CYSTINOSIS RESEARCH FOUNDATION
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

JUNE 30, 2019

WITH INDEPENDENT AUDITORS' REPORT

CYSTINOSIS RESEARCH FOUNDATION AND SUBSIDIARY
TABLE OF CONTENTS
JUNE 30, 2019

Page

Management Discussion and Analysis i

Independent Auditors' Report 1

Financial Statements:

Consolidated Statement of Financial Position 3

Consolidated Statement of Activities 4

Consolidated Statement of Functional Expenses 5

Consolidated Statement of Cash Flows 6

Notes to Consolidated Financial Statements 7

Supplementary Information:

Independent Auditors' Report on Consolidating Information 21

Schedule I - Consolidating Statement of Financial Position 22

Schedule II - Consolidating Statement of Activities 23

INDEPENDENT AUDITORS' REPORT

Board of Directors
Cystinosis Research Foundation and Subsidiary

We have audited the accompanying consolidated financial statements of Cystinosis Research Foundation and subsidiary (a nonprofit organization) (the "Foundation"), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cystinosis Research Foundation and subsidiary as of June 30, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Management Discussion and Analysis

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Management Discussion and Analysis, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

White Nelson Diehl Evans LLP

Irvine, California
November 6, 2019

CYSTINOSIS RESEARCH FOUNDATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

Assets:	
Current Assets:	
Cash and cash equivalents	$ 7,593,080
Receivables:	
Pledges	108,000
Grant	200,000
Investments	1,382,144
Prepaid expenses	132,802
Total Current Assets	9,416,026
Grant Receivable, Net of Current Portion and Discount	241,803
Property and Equipment, at Net Book Value	33,664
Total Assets	$ 9,691,493
Liabilities:	
Current Liabilities:	
Accounts payable	$ 116,238
Research grants payable - current portion	2,048,228
Accrued expenses	5,550
Total Current Liabilities	2,170,016
Long-Term Liability:	
Research grants payable, net of current portion and discount	704,195
Total Liabilities	2,874,211
Net Assets:	
Without Donor Restrictions	6,375,479
With Donor Restrictions	441,803
Total Net Assets	6,817,282
Total Liabilities and Net Assets	$ 9,691,493

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

CYSTINOSIS RESEARCH FOUNDATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

Net Assets without Donor Restrictions:	
Revenues and Other Support:	
Contributions	$ 1,893,303
Fundraising, net of direct benefits to donors	3,454,566
Total Revenues and Other Support	5,347,869
Investment Revenues, Net:	
Interest	16,214
Investment returns - net	49,308
Total Investment Revenues, Net	65,522
Total Revenues and Other Support	5,413,391
Expenses:	
Program services:	
Research and education	4,183,700
Research and development	792,257
Total Program Services	4,975,957
Supporting services:	
General and administrative	399,709
Fundraising	494,747
Total Supporting Services	894,456
Total Expenses	5,870,413
Decrease in Net Assets Without Donor Restrictions	(457,022)
Net Assets With Donor Restrictions:	
Grant contribution	441,803
Increase in Net Assets With Donor Restrictions	441,803
Decrease in Total Net Assets	(15,219)
Total Net Assets, Beginning of Year	6,832,501
Total Net Assets, End of Year	$ 6,817,282

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

CYSTINOSIS RESEARCH FOUNDATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	Program Services		Supporting Services		
	Research and Education	Research and Development	General and Administrative	Fundraising	Total
Accounting	$ -	$ -	$ 33,621	$ 15,431	$ 49,052
Advertising/public relations	21,074	-	-	118,192	139,266
Auction items	-	-	-	2,604	2,604
Credit card fees	-	-	-	26,736	26,736
Depreciation	-	-	200	-	200
Education	298,359	-	-	-	298,359
Grants	3,729,559	-	-	-	3,729,559
Insurance	-	-	7,084	-	7,084
Magazine	58,022	-	-	61,787	119,809
Other	2,500	-	4,622	48	7,170
Outside services	35,000	-	96,446	73,078	204,524
Patient registry	9,035	-	-	-	9,035
Photography	-	-	-	43,398	43,398
Postage	-	-	4,141	4,139	8,280
Printing	21,631	-	1,909	27,032	50,572
Salaries	8,520	-	11,168	39,806	59,494
Supplies	-	-	-	20,666	20,666
Taxes - payroll	-	-	3,277	854	4,131
Travel	-	-	14,955	59,882	74,837
Website and software	-	-	56,818	1,094	57,912
Total Expenses before NanoWafer, Inc.	4,183,700	-	234,241	494,747	4,912,688
NanoWafer, Inc.:					
Research and development	-	792,257	-	-	792,257
Insurance	-	-	34,433	-	34,433
Professional fees	-	-	127,374	-	127,374
Other	-	-	3,661	-	3,661
	-	792,257	165,468	-	957,725
Total Expenses	$ 4,183,700	$ 792,257	$ 399,709	$ 494,747	$ 5,870,413

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

CYSTINOSIS RESEARCH FOUNDATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2019

Cash Flows from Operating Activities:	
Decrease in total net assets	$ (15,219)
Adjustments to reconcile decrease in total net assets to net cash and cash equivalents provided by operating activities:	
Depreciation and amortization	200
Realized losses on sales of investments	721
Unrealized gain on investments	(52,048)
Discount on grants receivable	8,197
Discount on grants payable	(27,914)
Changes in assets and liabilities:	
(Increases) decreases in:	
Receivables	(395,689)
Prepaid expenses	928
Increases (decreases) in:	
Accounts payable	(14,758)
Research grants payable	625,250
Accrued expenses	3,119
Total Adjustments	148,006
Net Cash and Cash Equivalents Provided by Operating Activities	132,787
Cash Flows from Investing Activities:	
Purchases of property and equipment	(33,864)
Purchases of investments	(228,781)
Proceeds from sales of investments	509,416
Loss on sales of investments	(721)
Net Cash and Cash Equivalents Provided by Investing Activities	246,050
Net Increase in Cash and Cash Equivalents	378,837
Cash and Cash Equivalents, Beginning of Year	7,214,243
Cash and Cash Equivalents, End of Year	$ 7,593,080
Supplemental Disclosure of Cash Flow Information:	
Cash paid during the year for:	
Interest	$ 503
Income taxes	$ 800

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

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Cystinosis Research Foundation ("CRF") was founded in 2003 as a California nonprofit public benefit corporation. The mission of CRF is twofold and focuses to support bench, clinical, and translational cystinosis research for better treatments and to find a cure for cystinosis. CRF is also dedicated to educating the public and the medical community about cystinosis to ensure early diagnosis and proper treatment. CRF's support comes entirely from donor contributions.

In 2016, CRF established Corneal Cystinolysis, Inc. ("CCI") as a Texas corporation. In December 2017, CCI filed with the states of California and Texas to have the corporate name changed to NanoWafer, Inc. ("NanoWafer"). NanoWafer is 100 percent owned by CRF. The plan of operations for NanoWafer is to improve treatment for corneal cystinosis.

Principles of Consolidation

The consolidated financial statements include the accounts of CRF and NanoWafer (collectively, the "Foundation"). All intercompany balances and transactions have been eliminated in the consolidation.

Basis of Presentation

The accompanying consolidated financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). References to the "ASC" hereafter refer to the Accounting Standards Codification established by the Financial Accounting Standards Board ("FASB") as the source of authoritative US GAAP.

The accounts of the Foundation are reported in the following net asset categories:

Net Assets without Donor Restrictions - Net assets of the Foundation that are not subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants).

Net Assets with Donor Restrictions - Net assets of the Foundation that are subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants).

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Pledges and Grants Receivable

Pledges and grants receivable are unconditional promises to give toward the Foundation's programs and recorded as revenue when the pledge or grant is received. At June 30, 2019, the Foundation had pledges receivable of $108,000 and net grants receivable of $441,803 and considered all to be fully collectible. Accordingly, there were no allowances for doubtful pledges or grants.

Investments and Fair Value Measurements

The carrying value of the Foundation's cash and cash equivalents, pledges receivable, prepaid expenses, accounts payable, and accrued expenses approximates their respective fair values due to their short maturities. Grants receivable and grants payable are discounted based upon the average yield of US Treasury securities with a two-year maturity, which approximates fair value.

The Foundation reports investments in equity securities with readily determinable fair values and all investments in debt securities at quoted market values. The gains and losses are included in the consolidated statement of activities. A limited partnership invests in hedge funds and private equity funds, and a limited liability company invests primarily in loans secured by residential real estate.

Property and Equipment and Intangible Asset

Assets are carried at cost if purchased or, if contributed, at fair market value at the date of contribution. Donations are reported as unrestricted support unless the donor has restricted the donated asset for a specific purpose. The Foundation follows the practice of capitalizing all expenditures for property in excess of $500. The Foundation's website is an intangible asset subject to amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of 7 - 15 years for property and equipment and 5 - 7 years for software and the website. The intangible asset of $56,838 was fully depreciated at June 30, 2019.

Long-Lived Assets and Asset Impairment

The Foundation accounts for long lived assets in accordance with FASB ASC 360-10, *Property, Plant, and Equipment*. FASB ASC 360-10 requires impairment losses to be recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows are not sufficient to recover the assets' carrying amounts. For the year ended June 30, 2019, there was no impairment of the value of such assets.

Contributions and Grant Payments

Contributions received are recorded as contributions without donor restrictions or contributions with donor restrictions depending on the existence and/or nature of any donor restrictions.

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Contributions and Grant Payments (Continued)

Contributions made, including grant payments, can be either unconditional or conditional. Unconditional grants are recognized as an expense in the period in which they are approved. Grants, which are conditional upon a future and uncertain event, are expensed when these conditions are substantially met or expected to be met in a subsequent year. A conditional promise to give is considered unconditional if the possibility that the condition will not be met is remote.

Grants payable represent all unconditional grants that have been authorized prior to year-end, but remain unpaid as of the consolidated statement of financial position date. There were no conditional grants at June 30, 2019.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and functional expenses. CRF achieves some of its programmatic goals with its magazine. The joint costs of approximately $120,000 associated with the magazine have been allocated to program services and fundraising based on the percentage of each issue's content intended to serve the respective function. Salaries expense is allocated among the program and supporting services benefited based on time and effort.

The major programs of the Foundation are as follows:

Research and Education - CRF is dedicated to finding better treatments to improve the quality of life for those with cystinosis, and ultimately find a cure for this devastating disease, and educating the public and the medical/scientific community about cystinosis to ensure early diagnosis and proper treatments. Through their aggressively funded research agenda, CRF issues grants for bench and clinical research studies biannually in order to accelerate research progress and ensure that cystinosis research is ongoing and focused on novel treatments and a cure. CRF sponsors an annual Day of Hope Family Conference for cystinosis patients and their families to educate attendees about the research progress being made by CRF-funded researchers. CRF hosts a biannual International Cystinosis Research Symposium where CRF-funded researchers gather from around the world to share their research progress. The mission of the conference is to unite cystinosis researchers and scientists in an effort to encourage collaboration and accelerate the research process.

Research and Development - NanoWafer owns the license to the cysteamine nanowafer technology, which research has shown will improve the treatment for corneal cystinosis.

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Income Taxes

CRF is a California nonprofit corporation that has qualified for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code ("IRC") and the State Revenue and Tax Code Section 23701(d). Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements.

NanoWafer is treated as a C corporation for purposes of filing its federal and state income tax returns. Income taxes are provided for the tax effects of transactions reported in NanoWafer's financial statements and consist of taxes currently due or refundable plus deferred taxes. NanoWafer accounts for income taxes under the asset and liability method.

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their perspective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled.

The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Valuation allowances are recorded, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The Foundation follows the accounting for uncertainty in income taxes recognized in a nonpublic entity's financial statements, including changes to CRF's status as a not-for-profit entity. It details how entities should recognize, measure, present, and disclose uncertain tax positions that have been or are expected to be taken. As such, financial statements will reflect expected future tax consequences of uncertain tax positions presuming the taxing authorities' full knowledge of the position and all relevant facts. Management believes that there was no impact to the Foundation's consolidated financial statements as a result of these provisions.

Potential interest and penalties accrued related to unrecognized tax benefits are recorded within income tax expense. For the year ended June 30, 2019, no interest or penalties were recorded in the consolidated statement of activities. No interest or penalties were accrued in the consolidated statement of position at June 30, 2019, relating to unrecognized benefits.

Advertising

The Foundation follows the policy of charging the costs of advertising to expenses as incurred. Advertising expense for the year ended June 30, 2019, was approximately $139,000. For the year ended June 30, 2019, approximately $13,800 of advertising expense was in-kind donations.

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Use of Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with US GAAP 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 date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Significant estimates made in the accompanying consolidated financial statements include, but are not limited to, the valuation of investments. Actual results could differ from those estimates in the near term.

Concentration of Credit Risk

The Foundation maintains deposits in excess of federally insured limits. This concentration in credit risk is managed by maintaining all deposits in high-quality financial institutions.

Risks and Uncertainties

The Foundation invests in a combination of equity, fixed income, and other investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect investments' account balances and the amounts reported in the consolidated statements of financial position and activities.

Recent Accounting Pronouncement - Adopted

In August 2016, the FASB issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, which changes the current guidance for asset classification, governing board designations, investment return, underwater endowment funds, expenses, liquidity, and presentation of operating cash flows. ASU 2016-14 reduces the required number of classes of net assets from three to two: *net assets with donor restrictions* and *net assets without donor restrictions*. ASU 2016-14 also requires not-for-profit entities to provide enhanced disclosures about the amounts and purposes of governing board designations and appropriations. ASU 2016-14 requires not-for-profit organizations to report investment return net of external and direct internal investment expenses. The requirement to disclose those netted expenses is eliminated.

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncement - Adopted (Continued)

In addition to the current required disclosure of the aggregate amount by which endowment funds are underwater, ASU 2016-14 requires not-for-profit entities to disclose the aggregate fair value of such funds, as well as the aggregate original gift amounts to be maintained. ASU 2016-14 also requires a not-for-profit entity to disclose its interpretation of the ability to spend from underwater endowment funds, including its policy, and any actions taken during the period, concerning appropriation from underwater endowment funds. All underwater endowment funds will be classified as part of net assets with donor restrictions rather than as a charge to unrestricted net assets as per the current rules. In the absence of explicit donor restrictions, ASU 2016-14 requires not-for-profit entities to use the placed-in-service approach to account for capital gifts. The current option to use the over-time approach has been eliminated. ASU 2016-14 requires expenses to be reported by nature in addition to function and include an analysis of expenses by both nature and function. The methods used by not-for-profit entities to allocate costs among program and supporting functions will also need to be disclosed. ASU 2016-14 requires not-for-profit entities to provide both qualitative and quantitative information on management of liquid available resources and the ability to cover short-term cash needs within one year of the consolidated statement of financial position date. Finally, current standards allow not-for-profit entities to decide whether to present operating cash flows using either the direct method or the indirect method. ASU 2016-14 eliminates the requirement to present or disclose the indirect method of reconciliation if the entity decides to use the direct method. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017. The Foundation has adopted the provisions of ASU 2016-14 and has retrospectively applied this standard to the consolidated financial statements as of and for the year ended June 30, 2019.

A summary of the net asset reclassifications driven by the adoption of FASB ASU 2016-14 as of June 30, 2018, is as follows:

As originally stated:

Unrestricted Net Assets, End of Year	$ 6,832,501

As restated:

Net Assets Without Donor Restrictions, End of Year	$ 6,832,501

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements - Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* The ASU establishes new revenue recognition guidance ("ASC 606"), which replaces the current revenue recognition guidance. ASC 606 is a comprehensive revenue recognition standard for virtually all industries, including those that previously followed industry-specific guidance, such as the real estate, construction, and software industries. The core principle of ASC 606 is to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASC 606 is effective for nonpublic companies for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019; however, early adoption is permitted. The Foundation is currently evaluating the impact of the provisions of ASC 606 on the presentation of its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, with subsequent improvements and corrections issued in ASU 2018-01, ASU 2018-10, and ASU 2018-20. ASU 2016-02 amends a number of aspects of lease accounting, including requiring lessees to recognize on their balance sheet a right-of-use asset and a lease liability for all operating leases with a term of more than 12 months. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of asset not to recognize the right-of-use asset and lease liability. ASU 2016-02 is effective for fiscal years beginning after December 15, 2020; however, early adoption is permitted. The Foundation is currently evaluating the impact of the provisions of ASU 2016-02 on the presentation of its consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities - Revenue Recognition (Topic 958-605).* ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. This update assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2019, and early adoption is permitted. The Foundation does not expect the provisions of ASU 2018-08 to have a material impact on the presentation of its consolidated financial statements.

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements - Not Yet Adopted (Continued)

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10)*, with subsequent corrections issued in ASU 2018-03. One of the main provisions of this ASU is that it requires investments in equity securities with readily determinable fair values to be measured at fair value, with changes in fair value recognized in earnings. An entity's equity investments that are accounted for under the equity method of accounting or that result in consolidation of an investee are not included within the scope of this ASU. For equity investments that do not have readily determinable fair values, the ASU allows them to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment, and requires an assessment for impairment qualitatively at each reporting period. ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Foundation is currently evaluating the impact of the provisions of ASU 2016-01 on the presentation of its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurements (Topic 820)*. The amendments in this update modify the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. The amendments in this update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance of this update. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this update and delay adoption of the additional disclosures until their effective date.

Note 2: Fair Value Measurements

The Foundation follows the accounting policy that establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based on quoted prices for similar assets in active or inactive markets or quoted prices that are observable for the asset or inputs that are derived from observable market data by correlation or other means. Financial assets valued using Level 3 inputs are based on a valuation methodology that is unobservable and significant to the fair value measurement.

Note 2: Fair Value Measurements (Continued)

Using Level 3 inputs, the limited partnerships and limited liability company were primarily valued using internal financial statements of the various portfolio funds within the limited partnerships and limited liability company or from redemption values at June 30, 2019. Valuation techniques, which are utilized to determine fair value, are applied consistently.

The fair value of assets measured on a recurring basis at June 30, 2019, is as follows:

		Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
Investments:				
Limited partnerships	$ 234,202	$ -	$ -	$ 234,202
Limited liability company	250,000	-	-	250,000
Stocks	369,472	369,472	-	-
Mutual funds	528,470	528,470	-	-
Total	$ 1,382,144	$ 897,942	$ -	$ 484,202

The following table sets forth a summary of changes in Level 3 investments for the year ended June 30, 2019:

Beginning balances:	$ 780,108
Purchases	-
Sales	(299,308)
Net gains (losses) - realized/unrealized	3,402
Ending Balances	$ 484,202

The following summarizes the investment returns in the consolidated statement of activities for the year ended June 30, 2019:

Interest and dividends	$ 39,357
Realized losses	(721)
Unrealized gains	52,048
Investment fees	(41,376)
Investment Returns - Net	$ 49,308

Note 3: Liquidity and Availability

The Foundation's financial assets available for general expenditure (that is, without donor or other restrictions limiting their use), within one year of the statement of financial position date, are as follows as of June 30, 2019:

Cash and cash equivalents	$ 7,593,080
Pledges receivable	108,000
Grants receivable	200,000
Investments	1,382,144
Total Financial Assets Available to Meet General Expenditures within One Year	$ 9,283,224

The Foundation is substantially supported by contributions and proceeds from fundraising events without donor restrictions. Generally, all proceeds from such support, excluding the noncurrent portion of grants receivable, are available for general expenditure within one year. As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. In addition, the Foundation invests cash in excess of the daily requirements in short-term investments.

Note 4: Grant Receivable

During the year ended June 30, 2019, the Foundation received a written grant totaling $650,000 that provides for payment over a three-year period ending December 15, 2020. The grant receivable is recorded at its estimated net realizable value, including discounts reflecting the estimated impact of the passage of time on amounts to be received over more than one year. The grant receivable at June 30, 2019, is expected to be collected as follows:

2020	$ 200,000
2021	250,000
	450,000
Less: Discount at 1.75%	(8,197)
Grant Receivable - Net	$ 441,803

Note 5: Research Grants Payable

During the year ended June 30, 2019, the Foundation expended approximately $3,730,000 for research grants. At June 30, 2019, the Foundation had commitments of $2,752,423 to fund 22 grants in the next three years. The award amounts of these grants range from approximately $18,000 to $765,000.

Note 5: Research Grants Payable (Continued)

Research grants payable at June 30, 2019, are expected to be paid as follows:

2020	$ 2,048,228
2021	521,784
2022	228,798
	2,798,810
Less: Discount at 1.20% to 2.52%	(46,387)
Research Grants Payable - Net	$ 2,752,423

Note 6: Property and Equipment

At June 30, 2019, property and equipment consist of the following:

Furniture and fixtures	$ 30,000
Leasehold improvements	3,864
Total property and equipment, at cost	33,864
Less: Accumulated depreciation	(200)
Property and Equipment, Net	$ 33,664

Depreciation expense for the year ended June 30, 2019, was $200. At June 30, 2019, $42,601 of furniture and fixtures had been purchased but not yet received by the Foundation, of which $30,000 had been paid for and capitalized. The remaining portion will be capitalized upon final delivery.

Note 7: Common Stock

The par value of each of NanoWafer's authorized common shares is $0.0001. There are 2,000,000 shares authorized and 1,000,000 shares are issued.

Note 8: Revenues and Support

During the year ended June 30, 2019, the Foundation hosted one major fundraising event, Natalie's Wish Gala Celebration, in Orange County, California. This fundraiser provides the Foundation with the opportunity to educate donors and the public about cystinosis. Funds are raised through corporate sponsorships, donations, and auctions. Other fundraising activities are hosted by cystinosis families across the United States who enlighten their local communities about cystinosis and the progress of the Foundation's funded research. Fundraising revenue was decreased for the costs of direct benefits to donors of $136,078 for the year ended June 30, 2019.

Note 8: Revenues and Support (Continued)

For the year ended June 30, 2019, the Foundation received approximately $394,000 in contributions from anonymous donors to cover operating and fundraising costs.

Note 9: Contributed Services

For the year ended June 30, 2019, contributions include approximately $14,000 of in-kind advertising, $27,000 of in-kind professional services, and $5,090 for other services.

A substantial number of unpaid volunteers have made significant contributions to the Foundation's program services. The value of these contributions is not reflected in these consolidated financial statements since they do not meet the criteria for recognition as contributed services.

Note 10: Related-Party Transactions

A board member's spouse provided fundraising and administrative consulting services to CRF for the year ended June 30, 2019, of approximately $60,000. At June 30, 2019, approximately $3,000, which is included in accounts payable, was due to related parties.

CRF awards grants to research institutions naming specific researchers. During 2019, CRF granted approximately $868,000 to the University of California, San Diego ("UCSD") on behalf of a researcher who is also a board member. At June 30, 2019, approximately $625,000 was included in research grants payable to UCSD.

Note 11: Income Taxes

NanoWafer's net operating loss ("NOL") carryforwards of approximately $1,737,000 will begin to expire in 2036 for federal and state purposes and could be limited for use under IRC Section 382. NanoWafer has recorded a valuation allowance against the entire net deferred tax asset balance because there exists a doubt that it will be able to realize the benefits due to its lack of a history of earnings and due to possible limitations under IRC Section 382.

NanoWafer files its income tax compliance with the Internal Revenue Service and in the states of California and Texas with varying statutes of limitations. NanoWafer's policy is to recognize interest expense and penalties related to income tax matters as a component of the provision for income taxes. There were no accrued interest and penalties associated with uncertain tax positions as of June 30, 2019.

Note 11: Income Taxes (Continued)

The net deferred tax asset consists of the following components at June 30, 2019:

Deferred tax asset:	
NOL carryforwards:	
Federal	$ 364,700
State	153,600
	518,300
Valuation allowance	(518,300)
Net Deferred Tax Asset	$ -

The deferred income tax provision is summarized as follows for the year ended June 30, 2019:

Federal income tax benefit	$ 111,200
State income tax benefit	84,700
Total income tax benefit	195,900
Change in valuation allowance	(195,900)
Income Tax Benefit - Net	$ -

NanoWafer believes its income tax filing positions and deductions will be sustained during an audit and does not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded.

Note 12: Net Assets

Net assets consist of the following at June 30, 2019:

Net Assets without Donor Restrictions:	
Undesignated	$ 6,375,479
Total net assets without donor restrictions	6,375,479
Net Assets with Donor Restrictions:	
Subject only to time restriction:	
Grant receivable for future periods	441,803
Total net assets with donor restrictions	441,803
Total Net Assets	$ 6,817,282

Note 13: Facility Lease

The Foundation leases its office space under a noncancelable operating lease expiring in April 2022. The lease agreement contains provisions for rent holidays and escalating monthly rent payments. Total rental amounts, after consideration of all rent holidays and escalators, are recognized as rent expense on a straight-line basis over the lease term. The difference between the rent paid and the straight-line expense is recorded as deferred rent and is included within accrued expenses in the accompanying consolidated statement of financial position.

Minimum future rental payments under the noncancelable operating lease described above as of June 30, 2019, are as follows:

2020	$ 33,217
2021	37,330
2022	31,878
Total	$ 102,425

Rental expense for the year ended June 30, 2019, was approximately $4,500.

Note 14: Subsequent Events

The Foundation has evaluated subsequent events through November 6, 2019, the date the consolidated financial statements were available to be issued.

In August 2019, NanoWafer suspended its operations while a third-party study is being performed on a treatment for cystinosis that NanoWafer was in the process of developing. It is uncertain when NanoWafer will resume operation; however, the Foundation has adequate cash and cash equivalents available to meet its outstanding obligations at June 30, 2019.

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

Board of Directors
Cystinosis Research Foundation and Subsidiary

We have audited the consolidated financial statements of Cystinosis Research Foundation and subsidiary (a nonprofit organization) (the "Foundation") as of and for the year ended June 30, 2019, and our report thereon dated November 6, 2019, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in Schedules I and II is presented for purposes of additional analysis of the consolidated financial statements, rather than to present financial position, change in net assets, and cash flows of the individual entities, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information in Schedules I and II is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

White Nelson Diehl Evans LLP

Irvine, California
November 6, 2019

CYSTINOSIS RESEARCH FOUNDATION AND SUBSIDIARY
SCHEDULE I - CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

	Cystinosis Research Foundation	NanoWafer, Inc.	Eliminations	Consolidated Total
Assets:				
Current Assets:				
Cash and cash equivalents	$ 7,364,875	$ 228,205	$ -	$ 7,593,080
Receivables:				
Pledges	108,000	-	-	108,000
Grant	200,000	-	-	200,000
Investments	1,382,144	-	-	1,382,144
Prepaid expenses	65,011	67,791	-	132,802
Total Current Assets	9,120,030	295,996	-	9,416,026
Grant Receivable, Net of Current Portion	241,803	-	-	241,803
Note Receivable - NanoWafer, Inc.	1,886,317	-	(1,886,317)	-
Accrued Interest Receivable - NanoWafer, Inc.	13,845	-	(13,845)	-
Property and Equipment, at Net Book Value	33,664	-	-	33,664
Total Assets	$ 11,295,659	$ 295,996	$ (1,900,162)	$ 9,691,493
Liabilities:				
Current Liabilities:				
Accounts payable	$ 19,931	$ 96,307	$ -	$ 116,238
Research grants payable - current portion	2,048,228	-	-	2,048,228
Accrued expenses	5,550	-	-	5,550
Total Current Liabilities	2,073,709	96,307	-	2,170,016
Net Liabilities of Subsidiary	1,700,473	-	(1,700,473)	-
Research Grants Payable, Net of Current Portion	704,195	-	-	704,195
Note Payable - Cystinosis Research Foundation	-	1,886,317	(1,886,317)	-
Accrued Interest Payable - Cystinosis Research Foundation	-	13,845	(13,845)	-
Total Liabilities	4,478,377	1,996,469	(3,600,635)	2,874,211
Net Assets:				
Without Donor Restrictions	6,375,479	(1,700,473)	1,700,473	6,375,479
With Donor Restrictions	441,803	-	-	441,803
Total Net Assets	6,817,282	(1,700,473)	1,700,473	6,817,282
Total Liabilities and Net Assets	$ 11,295,659	$ 295,996	$ (1,900,162)	$ 9,691,493

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

CYSTINOSIS RESEARCH FOUNDATION AND SUBSIDIARY
SCHEDULE II - CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

	Cystinosis Research Foundation	NanoWafer, Inc.	Eliminations	Consolidated Total
Net Assets Without Donor Restrictions:				
Revenues and Support:				
Contributions	$ 1,893,303	$ -	$ -	$ 1,893,303
Fundraising, net of direct benefits to donors	3,454,566	-	-	3,454,566
Interest	16,214	-	-	16,214
Investment returns - net	49,308	-	-	49,308
Total Revenues and Support	5,413,391	-	-	5,413,391
Expenses:				
Program services:				
Research and education	4,183,700	-	-	4,183,700
Research and development	-	792,257	-	792,257
Total Program Services	4,183,700	792,257	-	4,975,957
Supporting services:				
General and administrative	234,241	165,468	-	399,709
Fundraising	494,747	-	-	494,747
Total Supporting Services	728,988	165,468	-	894,456
Gain (Loss) from Subsidiary	957,725	-	(957,725)	-
Total Expenses	5,870,413	957,725	(957,725)	5,870,413
Other income (expense):				
Interest income	13,845	-	(13,845)	-
Interest expense	-	(13,845)	13,845	-
Total Other Income (Expense)	13,845	(13,845)	-	-
Decrease in Net Assets Without Donor Restrictions	(443,177)	(971,570)	957,725	(457,022)
Net Assets with Donor Restrictions:				
Grant contribution	441,803	-	-	441,803
Increase in Net Assets with Donor Restrictions	441,803	-	-	441,803
Decrease in Total Net Assets	(1,374)	(971,570)	957,725	(15,219)
Total Net Assets, Beginning of Year	6,832,501	(728,903)	728,903	6,832,501
Total Net Assets, End of Year	$ 6,831,127	$ (1,700,473)	$ 1,686,628	$ 6,817,282

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