

Cystic Fibrosis Foundation

Consolidated Financial Statements

**For the years ended December 31, 2016 and
December 31, 2015**



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, 2016 and 2015, 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, 2016 and 2015, 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, 2017

Cystic Fibrosis Foundation
Consolidated Statements of Financial Position
As of December 31, 2016 and December 31, 2015

	2016	2015
Assets		
Cash and cash equivalents	\$ 101,987,992	\$ 281,082,509
Investments	3,795,790,436	3,485,971,990
Receivables, net	15,658,290	50,472,210
Other assets	11,401,161	8,808,007
Fixed assets, net	7,069,182	4,550,154
Total assets	\$ 3,931,907,061	\$ 3,830,884,870
Liabilities and Net Assets		
Accounts payable and other liabilities	\$ 27,044,203	\$ 24,589,948
Awards payable	172,707,680	126,870,394
Total liabilities	199,751,883	151,460,342
Unrestricted net assets:		
Undesignated net assets	420,457,947	364,492,149
Board-designated net assets	3,300,000,000	3,300,000,000
Total unrestricted net assets	3,720,457,947	3,664,492,149
Temporarily restricted net assets	7,954,458	11,255,303
Permanently restricted net assets	3,742,773	3,677,076
Total net assets	3,732,155,178	3,679,424,528
Total liabilities and net assets	\$ 3,931,907,061	\$ 3,830,884,870

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, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue				
Support received from the public				
Special event revenue	\$ 95,198,407	\$ 4,904,692	\$ -	\$ 100,103,099
Direct benefit expenses	(13,839,765)	-	-	(13,839,765)
Net special event revenue	81,358,642	4,904,692	-	86,263,334
General contributions	25,830,249	5,150,599	-	30,980,848
Total support received from the public	107,188,891	10,055,291	-	117,244,182
Royalty revenue	52,695,149	-	-	52,695,149
Other	11,972,106	4,761	-	11,976,867
Use of amounts restricted by donors for specified purpose or time	13,360,897	(13,360,897)	-	-
Total revenue	185,217,043	(3,300,845)	-	181,916,198
Expenses				
Program services				
Medical programs	277,291,061	-	-	277,291,061
Public and professional information and education	14,539,590	-	-	14,539,590
Community services	15,317,469	-	-	15,317,469
Total program services	307,148,120	-	-	307,148,120
Supporting services				
Management and general	13,912,941	-	-	13,912,941
Fundraising	22,784,588	-	-	22,784,588
Total supporting services	36,697,529	-	-	36,697,529
Total expenses	343,845,649	-	-	343,845,649
Decrease in net assets from operations	(158,628,606)	(3,300,845)	-	(161,929,451)
Other changes in net assets				
Net nonoperating investment income	214,594,404	-	65,697	214,660,101
Increase (decrease) in net assets	55,965,798	(3,300,845)	65,697	52,730,650
Net assets, beginning of year	3,664,492,149	11,255,303	3,677,076	3,679,424,528
Net assets, end of year	\$ 3,720,457,947	\$ 7,954,458	\$ 3,742,773	\$ 3,732,155,178

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	189,985,364	-	-	189,985,364
Public and professional information and education	20,922,456	-	-	20,922,456
Community services	12,260,201	-	-	12,260,201
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 Statements of Cash Flows
For the years ended December 31, 2016 and December 31, 2015

	2016	2015
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 52,730,650	\$ (134,938,418)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Net realized and unrealized (gains) losses on investments	(168,025,253)	116,817,253
(Decrease) increase in discount on pledges	(163,382)	107,626
Depreciation	2,171,334	1,457,037
Loss on disposal of fixed assets	39,691	77,587
(Recoveries of)/provision for losses on accounts receivable	(3,049)	52,058
Decrease (increase) in receivables	34,980,351	(31,019,504)
Increase in other assets	(2,593,154)	(169,713)
Increase in accounts payable and accrued expenses	2,454,255	3,303,056
Increase in awards payable	45,837,286	36,205,472
Net cash used in operating activities	<u>(32,571,271)</u>	<u>(8,107,546)</u>
Cash flows from investing activities		
Purchases of fixed assets	(4,730,053)	(2,262,930)
Decrease in due from investment manager	-	41,093,843
Maturities/sales of investments	922,681,822	2,551,737,405
Purchases of investments	<u>(1,064,475,015)</u>	<u>(2,503,946,445)</u>
Net cash (used in) provided by investing activities	(146,523,246)	86,621,873
Net (decrease) increase in cash and cash equivalents	(179,094,517)	78,514,327
Cash and cash equivalents, beginning of year	<u>281,082,509</u>	<u>202,568,182</u>
Cash and cash equivalents, end of year	<u>\$ 101,987,992</u>	<u>\$ 281,082,509</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, 2016

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	\$ 157,764,535	\$ -	\$ -	\$ -	\$ -	\$ 157,764,535
Research grants	17,809,839	-	-	-	-	17,809,839
Clinical research grants	18,996,738	-	-	-	-	18,996,738
Center and adult care grants	34,387,281	-	-	-	-	34,387,281
Clinical and research fellowship grants	3,883,778	-	-	-	-	3,883,778
Quality improvement training program	3,763,507	-	-	-	-	3,763,507
Patient assistance and other program grants	-	-	1,877,416	-	-	1,877,416
Salaries	16,700,637	7,690,000	6,777,256	8,270,305	12,953,561	52,391,759
Employee benefits and payroll taxes	3,824,569	2,063,442	1,664,325	2,128,889	3,186,976	12,868,201
Publications and printing	438,029	501,962	247,506	134,551	998,125	2,320,173
Occupancy and insurance	3,224,078	620,642	583,466	686,551	1,264,448	6,379,185
Postage and shipping	185,099	218,969	128,090	104,637	788,201	1,424,996
Travel and conferences	5,246,790	492,462	533,693	350,119	861,316	7,484,380
Data processing	4,074,742	1,437,507	1,051,997	731,239	1,409,296	8,704,781
Lab and other supplies	1,416,518	173,990	174,874	164,288	393,952	2,323,622
Fees for legal hotline and other community services	-	-	1,415,375	-	-	1,415,375
Professional fees and medical honoraria	3,746,161	845,826	486,529	791,702	220,055	6,090,273
Depreciation	1,217,256	255,764	179,706	183,085	335,523	2,171,334
Other	611,504	239,026	197,236	367,575	373,135	1,788,476
Total functional expenses before investment expenses and costs of direct benefits to donors	277,291,061	14,539,590	15,317,469	13,912,941	22,784,588	343,845,649
Investment expenses	-	-	-	9,644,576	-	9,644,576
Costs of direct benefits to donors	-	-	-	-	-	13,839,765
Total functional expenses after investment expenses and costs of direct benefits to donors	\$ 277,291,061	\$ 14,539,590	\$15,317,469	\$ 23,557,517	\$ 22,784,588	\$ 367,329,990

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	1,817,225	-	2,574,502	-	-	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
Lab and other supplies	919,112	243,086	130,018	136,810	212,487	1,641,513
Fees for legal hotline and other community services	-	-	1,317,625	-	-	1,317,625
Professional fees and medical honoraria	3,780,375	1,014,618	123,540	563,261	344,686	5,826,480
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	189,985,364	20,922,456	12,260,201	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>\$ 189,985,364</u>	<u>\$ 20,922,456</u>	<u>\$12,260,201</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

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

1. Organization

The accompanying consolidated financial statements include the operations of the Cystic Fibrosis Foundation, including all of its field offices (the “Foundation”), Cystic Fibrosis Foundation Therapeutics, Inc. (“CFFT”) and the Cystic Fibrosis Foundation 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. Through December 31, 2015, CFPAF assisted people with CF with access to FDA-approved drugs for the inhaled treatment of CF pulmonary disease and to medications for the treatment of pancreatic insufficiency. As of January 1, 2016, CFPAF no longer administers this program and during 2016 the operations of CFPAF ceased. During 2016, the Foundation provided grants totalling \$1,750,000 to a CF fund of a third-party co-pay assistance foundation.

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, 2016 and 2015. Contributions to the Foundation qualify for the charitable contributions deduction to the extent provided by Section 170 of the Code.

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 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.

Cystic Fibrosis Foundation

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Measure of operations

The Foundation includes in its measure of operations all support received from the public, income on investments designated for operations, royalty revenue, other revenue and all costs of program and supporting services. The measure of operations excludes interest and dividends and realized and unrealized gains and losses on nonoperating investments. Nonoperating investments are amounts identified 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 and recognized net revenue of \$3,274,431,963. In October 2016, CFFT entered into an amendment to the 2014 agreement and recognized an additional \$51,400,000 in royalty revenue related to the sale. 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 and was received during 2016. 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 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, when 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 seek to maintain a stable net asset value (NAV) of \$1 per share. These funds are marketed to

Cystic Fibrosis Foundation

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

institutional investors directly or through financial intermediaries. Quoted prices in active markets are not available; however, the published 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, 2016 and 2015 is \$6,979,043. The Foundation has evaluated the carrying value of the interest as of December 31, 2016, and has determined that no impairment loss has occurred. In February 2017, the Foundation sold its remaining 20% interest for \$20,859,117, and will recognize a net gain on the sale of approximately \$13,145,000 in 2017.

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.

Unrestricted - Board-Designated Net Assets – The Foundation's Board of Trustees has designated \$3,300,000,000 as of December 31, 2016 and 2015 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.

Cystic Fibrosis Foundation
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

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 or CFFT pursuant to those stipulations. Temporarily restricted net assets were restricted as summarized below as of December 31, 2016 and 2015.

	2016	2015
Time restricted	\$ 2,963,661	\$ 4,742,139
Medical research and other purposes	4,990,797	6,513,164
	<u>\$ 7,954,458</u>	<u>\$ 11,255,303</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 June 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-10, *Technical Corrections and Improvements*. This ASU clarified one aspect of the definition of readily determinable fair value (RDFV), thereby affecting the measurement and disclosure of certain equity investments. In 2016, Foundation management re-evaluated its investments historically measured using NAV as a practical expedient in structures with characteristics similar to a mutual fund to determine whether they have a RDFV. Investments totalling \$306,140,502, previously accounted for using NAV as a practical expedient and excluded from the fair value hierarchy as of December 31, 2015, were determined to have an RDFV. These investments have been reclassified as Level 1 consistent with the December 31, 2016 presentation.

Reclassifications

Certain amounts presented in the 2015 consolidated financial statements have been reclassified to conform to the 2016 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.

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Notes to Consolidated Financial Statements

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

- (a) Investment balances reported for amounts classified as Level 1 are derived from quoted market prices on public exchanges or, for funds similar to mutual funds, at published NAV.
- (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.

The letter references in the following fair value tables refer to the above descriptions.

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Notes to Consolidated Financial Statements
December 31, 2016 and 2015

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

Description	2016	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	\$ 36,602,978	\$ -	\$ 36,602,978	\$ -	\$ -
Investments					
Corporate debt securities	4,006,451	-	4,006,451 (b)	-	-
Corporate and other bond mutual funds	208,557,386	208,557,386	-	-	-
Short duration bond mutual funds	650,152,922	650,152,922	-	-	-
U.S. equity mutual funds	88,088,210	88,088,210	-	-	-
International developed equity mutual funds	165,092,107	165,092,107	-	-	-
Emerging markets equity mutual funds	42,636,380	42,636,380	-	-	-
Global equity mutual funds	103,546,884	103,546,884	-	-	-
Other global equity securities	519,187,233	518,491,765	645,450	50,018	-
Global multi-asset strategy mutual funds	249,456,513	249,456,513	-	-	-
Exchange traded equity funds	232,277,464	232,277,464	-	-	-
Fixed income index commingled funds	124,856,726	124,856,726	-	-	-
Public equity commingled funds	1,023,485,288	259,617,236	-	-	763,868,052
Other public equity based strategies	58,752,003	-	-	-	58,752,003
Hedged strategies	241,362,101	-	-	-	241,362,101
Private equity and other illiquid funds	77,105,665	-	-	-	77,105,665
Perpetual trusts	3,742,773	-	-	3,742,773 (d)	-
Other	3,484,330	3,484,330	-	-	-
Total investments	3,795,790,436	2,646,257,923	4,651,901	3,792,791	1,141,087,821
	<u>\$ 3,832,393,414</u>	<u>\$ 2,646,257,923</u>	<u>\$ 41,254,879</u>	<u>\$ 3,792,791</u>	<u>\$ 1,141,087,821</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	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 and other 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	-	-	-
International 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	184,456,727	-	-	631,152,597
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>2,075,664,792</u>	<u>315,919,466</u>	<u>4,698,147</u>	<u>1,089,689,585</u>
	<u>\$ 3,623,173,862</u>	<u>\$ 2,075,666,407</u>	<u>\$ 453,119,723</u>	<u>\$ 4,698,147</u>	<u>\$ 1,089,689,585</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 2016 and 2015.

	Perpetual Trusts	Asset-backed securities and other	2016
Level 3 investments, beginning of year	\$ 3,677,076	\$ 1,021,071	\$ 4,698,147
Total gains or losses			
Net realized losses	(30,570)	(1,739)	(32,309)
Net unrealized gains	205,548	-	205,548
Purchases/additions	94,976	50,018	144,994
Sales/distributions	(204,257)	(1,019,332)	(1,223,589)
Level 3 investments, end of year	<u>\$ 3,742,773</u>	<u>\$ 50,018</u>	<u>\$ 3,792,791</u>

	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/additions	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>

The amount of net unrealized gains relating to Level 3 assets still held at December 31, 2016 and 2015 is approximately \$410,370 and \$203,452, 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, 2016 and 2015:

Description	Fair value		2016 unfunded commitments	Redemption frequency
	2016	2015		
Public equity commingled funds (a)	763,868,052	815,609,324	-	Monthly to quarterly
Other public equity based strategies (b)	58,752,003	101,139,800	-	Monthly
Hedged strategies (c)	241,362,101	316,136,265	-	Monthly to semi-annual
Private equity and other illiquid funds (d)	77,105,665	41,260,923	155,735,560	Illiquid
	<u>\$ 1,141,087,821</u>	<u>\$ 1,274,146,312</u>	<u>\$ 155,735,560</u>	

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- (a) Public equity commingled funds consists of investments in seven 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 three of these funds are subject to an initial lock-up period as of December 31, 2016. They cannot be fully redeemed without penalty until the lock-up period expires. One \$122,698,000 investment is redeemable quarterly with 90 days written notice after a three-year lock-up, which expires September 30, 2018. Another \$47,238,119 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. The Foundation's investment in the third fund is divided between two share classes with different lock-up periods. The share class in which the Foundation has a \$50,174,068 investment is subject to a three-year lock-up, which expires December 31, 2018. The other share class, in which the Foundation has a \$50,299,830 investment, is subject to a five-year lock-up, which expires December 31, 2020. For both share classes, redemptions are permitted quarterly with 30 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.

- (b) 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. The Foundation fully redeemed from the commingled fund during 2016.
- (c) 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 is subject to an initial lock-up period as of December 31, 2016. This portion cannot be fully redeemed without penalty until the lock-up period expires. One investment valued at \$85,890,901 is redeemable without penalty after a three-year lock-up, which expires June 30, 2018. The other \$27,458,044 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.

- (d) Private equity and other illiquid funds is comprised of three funds including a limited partnership that invests in pools of consumer debt valued at \$71,900,991, a private equity fund with a focus on North American oil and gas projects valued at \$5,009,021, and a private equity fund with a focus on private technology companies valued at \$195,653. 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

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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 \$100,000,000 commitment to invest in a private equity fund, which has not yet made a capital call.

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

	2016	2015
Interest and dividends	\$ 56,600,061	\$ 67,810,170
Net unrealized gains (losses)	159,852,206	(90,410,753)
Net realized gains (losses)	8,034,583	(26,501,844)
Investment expenses	(9,644,576)	(5,432,664)
	<u>\$ 214,842,274</u>	<u>\$ (54,535,091)</u>

Operating cash equivalents and investments amounted to \$3,485,282 and \$22,957,848 as of December 31, 2016 and 2015, respectively. Nonoperating cash equivalents and investments amounted to \$3,828,908,132 and \$3,600,216,014 as of December 31, 2016 and 2015, respectively. The investment income during the years ended December 31, 2016 and 2015 is reflected on the consolidated statement of activities as follows:

	2016	2015
Investment income - operating (included in other)	\$ 182,173	\$ 858,583
Net nonoperating investment income (loss)	214,660,101	(55,393,674)
	<u>\$ 214,842,274</u>	<u>\$ (54,535,091)</u>

4. Receivables

Receivables consist of the following at December 31, 2016 and 2015:

	2016	2015
Special events and other contributions	\$ 2,278,994	\$ 5,200,086
Pledges receivable	9,851,347	13,228,788
Accrued interest on investments	2,986,634	5,278,337
Royalties receivable (see note 2)	851,667	28,112,522
Other	1,809,997	1,113,734
	<u>17,778,639</u>	<u>52,933,467</u>
Discount on pledges receivable (at rates ranging from 1%-2%)	(1,283,836)	(1,447,218)
Allowance for doubtful accounts	(836,513)	(1,014,039)
	<u>\$ 15,658,290</u>	<u>\$ 50,472,210</u>

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The pledges receivable as of December 31, 2016 and 2015 are payable in the following periods:

	2016	2015
Within one year	\$ 3,362,377	\$ 4,546,851
One to five years	4,717,959	6,875,926
After five years	1,771,011	1,806,011
	<u>\$ 9,851,347</u>	<u>\$ 13,228,788</u>

As of December 31, 2016 and 2015, pledges receivable amounting to approximately \$3,743,000 and \$4,820,000, respectively, were due from members of the Board of Trustees or related organizations.

5. Fixed assets

Fixed assets at December 31, 2016 and 2015 consisted of the following:

	2016	2015
Equipment and software	\$ 11,958,075	\$ 7,980,656
Furniture and fixtures	675,729	607,439
Leasehold improvements	1,719,584	1,558,858
	<u>14,353,388</u>	<u>10,146,953</u>
Accumulated depreciation	(7,284,206)	(5,596,799)
	<u>\$ 7,069,182</u>	<u>\$ 4,550,154</u>

6. Awards payable and commitments

Changes in awards payable during the years ended December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Awards payable, beginning of year	\$ 126,870,394	\$ 90,664,922
Awards expensed	235,404,840	150,855,215
Awards disbursed	(189,567,554)	(114,649,743)
Awards payable, end of year	<u>\$ 172,707,680</u>	<u>\$ 126,870,394</u>

As of December 31, 2016, the Foundation and CFFT have additional medical scientific grant commitments of approximately \$76,535,000 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 \$148,077,000. These costs will be expensed when the services are provided.

Volunteers from the medical and scientific community were included among affiliate Board members in 2016 and 2015. 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 \$551,569 and \$116,829 for the years ended December 31, 2016 and 2015, respectively.

7. Accounts payable and other liabilities

Accounts payable at December 31, 2016 and 2015 consist of the following:

	2016	2015
Accounts payable and accrued expenses	\$ 21,816,859	\$ 20,387,666
Refundable advances for special events	3,493,288	2,968,953
Deferred licensing and other revenue	864,983	453,945
Other liabilities	869,073	779,384
	<u>\$ 27,044,203</u>	<u>\$ 24,589,948</u>

8. Operating lease commitments

The Foundation is obligated under various operating leases for office space as of December 31, 2016. In 2016, the Foundation secured new office space for its headquarters location with the lease commencing in May 2017 and rent commencing in August 2018. The Foundation retained its current headquarters office lease the large majority of which ends in April 2023. The commitments shown below include payments for space that the Foundation intends to sublet as soon as practicable, which would reduce the net obligations.

The approximate future minimum commitments for each calendar year, subject to escalation, are as follows:

2017	\$ 4,112,840
2018	4,742,230
2019	5,612,498
2020	5,326,147
2021	5,145,812
Thereafter	23,093,048
	<u>\$ 48,032,575</u>

Rental costs for the years ended December 31, 2016 and 2015 were approximately \$5,506,000 and \$4,453,000, respectively.

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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 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 \$3,074,000 and \$2,682,000, respectively, for the years ended December 31, 2016 and 2015.

10. Allocation of joint costs

The Foundation conducted direct mail activities in the years ended December 31, 2016 and 2015 that included requests for contributions as well as program components. The costs of conducting those activities included a total of approximately \$1,984,000 and \$4,855,000 of joint costs during the years ended December 31, 2016 and 2015, respectively. These costs were not specifically attributable to particular components of the activities. Of those costs, \$1,611,000 and \$3,476,000 was allocated to fundraising expense and \$373,000 and \$1,379,000 was allocated to public and professional information and education program services for the years ended December 31, 2016 and 2015, respectively.

11. Subsequent events

The Foundation has performed an evaluation of subsequent events through May 3, 2017, which is the date the financial statements were available to be issued, noting no events which affect the financial statements or require additional disclosure.