



Cystic Fibrosis Foundation

Consolidated Financial Statements

**For the years ended December 31, 2013 and
December 31, 2012**



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

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, its subsidiary and affiliate, which comprise the consolidated statements of financial position as of December 31, 2013, and the related consolidated statements of activities, cash flows, and functional expenses for the year 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 audit. We conducted our audit 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 the Cystic Fibrosis Foundation, its subsidiary and affiliate as of December 31, 2013, and the changes in their net assets, their functional expenses and cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Other Matter

The accompanying consolidated financial statements of the Cystic Fibrosis Foundation, its subsidiary and affiliate, as of December 31, 2012, were audited by other auditors whose report thereon dated May 15, 2013, expressed an unmodified opinion on those statements.

KPMG LLP

May 1, 2014

Cystic Fibrosis Foundation
Consolidated Statement of Financial Position
As of December 31, 2013 and December 31, 2012

	2013	2012
Assets		
Cash and cash equivalents	\$ 57,811,689	\$ 89,335,582
Investments	611,130,801	315,250,322
Prepaid expenses and other assets	1,880,156	1,716,452
Receivables, net	16,294,391	22,927,904
Membership interest in specialty pharmacy	6,979,043	7,286,043
Fixed assets, net	<u>4,367,186</u>	<u>3,204,597</u>
Total assets	<u>\$ 698,463,266</u>	<u>\$ 439,720,900</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 22,624,610	\$ 25,136,530
Awards payable	<u>78,072,810</u>	<u>63,954,487</u>
Total liabilities	<u>100,697,420</u>	<u>89,091,017</u>
Unrestricted net assets:		
Undesignated net assets	335,947,148	177,610,330
Board-designated net assets	<u>239,000,000</u>	<u>153,000,000</u>
Total unrestricted net assets	574,947,148	330,610,330
Temporarily restricted net assets	18,850,884	16,291,346
Permanently restricted net assets	<u>3,967,814</u>	<u>3,728,207</u>
Total net assets	<u>597,765,846</u>	<u>350,629,883</u>
Total liabilities and net assets	<u>\$ 698,463,266</u>	<u>\$ 439,720,900</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, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue				
Support received from the public				
Special event revenue	\$ 110,321,301	\$ 1,195,796	\$ -	\$ 111,517,097
Direct benefit expenses	(13,429,403)	-	-	(13,429,403)
Net special event revenue	96,891,898	1,195,796	-	98,087,694
General contributions	25,352,229	13,804,806	68,182	39,225,217
Total support received from the public	122,244,127	15,000,602	68,182	137,312,911
Investment (loss) income	(53,117)	132,695	-	79,578
Royalty revenue	257,340,860	-	-	257,340,860
Other	10,797,035	-	-	10,797,035
Use of amounts restricted by donors for specified purpose or time	12,573,759	(12,573,759)	-	-
Total revenue	402,902,664	2,559,538	68,182	405,530,384
Expenses				
Program services				
Medical programs	134,684,528	-	-	134,684,528
Public and professional information and education	17,842,159	-	-	17,842,159
Community services	8,135,278	-	-	8,135,278
Total program services	160,661,965	-	-	160,661,965
Supporting services				
Management and general	13,755,362	-	-	13,755,362
Fundraising	15,912,998	-	-	15,912,998
Total supporting services	29,668,360	-	-	29,668,360
Total expenses	190,330,325	-	-	190,330,325
Increase in net assets from operations	212,572,339	2,559,538	68,182	215,200,059
Other changes in net assets				
Net nonoperating investment income	31,764,479	-	171,425	31,935,904
Increase in net assets	244,336,818	2,559,538	239,607	247,135,963
Net assets, beginning of year	330,610,330	16,291,346	3,728,207	350,629,883
Net assets, end of year	\$ 574,947,148	\$ 18,850,884	\$ 3,967,814	\$ 597,765,846

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

Cystic Fibrosis Foundation
Consolidated Statement of Activities
For the year ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue				
Support received from the public				
Special event revenue	\$ 101,518,038	\$ 2,857,819	\$ -	\$ 104,375,857
Direct benefit expenses	(12,866,218)	-	-	(12,866,218)
Net special event revenue	88,651,820	2,857,819	-	91,509,639
General contributions	26,490,786	15,930,522	159,091	42,580,399
Total support received from the public	115,142,606	18,788,341	159,091	134,090,038
Investment income	1,272,638	99,743	-	1,372,381
Royalty revenue	156,593,238	-	-	156,593,238
Other	5,624,365	-	-	5,624,365
Use of amounts restricted by donors for specified purpose or time	20,519,982	(20,492,660)	(27,322)	-
Total revenue	299,152,829	(1,604,576)	131,769	297,680,022
Expenses				
Program services				
Medical programs	114,438,974	-	-	114,438,974
Public and professional information and education	17,241,391	-	-	17,241,391
Community services	7,801,153	-	-	7,801,153
Total program services	139,481,518	-	-	139,481,518
Supporting services				
Management and general	10,588,156	-	-	10,588,156
Fundraising	16,092,899	-	-	16,092,899
Total supporting services	26,681,055	-	-	26,681,055
Total expenses	166,162,573	-	-	166,162,573
Increase (decrease) in net assets from operations	132,990,256	(1,604,576)	131,769	131,517,449
Discontinued operations (Note 8)				
Gain from discontinued pharmacy operations (including gain on disposal of \$27,022,449)	29,203,832	-	-	29,203,832
Other changes in net assets				
Net nonoperating investment income	14,172,790	-	286,897	14,459,687
Increase (decrease) in net assets	176,366,878	(1,604,576)	418,666	175,180,968
Net assets, beginning of year	154,243,452	17,895,922	3,309,541	175,448,915
Net assets, end of year	\$ 330,610,330	\$ 16,291,346	\$ 3,728,207	\$ 350,629,883

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

Cystic Fibrosis Foundation
Consolidated Statement of Cash Flows
For the years ended December 31, 2013 and December 31, 2012

	2013	2012
Cash flows from operating activities		
Increase in net assets	\$ 247,135,963	\$ 175,180,968
Less: increase in net assets, discontinued operations	-	(29,203,832)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized and unrealized gains on investments	(22,827,594)	(11,293,083)
Receipt of contributed securities	(2,125,222)	(1,485,987)
Decrease in discount on pledges	(208,765)	(403,595)
Depreciation	1,063,970	870,015
Provision for losses on accounts receivable	267,481	1,031,211
Reinvested interest and dividends	(9,550,258)	(4,760,387)
Decrease (increase) in receivables	6,574,794	(493,051)
(Increase) decrease in prepaid and other assets	(163,704)	625,552
(Decrease) increase in accounts payable and accrued expenses	(2,511,920)	16,964,095
Increase in awards payable	14,118,323	9,280,354
Net cash provided by operating activities - continuing operations	<u>231,773,068</u>	<u>156,312,260</u>
Net cash provided by operating activities - discontinued operations	-	1,903,229
Net cash provided by operating activities	<u>231,773,068</u>	<u>158,215,489</u>
Cash flows from investing activities		
Proceeds from sale of discontinued operations	-	29,144,171
Purchases of fixed assets	(2,226,556)	(1,783,129)
Maturities/sales of investments	315,514,951	83,391,315
Purchases of investments	(576,892,356)	(220,947,512)
Proceeds from sale of portion of member interest in specialty pharmacy	307,000	-
Net cash used in investing activities - continuing operations	<u>(263,296,961)</u>	<u>(110,195,155)</u>
Net cash used in investing activities - discontinued operations	-	(92,254)
Net cash used in investing activities	<u>(263,296,961)</u>	<u>(110,287,409)</u>
Net (decrease) increase in cash and cash equivalents	(31,523,893)	47,928,080
Cash and cash equivalents, beginning of year	<u>89,335,582</u>	<u>41,407,502</u>
Cash and cash equivalents, end of year	<u>\$ 57,811,689</u>	<u>\$ 89,335,582</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, 2013

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

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, 2012

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	\$ 57,051,302	\$ -	\$ -	\$ -	\$ -	\$ 57,051,302
Research grants	8,712,550	-	-	-	-	8,712,550
Clinical research grants	5,969,233	-	-	-	-	5,969,233
Center and adult care grants	13,074,126	-	-	-	-	13,074,126
Clinical and research fellowship grants	2,068,519	-	-	-	-	2,068,519
Quality improvement training program	922,531	-	-	-	-	922,531
Patient assistance grants	1,647,530	-	-	-	-	1,647,530
Salaries	11,557,888	8,552,969	4,612,153	5,935,455	6,167,764	36,826,229
Employee benefits and payroll taxes	2,332,308	2,069,125	1,120,526	1,441,287	1,511,517	8,474,763
Publications and printing	573,635	1,501,657	207,271	152,738	2,887,229	5,322,530
Occupancy and insurance	1,647,692	1,000,394	528,730	695,127	744,497	4,616,440
Postage and shipping	231,246	1,205,843	162,461	126,650	2,738,483	4,464,683
Travel and conferences	3,044,741	423,459	244,168	202,534	313,212	4,228,114
Data processing	2,011,624	1,038,319	411,454	579,124	878,713	4,919,234
Telephone	87,112	102,585	65,173	54,039	84,781	393,690
Supplies	815,491	233,056	141,782	135,836	187,703	1,513,868
Professional fees and medical honoraria	1,897,434	638,114	20,907	251,042	165,934	2,973,431
Depreciation	405,784	158,189	80,119	104,895	121,028	870,015
Provision for doubtful receivables	-	-	-	733,964	-	733,964
Other	388,228	317,681	206,409	175,465	292,038	1,379,821
Total functional expenses	<u>\$ 114,438,974</u>	<u>\$ 17,241,391</u>	<u>\$ 7,801,153</u>	<u>\$ 10,588,156</u>	<u>\$ 16,092,899</u>	<u>166,162,573</u>
Costs of direct benefits to donors						<u>12,866,218</u>
Total expenses and costs of direct benefits to donors						<u>\$ 179,028,791</u>

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

Cystic Fibrosis Foundation

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

1. Organization

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

The Foundation, CFFT and CFPAF are not-for-profit voluntary health organizations exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and from state taxes and have been classified as organizations that are not private foundations under Section 509(a) of the Code. The Foundation does not have any unrelated business income tax liability as of December 31, 2013 and 2012. 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 financial statements are presented on an 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

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Measure of operations

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

Revenue recognition

Support received directly or indirectly from the public is recorded as revenue when received or when the donor has made an unconditional promise to give. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash, including gifts-in-kind, are recorded at their estimated fair value at the date of the gift.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. All donor-restricted support, including related investment income and realized and unrealized gains and losses, is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

CFF and CFFT retain legal and beneficial rights to intellectual property developed under certain scientific grants and drug discovery agreements. Royalties received under these agreements are recorded as revenue when they become due. In addition, at times CFFT may sell its rights under certain agreements in exchange for a lump sum. Amounts received under these agreements are recorded as royalty revenue when rights are forfeited and proceeds are receivable. In May 2012 and in May 2013, CFFT entered into agreements to sell a portion of its future royalty revenue under a drug discovery agreement. Net royalty revenue in 2013 includes \$247,900,946 relating to the May 2013 transaction, which consists of gross proceeds of \$250,000,000 net of \$2,099,054 of transaction costs. Net royalty revenue in 2012 includes \$146,120,334 relating to the May 2012 transaction, which consists of gross proceeds of \$150,000,000 net of \$3,879,666 of transaction costs.

Grants, contracts and awards

The Foundation and CFFT generally award medical/scientific grants and contracts for periods of three years or less. Grants are awarded contingent upon the availability of funds at the beginning of each award period. Awards are expensed at the time that the Foundation or CFFT unconditionally commits to fund the grant or incurs the contract expense.

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

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Notes to Consolidated Financial Statements
December 31, 2013 and 2012

Investments

Investment assets are stated at fair value in the consolidated financial statements. Investment income is reported when earned. The change in unrealized appreciation or depreciation of investments is reflected in the consolidated statement of activities. Realized gains and losses on sales of investments are computed on an average cost basis and are recorded on the trade date of the transaction.

Fixed assets

Fixed assets consisting of furniture, fixtures, equipment, software and leasehold improvements are recorded at cost and are depreciated over their estimated useful lives, ranging from three to ten years, on a straight-line basis. The cost and related accumulated depreciation of furniture, fixtures, equipment, software and leasehold improvements are removed from the accounts upon sale or disposition and any resulting gain or loss is reflected in the consolidated statement of activities.

Functional expenses

The costs of various Foundation activities have been accounted for on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the various activities.

Net assets

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

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

Unrestricted - Board-Designated Net Assets – The Foundation's Board of Trustees has designated \$239,000,000 and \$153,000,000 of the Foundation's net assets as of December 31, 2013 and 2012, respectively, to be used for drug discovery and development programs.

Temporarily Restricted Net Assets – Temporarily restricted net assets generally result from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation, CFFT and CFPAF pursuant to those stipulations. Temporarily restricted net assets were restricted as summarized below as of December 31, 2013 and 2012.

	2013	2012
Time restricted	\$ 8,805,465	\$ 10,958,192
CFPAF program	4,079,245	3,562,063
Medical research and other purposes	<u>5,966,174</u>	<u>1,771,091</u>
	<u>\$ 18,850,884</u>	<u>\$ 16,291,346</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

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Foundation has a policy of appropriating for operations each year the income from the perpetual trusts.

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

Discontinued operations

An organizational unit is classified as a discontinued operation when (i) the operations and cash flows of the unit can be clearly distinguished and have been or will be eliminated from the Foundation's ongoing operations; (ii) the unit has either been disposed of or is classified as held for sale, and (iii) the Foundation will not have any significant continuing involvement in the operations of the unit after the disposal transaction. The results of operations as well as the gain or loss on the disposal are aggregated and separately presented in the Foundation's consolidated statements of activities.

Reclassifications

Certain amounts presented in the 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation.

3. Fair value measurements

Authoritative guidance on fair value measurements requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value: Level 1 - Quoted prices in active markets for identical assets or liabilities. Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets. Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. For Level 2 and 3 investments, the Foundation utilizes the net asset value (NAV) provided by the investment manager.

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

- (a) Investment balances reported for all amounts classified as Level 1 are derived from quoted market prices on public exchanges.
- (b) Values reported for government and corporate bonds classified as Level 2 represent the portfolio managers' good faith estimate as to what a buyer in the marketplace would pay for these securities in a current sale. The Foundation believes these estimates are reflective of fair value. In deriving these estimates, the portfolio managers utilize pricing models and applications that incorporate available market information and, because many fixed income securities do not trade on a daily basis, apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing.
- (c) Mutual funds classified as Level 2 consist of investment in units of commingled funds to which proportionate net assets can be attributed. This investment is redeemable on the first business day of each month, with notification to the manager required 10 business days prior to the redemption. The Foundation maintains the ability to redeem these investments at the net asset values (NAV) reported by the investee managers and therefore uses these amounts to derive the reported investment values.

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- (d) Investments classified as Level 2 and 3 consist of shares in two alternative investment funds and a hedge fund and are subject to holdbacks.

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

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

The Foundation has not incurred any losses related to holdbacks. These investments are redeemable within one year or less, however upon liquidation approximately 10% of the alternative investment funds balance will be held back until the funds' financial statement audits are complete. The Foundation derives the reported values for these investments from the NAV provided by the funds' managers. The Foundation performs ongoing monitoring procedures related to Level 3 investments, including procedures to assess the reliability and the accuracy of the NAV provided by the investment managers. This monitoring also includes evaluating the nature of the underlying investments, liquidity and the control environment related to the calculation of NAV. Based on the results of this monitoring, no adjustments to NAV are deemed necessary.

- (e) The fair value of the Foundation's interest in perpetual trusts is estimated using the fair value of the assets in the trusts, as that amount approximates the fair value of the Foundation's beneficial interests in the trusts. There is no active market for these trusts and they are therefore classified as Level 3.

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

Description	2013	Quoted Prices in Active Markets for Identical Assets (Level 1) (a)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 10,013,465	\$ -	\$ 10,013,465	\$ -
Investments				
Corporate bond mutual funds	6,029,904	6,029,904	-	-
Short duration bond mutual funds	267,063,820	267,063,820	-	-
U.S. equity mutual funds	36,099,950	36,099,950	-	-
Int'l. developed equity mutual funds	36,443,957	36,443,957	-	-
Emerging markets equity mutual funds	16,590,651	16,590,651	-	-
Global equity mutual funds	60,501,159	60,501,159	-	-
Global multi-asset strategy mutual funds	21,716,584	21,716,584	-	-
Inflation hedge mutual funds	54,909,500	36,687,957	18,221,543 (c)	-
Alternative investments:				
Long/short equity fund of funds	40,144,451	-	-	40,144,451 (d)
Absolute value fund of funds	64,474,636	-	64,474,636 (d)	-
Perpetual trusts	3,967,814	-	-	3,967,814 (e)
Other	3,188,375	3,188,375	-	-
Total Investments	611,130,801	484,322,357	82,696,179	44,112,265
	<u>\$ 621,144,266</u>	<u>\$ 484,322,357</u>	<u>\$ 92,709,644</u>	<u>\$ 44,112,265</u>
Description	2012	Quoted Prices in Active Markets for Identical Assets (Level 1) (a)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 30,584,062	\$ -	\$ 30,584,062	\$ -
Investments				
U.S. government/agency bonds	12,325,852	-	12,325,852 (b)	-
Corporate bonds	6,657,917	-	6,657,917 (b)	-
Corporate bond mutual funds	14,334,387	14,334,387	-	-
Short duration bond mutual funds	149,083,395	123,899,720	25,183,675 (c)	-
U.S. equity mutual funds	18,737,882	18,737,882	-	-
Int'l. developed equity mutual funds	20,880,909	20,880,909	-	-
Emerging markets equity mutual funds	9,753,200	9,753,200	-	-
Global equity mutual funds	16,553,698	16,553,698	-	-
Inflation hedge mutual funds	16,440,497	5,352,948	11,087,549 (c)	-
Alternative investments:				
Long/short equity fund of funds	17,279,639	-	-	17,279,639 (d)
Absolute value fund of funds	26,697,163	-	-	26,697,163 (d)
Other - hedge fund	61,620	-	-	61,620 (d)
Perpetual trusts	3,728,207	-	-	3,728,207 (e)
Other	2,715,956	2,715,956	-	-
Total Investments	315,250,322	212,228,700	55,254,993	47,766,629
	<u>\$ 345,834,384</u>	<u>\$ 212,228,700</u>	<u>\$ 85,839,055</u>	<u>\$ 47,766,629</u>

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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 2013 and 2012.

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

	Long/short equity fund of funds	Absolute value fund of funds	Perpetual Trusts	Other - hedge fund	2012
Level 3 investments, beginning of year	\$ 14,087,357	\$ 15,381,117	\$ 3,309,541	\$ 97,873	\$32,875,888
Total gains or losses					
Net realized gains	-	37,630	-	16,474	54,104
Net unrealized gains	692,282	1,778,415	286,896	9,185	2,766,778
Purchases	2,500,000	16,116,454	159,091	-	18,775,545
Sales/distributions	-	(6,616,453)	(27,321)	(61,912)	(6,705,686)
Level 3 investments, end of year	<u>\$ 17,279,639</u>	<u>\$ 26,697,163</u>	<u>\$ 3,728,207</u>	<u>\$ 61,620</u>	<u>\$47,766,629</u>

The amount of net unrealized gains relating to Level 3 assets still held at December 31, 2013 and 2012 is approximately \$6,281,000 and \$3,332,000, respectively. There were no transfers in or out of Level 3 during 2012. The absolute value fund of funds was transferred from Level 3 to Level 2 in 2013 due to the favorable liquidity terms of this investment, for which quarterly redemptions are permitted. Unrealized and realized gains and losses of Level 3 investments are classified as nonoperating investment income on the consolidated statement of activities.

The following table summarizes the nature of the Foundation's alternative investments included in Level 2 and 3. These investments are valued based on net asset value as a practical expedient for fair value as of December 31, 2013 and 2012.

Description	2013	2012	Redemption Period
Absolute value fund of funds	\$ 64,474,636	\$ 26,697,163	Quarterly (65 days notice)
Long/short equity fund of funds	40,144,451	17,279,639	Annually (60 days notice)
Other - hedge fund	-	61,620	Locked up by Manager (redeemed in 2013)
	<u>\$ 104,619,087</u>	<u>\$ 44,038,422</u>	

There are no outstanding commitments to purchase Level 2 or Level 3 assets as of December 31, 2013 and 2012.

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

	2013	2012
Interest and dividends	\$ 9,550,258	\$ 4,760,387
Net unrealized gains	24,493,201	10,435,972
Net realized (losses) gains	(1,754,304)	810,310
Investment expenses	(273,673)	(174,601)
	<u>\$ 32,015,482</u>	<u>\$ 15,832,068</u>

Operating cash equivalents and investments amounted to \$34,836,363 and \$48,873,035 as of December 31, 2013 and 2012, respectively. Nonoperating cash equivalents and investments amounted to \$586,307,903 and \$296,961,349 as of December 31, 2013 and 2012, respectively. The investment income during the years ended December 31, 2013 and 2012 is reflected on the consolidated statement of activities as follows:

	2013	2012
Investment income - operating	\$ 79,578	\$ 1,372,381
Net nonoperating investment income	31,935,904	14,459,687
	<u>\$ 32,015,482</u>	<u>\$ 15,832,068</u>

4. Receivables

Receivables consist of the following at December 31, 2013 and 2012:

	2013	2012
Special events and other contributions	\$ 2,645,184	\$ 2,125,413
Pledges receivable	14,159,490	21,398,394
Dividends	-	108,918
Royalties receivable (see note 2)	712,310	741,065
Other	1,510,484	1,763,437
	<u>19,027,468</u>	<u>26,137,227</u>
Discount on pledges receivable	(1,465,335)	(1,674,100)
Allowance for doubtful accounts	(1,267,742)	(1,535,223)
	<u>\$ 16,294,391</u>	<u>\$ 22,927,904</u>

New pledges received since 2008 were recorded at present value using a discount rate averaging 1% - 2%, which is reflective of market considerations as required by the FASB guidance. Pledges received prior to 2008 were recorded at present value, discounted using a rate averaging 3%-5%, representing the short-term risk-free interest rate in effect on the date the respective commitments were made.

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The pledges receivable as of December 31, 2013 and 2012 are payable in the following periods:

	2013	2012
Within one year	\$ 6,356,594	\$ 11,911,709
One to five years	5,936,886	7,508,173
After five years	1,866,010	1,978,512
	<u>\$ 14,159,490</u>	<u>\$ 21,398,394</u>

As of December 31, 2013 and 2012, pledges receivable amounting to approximately \$222,000 and \$5,904,000, respectively, were due from members of the Board of Trustees or related organizations.

5. Fixed assets

Fixed assets at December 31, 2013 and 2012 consisted of the following:

	2013	2012
Equipment and software	\$ 7,718,821	\$ 6,152,971
Furniture and fixtures	410,573	183,660
Leasehold improvements	1,348,081	1,158,238
	<u>9,477,475</u>	<u>7,494,869</u>
Accumulated depreciation	(5,110,289)	(4,290,272)
	<u>\$ 4,367,186</u>	<u>\$ 3,204,597</u>

6. Awards payable and commitments

Changes in awards payable during the years ended December 31, 2013 and 2012 are summarized as follows:

	2013	2012
Awards payable, beginning of year	\$ 63,954,487	\$ 46,990,392
Awards expensed	104,373,244	87,649,086
Awards disbursed	(90,254,921)	(70,684,991)
Awards payable, end of year	<u>\$ 78,072,810</u>	<u>\$ 63,954,487</u>

As of December 31, 2013, the Foundation and CFFT have additional medical scientific grant commitments of approximately \$25,628,000, 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.

Certain CFFT agreements provide for future contracted drug discovery and development research payments amounting to approximately \$74,538,000. These costs will be expensed when the services are provided.

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Volunteers from the medical and scientific community were included among affiliate/subsidiary Board members in 2013 and 2012. 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 \$59,850 and \$2,819,000 for the years ended December 31, 2013 and 2012, respectively.

7. Accounts payable

Accounts payable at December 31, 2013 and 2012 consist of the following:

	2013	2012
Other accounts payable and accrued expenses	\$ 17,631,943	\$ 16,256,651
Amount due to Pharmacy purchaser	-	5,028,016
Refundable advances for special events	4,992,667	3,851,863
	<u>\$ 22,624,610</u>	<u>\$ 25,136,530</u>

8. Discontinued operations

Established in 1988, Cystic Fibrosis Services, Inc. (CFS) is a full-service specialty pharmacy specializing in cystic fibrosis medications, patient advocacy and reimbursement support. CFS is a fully owned subsidiary of Cystic Fibrosis Foundation Pharmacy, LLC (CFFP). On December 6, 2012, the Foundation completed its sale of pharmacy operations and recorded a gain on sale totalling \$27,022,449. Under the terms of the sale agreement, the purchaser, an unrelated third party, acquired 80% of the outstanding membership interests of CFFP. The Foundation retained a 20% interest in CFFP totalling \$7,286,043 which is reported on the December 31, 2012 consolidated statement of financial position as membership interest in specialty pharmacy. The fair value of the 20% retained interest was determined by imputing a 100% organization value for CFFP (\$36,430,214) based on the actual net consideration received in exchange for the 80% membership interest (\$29,144,171). The gain on sale associated with the 20% retained investment was \$5,642,139. The Foundation does not control or exercise significant influence over CFFP operations however, due to its membership interest, CFFP and CFS are considered related parties after deconsolidation. Under the terms of the sale agreement, the Foundation does not have a right to sell or transfer its retained interest; however it has a right to sell the interest to the purchaser. The purchaser also has a right to purchase the remaining interest. The sale agreement specifies that the Foundation's sale price of its remaining 20% interest will be calculated using an agreed-upon enterprise value formula, which is based on future CFS earnings. The original sale agreement specified that the rights to sell or purchase may be exercised by the Foundation and the purchaser, respectively, between the third and fifth anniversary of the sale date, however these dates were amended by the parties in November 2013. The terms were amended to provide the purchaser the right to exercise its purchase option anytime between December 6, 2016 and December 6, 2018.

Under the net working capital provision of the agreement, the Foundation paid \$5,028,016 to the purchaser subsequent to the closing date. This amount is included in accounts payable as of December 31, 2012 and was paid to the purchaser in February 2013.

In connection with the transaction, the Foundation and CFFP entered into an agreement that provides, among other items, continued use of the "cf" design and trademark, and certain transition administrative and operating support relating to information technology and telecommunication. This

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agreement will terminate at the earlier of December 6, 2016 or upon the Foundation's sale of its member interests to the purchaser. The agreement provides for approximately \$76,121 of fees to be paid to the Foundation annually for transition services. These transition services and related payments end after two years. The agreement also provides for consulting services for a period of six months after the closing date. The monthly fees for these services totalled \$16,667. These services were terminated by the purchaser effective June 30, 2013.

The results of operations of CFFP (and its fully-owned subsidiary, CFS) through December 6, 2012 are included in the Foundation's consolidated statement of activities as income from discontinued operations. The Foundation also reclassified and separately presented amounts relating to discontinued operations in its consolidated statement of financial position and statement of cash flows.

The summarized income from discontinued operations for the year ended December 31, 2012 is presented below:

Revenues	\$ 220,396,103
Costs and expenses	<u>(218,214,720)</u>
Net income from discontinued operations	\$ 2,181,383
Gain on sale of discontinued operations	<u>27,022,449</u>
Income from discontinued operations	<u>\$ 29,203,832</u>

There was no income from discontinued operations in 2013.

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

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9. Operating lease commitments

The Foundation is obligated under various operating leases for office space as of December 31, 2013. The approximate future minimum commitments for each calendar year, subject to escalation, are as follows:

2014	\$ 3,478,988
2015	2,904,165
2016	2,441,544
2017	2,072,566
2018	1,876,528
Thereafter	<u>6,988,631</u>
	<u>\$ 19,762,422</u>

Rental costs for the years ended December 31, 2013 and 2012 were approximately \$4,045,000 and \$4,062,000, respectively.

10. Retirement plan

Under the provisions of the Foundation's 401(k) retirement plan, after one year of service employees who defer wages are eligible for an employer match, which vests immediately. In addition, eligible employees receive a non-matching employer contribution that, for service in 2007 and beyond, vests after employees complete three years of service, as defined in the plan. The Foundation and CFFT made contributions in accordance with the provisions of the plan amounting to approximately \$2,198,000 and \$1,970,000, respectively, for the years ended December 31, 2013 and 2012.

11. Allocation of joint costs

The Foundation conducted direct mail activities in the years ended December 31, 2013 and 2012 that included requests for contributions as well as program components. The costs of conducting those activities included a total of approximately \$7,782,000 and \$8,356,000 of joint costs during the years ended December 31, 2013 and 2012, respectively. These costs were not specifically attributable to particular components of the activities. Of those costs, \$5,460,000 and \$6,059,000 was allocated to fundraising expense and \$2,322,000 and \$2,297,000 was allocated to public and professional information and education program services for the years ended December 31, 2013 and 2012, respectively.

12. Subsequent events

The Foundation has performed an evaluation of subsequent events through May 1, 2014, which is the date the financial statements were available to be issued, noting no events which affect the financial statements as of December 31, 2013.