

# **Cystic Fibrosis Foundation**

**Consolidated Financial Statements**

**For the years ended December 31, 2018 and  
December 31, 2017**



KPMG LLP  
1676 International Drive  
McLean, VA 22102

## Independent Auditors' Report

The Board of Trustees  
Cystic Fibrosis Foundation:

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Cystic Fibrosis Foundation and its affiliates (the Foundation), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 entity'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 entity'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 Cystic Fibrosis Foundation and its affiliates as of December 31, 2018 and 2017, 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.



*Emphasis of Matter*

As discussed in Note 2 to the financial statements, during 2018, the Foundation adopted new accounting guidance FASB Accounting Standard Update 2016-14 (Topic 958), *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

KPMG LLP

Mclean, Virginia  
May 3, 2019

**Cystic Fibrosis Foundation**  
**Consolidated Statements of Financial Position**  
**As of December 31, 2018 and 2017**

	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 82,921,497	\$ 81,580,161
Investments	3,869,931,266	4,296,347,369
Due from investment manager	33,757,653	-
Receivables, net	12,264,592	12,137,402
Other assets	3,515,006	5,403,261
Fixed assets, net	11,545,942	11,959,914
Total assets	<u>\$ 4,013,935,956</u>	<u>\$ 4,407,428,107</u>
<b>Liabilities and Net Assets</b>		
Accounts payable and other liabilities	41,689,767	36,422,049
Awards payable	196,882,717	176,819,993
Total liabilities	<u>238,572,484</u>	<u>213,242,042</u>
<b>Net Assets</b>		
Without donor restrictions	3,764,331,282	4,181,431,067
With donor restrictions	11,032,190	12,754,998
Total net assets	<u>3,775,363,472</u>	<u>4,194,186,065</u>
Total liabilities and net assets	<u>\$ 4,013,935,956</u>	<u>\$ 4,407,428,107</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, 2018**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenue</b>			
Support received from the public			
Special event revenue	\$ 92,018,595	\$ 3,724,961	\$ 95,743,556
Direct benefit expenses	(14,813,644)	-	(14,813,644)
Net special event revenue	77,204,951	3,724,961	80,929,912
General contributions	22,847,510	4,370,224	27,217,734
Total support received from the public	100,052,461	8,095,185	108,147,646
Other	26,219,612	1,237,083	27,456,695
Net assets released from restriction	10,577,342	(10,577,342)	-
Total revenue	136,849,415	(1,245,074)	135,604,341
<b>Expenses</b>			
Program services			
Medical programs	237,133,914	-	237,133,914
Public and professional information and education	15,998,432	-	15,998,432
Community services	20,043,322	-	20,043,322
Total program services	273,175,668	-	273,175,668
Supporting services			
Management and general	22,963,205	-	22,963,205
Fundraising	26,896,581	-	26,896,581
Total supporting services	49,859,786	-	49,859,786
Total expenses	323,035,454	-	323,035,454
Decrease in net assets from operations	(186,186,039)	(1,245,074)	(187,431,113)
<b>Other changes in net assets</b>			
Net nonoperating investment loss	(230,913,746)	(477,734)	(231,391,480)
Decrease in net assets	(417,099,785)	(1,722,808)	(418,822,593)
Net assets, beginning of year	4,181,431,067	12,754,998	4,194,186,065
Net assets, end of year	\$ 3,764,331,282	\$ 11,032,190	\$ 3,775,363,472

*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, 2017**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenue</b>			
Support received from the public			
Special event revenue	\$ 93,931,027	\$ 4,820,692	\$ 98,751,719
Direct benefit expenses	(14,630,047)	-	(14,630,047)
Net special event revenue	79,300,980	4,820,692	84,121,672
General contributions	20,912,188	5,690,571	26,602,759
Total support received from the public	100,213,168	10,511,263	110,724,431
Other	23,611,370	1,345,936	24,957,306
Net assets released from restriction	11,253,893	(11,253,893)	-
Total revenue	135,078,431	603,306	135,681,737
<b>Expenses</b>			
Program services			
Medical programs	213,999,714	-	213,999,714
Public and professional information and education	16,900,416	-	16,900,416
Community services	17,822,831	-	17,822,831
Total program services	248,722,961	-	248,722,961
Supporting services			
Management and general	15,968,460	-	15,968,460
Fundraising	24,702,883	-	24,702,883
Total supporting services	40,671,343	-	40,671,343
Total expenses	289,394,304	-	289,394,304
Provision for lease commitment	(4,358,356)	-	(4,358,356)
(Decrease) increase in net assets from operations	(158,674,229)	603,306	(158,070,923)
<b>Other changes in net assets</b>			
Net nonoperating investment income	606,502,224	454,461	606,956,685
Proceeds from sale of remainder of member interest in specialty pharmacy	13,145,125	-	13,145,125
Increase in net assets	460,973,120	1,057,767	462,030,887
Net assets, beginning of year	3,720,457,947	11,697,231	3,732,155,178
Net assets, end of year	\$ 4,181,431,067	\$ 12,754,998	\$ 4,194,186,065

*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, 2018 and 2017**

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	2018	2017
<b>Cash flows from operating activities</b>		
(Decrease) increase in net assets	\$ (418,822,593)	\$ 462,030,887
Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities:		
Net realized and unrealized losses (gains) on investments	265,429,168	(562,139,708)
Decrease in discount on pledges	(57,159)	(48,013)
Depreciation	3,460,046	3,009,824
Loss on disposal of fixed assets	491	10,828
Disposal of assets at former headquarters	-	119,646
Provision for losses on accounts receivable	91,574	11,592
Gain on sale of pharmacy	-	(13,145,125)
(Increase) decrease in receivables	(161,605)	3,557,309
Decrease (increase) in other assets	1,888,255	(981,143)
Increase in accounts payable and accrued expenses	5,267,718	9,377,846
Increase in awards payable	20,062,724	4,112,313
Net cash used in operating activities	<u>(122,841,381)</u>	<u>(94,083,744)</u>
<b>Cash flows from investing activities</b>		
Purchases of fixed assets	(3,046,565)	(8,031,030)
Maturities/sales of investments	1,458,001,534	1,174,435,480
Purchases of investments	(1,297,014,599)	(1,076,250,677)
Increase in due from investment manager	(33,757,653)	-
Proceeds from sale of remainder of member interest in specialty pharmacy	-	20,124,168
Net cash provided by investing activities	<u>124,182,717</u>	<u>110,277,941</u>
Net increase in cash and cash equivalents	1,341,336	16,194,197
Cash and cash equivalents, beginning of year	81,580,161	65,385,964
Cash and cash equivalents, end of year	<u>\$ 82,921,497</u>	<u>\$ 81,580,161</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, 2018**

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	\$ 101,387,941	\$ -	\$ -	\$ -	\$ -	\$ 101,387,941
Research grants	22,385,708	-	-	-	-	22,385,708
Clinical research grants	23,799,228	-	-	-	-	23,799,228
Center and adult care grants	32,373,488	-	-	-	-	32,373,488
Clinical and research fellowship grants	5,579,660	-	-	-	-	5,579,660
Quality improvement training program	4,407,136	-	-	-	-	4,407,136
Patient assistance and other program grants	-	-	2,855,977	-	-	2,855,977
Salaries	21,516,209	8,106,233	8,621,952	13,379,937	15,251,496	66,875,827
Employee benefits and payroll taxes	6,109,901	2,457,522	2,478,097	3,799,671	4,031,316	18,876,507
Publications and printing	247,479	428,524	188,561	193,095	879,217	1,936,876
Occupancy and insurance	2,841,516	645,449	762,484	1,238,972	1,493,080	6,981,501
Postage and shipping	113,834	259,726	129,082	161,815	891,087	1,555,544
Travel and conferences	5,761,774	592,117	795,103	678,352	1,354,899	9,182,245
Data processing	3,139,300	2,239,087	1,245,688	1,174,904	1,637,310	9,436,289
Lab and other supplies	1,732,529	135,269	183,154	257,468	421,658	2,730,078
Fees for legal hotline and other community services	-	-	1,698,625	-	-	1,698,625
Professional fees and medical honoraria	3,369,655	573,391	516,254	1,057,057	227,397	5,743,754
Depreciation	1,835,963	404,248	405,168	343,391	443,442	3,432,212
Other	532,593	156,866	163,177	678,543	265,679	1,796,858
Total functional expenses before costs of direct benefits to donors	237,133,914	15,998,432	20,043,322	22,963,205	26,896,581	323,035,454
Costs of direct benefits to donors	-	-	-	-	-	14,813,644
Total functional expenses after costs of direct benefits to donors	\$ 237,133,914	\$ 15,998,432	\$ 20,043,322	\$ 22,963,205	\$ 26,896,581	\$ 337,849,098

*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, 2017**

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	\$ 85,214,357	\$ -	\$ -	\$ -	\$ -	\$ 85,214,357
Research grants	20,085,565	-	-	-	-	20,085,565
Clinical research grants	21,571,664	-	-	-	-	21,571,664
Center and adult care grants	33,994,693	-	-	-	-	33,994,693
Clinical and research fellowship grants	4,837,947	-	-	-	-	4,837,947
Quality improvement training program	4,382,168	-	-	-	-	4,382,168
Patient assistance and other program grants	-	-	1,935,395	-	-	1,935,395
Salaries	19,167,212	9,483,692	8,176,979	9,608,093	13,943,478	60,379,454
Employee benefits and payroll taxes	4,919,441	2,419,720	2,031,781	2,445,351	3,329,241	15,145,534
Publications and printing	533,563	460,377	309,417	112,955	893,556	2,309,868
Occupancy and insurance	2,978,966	845,116	703,612	931,709	1,462,423	6,921,826
Postage and shipping	120,193	347,767	121,429	97,103	986,649	1,673,141
Travel and conferences	5,277,184	611,348	647,943	375,941	1,015,381	7,927,797
Data processing	3,695,052	1,271,657	844,947	776,950	1,322,045	7,910,651
Lab and other supplies	1,544,532	193,449	190,038	191,604	373,673	2,493,296
Fees for legal hotline and other community services	-	-	1,744,625	-	-	1,744,625
Professional fees and medical honoraria	3,483,181	516,420	493,165	670,355	221,786	5,384,907
Depreciation	1,505,820	409,483	321,019	277,915	495,587	3,009,824
Other	688,176	341,387	302,481	480,484	659,064	2,471,592
Total functional expenses before costs of direct benefits to donors	213,999,714	16,900,416	17,822,831	15,968,460	24,702,883	289,394,304
Costs of direct benefits to donors	-	-	-	-	-	14,630,047
Total functional expenses after costs of direct benefits to donors	\$ 213,999,714	\$ 16,900,416	\$ 17,822,831	\$ 15,968,460	\$ 24,702,883	\$ 304,024,351

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

# **Cystic Fibrosis Foundation**

## **Notes to Consolidated Financial Statements**

### **December 31, 2018 and 2017**

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#### **1. Organization**

The accompanying consolidated financial statements include the operations of the Cystic Fibrosis Foundation, including all of its field offices (the “Foundation”) and Cystic Fibrosis Foundation Therapeutics, Inc. (“CFFT”). CFFT, an affiliate of the Foundation, operated 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 Board of Trustees authorized management of the Foundation to transfer the activities of CFFT to the Foundation in 2018.

#### **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.

##### **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 revenues without donor restrictions or revenues with donor restrictions. All donor-restricted support, including related investment income and realized and

# **Cystic Fibrosis Foundation**

## **Notes to Consolidated Financial Statements**

### **December 31, 2018 and 2017**

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unrealized gains and losses, is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

CFF retains 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.

#### **Grants, contracts and awards**

The Foundation generally awards 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 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. In 2018, the Foundation made a change in accounting policy wherein cash and cash equivalents that are held as part of the Foundation's investment portfolio are reported within investments. The Foundation had \$56,651,793 of cash and cash equivalents held for investment as of December 31, 2017 that has been reclassified from cash and cash equivalents to investments to reflect this change in accounting policy.

#### **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. Investment expenses, such as custodial fees, investment advisory fees, and internal salaries and benefits are netted against investment returns in the consolidated statement of activities.

#### **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 allocation of expenses**

The costs of various Foundation activities have been accounted for on a functional basis in the consolidated statement of activities. The consolidated statements of functional expenses present expenses by function and natural classification. Where practicable, expenses are directly classified to specific program or supporting service categories. Costs that are not specifically identifiable within functional categories are classified using allocation methods such as time studies, square footage and other methodologies.

**Cystic Fibrosis Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2018 and 2017**

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The Foundation conducted direct mail activities in the years ended December 31, 2018 and 2017 that included requests for contributions as well as program components. The costs of conducting those activities included a total of approximately \$2,066,000 and \$2,288,000 of joint costs during the years ended December 31, 2018 and 2017, respectively. Of those costs, \$1,561,000 and \$1,706,000 was allocated to fundraising expense and \$505,000 and \$582,000 was allocated to public and professional information and education program services respectively, for the years ended December 31, 2018 and 2017.

**Net assets**

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

*Without donor restrictions* – Net assets without donor restrictions generally result from revenues derived from receiving contributions that are available for use at the discretion of the Board of Trustees and/or management for general operating purposes, investment income and royalty revenue, less expenses incurred in providing program services, raising contributions, and performing administrative functions. The Foundation had board-designated net assets of \$3,300,000,000 as of December 31, 2017 to be spent in support of the mission of the Foundation over the long term. The Board of Trustees removed this board-designation as of January 1, 2018.

*With donor restrictions* – Net assets with donor restrictions 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 pursuant to those stipulations.

Included in this category are net assets subject to donor-imposed restrictions to be maintained permanently and consist of the beneficial interest in six 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.

The composition of net assets with donor restrictions are below as of December 31, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Time restricted	\$ 1,769,773	\$ 1,979,511
Medical research and other purposes	5,756,719	6,678,253
Perpetual trusts	3,505,698	4,097,234
	<u>\$ 11,032,190</u>	<u>\$ 12,754,998</u>

Unrealized and realized gains and losses and dividends and interest may be included in either of these net asset classifications depending on donor restrictions.

**Income Taxes**

The Foundation is a not-for-profit voluntary health organization exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and from state taxes and has been

# **Cystic Fibrosis Foundation**

## **Notes to Consolidated Financial Statements**

### **December 31, 2018 and 2017**

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classified as an organization that is not a private foundation under Section 509(a) of the Code. The Foundation does not have any unrelated business income tax liability as of December 31, 2018 and 2017. 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.

The Tax Cuts and Jobs Act (the Tax Act) was signed into law on December 22, 2017. The Tax Act includes several changes relevant to tax-exempt organizations, primarily related to unrelated business income, net operating losses, certain new excise taxes, and changes affecting the deductibility of certain expenses. Management has determined that the new law will not have a significant impact on the Foundation's financial statements.

#### **Recently adopted accounting pronouncements**

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14 (Topic 958), *Presentation of Financial Statements of Not-for-Profit Entities*. This ASU amends the current reporting model for non-profit organizations and enhances their required disclosures. Main provisions of this guidance include: requiring the presentation of only two classes of net assets (without donor restrictions and with donor restrictions); presenting investment return net of external and direct internal investment expenses; and requiring disclosure of quantitative and qualitative information regarding liquidity and availability of resources. The guidance also enhances disclosures for board-designated amounts, composition of net assets without donor restrictions, and expenses by both their natural and functional classification. The Foundation has adopted this ASU as of and for the year ended December 31, 2018 with retrospective application for the 2017 consolidated financial statements.

#### **Reclassifications**

Certain amounts presented in the 2017 consolidated financial statements have been reclassified to conform to the 2018 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.

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.

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- (b) 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, 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.
- (c) Values reported for fixed income securities 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.
- (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. Financial instruments measured at fair value on a recurring basis are summarized below as of December 31:

**Cystic Fibrosis Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2018 and 2017**

Description	2018	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 <sup>1</sup>
Cash equivalents (operating)	\$ 50,664,776	\$ -	\$ 50,664,776 (b)	\$ -	\$ -
Investments					
Money market mutual funds and other cash equivalents	187,039,852	-	187,039,852 (b)	-	-
Short term fixed income securities	61,772,285	-	61,772,285 (c)	-	-
Corporate debt securities	155,198,125	-	154,958,125 (c)	240,000	-
Other debt securities	71,743,670	-	71,743,670 (c)	-	-
Short duration bond mutual funds	308,509,994	308,509,994	-	-	-
U.S. equity mutual funds	105,475,913	105,475,913	-	-	-
International developed equity mutual funds	268,898,299	268,898,299	-	-	-
Emerging markets equity mutual funds	101,790,260	101,790,260	-	-	-
Exchange traded equity funds	57,251,567	57,251,567	-	-	-
Other global equity securities	424,490,932	423,163,820	-	1,327,112	-
Fixed income index commingled funds	130,016,792	130,016,792	-	-	-
Public equity commingled funds	1,420,424,551	565,941,640	-	-	854,482,911
Other public equity based strategies	85,829,930	-	-	-	85,829,930
Hedged strategies	241,649,622	-	-	-	241,649,622
Private equity and other illiquid funds	242,432,458	-	-	-	242,432,458
Perpetual trusts	3,505,698	-	-	3,505,698 (d)	-
Other	3,901,318	3,901,318	-	-	-
Total investments	<u>3,869,931,266</u>	<u>1,964,949,603</u>	<u>475,513,932</u>	<u>5,072,810</u>	<u>1,424,394,921</u>
	<u>\$ 3,920,596,042</u>	<u>\$ 1,964,949,603</u>	<u>\$ 526,178,708</u>	<u>\$ 5,072,810</u>	<u>\$ 1,424,394,921</u>

<sup>1</sup> 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	2017	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 <sup>1</sup>
Cash equivalents (operating)	\$ 50,045,740	\$ -	\$ 50,045,740 (b)	\$ -	\$ -
Investments					
Money market mutual funds and other cash equivalents	56,651,793	-	56,651,793 (b)	-	-
Corporate debt securities	237,600	-	-	237,600	-
Corporate and other bond mutual funds	215,180,323	215,180,323	-	-	-
Short duration bond mutual funds	363,090,053	363,090,053	-	-	-
U.S. equity mutual funds	107,665,055	107,665,055	-	-	-
International developed equity mutual funds	348,688,286	348,688,286	-	-	-
Emerging markets equity mutual funds	91,395,062	91,395,062	-	-	-
Global equity mutual funds	126,025,054	126,025,054	-	-	-
Other global equity securities	583,214,000	582,194,273	269,990	749,737	-
Global multi-asset strategy mutual funds	82,234,540	82,234,540	-	-	-
Fixed income index commingled funds	130,952,699	130,952,699	-	-	-
Public equity commingled funds	1,494,197,079	571,306,712	-	-	922,890,367
Other public equity based strategies	99,856,362	-	-	-	99,856,362
Hedged strategies	436,127,209	-	-	-	436,127,209
Private equity and other illiquid funds	152,546,327	-	-	-	152,546,327
Perpetual trusts	4,097,234	-	-	4,097,234 (d)	-
Other	4,188,693	4,188,693	-	-	-
Total investments	<u>4,296,347,369</u>	<u>2,622,920,750</u>	<u>56,921,783</u>	<u>5,084,571</u>	<u>1,611,420,265</u>
	<u>\$ 4,346,393,109</u>	<u>\$ 2,622,920,750</u>	<u>\$ 106,967,523</u>	<u>\$ 5,084,571</u>	<u>\$ 1,611,420,265</u>

<sup>1</sup> 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 2018 and 2017.

	<b>Perpetual Trusts</b>	<b>Global equity securities</b>	<b>Corporate debt securities</b>	<b>2018</b>
Level 3 investments, beginning of year	\$ 4,097,234	\$ 749,737	\$ 237,600	\$ 5,084,571
Total gains or losses				
Net realized gains	180,631	2,214	-	182,845
Net unrealized (losses) gains	(526,807)	(163,242)	2,400	(687,649)
Purchases/additions	148,460	98,779	-	247,239
Sales/distributions	(393,820)	(359,155)	-	(752,975)
Transfers into Level 3 from Level 1	-	998,779	-	998,779
Level 3 investments, end of year	<u>\$ 3,505,698</u>	<u>\$ 1,327,112</u>	<u>\$ 240,000</u>	<u>\$ 5,072,810</u>
	<b>Perpetual Trusts</b>	<b>Global equity securities</b>	<b>Corporate debt securities</b>	<b>2017</b>
Level 3 investments, beginning of year	\$ 3,742,773	\$ 50,018	\$ -	\$ 3,792,791
Total gains or losses				
Net realized gains	166,859	-	-	166,859
Net unrealized gains	385,795	-	-	385,795
Purchases/additions	151,394	699,719	237,600	1,088,713
Sales/distributions	(349,587)	-	-	(349,587)
Level 3 investments, end of year	<u>\$ 4,097,234</u>	<u>\$ 749,737</u>	<u>\$ 237,600</u>	<u>\$ 5,084,571</u>

The amount of net unrealized gains relating to Level 3 assets still held at December 31, 2018 and 2017 is approximately \$197,166 and \$764,536, 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 investments in funds valued based on net asset value as a practical expedient for fair value as of December 31, 2018 and 2017:

<b>Description</b>	<b>Fair value</b>		<b>2018 unfunded commitments</b>	<b>Redemption frequency</b>
	<b>2018</b>	<b>2017</b>		
Public equity commingled funds (a)	\$ 854,482,911	\$ 922,890,367	\$ 80,000,000	Monthly to quarterly
Other public equity based strategies (a)	85,829,930	99,856,362	-	Monthly
Hedged strategies (b)	241,649,622	436,127,209	-	Monthly to semi-annual
Private equity and other illiquid funds (c)	242,432,458	152,546,327	400,385,848	Illiquid
	<u>\$ 1,424,394,921</u>	<u>\$ 1,611,420,265</u>	<u>\$ 480,385,848</u>	

- (a) 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. Approximately \$55,803,000 of investments in this category are subject to a lock-up period expiring in one year or less and approximately \$164,903,000 of investments in this category are subject to a lock-up period expiring in two to five years.

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- (b) Approximately \$49,403,000 of investments in this category once redeemed are payable at a maximum of 1/6 of the investment every June 30 and December 31.
- (c) 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.

Operating cash equivalents and investments amounted to \$54,566,094 and \$54,234,433 as of December 31, 2018 and 2017, respectively. Nonoperating cash equivalents and investments amounted to \$3,866,029,948 and \$4,292,158,676 as of December 31, 2018 and 2017, respectively. The investment income during the years ended December 31, 2018 and 2017 is reflected on the consolidated statement of activities as follows:

	<b>2018</b>	<b>2017</b>
Investment income - operating (included in other)	\$ 958,276	\$ 270,478
Net nonoperating investment (loss) income	<u>(231,391,480)</u>	<u>606,956,685</u>
	<u>\$ (230,433,204)</u>	<u>\$ 607,227,163</u>

**4. Liquidity and availability of resources**

The Foundation's financial assets available within one year of the consolidated statements of financial position date for general expenditures\*, such as program expenses, grants and other operating expenses, are as follows:

Cash and cash equivalents	\$ 82,921,497
Investments	3,869,931,266
Due from investment manager	33,757,653
Receivables, net	<u>12,264,592</u>
Total financial assets, end of year	<u>\$ 3,998,875,008</u>
Less those unavailable for general expenditure within one year, due to:	
Time restricted pledges due in greater than one year	(4,001,483)
Donor restrictions held in perpetuity	(3,505,698)
Investments subject to lock-ups greater than one year	(197,838,417)
Private equity and other illiquid funds	(242,432,458)
Unfunded capital commitments	(480,385,848)
Funds held for retirement plan assets	<u>(3,901,318)</u>
Total financial assets unavailable for general expenditures within one year	<u>\$ (932,065,222)</u>
Total financial assets available within one year	<u>\$ 3,066,809,786</u>

\*Excludes unfunded capital commitments of \$480,385,848 as of December 31, 2018.

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The Foundation's Board of Trustees approves an annual operating budget. The Investment Committee of the Board of Trustees approves redemptions from the investment portfolio sufficient to meet projected cash needs. The Foundation maintains cash and highly liquid securities sufficient to meet anticipated cash needs for operations, capital commitments, and new investments over an eighteen-month rolling period.

**5. Receivables**

Receivables consist of the following at December 31, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Special events and other contributions	\$ 1,640,714	\$ 2,630,787
Pledges receivable	8,236,053	9,354,759
Accrued interest on investments	2,242,690	924,232
Other receivable	1,987,621	1,065,641
	<u>14,107,078</u>	<u>13,975,419</u>
Discount on pledges receivable (at rates ranging from 1%-4%)	(1,178,664)	(1,235,823)
Allowance for doubtful accounts	(663,822)	(602,194)
	<u>\$ 12,264,592</u>	<u>\$ 12,137,402</u>

The pledges receivable as of December 31, 2018 and 2017 are payable in the following periods:

	<b>2018</b>	<b>2017</b>
Within one year	\$ 3,227,528	\$ 2,866,401
One to five years	3,418,292	4,903,125
After five years	1,590,233	1,585,233
	<u>\$ 8,236,053</u>	<u>\$ 9,354,759</u>

As of December 31, 2018, and 2017, pledges receivable amounting to approximately \$1,839,000 and \$2,784,000, respectively, were due from members of the Board of Trustees or related organizations.

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**6. Fixed assets**

Fixed assets at December 31, 2018 and 2017 consisted of the following:

	<b>2018</b>	<b>2017</b>
Equipment and software	\$ 17,067,478	\$ 14,499,977
Furniture and fixtures	1,130,308	921,412
Leasehold improvements	5,791,808	5,663,396
	<u>23,989,594</u>	<u>21,084,785</u>
Accumulated depreciation	(12,443,652)	(9,124,871)
	<u>\$ 11,545,942</u>	<u>\$ 11,959,914</u>

**7. Awards payable and commitments**

Changes in awards payable during the years ended December 31, 2018 and 2017 are summarized as follows:

	<b>2018</b>	<b>2017</b>
Awards payable, beginning of year	\$ 176,819,993	\$ 172,707,680
Awards expensed	189,357,581	169,343,719
Awards disbursed	(169,294,857)	(165,231,406)
Awards payable, end of year	<u>\$ 196,882,717</u>	<u>\$ 176,819,993</u>

As of December 31, 2018, the Foundation has additional medical scientific grant commitments of approximately \$60,562,000 which extend through December 31, 2023. These subsequent year awards are contingent upon renewal criteria, and therefore the costs and liabilities are not reflected in the consolidated financial statements.

Certain agreements provide for future contracted drug discovery and development research payments amounting to approximately \$157,353,000. These costs will be expensed when the services are provided.

Volunteers from the medical and scientific community were included among affiliate Board members in 2018 and 2017. 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 \$967,906 and \$712,187 for the years ended December 31, 2018 and 2017, respectively.

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**8. Accounts payable and other liabilities**

Accounts payable at December 31, 2018 and 2017 consist of the following:

	<b>2018</b>	<b>2017</b>
Accounts payable and accrued expenses	\$ 32,513,361	\$ 24,995,422
Former office lease liability (see Note 9)	3,017,750	4,463,202
Refundable advances for special events	3,509,601	3,298,678
Deferred licensing and other revenue	1,612,812	2,615,679
Other liabilities	1,036,243	1,049,068
	<u>\$ 41,689,767</u>	<u>\$ 36,422,049</u>

**9. Lease commitments**

In June 2017, the Foundation entered into a lease agreement for new office space in Maryland. The Foundation secured a favorable long-term rental rate for this space, which better meets the present and future needs of the Foundation. In 2017, the Foundation recognized a one-time charge of approximately \$4,358,356 to recognize the net future liability and exit costs (including costs to prepare the space for rental), associated with former office space. The liability (see Note 8) is calculated as the net present value of future cash outlays under the existing lease and the net present expected receipts from sublease arrangements. The Foundation remains obligated to pay rental costs and abide by terms of the original lease, which expires in April 2023. The Foundation has entered into sublease agreements for substantially all of the original office space.

The Foundation is obligated under various operating leases for office space as of December 31, 2018. The approximate future minimum commitments for each calendar year, subject to escalation, are as follows:

2019	\$ 5,690,000
2020	6,693,000
2021	6,513,000
2022	6,191,000
2023	4,120,000
Thereafter	16,283,000
Total minimum payments required*	<u>\$ 45,490,000</u>

\*The minimum payments required includes the future minimum commitments for the former office space as described above.

# Cystic Fibrosis Foundation

## Notes to Consolidated Financial Statements

### December 31, 2018 and 2017

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The Foundation has entered into lease agreements with tenants to occupy its former headquarters space. As of December 31, 2018 the approximate future minimum sublease rental payments to be received for each calendar year, subject to escalation, are as follows:

2019	\$ 776,000
2020	1,012,000
2021	1,047,000
2022	1,084,000
2023	368,000
Total minimum sublease payments	<u>\$ 4,287,000</u>

Rental costs for the years ended December 31, 2018 and 2017 were approximately \$6,164,000 and \$6,072,000, respectively.

#### 10. Retirement plan

Under the provisions of the Foundation's 401(k) retirement plan, 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 \$5,003,000 and \$4,381,000 respectively, for the years ended December 31, 2018 and 2017.

#### 11. Subsequent events

The Foundation has performed an evaluation of subsequent events through May 3, 2019, which is the date the financial statements were available to be issued, noting no events which affect the consolidated financial statements or require additional disclosure.