

**CYSTIC FIBROSIS RESEARCH, INC.**  
**INDEPENDENT AUDITORS' REPORT**  
**and**  
**FINANCIAL STATEMENTS**

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*For Years ended December 31, 2016 and 2015*

**STOREK, CARLSON & STRUTZ LLP**  
Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT**

July 18, 2017

To the Board of Directors  
**CYSTIC FIBROSIS RESEARCH, INC.**

We have audited the accompanying financial statements of Cystic Fibrosis Research, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial statements***

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Cystic Fibrosis Research, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

**CYSTIC FIBROSIS RESEARCH, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,612,136	\$ 967,098
Pledges receivable	236,053	315,286
Prepaid expenses	8,396	3,758
Total current assets	<u>1,856,585</u>	<u>1,286,142</u>
<b>PROPERTY AND EQUIPMENT</b>		
Furniture and equipment	19,711	19,711
Website development	32,500	32,500
Software	44,347	36,307
Property and equipment at cost	96,558	88,518
Less accumulated depreciation	<u>85,561</u>	<u>82,163</u>
Property and equipment, Net	<u>10,997</u>	<u>6,355</u>
<b>DEPOSITS</b>	<u>8,571</u>	<u>9,853</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,876,153</u>	<u>\$ 1,302,350</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,754	\$ 3,291
Accrued payroll liabilities	10,263	14,089
Accrued compensated absences	19,455	19,041
Research grants payable	-	50,001
Deferred revenue	74,000	42,000
Total current liabilities	105,472	128,422
<b>DEFERRED RENT</b>	<u>9,842</u>	<u>11,499</u>
Total liabilities	<u>115,314</u>	<u>139,921</u>
<b>COMMITMENTS</b>	-	-
<b>UNRESTRICTED NET ASSETS</b>	1,141,357	794,542
<b>TEMPORARILY RESTRICTED NET ASSETS</b>	<u>619,482</u>	<u>367,887</u>
Total net assets	<u>1,760,839</u>	<u>1,162,429</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 1,876,153</u>	<u>\$ 1,302,350</u>

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

CYSTIC FIBROSIS RESEARCH, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
CHANGES IN NET ASSETS:			
Contributions and net revenues from special events:			
Contributions	\$ 899,952	\$ 454,299	\$ 1,354,251
Program revenue	157,849	-	157,849
Special event revenue	162,325	-	-
Less: costs of direct benefits to donors	<u>(10,437)</u>	-	151,888
In-kind donations	26,678	-	26,678
Other income	4,713	-	4,713
Interest income	2,940	-	2,940
Assets released from restrictions	<u>202,704</u>	<u>(202,704)</u>	<u>-</u>
Total contributions and net revenue from special event	<u>1,446,724</u>	<u>251,595</u>	<u>1,698,319</u>
Expenses and losses:			
Program services:			
Research	353,559	-	353,559
Education, assistance and retreat	<u>589,884</u>	<u>-</u>	<u>589,884</u>
Total program services	<u>943,443</u>	<u>-</u>	<u>943,443</u>
Supporting services:			
Management and general	33,662	-	33,662
Fundraising	<u>122,804</u>	<u>-</u>	<u>122,804</u>
Total supporting services	<u>156,466</u>	<u>-</u>	<u>156,466</u>
Total expenses	<u>1,099,909</u>	<u>-</u>	<u>1,099,909</u>
INCREASE (DECREASE) IN NET ASSETS	346,815	251,595	598,410
NET ASSETS AT BEGINNING OF YEAR	<u>794,542</u>	<u>367,887</u>	<u>1,162,429</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,141,357</u>	<u>\$ 619,482</u>	<u>\$ 1,760,839</u>

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

CYSTIC FIBROSIS RESEARCH, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
CHANGES IN NET ASSETS:			
Revenue and gains:			
Contributions	\$ 656,806	\$ 353,799	\$ 1,010,605
Program revenue	109,325	-	109,325
Special events	209,462	-	-
Less: costs of direct benefits to donors	<u>(10,437)</u>	-	199,025
In-kind donations	64,678	-	64,678
Other income	7,768	-	7,768
Interest income	2,736	-	2,736
Assets released from restrictions	<u>368,686</u>	<u>(368,686)</u>	<u>-</u>
Total unrestricted revenues, gains, and other support	<u>1,409,024</u>	<u>(14,887)</u>	<u>1,394,137</u>
Expenses and losses:			
Program services:			
Research	304,039	-	304,039
Education, assistance and retreat	<u>576,529</u>	<u>-</u>	<u>576,529</u>
Total program services	<u>880,568</u>	<u>-</u>	<u>880,568</u>
Supporting services:			
Management and general	28,678	-	28,678
Fundraising	<u>148,638</u>	<u>-</u>	<u>148,638</u>
Total supporting services	<u>177,316</u>	<u>-</u>	<u>177,316</u>
Total expenses	<u>1,057,884</u>	<u>-</u>	<u>1,057,884</u>
INCREASE (DECREASE) IN NET ASSETS	351,140	(14,887)	336,253
NET ASSETS AT BEGINNING OF YEAR	<u>443,402</u>	<u>382,774</u>	<u>826,176</u>
NET ASSETS AT END OF YEAR	<u>\$ 794,542</u>	<u>\$ 367,887</u>	<u>\$ 1,162,429</u>

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

CYSTIC FIBROSIS RESEARCH, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2016

	Program Services			Supporting Services			Total Expenses
	Research	Education, Assistance, and Retreat	Total	Management and General	Fundraising	Total	
Salaries	\$ 33,473	\$ 236,199	\$ 269,672	\$ 19,132	\$ 21,794	\$ 40,926	\$ 310,598
Payroll taxes and benefits	3,456	32,651	36,107	2,241	2,787	5,028	41,135
Total personnel costs	36,929	268,850	305,779	21,373	24,581	45,954	351,733
Research grants	300,000	-	300,000	-	-	-	300,000
Conferences, meetings and events	-	219,891	219,891	-	23,205	23,205	243,096
Rent	8,729	35,385	44,114	4,547	8,685	13,232	57,346
Postage, mailing and printing	255	7,933	8,188	296	17,395	17,691	25,879
Professional fees	4,751	29,876	34,627	5,083	3,525	8,608	43,235
Other expenses	436	10,189	10,625	717	8,525	9,242	19,867
Bad debts	-	-	-	-	7,255	7,255	7,255
Purchased services	49	7,716	7,765	39	77	116	7,881
Insurance	1,287	4,271	5,558	641	1,030	1,671	7,229
Telephone	475	2,234	2,709	408	538	946	3,655
Supplies	200	1,419	1,619	171	867	1,038	2,657
Total expenses before depreciation and in-kind expenses	353,111	587,764	940,875	33,275	95,683	128,958	1,069,833
In-kind expenses	-	66	66	-	26,612	26,612	26,678
Depreciation	448	2,054	2,502	387	509	896	3,398
	\$ 353,559	\$ 589,884	\$ 943,443	\$ 33,662	\$ 122,804	\$ 156,466	\$ 1,099,909
Percent of total expenses	32.1%	53.6%	85.7%	3.1%	11.2%	14.3%	100.0%

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

CYSTIC FIBROSIS RESEARCH, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2015

	Program Services			Supporting Services			Total Expenses
	Research	Education, Assistance, and Retreat	Total	Management and General	Fundraising	Total	
Salaries	\$ 41,278	\$ 215,629	\$ 256,907	\$ 16,029	\$ 26,710	\$ 42,739	\$ 299,646
Payroll taxes and benefits	4,213	28,995	33,208	2,496	5,900	8,396	41,605
Total personnel costs	45,491	244,624	290,115	18,525	32,610	51,135	341,251
Research grants	239,808	-	239,808	-	-	-	239,808
Conferences, meetings and events	300	195,253	195,553	60	14,989	15,049	210,602
Rent	8,348	44,890	53,238	3,399	5,984	9,383	62,621
Postage, mailing and printing	216	36,227	36,443	70	21,664	21,734	58,177
Professional fees	5,865	26,756	32,621	3,490	4,721	8,211	40,832
Other expenses	1,473	3,739	5,212	787	8,785	9,572	14,784
Bad debts	-	-	-	-	1,040	1,040	1,040
Purchased services	188	7,461	7,649	24	36	60	7,709
Insurance	928	4,989	5,917	378	665	1,043	6,960
Telephone	836	1,949	2,785	964	484	1,448	4,233
Supplies	289	1,868	2,157	360	448	808	2,965
Total expenses before depreciation and in-kind expenses	303,742	567,756	871,498	28,057	91,426	119,483	990,981
In-kind expenses	-	7,178	7,178	500	57,000	57,500	64,678
Depreciation	297	1,595	1,892	121	212	333	2,225
	\$ 304,039	\$ 576,529	\$ 880,568	\$ 28,678	\$ 148,638	\$ 177,316	\$ 1,057,884
Percent of total expenses	28.8%	54.5%	83.3%	2.7%	14.0%	16.7%	100.0%

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



CYSTIC FIBROSIS RESEARCH, INC.

STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS (TO) FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 598,410	\$ 336,253
Adjustments to reconcile increase in net assets to net cash used in operations:		
Depreciation	3,398	2,225
(Increase) decrease in accounts receivable and pledges receivable	79,232	(137,942)
(Increase) decrease in prepaids and deposits	(3,356)	1,950
Increase (decrease) in accounts payable	(1,537)	(1,673)
Increase (decrease) in accrued payroll liabilities	(3,826)	5,147
Increase (decrease) in accrued vacation compensation	414	483
Increase (decrease) in deferred revenue	32,000	22,000
Increase (decrease) in deferred rent liability	(1,657)	(259)
Increase (decrease) in research grants payable	(50,000)	(49,704)
Net cash flow (to) from operating activities	<u>653,078</u>	<u>178,480</u>
CASH FLOWS (TO) FROM INVESTING ACTIVITIES		
Equipment purchases	<u>(8,040)</u>	<u>(916)</u>
Net cash to investing activities	<u>(8,040)</u>	<u>(916)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	645,038	177,564
CASH AND CASH EQUIVALENTS, Beginning of year	<u>967,098</u>	<u>789,534</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 1,612,136</u>	<u>\$ 967,098</u>
Non-cash operating transactions:		
In-kind donations received for use in operations	<u>\$ 26,678</u>	<u>\$ 64,678</u>

There was no interest or income tax paid for the years ended December 31, 2016 and 2015.

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

**CYSTIC FIBROSIS RESEARCH, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 1 - OPERATIONS DESCRIPTION**

Cystic Fibrosis Research, Inc., (CFRI) is a nonprofit organization incorporated in 1975, exempt under IRS Code Section 501(c)(3). CFRI funds cystic fibrosis (CF) basic science research, and provides education, outreach, awareness and support to individuals with CF and their families. CFRI is recognized as a national and global advocate for the cystic fibrosis community.

Cystic fibrosis is a progressive genetic disease characterized by an abnormality in the glands, which produces thick sticky mucus that clogs the small airways and ducts of the respiratory, digestive and reproductive systems, trapping bacteria and leading to serious infections. This defect results in many health complications, including lung and sinus infections, liver disease, pancreatic insufficiency and CF-related diabetes, infertility -primarily in men, and a shortened life span. There is no cure for CF and the primary cause of death is respiratory failure.

Having high ratings from Charity Navigator at <http://www.charitynavigator.org/index.cfm>; the Guidestar Exchange Seal, demonstrating commitment to transparency, at <http://www2.guidestar.org/Home.aspx>; and high-rated reviews from Great Nonprofits at <http://greatnonprofits.org>, CFRI receives donations from various public, private and nonprofit organizations and individuals.

**NOTE 2 -SIGNIFICANT ACCOUNTING POLICIES**

(a) The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles. Those principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. CFRI's significant estimates include the expected useful lives of property and equipment, the value of in-kind contributions, and the determination of functional expense allocations.

(b) CFRI reports information regarding its financial position and activities according to three classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

1. Unrestricted Net Assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into the course of its operations.

2. Temporarily Restricted Net Assets are resources that are restricted by donor for a particular purpose or in a particular future period. The Organization's unspent contributions are reported in this class if the donor limited their use, including pledged contributions that are not yet due. CFRI's temporarily restricted net assets were \$606,482 and \$367,887 at December 31, 2016 and 2015, respectively.

3. Permanently Restricted Net Assets are resources whose use is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. CFRI currently has no permanently restricted net assets.

**CYSTIC FIBROSIS RESEARCH, INC.**

**NOTES TO FINANCIAL STATEMENTS - (continued)**

**DECEMBER 31, 2016 AND 2015**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

(c) Contributions received are to be recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions. If a restriction expires in the same accounting period as the contributions is received, the revenue is shown as unrestricted. Unconditional promises to give are recognized as revenue at the same time the promise is made by the donor; conditional promises to give are disclosed but not recognized as revenue until the conditions are met.

(d) CFRI considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. CFRI maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. CFRI has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

(e) Pledges receivable includes donations made to CFRI by checks and credit card payments that were in transit as of the balance sheet date. It also includes grants committed by corporations in support of CFRI's specific programs as of the balance sheet date. Management provides for potentially uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of each commitment. Balances that are still outstanding after management has used reasonable collection efforts are written off through a change to the valuation allowance and a credit to pledges receivable. Management believes all pledges receivable as of December 31, 2016 and 2015 are collectible.

(f) Property and equipment are stated at cost. Purchased or donated assets in excess of \$500 are capitalized and depreciated on the straight-line method over estimated useful lives ranging from three to seven years.

(g) Expenses are charged directly to the applicable programs and supporting services based on specific identification provided by CFRI's management. Indirect expenses have been allocated based on salary expenditures.

(h) Fundraising activities are performed primarily by CFRI employees and volunteers. Special events that are major and/or ongoing are reported as gross proceeds with related expenses reported separately. Joint costs incurred in fundraising activities are allocated between program and support services in the statement of functional expenses based on management's estimates.

(i) CFRI measures the fair value of its assets and liabilities under a three-level hierarchy, as follows:

Level 1: Quoted prices for identical assets or liabilities to which an entity has access at the measurement date.

Level 2: Inputs and information other than quoted market indices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

- a. Quoted prices for similar assets or liabilities in active markets;
- b. Quoted prices for identical or similar assets in markets that are not active;
- c. Observable inputs other than quoted prices for the asset or liability; and
- d. Inputs derived principally from, or corroborated by, observable market data correlation or by other means.

Level 3: Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

CFRI's carrying amounts of its assets and liabilities approximate fair value under Level 1 for the years ended December 31, 2016 and 2015.

**CYSTIC FIBROSIS RESEARCH, INC.**  
**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

(j) Income recognition from commitments where a reciprocal transfer of economic benefits arise from the transaction are deferred until the obligations are satisfied, and at such time are reported in the financial statements.

(k) Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

(l) CFRI's management has evaluated events and transactions subsequent to December 31, 2016 for potential recognition or disclosure in the financial statements. CFRI had no subsequent events requiring recognition or disclosure in the financial statements for the year ended December 31, 2016. Subsequent events have been evaluated through July 18, 2017, the date that the financial statements were available to be issued.

(m) Program revenue is comprised of fees paid by program participants and recognition of program related deferred revenue.

**NOTE 3 - LEASE COMMITMENTS**

On May 9, 2014, CFRI entered into a five-year lease agreement to rent office space in Palo Alto, California. This lease provides the first three months rent free, requiring CFRI to pay only for the operating expenses for this three-month abated base rent period. Thereafter, monthly rent is approximately \$3,800 per month, with an annual increase of 3.0% until the expiration date of May 9, 2019.

The accompanying financial statements include a liability for deferred rent, which represents the recognition of the "free" rent expense over the term of the lease using the straight-line method in accordance with generally accepted accounting principles. Under this accounting principle, the deferred rent liability effectively results in an average monthly rent of \$3,859 over the term of the lease. Deferred rent balances through the end of the lease term are as follows: \$6,746 at December 31, 2017; \$2,168 at December 31, 2018; and zero at May 31, 2019.

Future minimum lease payments are: \$49,500 for 2017; \$51,000 for 2018; and \$21,500 for 2019. The lease also promises CFRI one option to extend the lease for a period of five years. Rent during the option period would be at the market rate.

The lease requires CFRI to pay its share of certain operating expenses. Total occupancy costs under this lease were \$57,346 and \$62,621 for 2016 and 2015, respectively.

**NOTE 4 - INCOME TAXES**

CFRI's income from and related to its charitable and educational purposes is exempt from federal income taxes under Internal Revenue Code 501(c)(3) and from California income taxes under 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for federal income taxes of California franchise taxes has been made.

CFRI has been classified as a publicly supported organization which is not a private foundation under IRS Code Section 509(a).

Management believes that it has no uncertain tax positions which impact its financial position, statement of activities or change in net assets. CFRI, which is subject to taxation in the United States and California jurisdictions, has incurred no interest or penalties related to its tax positions. CFRI's 2013 through 2016 tax years remain subject to examination by federal taxing authorities, generally for three years after filing the returns. CFRI's 2012 through 2016 tax years remain subject to examination by state taxing authorities, generally for four years after filing the returns.

**CYSTIC FIBROSIS RESEARCH, INC.**  
**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 5 - DONATED MATERIALS AND SERVICES**

The estimated fair value of donated professional services and supplies are recorded as contributions and as expenses. During the years ended December 31, 2016 and 2015 the following in-kind contributions were received by CFRI, primarily for its fundraising activities:

	<u>2016</u>	<u>2015</u>
Advertising	\$ 25,000	\$ 63,400
Supplies and other	1,678	1,278
Total	<u>\$ 26,678</u>	<u>\$ 64,678</u>

Volunteers also donated 8,300-8,900 hours of non-professional services for each of the years ended December 31, 2016 and 2015. Since these services did not require specialized skills, they did not meet the criteria for recognition and have not been recorded as support and expense in the accompanying financial statements.

**NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS**

CFRI's temporarily restricted net assets consisted of the following as of December 31:

	<u>2016</u>	<u>2015</u>
Research	\$ 70,000	\$ 152,500
Education programs	549,482	215,387
	<u>\$ 619,482</u>	<u>\$ 367,887</u>

**NOTE 7 - ALLOCATION OF JOINT COSTS**

CFRI incurred expenses that were identifiable with a particular function but served joint purposes. The organization issued newsletters that included appeals for contributions. These joint costs were allocated as follows:

	<u>2016</u>	<u>2015</u>
Fundraising	\$ 12,303	\$ 12,285
Program - Education	47,984	49,020
Total	<u>\$ 60,287</u>	<u>\$ 61,305</u>