donor. Temporarily restricted donations received and expended in the same year are classified as unrestricted gifts.

The Association is the beneficiary under various wills. Bequest and legacy income is recognized when the Association has an irrevocable right to the gift and the proceeds are measurable.

Contributed Services

A substantial number of volunteers from the business community, organized labor, civic, fraternal and youth organizations and the public at large have contributed their services to support the Association's research, patient and community services, and professional and public health education programs as well as its fund-raising and administrative activities. The value of these contributed services does not meet the criteria for recognition and, accordingly, they are not recognized in the financial statements.

Concentrations of Credit Risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of cash and cash equivalents. The Association places cash with one financial institution and frequently maintains balances in excess of the amount insured by the FDIC. All such cash accounts are monitored by management to mitigate risk.

Recently Issued Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48). This interpretation, among other things, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and expands disclosure requirements. For nonpublic enterprises, the effective date of FIN 48 is fiscal years beginning after December 15, 2007 (applied as of the beginning of the enterprise's fiscal year). The Association is currently evaluating the impact that the adoption of FIN 48 will have on its financial statements.

Muscular Dystrophy Association, Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 establishes a common definition of fair value, provides a framework for measuring fair value under accounting principles generally accepted in the United States and expands disclosure requirements about fair value measurements. SFAS No. 157 is effective for financial statements issued in fiscal years beginning after November 15, 2007. The Association is currently evaluating the impact that the adoption of SFAS No. 157 will have on its financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*. This standard permits entities to choose to measure financial instruments and certain other items at fair value and is effective for the first fiscal year beginning after November 15, 2007. The Association does not believe that the adoption of SFAS No. 159 will have a material impact on its financial statements.

3. Investments

Investments at December 31, 2007, consist of:

U.S. treasury notes	\$ 17,115,146
Common stocks	84,535,045
Bonds	45,034,783
	<u>\$ 146,684,974</u>

The following summarizes the composition of investment income and other included in the accompanying statement of activities for the nine month period ended December 31, 2007:

Interest and dividends	\$ 4,246,332
Net realized and unrealized losses	(440,812)
Other	510,808
	<u>\$ 4,316,328</u>

Muscular Dystrophy Association, Inc.

Notes to Financial Statements (continued)

4. Fixed Assets

Fixed assets at December 31, 2007, are comprised of:

Land and land improvements	\$ 1,980,691
Building	7,758,407
Furniture and equipment	5,569,354
	<hr/>
	15,308,452
Accumulated depreciation	(5,973,052)
	<hr/>
	\$ 9,335,400
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5. Net Assets

Unrestricted net assets of approximately \$156 million at December 31, 2007, are available to be expended for program and supporting services.

6. Allocation of Joint Costs

Costs incurred for informational materials and activities that include fund-raising appeals are allocated to program and supporting services based upon the content of the materials or activities, the audience to whom the materials or activities are addressed, and the reasons for distributing the materials or conducting the activities. For the nine month period ended December 31, 2007, the Association incurred joint costs of \$5,420,662 for informational materials and activities that included fund-raising appeals, of which \$1,600,450 was allocated to professional and public health education; \$1,109,881 to management and general; and \$2,710,331 to fundraising.

7. Employee Benefit Plans

The Association has a noncontributory defined benefit retirement plan (Plan) covering all employees hired prior to April 1, 2006, and who have been employed by the Association for more than one year. Pension costs are generally funded at the amount recommended by the Association's actuaries. Benefits to retirees are based on a percentage of their annual compensation for each year of service prior to retirement.

On April 1, 2006, the Muscular Dystrophy Association, Inc. Savings Plan (Savings Plan), a 403(b) ERISA qualifying plan, was established whereby the Association matches 50% of employee contributions up to 6% of an employee's annual salary. Eligibility to participate in the

Muscular Dystrophy Association, Inc.

Notes to Financial Statements (continued)

7. Employee Benefit Plans (continued)

Savings Plan is immediate and 100% of the value of the pretax matching contributions is vested immediately. Matching contributions made by the Association were \$600,919 for the nine month period ended December 31, 2007.

The Association subsidizes the health insurance premium for its retirees who meet certain eligibility requirements and who request coverage. Additionally, life insurance coverage is continued during retirement at an amount equal to the lesser of \$25,000 or the retiree's annual salary. Upon reaching the age of 70, this benefit is reduced by 50% to a maximum of \$12,500. Postretirement benefits are funded as incurred.

Changes in net assets during the nine-month period ended December 31, 2007, includes \$10.2 million in amounts not yet recognized in net periodic benefit cost, which consists of a reduction in unrecognized actuarial losses of \$11,015,000 partially offset by a reduction in unrecognized prior service credits of \$823,000.

The aggregated amount recognized in net periodic benefit cost during the nine month period ended December 31, 2007, is \$1,240,236. The components of the net periodic benefit expense are as follows:

	Pension Benefits	Postretirement Benefits
Service cost – benefits earned during the period	\$ 2,211,648	\$ 31,882
Interest cost on projected benefit obligations	3,629,417	69,959
Expected return on Plan assets	(4,809,260)	-
Prior service cost recognized	(823,403)	-
Recognized actuarial loss	928,860	1,133
Net periodic pension expense	<u>\$ 1,137,262</u>	<u>\$ 102,974</u>

Muscular Dystrophy Association, Inc.

Notes to Financial Statements (continued)

7. Employee Benefit Plans (continued)

Assumptions used to determine net periodic benefit cost for the Plan for the nine month period ended December 31, 2007, were as follows:

	Pension Benefits	Postretirement Benefits
Discount rate	6.00%	6.00%
Average rate of compensation increases	5.00%	-
Expected return on assets	8.50%	-

The following sets forth the Plan's funded status at December 31, 2007:

	Pension Benefits	Postretirement Benefits
Plan assets at fair value, primarily invested in stocks and bonds	\$ 83,898,263	\$ -
Projected benefit obligation	(78,798,754)	1,521,596
Funded status recognized in the statement of financial position	<u>\$ 5,099,509</u>	<u>\$ 1,521,596</u>

Muscular Dystrophy Association, Inc.

Notes to Financial Statements (continued)

7. Employee Benefit Plans (continued)

For the nine month period ended December 31, 2007, pension and postretirement benefits paid were \$3,038,485 and \$29,818, respectively. Pension and postretirement contributions were \$10,000,000 and \$29,818, respectively. The expected employer contributions for the year ended December 31, 2008, for the pension plan and postretirement benefits, are \$2,500,000 and \$85,629, respectively. The following benefits, which reflect expected future service, are expected to be paid:

	Pension Benefits	Postretirement Benefits
For the calendar year ending December 31,		
2008	\$ 3,438,108	\$ 85,629
2009	3,694,556	85,640
2010	3,804,862	87,156
2011	4,015,667	89,985
2012	4,350,956	92,999
Expected aggregate for five calendar years beginning 2013	25,658,945	520,585

The expected long-term rate of return on assets assumption is 8.5%. As defined in SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, this assumption represents the rate of return on plan assets reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The assumption has been determined by reflecting expectations regarding future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual asset class.

The investment objective is to achieve long-term capital appreciation with preservation of capital. The Investment Guidelines call for an equity maximum of 70%. Investments in foreign securities (stocks and bonds) are permitted but not to exceed 10% of the portfolio. The non-equity segment of the portfolio may be invested in high quality fixed income rated “A” or better by Moody’s and Standard & Poors. Investment grade bonds rated lower than “A” are permitted but not to exceed 10% of the total fund.

Muscular Dystrophy Association, Inc.

Notes to Financial Statements (continued)

7. Employee Benefit Plans (continued)

The weighted-average asset allocations at December 31, 2007, for the Association's defined benefit pension benefit plan are as follows:

	<u>Pension Benefits</u>
Asset category:	
Equity securities	49.0%
Debt securities	49.8%
Other	1.2%
	<u>100.0%</u>

Because the retiree health insurance premium is subsidized at a fixed rate, health care cost trends have no affect on the Association's liability and thus sensitivity analysis of those trends is not applicable.

8. Lease Commitments

The Association has various noncancelable operating leases for office space for its field offices in various cities nationwide and certain of these leases have escalation clauses which have been recorded on a straight-line basis over the lease term, resulting in a deferred lease expense of \$218,466 at December 31, 2007. The future minimum annual rental commitments under all such operating leases for the nine month period ended December 31, 2007, are as follows:

Calendar year ending December 31:	
2008	\$ 7,292,906
2009	5,705,160
2010	3,721,836
2011	2,190,774
2012	1,125,072
Thereafter	230,309
	<u>\$ 20,266,057</u>

Rent expense totaled approximately \$6,350,000 for the nine month period ended December 31, 2007.

Muscular Dystrophy Association, Inc.

Notes to Financial Statements (continued)

9. Contingency for Research Awards, Grants and Fellowships

At December 31, 2007, the Association is contingently committed to provide research awards, grants and fellowships of \$27,544,397; including \$18,968,778 in the calendar year ending December 31, 2008, and \$8,575,619 in calendar 2009. These amounts are in addition to the \$28,684,380 in research awards, grants and fellowships payable at December 31, 2007.

10. Letter of Credit

The Association obtained an irrevocable standby letter of credit (LOC) issued from JPMorgan Chase Bank, NA on March 24, 2006. The LOC secures 18 annual payments of \$40,000 each to an award recipient in the event that the annual installment is not received from the Association by May 3rd of each year. The LOC is unsecured and has an initial expiration date of June 3, 2010, and will be automatically renewed for successive five-year intervals until final expiration on June 3, 2025. The LOC fees of .125% are calculated on the remaining aggregate balance on each anniversary. There were no draws on the LOC as of December 31, 2007.

11. Charitable Gift Annuities

Gift annuities require an annuity to be paid to the donor or the donor's beneficiary over the beneficiary's lifetime. The annuity payments are funded by the donated assets, with the remainder becoming a gift to the Association. The actuarially determined liability is recorded based on the terms of the gift, and the difference between the present value of the estimated liability and the fair value of the gift is recognized as revenue at the time of the gift. At December 31, 2007, the gift annuity balance is \$930,735 and the actuarially determined liability is \$719,361. The Association maintains assets sufficient to meet the annuity requirements stipulated by the various state laws.