

Cystic Fibrosis Research, Inc.
(a nonprofit public benefit corporation)

Financial Statements
and
Independent Auditors' Report

For the Years Ended
December 31, 2019 and 2018



Cystic Fibrosis Research, Inc.

For the Years Ended December 31, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Cystic Fibrosis Research, Inc.
Palo Alto, CA

We have audited the accompanying financial statements of Cystic Fibrosis Research, Inc. (the Organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets, 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 from 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, 2019 and 2018, 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.

A handwritten signature in blue ink that reads 'Wheeler'.

San Jose, CA
August 19, 2020

CYSTIC FIBROSIS RESEARCH, INC

Statements of Financial Position

As of December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS:</u>		
Current assets:		
Cash and cash equivalents	\$ 2,105,535	\$ 2,243,658
Investments	305,277	2,469
Pledges receivable	232,156	282,248
Prepaid expenses	11,435	23,018
Other current assets	<u>15,028</u>	<u>8,113</u>
Total current assets	2,669,431	2,559,506
Property and equipment, net	<u>9,363</u>	<u>13,379</u>
Total assets	<u><u>\$ 2,678,794</u></u>	<u><u>\$ 2,572,885</u></u>
<u>LIABILITIES AND NET ASSETS:</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 16,701	\$ 13,737
Accrued payroll and employee benefits	6,576	9,367
Accrued vacation	16,635	21,148
Deferred rent	-	2,168
Deferred revenue	<u>370</u>	<u>5,335</u>
Total current liabilities	<u>40,282</u>	<u>51,755</u>
Net assets:		
Without donor restrictions:		
Undesignated	1,230,160	900,752
Designated by the Board for research	1,942	158,173
Designated by the Board for operations	<u>290,081</u>	<u>291,952</u>
	1,522,183	1,350,877
With donor restrictions	<u>1,116,329</u>	<u>1,170,253</u>
Total net assets	<u>2,638,512</u>	<u>2,521,130</u>
Total liabilities and net assets	<u><u>\$ 2,678,794</u></u>	<u><u>\$ 2,572,885</u></u>

See independent auditors' report and notes to financial statements.

CYSTIC FIBROSIS RESEARCH, INC
 Statements of Activities and Changes in Net Assets
 For the years ended December 31, 2019 and 2018

	<u>2019</u>			<u>2018</u>		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:						
Contributions and grants	\$ 503,247	\$ 814,877	\$ 1,318,124	\$ 961,027	\$ 613,044	\$ 1,574,071
Education program and collateral	24,642	-	24,642	27,598	-	27,598
In-kind contributions	25,000	-	25,000	81,696	-	81,696
Special events revenue	115,018	-	115,018	72,823	-	72,823
Less: cost of direct benefit to donors	(15,758)	-	(15,758)	(12,643)	-	(12,643)
Miscellaneous	9,831	-	9,831	2,035	-	2,035
Total support and revenue	<u>661,980</u>	<u>814,877</u>	<u>1,476,857</u>	<u>1,132,536</u>	<u>613,044</u>	<u>1,745,580</u>
Adjustments:						
Release of restricted net assets	868,801	(868,801)	-	566,115	(566,115)	-
Total adjustments	<u>868,801</u>	<u>(868,801)</u>	<u>-</u>	<u>566,115</u>	<u>(566,115)</u>	<u>-</u>
Expenses:						
Program	1,100,766	-	1,100,766	1,151,596	-	1,151,596
Management and general	84,202	-	84,202	65,021	-	65,021
Fundraising	185,774	-	185,774	206,221	-	206,221
Total expenses	<u>1,370,742</u>	<u>-</u>	<u>1,370,742</u>	<u>1,422,838</u>	<u>-</u>	<u>1,422,838</u>
Other income and expenses						
Interest and dividend income	11,267	-	11,267	4,805	-	4,805
Total other income and expenses	<u>11,267</u>	<u>-</u>	<u>11,267</u>	<u>4,805</u>	<u>-</u>	<u>4,805</u>
Change in net assets	<u>171,306</u>	<u>(53,924)</u>	<u>117,382</u>	<u>280,618</u>	<u>46,929</u>	<u>327,547</u>
Net assets:						
Beginning of year	1,350,877	1,170,253	2,521,130	1,070,259	1,123,324	2,193,583
End of year	<u>\$ 1,522,183</u>	<u>\$ 1,116,329</u>	<u>\$ 2,638,512</u>	<u>\$ 1,350,877</u>	<u>\$ 1,170,253</u>	<u>\$ 2,521,130</u>

See independent auditors' report and notes to financial statements.

CYSTIC FIBROSIS RESEARCH, INC
Statement of Functional Expenses
For the year ended December 31, 2019

	2019					
	Education	Research	Total Program	Management and General	Fundraising	Total
Payroll expenses						
Salaries	\$ 222,155	\$ 5,461	\$ 227,616	\$ 14,817	\$ 87,002	\$ 329,435
Payroll taxes	14,726	324	15,050	1,073	7,148	23,271
Other employee benefits	28,031	963	28,994	152	1,191	30,337
Total labor expense	<u>264,912</u>	<u>6,748</u>	<u>271,660</u>	<u>16,042</u>	<u>95,341</u>	<u>383,043</u>
Non-labor expenses						
Professional fees	5,781	873	6,654	49,283	2,011	57,948
Supplies	914	99	1,013	139	706	1,858
Purchased services	-	-	-	-	101	101
Rent	42,597	6,363	48,960	7,117	15,119	71,196
Insurance	3,455	478	3,933	766	1,395	6,094
Telephone	2,436	340	2,776	524	969	4,269
Postage, mailing, and printing	2,983	63	3,046	105	15,398	18,549
Bad Debt	-	-	-	2,206	-	2,206
Education	253,159	5	253,164	8	4,412	257,584
Grants	-	469,029	469,029	-	-	469,029
Other expenses	31,854	5,588	37,442	6,905	24,201	68,548
Total non-labor expense	<u>343,179</u>	<u>482,838</u>	<u>826,017</u>	<u>67,053</u>	<u>64,312</u>	<u>957,382</u>
Total expenses before depreciation and amortization and in-kind expense	608,091	489,586	1,097,677	83,095	159,653	1,340,425
In-kind expense	-	-	-	-	25,000	25,000
Depreciation and amortization	<u>2,718</u>	<u>371</u>	<u>3,089</u>	<u>1,107</u>	<u>1,121</u>	<u>5,317</u>
Total expenses	<u>\$ 610,809</u>	<u>\$ 489,957</u>	<u>\$ 1,100,766</u>	<u>\$ 84,202</u>	<u>\$ 185,774</u>	<u>\$ 1,370,742</u>
	44%	36%	80%	6%	14%	100%

See independent auditors' report and notes to financial statements.

CYSTIC FIBROSIS RESEARCH, INC
Statement of Functional Expenses
For the year ended December 31, 2018

	2018					
	Education	Research	Total Program	Management and General	Fundraising	Total
Payroll expenses						
Salaries	\$ 219,034	\$ 19,695	\$ 238,729	\$ 26,425	\$ 79,752	\$ 344,906
Payroll taxes	18,399	1,677	20,076	2,434	6,481	28,991
Other employee benefits	13,331	601	13,932	393	416	14,741
Contract labor	3,580	454	4,034	112	641	4,787
Total labor expense	<u>254,344</u>	<u>22,427</u>	<u>276,771</u>	<u>29,364</u>	<u>87,290</u>	<u>393,425</u>
Non-labor expenses						
Professional fees	5,329	795	6,124	29,985	1,055	37,164
Supplies	1,141	81	1,222	467	422	2,111
Purchased services	71	12	83	3	17	103
Rent	33,522	12,647	46,169	4,091	8,423	58,683
Insurance	4,543	795	5,338	186	1,100	6,624
Telephone	2,473	433	2,906	110	654	3,670
Postage, mailing, and printing	1,132	153	1,285	54	12,835	14,174
Conferences	77,270	-	77,270	-	-	77,270
Patient Support	63,284	-	63,284	-	-	63,284
Newsletter	37,046	-	37,046	-	-	37,046
Education	56,749	-	56,749	-	8,950	65,699
Grants	-	469,029	469,029	-	-	469,029
Other expenses	71,937	4,949	76,886	555	28,058	105,499
Total non-labor expense	<u>354,497</u>	<u>488,894</u>	<u>843,391</u>	<u>35,451</u>	<u>61,514</u>	<u>940,356</u>
Total expenses before depreciation and amortization and in-kind expense	608,841	511,321	1,120,162	64,815	148,804	1,333,781
In-kind expense	21,250	4,250	25,500	-	56,196	81,696
Depreciation and amortization	5,050	884	5,934	206	1,221	7,361
Total expenses	<u>\$ 635,141</u>	<u>\$ 516,455</u>	<u>\$ 1,151,596</u>	<u>\$ 65,021</u>	<u>\$ 206,221</u>	<u>\$ 1,422,838</u>
	45%	36%	81%	5%	14%	100%

See independent auditors' report and notes to financial statements.

CYSTIC FIBROSIS RESEARCH, INC
 Statements of Cash Flows
 For the years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 117,382	\$ 327,547
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	5,317	7,361
Contributed stock	(6,167)	(10,220)
(Gain) loss on investments, net	(649)	325
(Increase) decrease in assets:		
Pledges receivable	50,092	61,073
Prepaid expenses	11,583	(19,929)
Other current assets	(6,915)	(872)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	2,964	(852)
Accrued payroll and employee benefits	(2,791)	(2,621)
Accrued vacation	(4,513)	(2,352)
Deferred rent	(2,168)	(4,578)
Deferred revenue	(4,965)	2,000
	159,170	356,882
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,302)	-
Purchases of investments	(1,008,445)	-
Proceeds from sale of investments	712,454	10,779
	(297,293)	10,779
NET INCREASE IN CASH AND CASH EQUIVALENTS	(138,123)	367,661
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,243,658	1,875,997
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,105,535	\$ 2,243,658
 <u>Non-Cash Activities</u>		
Contributed investments	\$ 6,167	\$ 10,220

See independent auditors' report and notes to financial statements.

Cystic Fibrosis Research, Inc.
Notes to the Financial Statements
As of December 31, 2019 and 2018

1. NATURE OF ACTIVITIES

Cystic Fibrosis Research, Inc., (the Organization) is a nonprofit organization incorporated in 1975, exempt under IRS Code Section 501(c)(3). The Organization funds cystic fibrosis (CF) basic science research, and provides education, outreach, awareness and support to individuals with CF and their families. The Organization 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 watchdog organizations such as Charity Navigator, GuideStar and Great Nonprofits, the Organization receives donations from various public, private and nonprofit organizations and individuals.

2. SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Organization is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management, which is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and have been consistently applied in the preparation of the financial statements.

Basis of Presentation

The Organization prepares its financial statements using the accrual method of accounting in accordance with GAAP, which recognizes revenue and support when earned and expenses when incurred.

Classes of Net Assets

The Organization presents information regarding its financial position and activities according to two classes of net assets:

- *Net assets without donor restrictions* consist of net assets that are for use in general operations and are not subject to donor (or certain grantor) restrictions.
- *Net assets with donor restrictions* represent contributions whose use has imposed restrictions. The donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource has been fulfilled, or both.

Cystic Fibrosis Research, Inc.
Notes to the Financial Statements
As of December 31, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

Cash and cash equivalents includes all monies in banks and all highly-liquid investments available for current use with an initial maturity of three months or less.

Pledges Receivable

Pledges receivable includes donations made to the Organization 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 the Organization'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, 2019 and 2018 are collectible, therefore no allowance for doubtful accounts has been recorded.

Prepaid Expenses

Prepaid expenses consist of expenses paid before they are incurred including insurance and other operating expenses. All prepaid expenses are expected to be expended within one year.

Property and Equipment

Property and equipment are stated at cost. Purchased or donated assets in excess of \$500 are capitalized and depreciation is computed using the straight-line method over the estimated useful lives ranging from 3 to 15 years.

Fair Value of Financial Instruments

Financial instruments included in the Organization's Statement of Financial Position as of December 31, 2019 and 2018 include cash, investment, accounts receivable, accounts payable and accrued expenses. The carrying amounts of these financial instruments represent a reasonable estimate of the corresponding fair values.

Recognition of Contribution Income

The Organization's revenue recognition policy requires that contributions received, including unconditional promises to give, be recognized as revenue at their fair value in the period the contribution or pledge is received. During year ended December 31, 2019, the Organization amended a previously adopted policy that classifies donor restricted contributions as without donor restrictions to the extent that donor restrictions were met in the same year the contribution was received. Contributed support restricted by the donor, is reported as an increase in net assets with donor restrictions and release from restrictions if the restriction expires in the reporting period in which the support is recognized. When such restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from

Cystic Fibrosis Research, Inc.
Notes to the Financial Statements
As of December 31, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

restriction. All other contributed support is recognized as unrestricted revenue when received or un-conditionally promised.

Contributions-in-kind consist of significant donated property and equipment, which are recorded at the estimated fair value at the date of receipt. Contributed services, which require a specialized skill and which the Organization would have paid for if not contributed, are recorded at their estimated fair market value. In addition, a substantial number of volunteers have contributed significant amounts of time in promoting the Organization's programs. For the years ended December 31, 2019 and 2018, the value of in-kind supplies and other services contributed to the Organization are \$25,000 and \$81,696, respectively. The value of contributed volunteer services has not been recognized in the accompanying financial statements because such volunteer services do not require specialized skills.

Functional Allocation of Expenses

Functional classification allocates expenses according to the purpose for which the costs are incurred. Examples of functional classifications are program services (expenses directly related to the purpose for which the organization exists) and supporting activities (those indirectly related to the purposes for which the organization exists but necessary for its operations, i.e., management and general, and fundraising).

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Tax Exemption Status

The Organization is exempt from federal and state income taxes under Sections 501(c)(3) of the Internal Revenue Code (IRC) and 23701(d) of the California Revenue and Taxation Code. The Organization does pay unrelated business income tax on rental activities that are not related to its exempt purpose.

In accordance with GAAP, an organization must recognize the tax benefit associated with any tax positions taken for tax return purposes when it is more likely than not the position will be sustained. The Organization does not believe there are any material uncertain tax positions. For the years ended December 31, 2019 and 2018, there were no tax related interest or penalties recorded or included in the financial statements.

The Organization is subject to potential examination by taxing authorities for income tax returns filed in the U.S. federal jurisdiction and the State of California. The tax years that remain subject to potential examination for the U.S. federal jurisdiction are December 31, 2016 and forward. The State of California tax jurisdiction is subject to potential examination for fiscal tax years December 31, 2015 forward.

Cystic Fibrosis Research, Inc.
Notes to the Financial Statements
As of December 31, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Changing Standards

Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 requires entities to recognize right-of-use assets and lease liabilities on the statement of financial position for the rights and obligations created by all leases, including operating leases, with terms of more than 12 months. The new standard also requires additional disclosures on the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative information. The effective date was January 1, 2021, however, in June 2020, FASB issued ASU 2020-05 which pushed out the effective date out by one year. The new standard will be effective for the Organization on January 1, 2022. Early adoption is permitted. The Organization is in the process of evaluating the impact the adoption of this standard will have on its financial statements and related disclosures.

Contributions

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. ASU 2018-08 improves existing guidance on revenue recognition of grants and contracts to reduce diversity in accounting practice. The amendments in the ASU provide clarified guidance on evaluating whether a transaction should be accounted for as a contribution or an exchange transaction, based on whether a resource provider is receiving corresponding value in return for the resources transferred. ASU 2018-08 also includes an improved framework to determine whether a contribution is conditional and to better distinguish a donor-imposed condition from a donor-imposed restriction. The ASU also modifies the simultaneous release option currently in GAAP which allows a not-for-profit organization to recognize a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that the revenue is recognized. This election may now be made for all restricted contributions that were initially classified as conditional without having to elect it for all other restricted contributions and investment returns. The guidance in ASU 2018-08 is effective as follows: transactions in which the Organization is the resource recipient in years beginning after December 15, 2018, and interim periods within years beginning after December 15, 2019; transactions in which the Organization is the resource provider in years beginning after December 15, 2019, and interim periods within years beginning after December 15, 2020. Early adoption is permitted. The Organization has adopted ASU 2018-08 for year ended December 31, 2019. The adoption of the new guidance did not have a material impact on the Organization's financial statements.

Cystic Fibrosis Research, Inc.
Notes to the Financial Statements
As of December 31, 2019 and 2018

3. CONCENTRATION OF RISK

Financial instruments that potentially subject the Organization to credit risk consist primarily of cash, and receivables. The Organization maintains cash with commercial banks and other major financial institutions. At times, cash balances may be in excess of the Federal Deposit Insurance ("FDIC") limits of \$250,000.

The credit risk associated with receivables is mitigated by the fact that the receivables are due from Organization members, local donors and governments.

For the years ended December 31, 2019 and 2018, one donor contributed 17% and 13% of total support and revenue, respectively.

4. INVESTMENTS

The Organization received a gift of stock which was sold on the open market. The investments are shown at fair market value as of December 31, 2019 and 2018:

2019				
Description	Fair Value	Level 1	Level 2	Level 3
US Treasury Bill	\$ 305,277	\$ 305,277	\$ -	\$ -
Total	\$ 305,277	\$ 305,277	\$ -	\$ -
2018				
Description	Fair Value	Level 1	Level 2	Level 3
Equity Securities	\$ 2,469	\$ 2,469	\$ -	\$ -
Total	\$ 2,469	\$ 2,469	\$ -	\$ -

The basis for the carrying value of investments is from information provided by broker managed accounts. Fair value measurements of investment instruments are based on open actively traded securities markets as reported by investment account broker statements.

The 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 or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Cystic Fibrosis Research, Inc.
Notes to the Financial Statements
As of December 31, 2019 and 2018

4. INVESTMENTS (continued)

Level 3: Unobservable inputs that are supported by little to no market activity and that are significant to the fair value of the assets or liabilities.

When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. In certain cases, where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

5. PROPERTY AND EQUIPMENT

The Organization owned the following property and equipment as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 32,896	\$ 31,595
Website development	32,500	32,500
Software	<u>47,852</u>	<u>47,852</u>
	113,248	111,947
Less accumulated depreciation	<u>(103,885)</u>	<u>(98,568)</u>
Net property and equipment	<u>\$ 9,363</u>	<u>\$ 13,379</u>

Depreciation and amortization expense for the years ended December 31, 2019 and 2018 were \$5,317 and \$7,361, respectively.

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restriction are restricted to the following purposes:

	December 31, 2018	Addition	Releases	December 31, 2019
Research	\$ 413,023	\$ 196,090	\$(299,169)	\$ 309,944
Education programs	<u>757,230</u>	<u>618,787</u>	<u>(569,632)</u>	<u>806,385</u>
	<u>\$1,170,253</u>	<u>\$ 814,877</u>	<u>\$(868,801)</u>	<u>\$ 1,116,329</u>

	December 31, 2017	Addition	Releases	December 31, 2018
Research	\$ 431,680	\$ 445,140	\$(463,797)	\$ 413,023
Education programs	<u>691,644</u>	<u>167,904</u>	<u>(102,318)</u>	<u>757,230</u>
	<u>\$1,123,324</u>	<u>\$ 613,044</u>	<u>\$(566,115)</u>	<u>\$1,170,253</u>

Cystic Fibrosis Research, Inc.
Notes to the Financial Statements
As of December 31, 2019 and 2018

7. LIQUIDITY AND AVAILABILITY

The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are deposited into a saving account.

The Organization considers investment income without donor restrictions, appropriated earnings from donor-restricted and contributions without donor restrictions to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, program expenses, and fundraising expenses to be paid in the subsequent year.

The Organization manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that mission fulfillment will continue to be met, ensuring the sustainability of the Organization.

The following table reflects the Organization's financial assets as of December 31, 2019, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Amounts not available include board-designated special projects fund that is intended to fund special board initiatives not considered in the annual operating budget. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. Amounts not available to meet general expenditures within one year also include net assets with donor restrictions.

	December 31, 2019
Financial assets at year end:	
Cash and cash equivalents	\$ 2,105,535
Pledges receivable	232,156
Investments	305,277
Total Financial assets	2,642,968
Less amounts not available to be used within one year:	
Net assets with donor restrictions	-
Financial assets available to meet general expenditures over the next twelve months	\$ 2,642,968

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8. FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional fees, office expenses, and others, which are allocated on the basis of estimates of time and effort.

9. LEASES

On May 9, 2014, the Organization 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 the Organization 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 31, 2019. The Organization signed the lease amendment in November 12, 2018 to extend the original lease to May 31, 2022 with \$4,720 monthly rent and common area expenses of \$1,150 for a total of \$5,870 each month.

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 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: \$2,168 at December 31, 2018; and zero at May 31, 2019. The amended lease does not have lease payment escalations.

Future minimum lease payments are as follows:

For the year ended	
December 31,	
2020	\$ 70,440
2021	70,440
2022	29,350
2023	-
	<u>\$ 170,230</u>

The lease requires the Organization to pay its share of certain operating expenses. Total occupancy costs under this lease were \$71,196 and \$58,683 for 2019 and 2018, respectively.

10. RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

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11. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued. The Organization recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Organization's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after the statement of financial position date and before financial statements are available to be issued.

Management evaluates events occurring subsequent to December 31, 2019 in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

In recent days, the COVID-19 outbreak in the United States has resulted in economic uncertainties. The Organization's income is made up of contributions and grants, as such, other financial impact could occur, though such potential impact is unknown at this time. In May 2020, the Organization received a \$57,770 loan through the Paycheck Protection Program (PPP), provided by the Small Business Administration.

The PPP loans and accrued interest are forgivable after the covered period has ended as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the full time equivalent or salary was reduced without restoring by a specified period. The unforgiven portion of the PPP loan has an interest rate of 1% with a maturity of two years. The Organization intends to use the proceeds for purposes consistent with the PPP. While the Organization currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, it is uncertain on how much of the loan will be forgiven.

No subsequent events have been noted that require recognition or disclosure.