

Cystic Fibrosis Foundation

Consolidated Financial Statements

**For the years ended December 31, 2014 and
December 31, 2013**



KPMG LLP
1676 International Drive
McLean, VA 22102

Independent Auditors' Report

The Board of Trustees
Cystic Fibrosis Foundation:

We have audited the accompanying consolidated financial statements of the Cystic Fibrosis Foundation, its subsidiary and affiliate, which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Cystic Fibrosis Foundation, its subsidiary and affiliate as of December 31, 2014 and 2013, and the changes in their net assets, and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

May 1, 2015

Cystic Fibrosis Foundation
Consolidated Statements of Financial Position
As of December 31, 2014 and December 31, 2013

	2014	2013
Assets		
Cash and cash equivalents	\$ 202,568,182	\$ 57,811,689
Investments	3,650,580,203	611,130,801
Due from investment manager	41,093,843	-
Prepaid expenses and other assets	1,659,251	1,880,156
Receivables, net	19,612,390	16,294,391
Membership interest in specialty pharmacy	6,979,043	6,979,043
Fixed assets, net	3,821,848	4,367,186
Total assets	<u>\$ 3,926,314,760</u>	<u>\$ 698,463,266</u>
Liabilities and Net Assets		
Accounts payable and other liabilities	\$ 21,286,892	\$ 22,624,610
Awards payable	90,664,922	78,072,810
Total liabilities	<u>111,951,814</u>	<u>100,697,420</u>
Unrestricted net assets:		
Undesignated net assets	496,361,145	335,947,148
Board-designated net assets	3,300,000,000	239,000,000
Total unrestricted net assets	<u>3,796,361,145</u>	<u>574,947,148</u>
Temporarily restricted net assets	14,083,576	18,850,884
Permanently restricted net assets	3,918,225	3,967,814
Total net assets	<u>3,814,362,946</u>	<u>597,765,846</u>
Total liabilities and net assets	<u>\$ 3,926,314,760</u>	<u>\$ 698,463,266</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, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue				
Support received from the public				
Special event revenue	\$ 107,203,826	\$ 3,278,869	\$ -	\$ 110,482,695
Direct benefit expenses	(14,236,354)	-	-	(14,236,354)
Net special event revenue	92,967,472	3,278,869	-	96,246,341
General contributions	28,010,007	8,509,358	25,119	36,544,484
Total support received from the public	120,977,479	11,788,227	25,119	132,790,825
Investment income	367,193	10,494	-	377,687
Proceeds of sale of intangible rights under drug discovery agreement	3,274,431,963	-	-	3,274,431,963
Royalty revenue	197,146	-	-	197,146
Other	8,653,135	-	-	8,653,135
Use of amounts restricted by donors for specified purpose or time	16,566,029	(16,566,029)	-	-
Total revenue	3,421,192,945	(4,767,308)	25,119	3,416,450,756
Expenses				
Program services				
Medical programs	144,554,326	-	-	144,554,326
Public and professional information and education	19,278,391	-	-	19,278,391
Community services	8,080,186	-	-	8,080,186
Total program services	171,912,903	-	-	171,912,903
Supporting services				
Management and general	12,798,986	-	-	12,798,986
Fundraising	17,477,338	-	-	17,477,338
Total supporting services	30,276,324	-	-	30,276,324
Total expenses	202,189,227	-	-	202,189,227
Increase (decrease) in net assets from from operations	3,219,003,718	(4,767,308)	25,119	3,214,261,529
Other changes in net assets				
Net nonoperating investment (loss) income	2,410,279	-	(74,708)	2,335,571
Increase (decrease) in net assets	3,221,413,997	(4,767,308)	(49,589)	3,216,597,100
Net assets, beginning of year	574,947,148	18,850,884	3,967,814	597,765,846
Net assets, end of year	\$ 3,796,361,145	\$ 14,083,576	\$ 3,918,225	\$ 3,814,362,946

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, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue				
Support received from the public				
Special event revenue	\$ 110,321,301	\$ 1,195,796	\$ -	\$ 111,517,097
Direct benefit expenses	(13,429,403)	-	-	(13,429,403)
Net special event revenue	96,891,898	1,195,796	-	98,087,694
General contributions	25,352,229	13,804,806	68,182	39,225,217
Total support received from the public	122,244,127	15,000,602	68,182	137,312,911
Investment (loss) income	(53,117)	132,695	-	79,578
Proceeds of sale of intangible rights under drug discovery agreement	247,900,946	-	-	247,900,946
Royalty revenue	9,439,914	-	-	9,439,914
Other	10,797,035	-	-	10,797,035
Use of amounts restricted by donors for specified purpose or time	12,573,759	(12,573,759)	-	-
Total revenue	402,902,664	2,559,538	68,182	405,530,384
Expenses				
Program services				
Medical programs	134,684,528	-	-	134,684,528
Public and professional information and education	17,842,159	-	-	17,842,159
Community services	8,135,278	-	-	8,135,278
Total program services	160,661,965	-	-	160,661,965
Supporting services				
Management and general	13,755,362	-	-	13,755,362
Fundraising	15,912,998	-	-	15,912,998
Total supporting services	29,668,360	-	-	29,668,360
Total expenses	190,330,325	-	-	190,330,325
Increase in net assets from operations	212,572,339	2,559,538	68,182	215,200,059
Other changes in net assets				
Net nonoperating investment income	31,764,479	-	171,425	31,935,904
Increase in net assets	244,336,818	2,559,538	239,607	247,135,963
Net assets, beginning of year	330,610,330	16,291,346	3,728,207	350,629,883
Net assets, end of year	\$ 574,947,148	\$ 18,850,884	\$ 3,967,814	\$ 597,765,846

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

Cystic Fibrosis Foundation
Consolidated Statements of Cash Flows
For the years ended December 31, 2014 and December 31, 2013

	2014	2013
Cash flows from operating activities		
Increase in net assets	\$ 3,216,597,100	\$ 247,135,963
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized and unrealized losses (gains) on investments	45,017,637	(22,827,594)
Receipt of contributed securities	(2,312,902)	(2,125,222)
Decrease in discount on pledges	(125,743)	(208,765)
Depreciation	1,415,130	1,063,970
Loss on disposal of fixed assets	633,477	-
Provision for losses on accounts receivable	34,997	267,481
(Increase) decrease in receivables	(3,227,253)	6,574,794
Decrease (increase) in prepaid and other assets	220,905	(163,704)
Decrease in accounts payable and accrued expenses	(1,337,718)	(2,511,920)
Increase in awards payable	12,592,112	14,118,323
Net cash provided by operating activities	<u>3,269,507,742</u>	<u>241,323,326</u>
Cash flows from investing activities		
Purchases of fixed assets	(1,503,269)	(2,226,556)
Increase in due from investment manager	(41,093,843)	-
Maturities/sales of investments	521,781,867	315,514,951
Purchases of investments	(3,603,936,004)	(586,442,614)
Proceeds from sale of portion of member interest in specialty pharmacy	-	307,000
Net cash used in investing activities	<u>(3,124,751,249)</u>	<u>(272,847,219)</u>
Net increase (decrease) in cash and cash equivalents	144,756,493	(31,523,893)
Cash and cash equivalents, beginning of year	57,811,689	89,335,582
Cash and cash equivalents, end of year	<u>\$ 202,568,182</u>	<u>\$ 57,811,689</u>

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

Cystic Fibrosis Foundation
Consolidated Statement of Functional Expenses
For the year ended December 31, 2014

Nature of Costs of Services	Program Services			Supporting Services		Total
	Medical Programs	Public and Professional Information and Education	Community Services	Management and General	Fundraising	
Therapeutics Development Program awards	\$ 72,253,341	\$ -	\$ -	\$ -	\$ -	\$ 72,253,341
Research grants	10,441,522	-	-	-	-	10,441,522
Clinical research grants	9,556,487	-	-	-	-	9,556,487
Center and adult care grants	15,991,866	-	-	-	-	15,991,866
Clinical and research fellowship grants	2,575,211	-	-	-	-	2,575,211
Quality improvement training program	3,405,822	-	-	-	-	3,405,822
Patient assistance grants	1,813,694	-	-	-	-	1,813,694
Salaries	12,061,311	10,010,171	4,837,499	7,084,459	8,091,136	42,084,576
Employee benefits and payroll taxes	2,556,473	2,609,120	1,265,020	1,854,713	2,122,883	10,408,209
Publications and printing	477,431	1,232,801	204,103	150,192	2,110,261	4,174,788
Occupancy and insurance	1,776,828	1,046,842	530,578	699,660	908,579	4,962,487
Postage and shipping	179,098	994,396	139,499	114,074	1,996,701	3,423,768
Travel and conferences	3,372,819	487,885	235,660	208,965	382,398	4,687,727
Data processing	2,946,521	1,174,079	338,656	572,393	836,460	5,868,109
Telephone	67,480	104,803	60,095	51,275	98,477	382,130
Supplies	867,885	244,193	133,941	201,965	220,115	1,668,099
Professional fees and medical honoraria	3,123,575	805,418	48,265	1,496,123	211,386	5,684,767
Depreciation	641,157	259,387	119,503	175,101	219,982	1,415,130
Provision for doubtful receivables	-	-	-	34,997	-	34,997
Other	445,805	309,296	167,367	155,069	278,960	1,356,497
Total functional expenses	<u>\$ 144,554,326</u>	<u>\$ 19,278,391</u>	<u>\$ 8,080,186</u>	<u>\$ 12,798,986</u>	<u>\$ 17,477,338</u>	<u>202,189,227</u>
Costs of direct benefits to donors						<u>14,236,354</u>
Total expenses and costs of direct benefits to donors						<u>\$ 216,425,581</u>

Cystic Fibrosis Foundation
Consolidated Statement of Functional Expenses
For the year ended December 31, 2013

<u>Nature of Costs of Services</u>	<u>Program Services</u>			<u>Supporting Services</u>		<u>Total</u>
	<u>Medical Programs</u>	<u>Public and Professional Information and Education</u>	<u>Community Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Therapeutics Development Program awards	\$ 71,198,245	\$ -	\$ -	\$ -	\$ -	\$ 71,198,245
Research grants	7,263,268	-	-	-	-	7,263,268
Clinical research grants	7,523,368	-	-	-	-	7,523,368
Center and adult care grants	14,724,002	-	-	-	-	14,724,002
Clinical and research fellowship grants	2,300,769	-	-	-	-	2,300,769
Quality improvement training program	1,821,878	-	-	-	-	1,821,878
Patient assistance grants	1,870,333	-	-	-	-	1,870,333
Salaries	12,971,613	8,980,794	4,832,861	6,987,662	6,446,936	40,219,866
Employee benefits and payroll taxes	2,682,212	2,245,348	1,207,216	1,756,951	1,621,910	9,513,637
Publications and printing	671,230	1,415,969	215,320	177,187	2,651,749	5,131,455
Occupancy and insurance	1,627,259	1,019,805	531,403	793,762	749,961	4,722,190
Postage and shipping	215,667	1,148,909	146,196	127,640	2,363,528	4,001,940
Travel and conferences	2,757,699	478,138	266,346	243,050	341,258	4,086,491
Data processing	2,495,453	1,056,903	413,325	760,861	868,107	5,594,649
Telephone	81,549	103,179	64,986	60,017	84,547	394,278
Supplies	843,819	247,092	150,541	153,004	197,068	1,591,524
Professional fees and medical honoraria	2,700,733	634,948	26,715	500,191	168,843	4,031,430
Depreciation	493,285	189,981	95,523	141,458	143,723	1,063,970
Provision for doubtful receivables	-	-	-	1,875,308	-	1,875,308
Other	442,146	321,093	184,846	178,271	275,368	1,401,724
Total functional expenses	\$ 134,684,528	\$ 17,842,159	\$ 8,135,278	\$ 13,755,362	\$ 15,912,998	190,330,325
Costs of direct benefits to donors						<u>13,429,403</u>
Total expenses and costs of direct benefits to donors						<u>\$ 203,759,728</u>

Cystic Fibrosis Foundation

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

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 the Cystic Fibrosis Patient Assistance Foundation, LLC (“CFPAF”). CFFT, an affiliate of the Foundation, operates the Therapeutics Development Program, which supports activities related to cystic fibrosis drug discovery through the many stages of drug development and clinical evaluation. The mission of the Foundation and CFFT is to cure cystic fibrosis and to provide all people with the disease the opportunity to lead full, productive lives by funding research and drug development, promoting individualized treatment, and ensuring access to high quality, specialized care. The current mission of the Cystic Fibrosis Patient Assistance Foundation (CFPAF) is to assist cystic fibrosis patients residing in the United States, regardless of their health insurance coverage or financial resources, with access to FDA-approved drugs (and paired devices and accessories) for the inhaled treatment of cystic fibrosis pulmonary disease and to medications for the treatment of pancreatic insufficiency. Furthermore, the CFPAF is committed to maintaining the highest standards of customer service and operating efficiency, in order to maximize the support and assistance that it can provide to the CF community.

The Foundation, CFFT and CFPAF 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, 2014 and 2013. Contributions to the Foundation qualify for the charitable contributions deduction to the extent provided by Section 170 of the Code. CFPAF is organized as a single member limited liability company that is a disregarded entity for federal tax purposes. The sole member of CFPAF is the Foundation.

The Foundation is not aware of any tax position taken that requires disclosure based on current facts and circumstances. The Foundation annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

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 the accrual basis. The expenses reported in the consolidated statement of activities 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. Significant items subject to such estimates and assumptions include the allowance for doubtful accounts, investment fair value measurements and functional

Cystic Fibrosis Foundation

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

expense allocations. Actual results could differ materially, in the near term, from the amounts reported.

Measure of operations

The Foundation includes in its measure of operations all support received from the public, income on investments designated for operations including interest and dividends and realized and unrealized gains and losses, royalty revenue, other revenue and all costs of program and supporting services. The measure of operations excludes gains or losses on discontinued operations and nonoperating investments. Nonoperating investments are amounts identified by the Investment Committee of the Board of Trustees for investment over an intermediate term.

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. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash, including gifts-in-kind, are recorded at their estimated fair value at the date of the gift.

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.

CFF and CFFT retain legal and beneficial rights to intellectual property developed under certain scientific grants and drug discovery agreements. Revenues received under these agreements are recorded when earned. In addition, at times CFFT may sell its intangible rights under certain agreements in exchange for a lump sum. Amounts received under these agreements are recorded when rights are forfeited and proceeds are receivable. In May 2013 and November 2014, CFFT entered into agreements to sell its intangible rights to future revenues under a drug discovery agreement. Net revenue from the May 2013 transaction was \$247,900,946, which consists of gross proceeds of \$250,000,000, net of \$2,099,054 of transaction costs. Net revenue from the November 2014 transaction was \$3,274,431,963, which consists of gross proceeds of \$3,300,000,000 net of \$25,568,037 of transaction costs. The net proceeds from these transactions are classified in operating activities on the consolidated statements of cash flows.

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, for those contracts recorded as exchange transactions, where the contract expense has been incurred.

Cash and cash equivalents

Cash and cash equivalents represent demand deposits, money market funds and money market mutual funds. Cash equivalents consist of highly liquid investments with original maturities of three months or less and present an insignificant risk of change in value. The Foundation's investments in money market mutual funds are classified as Level 2 as defined in note 3 because they consist of funds that

Cystic Fibrosis Foundation

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seek to maintain a stable net asset value (NAV) of \$1 per share. These funds are marketed to institutional investors directly or through financial intermediaries. Quoted prices in active markets are not available; however, NAV is a reasonable estimation of fair value because redemptions are priced at NAV and are generally available to the Foundation within one business day.

The Foundation had outstanding commitments to purchase \$84,910,437 of investments as of December 31, 2014. The cash associated with these commitments is classified as cash and cash equivalents as of December 31, 2014, and the purchases were completed in January 2015.

Investments

Investment assets are stated at fair value in the consolidated financial statements. Where applicable, investments are stated at fair value using net asset value (NAV) as a practical expedient. Investment income is reported when earned. The change in unrealized appreciation or depreciation of investments is reflected in the consolidated statement of activities. 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.

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, software and leasehold improvements are removed from the accounts upon sale or disposition and any resulting gain or loss is reflected in the consolidated statement of activities.

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.

Net assets

The Foundation's net assets have been grouped into the following classes:

Unrestricted - Undesignated Net Assets – Undesignated net assets generally result from revenues derived from receiving unrestricted contributions and royalty revenues, less Board-designated net assets and expenses incurred in providing program services, raising contributions, and performing administrative functions.

Unrestricted - Board-Designated Net Assets – The Foundation's Board of Trustees has designated \$3,300,000,000 as of December 31, 2014 to be spent in support of the mission of the Foundation over the long term. These board-designated net assets are known as the Opportunity Fund. The Board further determined that the Opportunity Fund supersedes funds previously reported as board-designated net assets. As of December 31, 2013, \$239,000,000 of the Foundation's net assets was designated to be used for drug discovery and development programs.

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, CFFT or CFPAF pursuant to

Cystic Fibrosis Foundation
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those stipulations. Temporarily restricted net assets were restricted as summarized below as of December 31, 2014 and 2013.

	2014	2013
Time restricted	\$ 7,318,972	\$ 8,805,465
CFPAF program	3,516,739	4,079,245
Medical research and other purposes	<u>3,247,865</u>	<u>5,966,174</u>
	<u>\$ 14,083,576</u>	<u>\$ 18,850,884</u>

Permanently Restricted Net Assets – The Foundation’s permanently restricted net assets consist of the beneficial interest in seven donor-restricted funds that must be maintained in perpetuity. 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 may be included in any of these net asset classifications depending on donor restrictions.

Reclassifications

Certain amounts presented in the 2013 consolidated financial statements have been reclassified to conform to the 2014 presentation.

3. Fair value measurements

Authoritative guidance on fair value measurements requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance 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 that are significant to the fair value of the assets. For Level 2 and 3 investments, the Foundation utilizes the net asset value (NAV) provided by the investment manager.

The following processes were used to determine the fair value of each class of financial instruments listed below:

- (a) Investment balances reported for all amounts classified as Level 1 are derived from quoted market prices on public exchanges.
- (b) Values reported for government and corporate bonds classified as Level 2 represent the portfolio managers' good faith estimate as to what a buyer in the marketplace would pay for these securities in a current sale. The Foundation believes these estimates are reflective of fair value. In deriving these estimates, the portfolio managers utilize pricing models and applications that incorporate available market information and, because many fixed income securities do not trade on a daily basis, apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. These investments can be redeemed daily without restriction.

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- (c) Inflation hedge commingled funds classified as Level 2 consist of investments in units of two commingled funds to which proportionate net assets can be attributed. These investments are redeemable monthly, with notification to the manager required 10-15 business days prior to the redemption. The Foundation maintains the ability to redeem these investments at the net asset values (NAV) reported by the investee managers and therefore uses these amounts to derive the reported investment values.
- (d) Investments classified as Level 2 and 3 consist of shares in two alternative investment funds and are subject to holdbacks.

The long/short equity fund of funds is classified in level 3 and invests in funds that in turn invest in liquid, marketable securities. The fund seeks to outperform the U.S. equity markets over a market cycle while protecting capital in falling markets. The private investment companies in which the fund is invested often sell short securities they have borrowed in anticipation that the prices of such securities will decline. If price declines occur, then these securities can be purchased profitably at lower prices in order to permit their return to the appropriate lenders. However, there is a risk that the prices of these securities will increase and losses will be incurred.

The absolute value fund of funds is classified in level 2 and seeks to achieve long-term returns commensurate with long-term returns from a portfolio invested in the general equity markets, while experiencing volatility more like that of a portfolio invested in the general debt markets. The fund invests in a broad range of strategies such as long/short equity, event-driven, relative value and global asset allocation. The fund's multi-manager investment approach is subject to various investment-related risks, including market risk, strategy risk and manager risk. This investment can be redeemed on a quarterly basis with 65 days advanced notice to the manager.

The Foundation has not incurred any losses related to holdbacks. These investments are redeemable within one year or less, however upon liquidation approximately 10% of the alternative investment funds balance will be held back until the funds' financial statement audits are complete. The Foundation derives the reported values for these investments from the NAV provided by the funds' managers. The Foundation performs ongoing monitoring procedures related to alternative investments, including procedures to assess the reliability and the accuracy of the NAV provided by the investment managers. This monitoring also includes evaluating the nature of the underlying investments, liquidity and the control environment related to the calculation of NAV. Based on the results of this monitoring, no adjustments to NAV are deemed necessary.

- (e) The fair value of the Foundation's interest in perpetual trusts is estimated using the fair value of the assets in the trusts, as that amount approximates the fair value of the Foundation's beneficial interests in the trusts. There is no active market for these trusts and they are therefore classified as Level 3.
- (f) Commercial and other asset backed securities classified as Level 3 consist of two investments in securities backed by assets such as unsecured consumer loans. These investments are readily marketable; however the inputs necessary to verify the fair value are not readily available to the Foundation. The estimated market values for these securities were supplied to the Foundation by its investment custodian. The investment custodian obtained the valuations from investment brokers or independent pricing vendors. The Foundation reviews and evaluates the net asset values provided by the investment custodians and agrees with the valuation methods and

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assumptions used in determining the net asset values of these funds. The Foundation has not adjusted these values.

Financial instruments measured at fair value on a recurring basis are summarized below as of December 31:

Description	2014	Quoted Prices in	Significant Other	Significant
		Active Markets for	Observable Inputs	Unobservable
		Identical Assets	(Level 2)	Inputs
		(Level 1) (a)	(Level 2)	(Level 3)
Cash equivalents	\$ 144,095,211	\$ -	\$ 144,095,211	\$ -
Investments				
U.S. government treasury securities	521,289,634	\$ -	\$ 521,289,634 (b)	\$ -
Corporate debt securities	201,668,572	-	201,668,572 (b)	-
U.S. government-agency asset backed securities	123,860,400	-	123,860,400 (b)	-
Commercial and other asset backed securities	129,992,161	-	125,631,965 (b)	4,360,196 (f)
Corporate bond mutual funds	204,656,121	204,656,121	-	-
Short duration bond mutual funds	1,692,361,578	1,692,361,578	-	-
U.S. equity mutual funds	103,322,996	103,322,996	-	-
Int'l. developed equity mutual funds	121,693,964	121,693,964	-	-
Emerging markets equity mutual funds	24,066,658	24,066,658	-	-
Global equity mutual funds	134,970,214	134,970,214	-	-
Other global equity securities	27,003,680	27,003,680	-	-
Global multi-asset strategy mutual funds	120,052,790	120,052,790	-	-
Inflation hedge mutual funds	42,066,390	42,066,390	-	-
Inflation hedge commingled funds	63,273,961	-	63,273,961 (c)	-
Alternative investments:				
Absolute value fund of funds	132,668,791	-	132,668,791 (d)	-
Perpetual trusts	3,918,225	-	-	3,918,225 (e)
Other	3,714,068	3,714,068	-	-
Total Investments	3,650,580,203	2,473,908,459	1,168,393,323	8,278,421
	\$ 3,794,675,414	\$ 2,473,908,459	\$ 1,312,488,534	\$ 8,278,421

Description	2013	Quoted Prices in	Significant Other	Significant
		Active Markets for	Observable Inputs	Unobservable
		Identical Assets	(Level 2)	Inputs
		(Level 1) (a)	(Level 2)	(Level 3)
Cash equivalents	\$ 10,013,465	\$ -	\$ 10,013,465	\$ -
Investments				
Corporate bond mutual funds	6,029,904	6,029,904	-	-
Short duration bond mutual funds	267,063,820	267,063,820	-	-
U.S. equity mutual funds	36,099,950	36,099,950	-	-
Int'l. developed equity mutual funds	36,443,957	36,443,957	-	-
Emerging markets equity mutual funds	16,590,651	16,590,651	-	-
Global equity mutual funds	60,501,159	60,501,159	-	-
Global multi-asset strategy mutual funds	21,716,584	21,716,584	-	-
Inflation hedge mutual funds	36,687,957	36,687,957	-	-
Inflation hedge commingled funds	18,221,543	-	18,221,543 (c)	-
Alternative investments:				
Long/short equity fund of funds	40,144,451	-	-	40,144,451 (d)
Absolute value fund of funds	64,474,636	-	64,474,636 (d)	-
Perpetual trusts	3,967,814	-	-	3,967,814 (e)
Other	3,188,375	3,188,375	-	-
Total Investments	611,130,801	484,322,357	82,696,179	44,112,265
	\$ 621,144,266	\$ 484,322,357	\$ 92,709,644	\$ 44,112,265

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The table below presents reconciliation information for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2014 and 2013.

	Long/short equity fund of funds	Perpetual Trusts	Asset-backed securities	2014	
Level 3 investments, beginning of year	\$ 40,144,451	\$ 3,967,814	\$ -	\$ 44,112,265	
Total gains or losses					
Net realized gains	6,767,821	92,349	-	6,860,170	
Net unrealized gains (losses)	(5,818,429)	(74,889)	31,281	(5,862,037)	
Purchases	-	163,326	4,328,915	4,492,241	
Sales/distributions	(41,093,843)	(230,375)	-	(41,324,218)	
Level 3 investments, end of year	<u>\$ -</u>	<u>\$ 3,918,225</u>	<u>\$ 4,360,196</u>	<u>\$ 8,278,421</u>	

	Long/short equity fund of funds	Absolute value fund of funds	Perpetual Trusts	Other - hedge fund	2013
Level 3 investments, beginning of year	\$ 17,279,639	\$ 26,697,163	\$ 3,728,207	\$ 61,620	\$ 47,766,629
Total gains or losses					
Net realized gains	-	-	124,514	19,575	144,089
Net unrealized gains (losses)	3,864,812	6,177,473	284,847	(19,575)	10,307,557
Purchases	19,000,000	31,600,000	156,784	-	50,756,784
Sales/distributions	-	-	(326,538)	(61,620)	(388,158)
Transfers out of level 3	-	(64,474,636)	-	-	(64,474,636)
Level 3 investments, end of year	<u>\$ 40,144,451</u>	<u>\$ -</u>	<u>\$ 3,967,814</u>	<u>\$ -</u>	<u>\$ 44,112,265</u>

The amount of net unrealized gains relating to Level 3 assets still held at December 31, 2014 and 2013 is approximately \$420,378 and \$6,281,000, respectively. The absolute value fund of funds was transferred from Level 3 to Level 2 in 2013 due to the favorable liquidity terms of this investment, for which quarterly redemptions are permitted. Unrealized and realized gains and losses of Level 3 investments are classified as nonoperating investment income on the consolidated statement of activities.

The following table summarizes the nature of the Foundation's alternative investments included in Level 2 and 3. These investments are valued based on net asset value as a practical expedient for fair value as of December 31, 2014 and 2013.

Description	2014	2013	Redemption Period
Absolute value fund of funds	\$ 132,668,791	\$ 64,474,636	Quarterly (65 days notice)
Long/short equity fund of funds	-	40,144,451	Annually (60 days notice)
	<u>\$ 132,668,791</u>	<u>\$ 104,619,087</u>	

The Foundation had outstanding commitments to purchase \$84,910,437 of investments as of December 31, 2014. These investment purchases were completed in January 2015.

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The Foundation redeemed its investment in a long/short equity fund of funds in 2014. The amount due from this investment manager totals \$41,093,843 as of December 31, 2014. Consistent with the terms of its investment, the Foundation received \$36,984,458 or 90% of the redemption value from the investment manager in January 2015. The Foundation expects the manager to remit the remaining 10% holdback, or \$4,109,385, in mid-2015. The holdback will be paid to the Foundation upon completion of the fund's annual financial statements audit.

The investment income is as follows for the years ended December 31:

	2014	2013
Interest and dividends	\$ 48,032,762	\$ 9,550,258
Net unrealized (losses) gains	(52,394,522)	24,493,201
Net realized gains (losses)	7,288,799	(1,754,304)
Investment expenses	(213,781)	(273,673)
	<u>\$ 2,713,258</u>	<u>\$ 32,015,482</u>

Operating cash equivalents and investments amounted to \$71,512,160 and \$34,836,363 as of December 31, 2014 and 2013, respectively. Nonoperating cash equivalents and investments amounted to \$3,723,163,254 and \$586,307,903 as of December 31, 2014 and 2013, respectively. The investment income during the years ended December 31, 2014 and 2013 is reflected on the consolidated statement of activities as follows:

	2014	2013
Investment income - operating	\$ 377,687	\$ 79,578
Net nonoperating investment income	2,335,571	31,935,904
	<u>\$ 2,713,258</u>	<u>\$ 32,015,482</u>

4. Receivables

Receivables consist of the following at December 31, 2014 and 2013:

	2014	2013
Special events and other contributions	\$ 2,709,153	\$ 2,645,184
Pledges receivable	12,736,774	14,159,490
Accrued interest on investments	5,741,627	-
Royalties receivable (see note 2)	461,700	712,310
Other	676,402	1,510,484
	<u>22,325,656</u>	<u>19,027,468</u>
Discount on pledges receivable	(1,339,592)	(1,465,335)
Allowance for doubtful accounts	(1,373,674)	(1,267,742)
	<u>\$ 19,612,390</u>	<u>\$ 16,294,391</u>

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New pledges received since 2008 were recorded at present value using a discount rate averaging 1% - 2%, which is reflective of risk considerations as required by the FASB guidance.

The pledges receivable as of December 31, 2014 and 2013 are payable in the following periods:

	2014	2013
Within one year	\$ 5,883,935	\$ 6,356,594
One to five years	5,004,328	5,936,886
After five years	1,848,511	1,866,010
	<u>\$ 12,736,774</u>	<u>\$ 14,159,490</u>

As of December 31, 2014 and 2013, pledges receivable amounting to approximately \$128,354 and \$222,000, respectively, were due from members of the Board of Trustees or related organizations.

5. Fixed assets

Fixed assets at December 31, 2014 and 2013 consisted of the following:

	2014	2013
Equipment and software	\$ 8,144,463	\$ 7,718,821
Furniture and fixtures	478,175	410,573
Leasehold improvements	1,579,458	1,348,081
	<u>10,202,096</u>	<u>9,477,475</u>
Accumulated depreciation	<u>(6,380,248)</u>	<u>(5,110,289)</u>
	<u>\$ 3,821,848</u>	<u>\$ 4,367,186</u>

6. Awards payable and commitments

Changes in awards payable during the years ended December 31, 2014 and 2013 are summarized as follows:

	2014	2013
Awards payable, beginning of year	\$ 78,072,810	\$ 63,954,487
Awards expensed	113,440,844	104,373,244
Awards disbursed	<u>(100,848,732)</u>	<u>(90,254,921)</u>
Awards payable, end of year	<u>\$ 90,664,922</u>	<u>\$ 78,072,810</u>

As of December 31, 2014, the Foundation and CFFT have additional medical scientific grant commitments of approximately \$40,635,000, which extend through December 31, 2020. These subsequent year awards are contingent upon renewal criteria, and therefore the costs and liabilities are not reflected in the consolidated financial statements.

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Certain CFFT agreements provide for future contracted drug discovery and development research payments amounting to approximately \$88,100,000. These costs will be expensed when the services are provided.

Volunteers from the medical and scientific community were included among affiliate/subsidiary Board members in 2014 and 2013. These volunteers provided valuable leadership and assistance to these Boards, but do not participate in decisions regarding awards to institutions with which they are affiliated. Awards to institutions affiliated with these volunteers totalled \$63,812 and \$59,850 for the years ended December 31, 2014 and 2013, respectively.

7. Accounts payable and other liabilities

Accounts payable at December 31, 2014 and 2013 consist of the following:

	2014	2013
Other accounts payable and accrued expenses	\$ 16,194,856	\$ 16,175,546
Refundable advances for special events	2,560,996	3,882,382
Deferred licensing and other revenue	764,812	1,110,285
Other liabilities	1,766,228	1,456,397
	<u>\$ 21,286,892</u>	<u>\$ 22,624,610</u>

8. Membership interest in specialty pharmacy

Established in 1988, Cystic Fibrosis Services, Inc. (CFS) is a full-service specialty pharmacy specializing in cystic fibrosis medications, patient advocacy and reimbursement support. CFS is a fully owned subsidiary of Cystic Fibrosis Foundation Pharmacy, LLC (CFFP). On December 6, 2012, the Foundation completed its sale of pharmacy operations. Under the terms of the sale agreement, the purchaser, an unrelated third party, acquired 80% of the outstanding membership interests of CFFP. The Foundation retained a 20% interest in CFFP which it reports on the consolidated statement of financial position as membership interest in specialty pharmacy. The fair value of the 20% retained interest was determined by imputing a 100% organization value for CFFP based on the actual net consideration received in exchange for the 80% membership interest. The Foundation does not control or exercise significant influence over CFFP operations however, due to its membership interest, CFFP and CFS are considered related parties after deconsolidation.

In November 2013, the Foundation sold a portion of its investment back to the purchaser. The Foundation received \$307,000 in connection with this transaction and accordingly reduced its membership interest in specialty pharmacy. The membership interest in specialty pharmacy at December 31, 2014 and 2013 is \$6,979,043. The Foundation has evaluated the carrying value of its remaining interest as of December 31, 2014, and has determined that no impairment loss has occurred associated with its remaining interest.

Under the terms of the sale agreement, the Foundation does not have a right to sell or transfer its retained interest; however it has a right to sell the interest to the purchaser. The purchaser also has a right to purchase the remaining interest. The sale agreement specifies that the Foundation's sale price of its remaining 20% interest will be calculated using an agreed-upon enterprise value formula, which is based on future CFS earnings. The original sale agreement specified that the rights to sell or purchase may be exercised by the Foundation and the purchaser, respectively, between the third and

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fifth anniversary of the sale date, however these dates were amended by the parties in November 2013. The terms were amended to provide the purchaser the right to exercise its purchase option anytime between December 6, 2016 and December 6, 2018.

In connection with the transaction, the Foundation and CFFP entered into an agreement that provides, among other items, continued use of the “cf” design and trademark, and certain transition administrative and operating support relating to telecommunication. This agreement will terminate at the earlier of December 6, 2016 or upon the Foundation’s sale of its member interests to the purchaser.

The agreement also provided for approximately \$76,121 of fees to be paid to the Foundation annually for transition services. These transition services and related payments were to end after two years but were extended by agreement from December 6, 2014 through March 31, 2015. The Foundation received a one-time payment of \$165,960 in exchange for this extension, which it is recognizing as revenue over the term of the extension. In 2014 and 2013, the Foundation recognized income from transition and related services totalling \$67,016 and \$174,295, respectively. The Foundation recorded \$155,588 of the extension payments as deferred income as of December 31, 2014.

9. Operating lease commitments

The Foundation is obligated under various operating leases for office space as of December 31, 2014. The approximate future minimum commitments for each calendar year, subject to escalation, are as follows:

2015	\$ 3,583,000
2016	3,100,000
2017	2,581,000
2018	2,273,000
2019	1,857,000
Thereafter	5,922,000
	<u>\$ 19,316,000</u>

Rental costs for the years ended December 31, 2014 and 2013 were approximately \$4,283,000 and \$4,045,000, respectively.

10. 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 and CFFT made contributions in accordance with the provisions of the plan amounting to approximately \$2,432,000 and \$2,198,000, respectively, for the years ended December 31, 2014 and 2013.

11. Allocation of joint costs

The Foundation conducted direct mail activities in the years ended December 31, 2014 and 2013 that included requests for contributions as well as program components. The costs of conducting those

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activities included a total of approximately \$6,321,000 and \$7,782,000 of joint costs during the years ended December 31, 2014 and 2013, respectively. These costs were not specifically attributable to particular components of the activities. Of those costs, \$4,366,000 and \$5,460,000 was allocated to fundraising expense and \$1,955,000 and \$2,322,000 was allocated to public and professional information and education program services for the years ended December 31, 2014 and 2013, respectively.

12. Subsequent events

The Foundation has performed an evaluation of subsequent events through May 1, 2015, which is the date the financial statements were available to be issued, noting no events which affect the financial statements or require additional disclosure as of December 31, 2014.