



Cystic Fibrosis Foundation

Consolidated Financial Statements

**For the years ended December 31, 2015 and
December 31, 2014**



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, 2015 and 2014, and the related consolidated statements of activities, functional expenses, and cash flows 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, 2015 and 2014, 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

McLean, Virginia
May 3, 2016

Cystic Fibrosis Foundation
Consolidated Statements of Financial Position
As of December 31, 2015 and December 31, 2014

	2015	2014
Assets		
Cash and cash equivalents	\$ 281,082,509	\$ 202,568,182
Investments	3,485,971,990	3,650,580,203
Due from investment manager	-	41,093,843
Receivables, net	50,472,210	19,612,390
Other assets	8,808,007	8,638,294
Fixed assets, net	4,550,154	3,821,848
Total assets	<u>\$ 3,830,884,870</u>	<u>\$ 3,926,314,760</u>
Liabilities and Net Assets		
Accounts payable and other liabilities	\$ 24,589,948	\$ 21,286,892
Awards payable	126,870,394	90,664,922
Total liabilities	<u>151,460,342</u>	<u>111,951,814</u>
Unrestricted net assets:		
Undesignated net assets	364,492,149	496,361,145
Board-designated net assets	3,300,000,000	3,300,000,000
Total unrestricted net assets	<u>3,664,492,149</u>	<u>3,796,361,145</u>
Temporarily restricted net assets	11,255,303	14,083,576
Permanently restricted net assets	3,677,076	3,918,225
Total net assets	<u>3,679,424,528</u>	<u>3,814,362,946</u>
Total liabilities and net assets	<u>\$ 3,830,884,870</u>	<u>\$ 3,926,314,760</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, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue				
Support received from the public				
Special event revenue	\$ 100,211,859	\$ 5,277,420	\$ -	\$ 105,489,279
Direct benefit expenses	(14,091,052)	-	-	(14,091,052)
Net special event revenue	86,120,807	5,277,420	-	91,398,227
General contributions	22,587,210	9,234,652	-	31,821,862
Total support received from the public	108,708,017	14,512,072	-	123,220,089
Royalty revenue	32,038,457	-	-	32,038,457
Other	17,795,256	4,431	-	17,799,687
Use of amounts restricted by donors for specified purpose or time	17,344,776	(17,344,776)	-	-
Total revenue	175,886,506	(2,828,273)	-	173,058,233
Expenses				
Program services				
Medical programs	193,877,491	-	-	193,877,491
Public and professional information and education	20,922,456	-	-	20,922,456
Community services	8,368,074	-	-	8,368,074
Total program services	223,168,021	-	-	223,168,021
Supporting services				
Management and general	12,393,843	-	-	12,393,843
Fundraising	17,041,113	-	-	17,041,113
Total supporting services	29,434,956	-	-	29,434,956
Total expenses	252,602,977	-	-	252,602,977
Decrease in net assets from operations	(76,716,471)	(2,828,273)	-	(79,544,744)
Other changes in net assets				
Net nonoperating investment loss	(55,152,525)	-	(241,149)	(55,393,674)
Decrease in net assets	(131,868,996)	(2,828,273)	(241,149)	(134,938,418)
Net assets, beginning of year	3,796,361,145	14,083,576	3,918,225	3,814,362,946
Net assets, end of year	\$ 3,664,492,149	\$ 11,255,303	\$ 3,677,076	\$ 3,679,424,528

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
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	10,175,776	10,494	-	10,186,270
Use of amounts restricted by donors for specified purpose or time	16,566,029	(16,566,029)	-	-
Total revenue	3,422,348,393	(4,767,308)	25,119	3,417,606,204
Expenses				
Program services				
Medical programs	145,709,774	-	-	145,709,774
Public and professional information and education	19,278,391	-	-	19,278,391
Community services	8,080,186	-	-	8,080,186
Total program services	173,068,351	-	-	173,068,351
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	203,344,675	-	-	203,344,675
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 Statements of Cash Flows
For the years ended December 31, 2015 and December 31, 2014

	2015	2014
Cash flows from operating activities		
(Decrease) increase in net assets	\$ (134,938,418)	\$3,216,597,100
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Net realized and unrealized losses on investments	116,817,253	45,017,637
Increase (decrease) in discount on pledges	107,626	(125,743)
Depreciation	1,457,037	1,415,130
Loss on disposal of fixed assets	77,587	633,477
Provision for losses on accounts receivable	52,058	34,997
Increase in receivables	(31,019,504)	(3,227,253)
(Increase) decrease in other assets	(169,713)	220,905
Increase (decrease) in accounts payable and accrued expenses	3,303,056	(1,337,718)
Increase in awards payable	36,205,472	12,592,112
Net cash (used in) provided by operating activities	<u>(8,107,546)</u>	<u>3,271,820,644</u>
Cash flows from investing activities		
Purchases of fixed assets	(2,262,930)	(1,503,269)
Decrease (increase) in due from investment manager	41,093,843	(41,093,843)
Maturities/sales of investments	2,551,737,405	519,468,965
Purchases of investments	<u>(2,503,946,445)</u>	<u>(3,603,936,004)</u>
Net cash provided by (used in) investing activities	86,621,873	(3,127,064,151)
Net increase in cash and cash equivalents	78,514,327	144,756,493
Cash and cash equivalents, beginning of year	<u>202,568,182</u>	<u>57,811,689</u>
Cash and cash equivalents, end of year	<u>\$ 281,082,509</u>	<u>\$ 202,568,182</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, 2015

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	\$ 96,657,244	\$ -	\$ -	\$ -	\$ -	\$ 96,657,244
Research grants	12,541,668	-	-	-	-	12,541,668
Clinical research grants	11,998,590	-	-	-	-	11,998,590
Center and adult care grants	23,546,405	-	-	-	-	23,546,405
Clinical and research fellowship grants	2,958,231	-	-	-	-	2,958,231
Quality improvement training program	3,956,068	-	-	-	-	3,956,068
Patient assistance program grants	4,391,727	-	-	-	-	4,391,727
Salaries	16,772,403	10,892,328	5,014,840	7,771,877	8,327,840	48,779,288
Employee benefits and payroll taxes	3,147,855	2,849,761	1,324,382	1,929,504	2,219,449	11,470,951
Publications and printing	541,628	1,037,641	191,518	141,549	1,867,324	3,779,660
Occupancy and insurance	2,310,334	975,454	506,274	591,578	842,946	5,226,586
Postage and shipping	146,873	639,237	124,828	101,490	1,345,157	2,357,585
Travel and conferences	4,787,707	686,353	319,746	286,076	519,119	6,599,001
Data processing	2,832,374	1,766,049	312,820	386,979	794,149	6,092,371
Supplies	919,112	243,086	130,018	136,810	212,487	1,641,513
Professional fees and medical honoraria	5,098,000	1,014,618	123,540	563,261	344,686	7,144,105
Depreciation	690,941	274,176	112,064	170,955	208,901	1,457,037
Other	580,331	543,753	208,044	313,764	359,055	2,004,947
Total functional expenses before investment expenses and costs of direct benefits to donors	193,877,491	20,922,456	8,368,074	12,393,843	17,041,113	252,602,977
Investment expenses	-	-	-	5,432,664	-	5,432,664
Costs of direct benefits to donors	-	-	-	-	-	14,091,052
Total functional expenses after investment expenses and costs of direct benefits to donors	<u>\$ 193,877,491</u>	<u>\$ 20,922,456</u>	<u>\$ 8,368,074</u>	<u>\$ 17,826,507</u>	<u>\$ 17,041,113</u>	<u>\$ 272,126,693</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	\$ 72,617,072	\$ -	\$ -	\$ -	\$ -	\$ 72,617,072
Research grants	10,578,476	-	-	-	-	10,578,476
Clinical research grants	9,982,238	-	-	-	-	9,982,238
Center and adult care grants	16,043,731	-	-	-	-	16,043,731
Clinical and research fellowship grants	2,707,820	-	-	-	-	2,707,820
Quality improvement training program	3,450,360	-	-	-	-	3,450,360
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
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
Other	513,285	414,099	227,462	241,341	377,437	1,773,624
Total functional expenses before investment expenses and costs of direct benefits to donors	145,709,774	19,278,391	8,080,186	12,798,986	17,477,338	203,344,675
Investment expenses	-	-	-	213,781	-	213,781
Costs of direct benefits to donors	-	-	-	-	-	14,236,354
Total functional expenses after investment expenses and costs of direct benefits to donors	\$ 145,709,774	\$ 19,278,391	\$ 8,080,186	\$ 13,012,767	\$ 17,477,338	\$ 217,794,810

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

Cystic Fibrosis Foundation

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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 (CF) drug discovery through the many stages of drug development and clinical evaluation. The mission of the Foundation and CFFT is to cure CF 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 mission of the Cystic Fibrosis Patient Assistance Foundation (CFPAF) was to assist CF 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 CF pulmonary disease and to medications for the treatment of pancreatic insufficiency. As of December 31, 2015, CFPAF no longer administers a co-pay assistance program. In 2015, as part of this transition, the Foundation provided financial support to a CF fund established by a third-party co-pay assistance foundation which provides co-pay assistance for medications and vitamins and supplements to people with CF. The Foundation provided grants totaling approximately \$2,575,000 toward this program in 2015.

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, 2015 and 2014. 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 consolidated 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

Cystic Fibrosis Foundation

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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 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 the intermediate to long 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 November 2014, CFFT entered into an agreement to sell its intangible rights to future revenues under a drug discovery agreement. 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. In 2015, under the same drug discovery agreement, CFFT earned additional one-time royalties of \$27,792,000. This amount was earned upon achievement of certain milestones, as defined in the agreement. This amount is included in royalty revenue and accounts receivable as of December 31, 2015.

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 renewal criteria 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.

Cystic Fibrosis Foundation

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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 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 \$100,000,000 of investments as of December 31, 2015. The cash associated with these commitments is classified as cash and cash equivalents as of December 31, 2015, and the purchases were completed in January 2016.

Investments

Investment assets are stated at fair value in the consolidated financial statements. Where applicable, investments are stated at net asset value (NAV) as a practical expedient to fair value. 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.

Other assets

Other assets includes a 20% membership interest in specialty pharmacy, prepaid expenses and deposits. The membership interest in specialty pharmacy at December 31, 2015 and 2014 is \$6,979,043. The Foundation has evaluated the carrying value of the interest as of December 31, 2015, and has determined that no impairment loss has occurred.

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 revenue, less Board-designated net assets and expenses incurred in providing program services, raising contributions, and performing administrative functions.

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Unrestricted - Board-Designated Net Assets – The Foundation’s Board of Trustees has designated \$3,300,000,000 as of December 31, 2015 and 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.

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, CFPT or CFPAF pursuant to those stipulations. Temporarily restricted net assets were restricted as summarized below as of December 31, 2015 and 2014.

	2015	2014
Time restricted	\$ 4,742,139	\$ 7,318,972
CFPAF program	-	3,516,739
Medical research and other purposes	6,513,164	3,247,865
	<u>\$ 11,255,303</u>	<u>\$ 14,083,576</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 received 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.

Recent Accounting Pronouncements

In May 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which amends the disclosure requirements of Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, for reporting entities that measure the fair value of an investment using the net asset value (NAV) per share (or its equivalent) as a practical expedient. The amendments in ASU 2015-07 remove the requirement to categorize within the fair value hierarchy and make certain disclosure for all investments for which fair value is measured using the NAV per share practical expedient. The Foundation elected to early adopt ASU 2015-07 for its fiscal year ended December 31, 2015, and has applied the amendments retrospectively to all periods presented in note 3.

Reclassifications

Certain amounts presented in the 2014 consolidated financial statements have been reclassified to conform to the 2015 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

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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.

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.
- (c) 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 fair 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 assumptions used in determining the net asset values of these funds. The Foundation has not adjusted these values.
- (d) 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.

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

Description	2015	Quoted Prices in Active Markets for Identical Assets (Level 1) (a)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments measured at net asset value ¹
Cash equivalents	\$ 137,201,872	\$ 1,615	\$ 137,200,257	\$ -	\$ -
Investments					
U.S. government treasury securities	139,950,688	-	139,950,688 (b)	-	-
Corporate debt securities	100,346,121	-	100,346,121 (b)	-	-
U.S. government-agency asset-backed securities	26,573,141	-	26,573,141 (b)	-	-
Commercial and other asset-backed securities	49,625,087	-	48,604,016 (b)	1,021,071 (c)	-
Corporate bond mutual funds	197,475,139	197,475,139	-	-	-
Short duration bond mutual funds	488,374,352	488,374,352	-	-	-
U.S. equity mutual funds	78,795,013	78,795,013	-	-	-
Int'l. developed equity mutual funds	161,069,206	161,069,206	-	-	-
Emerging markets equity mutual funds	39,379,896	39,379,896	-	-	-
Global equity mutual funds	92,820,312	92,820,312	-	-	-
Other global equity securities	466,629,514	466,184,014	445,500	-	-
Global multi-asset strategy mutual funds	242,469,808	242,469,808	-	-	-
Fixed income index commingled funds	121,683,775	-	-	-	121,683,775
Public equity commingled funds	815,609,324	-	-	-	815,609,324
Other public equity based strategies	101,139,800	-	-	-	101,139,800
Hedged strategies	316,136,265	-	-	-	316,136,265
Private equity and other illiquid funds	41,260,923	-	-	-	41,260,923
Perpetual trusts	3,677,076	-	-	3,677,076 (d)	-
Other	2,956,550	2,956,550	-	-	-
Total investments	<u>3,485,971,990</u>	<u>1,769,524,290</u>	<u>315,919,466</u>	<u>4,698,147</u>	<u>1,395,830,087</u>
	<u>\$ 3,623,173,862</u>	<u>\$ 1,769,525,905</u>	<u>\$ 453,119,723</u>	<u>\$ 4,698,147</u>	<u>\$ 1,395,830,087</u>

¹ Investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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Description	2014	Active Markets for Identical Assets (Level 1) (a)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Investments measured at net asset value ¹
Cash equivalents	\$ 77,854,441	\$ -	\$ 77,854,441	\$ -	\$ -
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 (c)	-
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	-	-	-
Public equity commingled funds	34,383,161	-	-	-	34,383,161
Inflation hedge commingled funds	28,890,800	-	-	-	28,890,800
Hedged strategies	132,668,791	-	-	-	132,668,791
Perpetual trusts	3,918,225	-	-	3,918,225 (d)	-
Other	3,714,068	3,714,068	-	-	-
Total investments	<u>3,650,580,203</u>	<u>2,473,908,459</u>	<u>972,450,571</u>	<u>8,278,421</u>	<u>195,942,752</u>
	<u>\$ 3,728,434,644</u>	<u>\$ 2,473,908,459</u>	<u>\$ 1,050,305,012</u>	<u>\$ 8,278,421</u>	<u>\$ 195,942,752</u>

¹ Investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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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 2015 and 2014.

	Perpetual Trusts	Asset-backed securities	2015
Level 3 investments, beginning of year	\$ 3,918,225	\$ 4,360,196	\$ 8,278,421
Total gains or losses			
Net realized gains (losses)	82,994	(88,046)	(5,052)
Net unrealized losses	(222,284)	-	(222,284)
Purchases	112,577	-	112,577
Sales/distributions	(214,436)	(3,251,079)	(3,465,515)
Level 3 investments, end of year	<u>\$ 3,677,076</u>	<u>\$ 1,021,071</u>	<u>\$ 4,698,147</u>

	Perpetual Trusts	Asset-backed securities	2014
Level 3 investments, beginning of year	\$ 3,967,814	\$ -	\$ 3,967,814
Total gains or losses			
Net realized gains	92,349	-	92,349
Net unrealized gains (losses)	(74,889)	31,281	(43,608)
Purchases	163,326	4,328,915	4,492,241
Sales/distributions	(230,375)	-	(230,375)
Level 3 investments, end of year	<u>\$ 3,918,225</u>	<u>\$ 4,360,196</u>	<u>\$ 8,278,421</u>

The amount of net unrealized gains relating to Level 3 assets still held at December 31, 2015 and 2014 is approximately \$203,452 and \$420,378, respectively. 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 in funds valued based on net asset value as a practical expedient for fair value as of December 31, 2015 and 2014:

Description	Fair value		2015 unfunded commitments	Redemption frequency
	2015	2014		
Fixed income index commingled funds (a)	\$ 121,683,775	\$ -	\$ -	Daily
Public equity commingled funds (b)	815,609,324	34,383,161	-	Daily to quarterly
Inflation hedge commingled funds (c)	-	28,890,800	-	Monthly
Other public equity based strategies (d)	101,139,800	-	-	Monthly
Hedged strategies (e)	316,136,265	132,668,791	-	Monthly to semi-annual
Private equity and other illiquid funds (f)	41,260,923	-	97,453,892	Illiquid
	<u>\$ 1,395,830,087</u>	<u>\$ 195,942,752</u>	<u>\$ 97,453,892</u>	

(a) Fixed income index commingled funds consist of investments in units of two commingled funds to which proportionate net assets can be attributed. These funds are long-only and only invest in domestic fixed income instruments. These investments are redeemable daily, with 1-2 days

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notice to the manager. 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.

- (b) Public equity commingled funds consists of investments in eight commingled funds to which proportionate net assets can be attributed. These funds are invested primarily long-only in U.S. and international public equity securities. 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.

The Foundation's investments in two of these funds are subject to an initial lock-up period as of December 31, 2015. They cannot be fully redeemed without penalty until the lock-up period expires. One \$104,862,000 investment is redeemable quarterly with 90 days written notice after a three-year lock-up, which expires September 30, 2018. The other \$54,489,572 investment is subject to an initial lock-up period expiring March 31, 2017, after which redemptions up to 25% of the investment are permitted quarterly, with 45 days written notice. All other funds in this class are redeemable quarterly or more frequently, with no more than 30 days written notice to the manager.

- (c) Inflation hedge commingled funds consists of an investment in units of one commingled fund to which proportionate net assets can be attributed. This investment is redeemable monthly with 10-15 days notice to the manager. 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) Other public equity based strategies is comprised of two funds including one variable annuity invested in master limited partnerships and one commingled fund invested in options, equity index exchange traded funds and Treasury bills. The Foundation maintains the ability to redeem these investments at the net asset values (NAV) reported by the investee managers and therefore uses the amounts to derive the reported investment values. These investments are redeemable monthly with no more than 30 days written notice to the manager.
- (e) Hedged strategies is comprised of four separate funds, including one fund of funds and three hedge funds investing in a variety of strategies. The fund of funds is invested in funds employing one of four strategies: long/short equity, relative value, event driven, and global asset allocation. Two of the hedge funds invest across the capital structure and one is long/short equity. The Foundation derives the reported values for these investments from the NAV provided by the funds' managers.

A portion of the Foundation's investments in two of these funds are subject to an initial lock-up period as of December 31, 2015. They cannot be fully redeemed without penalty until the lock-up period expires. One investment valued at \$92,999,376 is redeemable without penalty after a three-year lock-up, which expires June 30, 2018. The other \$27,311,908 investment is redeemable at a maximum of 1/6 of the investment every June 30 and December 31. After the lock-up periods have expired, funds in this category are redeemable semi-annually or more frequently with 5 to 75 days written notice to the manager.

- (f) Private equity and other illiquid funds is comprised of two funds including a limited partnership that invests in pools of consumer debt and a private equity fund with a focus on North American

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oil and gas projects. The fair values of the investments in this category have been estimated using the NAV of the Foundation's ownership interest in partners' capital. Investments in this class cannot be redeemed. Instead, distributions are made from operating proceeds on a periodic basis. It is estimated that the underlying assets of these various funds will be liquidated over the next five to ten years. This category also includes a \$17,500,000 commitment to invest in a private equity fund, which has not yet made a capital call.

The Foundation redeemed its investment in a long/short equity fund of funds in 2014. The amount due from this investment manager totaled \$41,093,843 as of December 31, 2014. The Foundation received the entire amount of the redemption value from the investment manager in 2015.

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

	2015	2014
Interest and dividends	\$ 67,810,170	\$ 48,032,762
Net unrealized losses	(90,410,753)	(52,394,522)
Net realized (losses) gains	(26,501,844)	7,288,799
Investment expenses	(5,432,664)	(213,781)
	<u>\$ (54,535,091)</u>	<u>\$ 2,713,258</u>

Operating cash equivalents and investments amounted to \$22,957,848 and \$71,512,160 as of December 31, 2015 and 2014, respectively. Nonoperating cash equivalents and investments amounted to \$3,600,216,014 and \$3,656,922,484 as of December 31, 2015 and 2014, respectively. The investment income during the years ended December 31, 2015 and 2014 is reflected on the consolidated statement of activities as follows:

	2015	2014
Investment income - operating	\$ 858,583	\$ 377,687
Net nonoperating investment (loss) income	(55,393,674)	2,335,571
	<u>\$ (54,535,091)</u>	<u>\$ 2,713,258</u>

4. Receivables

Receivables consist of the following at December 31, 2015 and 2014:

	2015	2014
Special events and other contributions	\$ 5,200,086	\$ 2,709,153
Pledges receivable	13,228,788	12,736,774
Accrued interest on investments	5,278,337	5,741,627
Royalties receivable (see note 2)	28,112,522	461,700
Other	1,113,734	676,402
	<u>52,933,467</u>	<u>22,325,656</u>
Discount on pledges receivable	(1,447,218)	(1,339,592)
Allowance for doubtful accounts	(1,014,039)	(1,373,674)
	<u>\$ 50,472,210</u>	<u>\$ 19,612,390</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, 2015 and 2014 are payable in the following periods:

	2015	2014
Within one year	\$ 4,546,851	\$ 5,883,935
One to five years	6,875,926	5,004,328
After five years	1,806,011	1,848,511
	<u>\$ 13,228,788</u>	<u>\$ 12,736,774</u>

As of December 31, 2015 and 2014, pledges receivable amounting to approximately \$95,465 and \$128,354, respectively, were due from members of the Board of Trustees or related organizations.

5. Fixed assets

Fixed assets at December 31, 2015 and 2014 consisted of the following:

	2015	2014
Equipment and software	\$ 7,980,656	\$ 8,144,463
Furniture and fixtures	607,439	478,175
Leasehold improvements	1,558,858	1,579,458
	<u>10,146,953</u>	<u>10,202,096</u>
Accumulated depreciation	(5,596,799)	(6,380,248)
	<u>\$ 4,550,154</u>	<u>\$ 3,821,848</u>

6. Awards payable and commitments

Changes in awards payable during the years ended December 31, 2015 and 2014 are summarized as follows:

	2015	2014
Awards payable, beginning of year	\$ 90,664,922	\$ 78,072,810
Awards expensed	150,855,215	113,440,844
Awards disbursed	(114,649,743)	(100,848,732)
Awards payable, end of year	<u>\$ 126,870,394</u>	<u>\$ 90,664,922</u>

As of December 31, 2015, the Foundation and CFFT have additional medical scientific grant commitments of approximately \$73,045,000 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 \$75,701,000. 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 2015 and 2014. 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 \$116,829 and \$63,812 for the years ended December 31, 2015 and 2014, respectively.

7. Accounts payable and other liabilities

Accounts payable at December 31, 2015 and 2014 consist of the following:

	2015	2014
Other accounts payable and accrued expenses	\$ 20,387,666	\$ 16,194,856
Refundable advances for special events	2,968,953	2,560,996
Deferred licensing and other revenue	453,945	764,812
Other liabilities	779,384	1,766,228
	<u>\$ 24,589,948</u>	<u>\$ 21,286,892</u>

8. Operating lease commitments

The Foundation is obligated under various operating leases for office space as of December 31, 2015. The approximate future minimum commitments for each calendar year, subject to escalation, are as follows:

2016	\$ 4,170,141
2017	3,593,724
2018	3,235,132
2019	2,919,386
2020	2,745,184
Thereafter	5,671,795
	<u>\$ 22,335,362</u>

Rental costs for the years ended December 31, 2015 and 2014 were approximately \$4,453,000 and \$4,283,000, respectively.

9. 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 \$2,682,000 and \$2,432,000, respectively, for the years ended December 31, 2015 and 2014.

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10. Allocation of joint costs

The Foundation conducted direct mail activities in the years ended December 31, 2015 and 2014 that included requests for contributions as well as program components. The costs of conducting those activities included a total of approximately \$4,855,000 and \$6,321,000 of joint costs during the years ended December 31, 2015 and 2014, respectively. These costs were not specifically attributable to particular components of the activities. Of those costs, \$3,476,000 and \$4,366,000 was allocated to fundraising expense and \$1,379,000 and \$1,955,000 was allocated to public and professional information and education program services for the years ended December 31, 2015 and 2014, respectively.

11. Subsequent events

The Foundation has performed an evaluation of subsequent events through May 3, 2016, 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, 2015.