Cystic Fibrosis Foundation

Consolidated Financial Statements
For the years ended December 31, 2012 and December 31, 2011

Independent Auditor's Report

To Board of Trustees
Cystic Fibrosis Foundation:

We have audited the accompanying consolidated financial statements of the Cystic Fibrosis Foundation, its subsidiaries and affiliate (the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2012 and December 31, 2011, and the related consolidated statement of activities, cash flows and functional costs of services for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 our 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, we consider internal control relevant to the Foundation'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 Foundation'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, its subsidiaries and affiliate at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

May 15, 2013

PricewaterhouseCoopers LLP, 1800 Tysons Boulevard, McLean, VA 22102-4261
T: (703) 918-3000, F: (703) 918 3100, www.pwc.com/us

Cystic Fibrosis Foundation
Consolidated Statement of Financial Position
As of December 31, 2012 and December 31, 2011

	2012	2011
Assets		
Cash and cash equivalents	$ 89,335,582	$ 41,407,502
Marketable investments	315,250,322	160,154,669
Receivables, net	22,927,904	23,062,469
Prepaid expenses and other assets	1,716,452	2,342,004
Membership interest in specialty pharmacy	7,286,043	-
Fixed assets, net	3,204,597	2,291,483
Pharmacy assets (disposed in 2012)	-	24,972,913
Total assets	$ 439,720,900	$ 254,231,040
Liabilities and Net Assets		
Awards payable	$ 63,954,487	$ 46,990,392
Accounts payable and accrued expenses	25,136,530	15,856,176
Pharmacy liabilities (disposed in 2012)	-	15,935,557
Total liabilities	89,091,017	78,782,125
Unrestricted - undesignated net assets	177,610,330	154,243,452
Unrestricted - Board-designated net assets	153,000,000	-
Temporarily restricted net assets	16,291,346	17,895,922
Permanently restricted net assets	3,728,207	3,309,541
Total net assets	350,629,883	175,448,915
Total liabilities and net assets	$ 439,720,900	$ 254,231,040

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

Cystic Fibrosis Foundation
Consolidated Statement of Activities
For the years ended December 31, 2012 and December 31, 2011

	2012	2011
Revenue		
Support received from the public		
Special event revenue (including $2,857,819 and $1,017,930 in temporarily restricted revenue in 2012 and 2011, respectively)	$104,375,857	$ 99,214,627
Direct benefit expenses	(12,866,218)	(11,850,938)
Net special event revenue	91,509,639	87,363,689
General contributions (including $15,930,522 and $13,609,378 in temporarily restricted contributions and $159,091 and $227,272 in permanently restricted contributions in 2012 and 2011, respectively)	42,580,399	38,930,999
(Assets released from restriction amounted to $20,519,982 and $15,920,956 for 2012 and 2011, respectively. In 2012, this amount includes principal disbursements from perpetual trusts totaling $27,322. This amount was formerly classified as permanently restricted net assets.)	-	-
Total support received from the public	134,090,038	126,294,688
Investment income (including $99,743 and $143,357 in temporarily restricted revenue in 2012 and 2011, respectively)	1,372,381	182,553
Royalty revenue	156,593,238	121,552
Other	5,624,365	3,797,128
Total revenue	297,680,022	130,395,921
Costs of services		
Program services		
Medical programs	114,438,974	92,693,104
Public and professional information and education	17,241,391	16,388,031
Community services	7,801,153	7,277,568
Total program services	139,481,518	116,358,703
Supporting services		
Management and general	10,588,156	9,306,193
Fundraising	16,092,899	16,137,612
Total supporting services	26,681,055	25,443,805
Total costs of services	166,162,573	141,802,508
Increase (decrease) in net assets from continuing operations	131,517,449	(11,406,587)
Discontinued Operations (Note 7)		
Gain from discontinued pharmacy operations (including gain on disposal of $27,022,449)	29,203,832	2,562,845
Other changes in net assets		
Net nonoperating investment income (losses) (including increase of $286,897 and decrease of $263,425 in permanently restricted net assets in 2012 and 2011, respectively)	14,459,687	(4,001,052)
Increase (decrease) in net assets (including decrease in temporarily restricted net assets of $1,604,576 and $1,150,291 and increase of $418,666 and decrease of $36,153 in permanently restricted net assets in 2012 and 2011, respectively)	175,180,968	(12,844,794)
Net assets, beginning of year (includes temporarily restricted net assets of $17,895,922 and $19,046,213 and permanently restricted net assets of $3,309,541 and $3,345,694 at January 1, 2012 and 2011, respectively)	175,448,915	188,293,709
Net assets, end of year (includes temporarily restricted net assets of $16,291,346 and $17,895,922 and permanently restricted net assets of $3,728,207 and $3,309,541 at December 31, 2012 and 2011, respectively)	$350,629,883	$175,448,915

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, 2012 and December 31, 2011

	2012	2011
Cash flows from operating activities		
Increase (decrease) in net assets	$ 175,180,968	$ (12,844,794)
Less: increase in net assets, discontinued operations	(2,181,383)	(2,562,845)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) and losses on investments	(11,293,083)	7,107,001
Gain on sale of discontinued operations	(27,022,449)	-
Receipt of contributed securities	(1,485,987)	(1,865,734)
Decrease in discount on pledges	(403,595)	(410,869)
Depreciation	870,015	653,462
Provision for losses on accounts receivable	1,031,211	490,091
Reinvested interest and dividends	(4,760,387)	(3,557,900)
(Increase) decrease in receivables	(493,051)	66,453,801
Decrease (increase) in prepaid and other assets	625,552	(698,499)
Increase in awards payable	16,964,095	4,823,398
Increase (decrease) in accounts payable and accrued expenses	9,280,354	(13,495,420)
Net cash provided by operating activities - continuing operations	156,312,260	44,091,692
Net cash provided by operating activities - discontinued operations	1,903,229	2,295,650
Net cash provided by operating activities	158,215,489	46,387,342
Cash flows from investing activities		
Proceeds from sale of discontinued operations	29,144,171	-
Purchases of fixed assets	(1,783,129)	(1,462,807)
Maturities/sales of investments	83,391,315	108,262,549
Purchases of investments	(220,947,512)	(133,351,249)
Net cash used in investing activities - continuing operations	(110,195,155)	(26,551,507)
Net cash used in investing activities - discontinued operations	(92,254)	(106,249)
Net cash used in investing activities	(110,287,409)	(26,657,756)
Net increase in cash and cash equivalents	47,928,080	19,729,586
Cash and cash equivalents, beginning of year	41,407,502	21,677,916
Cash and cash equivalents, end of year	$ 89,335,582	$ 41,407,502
Other supplemental information:		
Contributed securities	$ 1,485,987	$ 1,865,734
Reinvested interest and dividends	$ 4,760,387	$ 3,557,900

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

Cystic Fibrosis Foundation
Consolidated Statement of Functional Costs of Services
For the year ended December 31, 2012

	Program Services			Supporting Services		
Nature of Costs of Services	Medical Programs	Public and Professional Information and Education	Community Services	Management and General	Fundraising	Total
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	$ 114,438,974	$ 17,241,391	$ 7,801,153	$ 10,588,156	$ 16,092,899	$ 166,162,573

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

Cystic Fibrosis Foundation
Consolidated Statement of Functional Costs of Services
For the year ended December 31, 2011

Nature of Costs of Services	Program Services: Medical Programs	Program Services: Public and Professional Information and Education	Program Services: Community Services	Supporting Services: Management and General	Supporting Services: Fundraising	Total
Therapeutics Development Program awards	$ 41,073,774	$ -	$ -	$ -	$ -	$ 41,073,774
Research grants	7,838,856	-	-	-	-	7,838,856
Clinical research grants	4,023,843	-	-	-	-	4,023,843
Center and adult care grants	12,902,853	-	-	-	-	12,902,853
Clinical and research fellowship grants	1,770,499	-	-	-	-	1,770,499
Quality improvement training program	1,292,256	-	-	-	-	1,292,256
Patient assistance grants	1,205,234	-	-	-	-	1,205,234
Salaries	10,520,001	7,945,698	4,345,224	5,221,078	5,776,497	33,808,498
Employee benefits and payroll taxes	2,316,563	2,019,534	1,118,534	1,322,107	1,490,710	8,267,448
Publications and printing	656,229	1,683,741	192,923	136,549	3,326,527	5,995,969
Occupancy and insurance	1,291,243	913,505	495,677	596,932	678,999	3,976,356
Postage and shipping	212,551	1,444,667	148,463	113,847	3,106,953	5,026,481
Travel and conferences	2,881,695	389,877	218,889	169,710	280,617	3,940,788
Data processing	1,767,175	836,600	324,754	463,202	747,904	4,139,635
Telephone	94,680	113,509	71,529	56,615	92,854	429,187
Supplies	587,698	248,627	153,747	133,404	201,656	1,325,132
Professional fees and medical honoraria	1,631,596	509,996	33,748	241,150	179,490	2,595,980
Depreciation	292,094	125,570	63,377	77,347	95,074	653,462
Provision for doubtful receivables	-	-	-	668,816	-	668,816
Other	334,264	156,707	110,703	105,436	160,331	867,441
Total	$ 92,693,104	$ 16,388,031	$ 7,277,568	$ 9,306,193	$ 16,137,612	$ 141,802,508

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

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 primary mission of the Foundation and CFFT is to assure the development of the means to cure and control cystic fibrosis and to improve the quality of life for those with the disease. CFPAF is a co-pay assistance program designed to assist with the high cost of nebulized medications and pancreatic enzymes to treat cystic fibrosis. CFPAF helps qualified patients with insurance deductibles, co-insurance and co-payment costs. In addition, CFPAF provides referrals to other patient assistance programs, helps callers understand whether they might qualify for government-sponsored programs and helps them apply for those programs.

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, 2012. Contributions to the Foundation qualify for the charitable contributions deduction to the extent provided by Section 170 of the Code.

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.

Recently adopted accounting pronouncements

In 2011, the Foundation was required to disclose purchase and sale activity of its Level 3 assets on a gross, rather than net, basis. This did not have a material effect on the financial statements.

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-04, "Fair Value Measurements and Disclosures (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs" ("ASU 2011-04"). ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles related to measuring fair value, and requires additional disclosures about fair value measurements. Specifically, the guidance specifies that the concepts of highest and best use and valuation premise in a fair value measurement are only relevant when measuring the fair value of nonfinancial assets whereas they are not relevant when measuring the fair value of financial assets and liabilities. Required disclosures are expanded under the new guidance, especially for fair value measurements that are categorized within Level 3 of the fair value hierarchy, for which quantitative information about the unobservable inputs used and a narrative description of the valuation processes in place will be required. ASU 2011-04 was adopted by the Foundation effective January 1, 2012 with appropriate disclosures made in the consolidated financial statements.

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

Measure of operations
The Foundation includes in its measure of operations all support received from the public, income on investments designated for operations including interest and dividends and realized and unrealized gains and losses, royalty revenue, other revenue and all costs of program and supporting services. The measure of operations excludes gains or losses on discontinued operations and nonoperating investments.

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, CFFT entered into an agreement to sell a portion of its future royalty revenue under a drug discovery agreement. Net royalty revenue includes $146,120,334 relating to this 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.

Concentration of credit risk

Financial instruments that potentially subject the Foundation to significant concentrations of credit risk principally consist of cash and cash equivalents and investments. The Foundation places its cash and cash equivalents and investments in various financial institutions that are Federally insured under the Federal Depository Insurance Corporation Act (FDICA) and the Securities Investor Protection Corporation (SIPC). The Foundation's aggregate cash balances were in excess of the FDIC limits by $0 and $18,873,000 as of December 31, 2012 and 2011, respectively and therefore bear some risk as they are not collateralized. The Foundation's cash equivalents and investments were diversified among 18 and 16 different managers and funds of funds in 2012 and 2011, respectively. Applicable cash equivalent and investment aggregate balances were in excess of the SIPC insurance limits by approximately $334,103,000 and $172,250,000 as of December 31, 2012 and 2011, respectively. The Foundation has not experienced any losses on its cash and cash equivalents or investments to date related to the Federal insurance limits.

Investments

Investment assets are stated at fair market 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 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.

Guarantees and indemnifications

The Foundation and its affiliates may from time to time enter into agreements with service providers in which it agrees to indemnify the service providers against certain losses and liabilities arising from the service providers' performance under the agreements. Generally, such indemnification obligations do not apply in situations in which a service provider is grossly negligent, engages in willful misconduct or acts in bad faith. The indemnifications serve to place the Foundation in a liability position no different than if it had performed the services for itself. The Foundation was not aware of any liability under such service agreements for the years ended December 31, 2012 and 2011.

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, less 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 $153,000,000 of the Foundation's net assets as of December 31, 2012 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 and CFFT pursuant to those stipulations. Temporarily restricted net assets consist of approximately $5,333,000 and $5,640,000 restricted for specific programs, including approximately $3,562,000 and $3,430,000 for CFPAF programs and approximately $10,958,000 and $12,256,000 restricted only as to time as of December 31, 2012 and 2011, respectively.

Permanently Restricted Net Assets – The Foundation's permanently restricted assets consist of the beneficial interest in seven donor-restricted funds that must be maintained in perpetuity. Net assets associated with perpetual trusts are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation has a policy of appropriating for operations each year the income from the perpetual trusts.

Unrealized and realized gains and losses and dividends and interest from investing in marketable securities 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.

2011 Financial information
Certain figures presented in the 2011 consolidated financial statements have been reclassified to conform to the presentation in these consolidated financial statements.

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 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. The Foundation maintains the ability to redeem these investments at the net asset values (NAV) reported by the investee managers and therefore uses these amounts to derive the reported investment values.

(d) Alternative investments classified as Level 3 consist of shares in two alternative investment funds and a hedge fund and are subject to holdbacks. 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 agreements and they are therefore classified as Level 3.

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

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. 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
	$ 345,834,384	$ 212,228,700	$ 85,839,055	$ 47,766,629

Description	2011	Quoted Prices in Active Markets for Identical Assets (Level 1) (a)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 22,644,572	$ 5,242,000	$ 17,402,572	$ -
Investments				
U.S. government/agency bonds	8,931,952	-	8,931,952 (b)	-
Corporate bonds	6,856,629	-	6,856,629 (b)	-
Corporate bond mutual funds	4,447,681	4,447,681	-	-
Short duration bond funds	46,315,635	46,315,635	-	-
U.S. equity mutual funds	15,336,423	15,336,423	-	-
Int. developed equity mutual funds	14,093,732	14,093,732	-	-
Emerging markets equity mutual funds	4,858,585	4,858,585	-	-
Global equity mutual funds	11,288,623	11,288,623	-	-
Inflation hedge mutual funds	13,141,567	3,497,970	9,643,597 (c)	-
Alternative investments:				
Long/short equity fund of funds	14,087,357	-	-	14,087,357 (d)
Absolute value fund of funds	15,381,117	-	-	15,381,117 (d)
Other - hedge fund	97,873	-	-	97,873 (d)
Perpetual trusts	3,309,541	-	-	3,309,541 (e)
Other	2,007,954	2,007,954	-	-
Total Investments	160,154,669	101,846,603	25,432,178	32,875,888
	$ 182,799,241	$ 107,088,603	$ 42,834,750	$ 32,875,888

The table below presents reconciliation for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2012 and 2011.

	2012	2011
Level 3 investments, beginning of year	$ 32,875,888	$ 26,630,169
Total gains or losses		
Net realized gains	54,104	672,073
Net unrealized gains (losses)	2,766,778	(2,339,266)
Purchases	18,775,545	22,185,804
Sales	(6,705,686)	(14,272,892)
Level 3 investments, end of year	$ 47,766,629	$ 32,875,888

The amount of net unrealized gains relating to Level 3 assets still held at December 31, 2012 and 2011 is approximately $3,332,000 and $587,000, respectively. There were no transfers in or out of Level 3 during 2012 and 2011. Unrealized and realized gains and losses of Level 3 investments are classified as non-operating investment income on the Statement of Activities.

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

	2012	2011
Interest and dividends	$ 4,760,387	$ 3,551,485
Net unrealized gains (losses)	10,435,972	(11,046,677)
Net realized gains	810,310	3,828,641
Investment expenses	(174,601)	(151,948)
	$ 15,832,068	$ (3,818,499)

Operating cash equivalents and investments amounted to $48,873,035 and $44,520,694 as of December 31, 2012 and 2011, respectively. Nonoperating cash equivalents and investments amounted to $296,961,349 and $138,278,547 as of December 31, 2012 and 2011, respectively. The investment income (loss) during the years ended December 31, 2012 and 2011 is reflected on the consolidated statement of activities as follows:

	2012	2011
Investment income (operating)	$ 1,372,381	$ 182,553
Net nonoperating investment income (losses)	14,459,687	(4,001,052)
	$ 15,832,068	$ (3,818,499)

3. Receivables

Receivables consist of the following at December 31, 2012 and 2011:

	2012	2011
Special events and other contributions	$ 2,125,413	$ 2,673,696
Pledges receivable	21,398,394	21,606,381
Interest	108,918	115,674
Royalties receivable (see note 2)	741,065	2,549,263
Other	1,763,437	761,586
	26,137,227	27,706,600
Discount on pledges receivable	(1,674,100)	(2,077,696)
Allowance for doubtful accounts	(1,535,223)	(2,566,435)
	$ 22,927,904	$ 23,062,469

New pledges received in 2012 and 2011 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. The pledges receivable as of December 31, 2012 are payable in the following periods: $11,912,000 within one year; $7,508,000 from one to five years; and $1,978,000 after five years. As of December 31, 2012 and 2011, pledges receivable amounting to approximately $5,904,000 and $1,871,000, respectively, were due from members of the Board of Trustees or related organizations.

4. Fixed assets

Fixed assets at December 31, 2012 and 2011 consisted of the following:

	2012	2011
Equipment and software	$ 6,152,971	$ 6,521,740
Furniture and fixtures	183,660	187,359
Leasehold improvements	1,158,238	1,093,133
	7,494,869	7,802,232
Accumulated depreciation	(4,290,272)	(5,510,749)
	$ 3,204,597	$ 2,291,483

5. Awards payable and commitments

Changes in awards payable during the years ended December 31, 2012 and 2011 are summarized as follows:

	2012	2011
Awards payable, beginning of year	$ 46,990,392	$ 42,166,994
Awards expensed	87,649,086	68,656,253
Awards disbursed	(70,684,991)	(63,832,855)
Awards payable, end of year	$ 63,954,487	$ 46,990,392

As of December 31, 2012, the Foundation and CFFT have additional medical scientific grant commitments of approximately $14,014,000, which extend through December 31, 2014. 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 $100,113,000. These costs will be expensed when the services are provided.

Volunteers from the medical and scientific community were included among CFFT/CFFP Board members. These volunteers provide valuable leadership and assistance to the Foundation, but do not participate in decisions regarding awards to institutions with which they are affiliated. Awards to institutions affiliated with these volunteers totalled $2,819,000 and $1,999,000 for the years ended December 31, 2012 and 2011, respectively.

6. Accounts payable

Accounts payable at December 31, 2012 and 2011 consist of the following:

	2012	2011
Other accounts payable and accrued expenses	$ 16,256,651	$ 12,289,002
Amount due to Pharmacy purchaser	5,028,016	-
Refundable advances for special events	3,851,863	3,567,174
	$ 25,136,530	$ 15,856,176

7. Discontinued operations

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 Cystic Fibrosis Foundation Pharmacy, LLC (CFFP). The Foundation retained a 20% interest in CFFP totalling $7,286,043 which is reported on the 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, the Pharmacy will be considered a related party 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 between the third and fifth anniversary of the sale date. The purchaser also has a right to purchase the remaining interest during that time. 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.

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, transition consulting services and certain transition administrative and operating support relating to information technology and telecommunication. This agreement provides for approximately $276,000 of fees to be paid to the Foundation annually for the first year and will terminate at the earlier of December 6, 2017 or upon the Foundation's sale of its member interests to the purchaser, with the transition services ending after two years.

The results of operations of CFFP (and its fully-owned subsidiary, Cystic Fibrosis Services, Inc. (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. All corresponding 2011 operating results and the accompanying notes have also been reclassified to reflect the operations as discontinued.

The summarized income from discontinued operations for the years ended December 31, 2012 and 2011 is presented below:

	2012	2011
Revenues	$ 220,396,103	$ 174,522,845
Costs and expenses	(218,214,720)	(171,960,000)
Net income from discontinued operations	$ 2,181,383	$ 2,562,845
Gain on sale of discontinued operations	27,022,449	-
Income from discontinued operations	$ 29,203,832	$ 2,562,845

8. Operating lease commitments

The Foundation is obligated under various operating leases for office space as of December 31, 2012. The approximate future minimum commitments for each calendar year, subject to escalation, are as follows:

2013	$ 3,309,871
2014	2,828,530
2015	2,182,560
2016	1,832,919
2017	1,686,906
Thereafter	8,324,217
	$ 20,165,003

Rental costs for the years ended December 31, 2012 and 2011 were approximately $4,062,000 and $3,442,000, respectively.

9. Retirement plan

Under the provisions of the Foundation's 401(k) retirement plan, after one year of service employees who defer wages are eligible for an employer match, which vests immediately. In addition, eligible employees receive a non-matching employer contribution that, for service in 2007 and beyond, vests after employees complete three years of service, as defined in the plan. The Foundation and CFFT made contributions in accordance with the provisions of the plan amounting to approximately $1,970,000 and $1,788,000, respectively, for the years ended December 31, 2012 and 2011.

10. Allocation of joint costs

The Foundation conducted direct mail activities in the years ended December 31, 2012 and 2011 that included requests for contributions as well as program components. The costs of conducting those activities included a total of approximately $8,356,000 and $9,652,000 of joint costs during the years ended December 31, 2012 and 2011, respectively. These costs were not specifically attributable to particular components of the activities. Of those costs, $6,059,000 and $6,808,000 was allocated to fundraising expense and $2,297,000 and $2,844,000 was allocated to public and professional information and education program services for the years ended December 31, 2012 and 2011, respectively.

11. Subsequent events

The Foundation has performed an evaluation of subsequent events through May 15, 2013, which is the date the financial statements were available to be issued, noting no events which affect the financial statements as of December 31, 2012.