

CYSTINOSIS RESEARCH FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

**WITH INDEPENDENT AUDITORS'
REPORT THEREON**

ORGANIZATIONAL DATA



NATALIE'S WISH

Natalie's wish, *'To have my disease go away forever'* ó those seven words provided the motivation to establish the Cystinosis Research Foundation (CRF) in 2003. We knew at that moment that we needed to make every effort to make Natalie's wish ó and the wish of others with cystinosis ó a reality.

MISSION STATEMENT

CRF's mission is to support bench, clinical and translational cystinosis research to find better treatments and a cure for cystinosis.

RESEARCH

CRF is dedicated to finding better treatments to improve the quality of life for those with cystinosis and to ultimately find a cure for this devastating disease.

CRF has an aggressive research agenda. CRF issues grants for bench and clinical research studies bi-annually in an effort to accelerate the research process and ensure that cystinosis research is on-going and focused on novel treatments and a cure.

HISTORY AND RESEARCH

Cystinosis is a rare, metabolic and genetic disease that afflicts approximately 2,000 children and adults worldwide. CRF's focus is increasingly on the clinical and translational research crucial to making strides towards a cure for cystinosis. CRF is committed to prioritizing and aggressively supporting research with the potential to significantly improve the quality of life for patients with cystinosis. Funding quality research studies is an ongoing process. CRF announces two global calls for research proposals each year. After evaluation by our Scientific Review Board, research grants are issued. In 2006, CRF established the first Cystinosis Research Fellowship Program designed to support scientists and new researchers who have an interest in cystinosis.

Today, the CRF works with families around the world who share our mission. CRF has raised more than \$27 million for cystinosis research and has funded 125 multi-year research studies and fellowships in 12 countries. All donations received go directly to cystinosis research. An anonymous donor underwrites the expenses of the foundation.

With the support of our network of families and friends, we have made a significant and dramatic difference in the course of cystinosis research, achieving a number of milestones that have dramatically improved the quality-of-life, and provided a more hopeful future for cystinosis patients and their families.

CRF MILESTONES

- CRF is funding research for a potential new treatment for corneal cystinosis using nanotechnology and anticipates a clinical trial in 2016.
- Since 2007 CRF has funded Dr. Stéphanie Cherqui who is currently working with the FDA on the first autologous stem cell and gene therapy treatment. Once FDA approval is given, we anticipate a clinical trial in 2016.
- CRF-funded research led to the discovery of a delayed-release form of the life-saving medication taken by cystinosis patients, allowing them to take the drug every 12 hours instead of every 6 hours. The FDA approved the drug in April 2013.
- CRF established the CRF Cystinosis Gene Therapy Consortium to bring stem cell and gene therapy to clinical trial. The consortium received Institutional Review Board approval for the first allogeneic stem cell treatment for cystinosis which is underway at UCLA.
- CRF established the Cure Cystinosis International Registry (CCIR) to help identify all cystinosis patients worldwide to learn more about cystinosis and its complications and to aid cystinosis scientists with their research efforts.
- CRF created the first post-doctoral Cystinosis Research Fellowship Program to encourage young investigators to establish careers in cystinosis research.
- CRF seed money has resulted in two CRF-funded researchers receiving four NIH grants in the past three years totaling over \$3.5 million to study cystinosis.

The CRF encourages collaboration among researchers. Recent progress is the result of collaborative relationships between our research teams who are working together to find a cure for cystinosis. In its quest for a cure, the CRF has directed significant funds to stem cell research and gene therapy research. We support scientists and researchers whose work in the lab will translate into clinical trials and a cure.

The Cystinosis Research Foundation is the largest provider of funds for cystinosis research in the world.

CRF FAMILIES AND PARTNERS

The Cystinosis Research Foundation has witnessed tremendous growth as other cystinosis families have joined our efforts. Their friends and families have embraced the cystinosis cause and enthusiastically raise funds to support cystinosis research through CRF. We have found strength in numbers and our joint effort gives us a renewed sense of community and purpose.

DAY OF HOPE CONFERENCE

Each year the Cystinosis Research Foundation hosts the Day of Hope Family Conference. In 2014, 38 families from around the world gathered along with CRF funded researchers to share stories, hopes and dreams and build life-long friendships. Leading cystinosis researchers shared their progress on gene and stem cell therapies, novel eye research and neurological challenges related to cystinosis. The conference

allows families to learn more about the ongoing cystinosis research and the hope it brings to our community.

CURE CYSTINOSIS INTERNATIONAL REGISTRY

The Cure Cystinosis International Registry (CCIR) was launched in 2010 and now has approximately 460 cystinosis patients registered from 38 countries. The Cystinosis Research Foundation in partnership and collaboration with the Cystinosis Foundation and twelve other cystinosis family foundations from around the world, established this comprehensive, global patient registry for cystinosis. The CCIR questionnaire was developed by medical and scientific experts specifically for the cystinosis community. To improve accessibility, the CCIR has been translated into Spanish, Portuguese, Dutch and French. It is our mission to register every person with cystinosis, thus connecting them to the research community in an effort to find a cure for cystinosis. The CCIR is a central hub of information and is an essential tool for the global cystinosis research community. We are certain that the information provided by the patients will accelerate the research process and unite us in our quest to find a cure for cystinosis.

CRF INTERNATIONAL RESEARCH SYMPOSIUM

CRF's 2014 International Research Symposium was held at the Arnold and Mabel Beckman Center at University of California, Irvine campus. The symposium is held every two years and is only open to invited researchers and scientists. Approximately 65 cystinosis experts from leading international universities and research institutions gather to share their research data and to discuss cutting edge research ideas in an effort to accelerate research. The symposium is known for the openness of the attendees, and for their willingness to work together and form collaborations. Attendees comment that the conference fosters synergy, which has played a key role in their individual and group success.

Link, Murrel & Company, LLP

A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Cystinosis Research Foundation
Irvine, California

We have audited the accompanying financial statements of Cystinosis Research Foundation (a nonprofit organization) ("CRF") which comprise the statements of financial position as of December 31, 2014 and 2013, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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 auditors consider 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.

The Board of Directors
Cystinosis Research Foundation

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 CRF as of December 31, 2014 and 2013, 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.

Link, Murrel & Company, LLP

Link, Murrel & Co., LLP

Irvine, California
April 13, 2015

FINANCIAL STATEMENTS

CYSTINOSIS RESEARCH FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

	2014	2013
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 3,233,403	\$ 2,522,736
Receivables:		
Pledges receivable	26,644	25,564
Grant receivables	-	35,213
Other receivables	1,736	531
Investments	1,053,173	1,026,375
Prepaid expenses	152,262	59,219
Total current assets	4,467,218	3,669,638
Property and Intangible Asset:		
Software	12,038	12,038
Website	44,800	44,800
	56,838	56,838
Accumulated depreciation and amortization	(54,817)	(50,670)
Net property and intangible asset	2,021	6,168
Other Assets - Pledge Receivable - Long-Term Portion	12,500	25,000
Total Assets	\$ 4,481,739	\$ 3,700,806
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 78,593	\$ 11,917
Grants payable - current portion	1,696,412	1,329,895
Accrued expenses	2,246	-
Total current liabilities	1,777,251	1,341,812
Long-Term Liability - Grants Payable, net of Current Portion	530,982	447,931
Total liabilities	2,308,233	1,789,743
Net Assets - Unrestricted	2,173,506	1,911,063
Total Liabilities and Net Assets	\$ 4,481,739	\$ 3,700,806

See accompanying notes.

**CYSTINOSIS RESEARCH FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
Unrestricted:		
Revenues and Support:		
Contributions	\$ 1,698,868	\$ 1,232,474
Grants	-	60,092
Fundraising, net of direct benefits to donors	1,625,680	1,837,963
Interest	9,190	10,926
Investment returns - net gain	32,325	214,789
Total revenues and support	3,366,063	3,356,244
Expenses:		
Program services	2,462,112	1,768,254
Supporting services:		
General and administrative	153,849	138,773
Fundraising	487,659	540,163
Total supporting services	641,508	678,936
Total expenses	3,103,620	2,447,190
Increase in Unrestricted Net Assets	262,443	909,054
Unrestricted Net Assets, Beginning of Year	1,911,063	1,002,009
Unrestricted Net Assets, End of Year	\$ 2,173,506	\$ 1,911,063

See accompanying notes.

**CYSTINOSIS RESEARCH FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014
(WITH SUMMARIZED TOTALS FOR 2013)**

	<u>Supporting Services</u>			Totals 2014	Totals 2013
	Program Services	General and Administrative	Fundraising		
Accounting	\$ 2,320	\$ 21,392	\$ 14,398	\$ 38,110	\$ 33,073
Advertising	-	-	84,731	84,731	80,528
Auction items	-	-	6,690	6,690	4,013
Credit card fees	-	-	28,132	28,132	18,245
Education	160,592	-	-	160,592	90,556
Grants	2,147,058	-	-	2,147,058	1,627,562
Insurance	-	4,575	-	4,575	6,133
Other	1,850	214	22,545	24,609	4,356
Outside services	48,971	84,666	84,540	218,177	145,934
Photography	-	-	2,485	2,485	495
Postage	-	2,893	8,334	11,227	37,251
Printing	4,746	3,467	119,293	127,506	241,252
Salaries	-	-	55,038	55,038	50,605
Supplies	-	1,599	31,017	32,616	21,387
Symposium	94,325	-	-	94,325	17,446
Taxes - payroll	-	-	4,374	4,374	4,214
Telephone	-	1,754	-	1,754	1,120
Tournament site	-	-	23,615	23,615	-
Travel	-	2,470	386	2,856	3,075
Video	-	-	1,800	1,800	-
Website and software	2,250	26,672	281	29,203	51,070
Expenses before depreciation and amortization	2,462,112	149,702	487,659	3,099,473	2,438,315
Depreciation and amortization	-	4,147	-	4,147	8,875
Total expenses	<u>\$ 2,462,112</u>	<u>\$ 153,849</u>	<u>\$ 487,659</u>	<u>\$ 3,103,620</u>	<u>\$ 2,447,190</u>

See accompanying notes.

**CYSTINOSIS RESEARCH FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Supporting Services</u>			<u>Totals</u>
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	
Accounting	\$ -	\$ 16,199	\$ 16,874	\$ 33,073
Advertising	-	-	80,528	80,528
Auction items	-	-	4,013	4,013
Credit card fees	-	-	18,245	18,245
Education	90,556	-	-	90,556
Grants	1,627,562	-	-	1,627,562
Insurance	-	6,133	-	6,133
Other	3,927	275	154	4,356
Outside services	28,000	48,201	69,733	145,934
Photography	-	-	495	495
Postage	-	916	36,335	37,251
Printing	763	421	240,068	241,252
Salaries	-	-	50,605	50,605
Supplies	-	3,653	17,734	21,387
Symposium	17,446	-	-	17,446
Taxes - payroll	-	-	4,214	4,214
Telephone	-	1,120	-	1,120
Tournament site	-	-	-	-
Travel	-	1,910	1,165	3,075
Video	-	-	-	-
Website and software	-	51,070	-	51,070
Expenses before depreciation and amortization	1,768,254	129,898	540,163	2,438,315
Depreciation and amortization	-	8,875	-	8,875
Total expenses	<u>\$ 1,768,254</u>	<u>\$ 138,773</u>	<u>\$ 540,163</u>	<u>\$ 2,447,190</u>

See accompanying notes.

CYSTINOSIS RESEARCH FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Cash Flows from Operating Activities:		
Increase in net assets	\$ 262,443	\$ 909,054
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,147	8,875
Unrealized net (gain) or loss on investments	67,910	(67,966)
Changes in assets and liabilities:		
(Increases) decreases in:		
Pledges receivable	11,420	(25,564)
Grant receivable	35,213	(35,213)
Other receivables	(1,205)	25,417
Prepaid expenses	(93,043)	7,233
Increases (decreases) in:		
Accounts payable	66,676	(15,418)
Accrued expenses	2,246	-
Grants payable	449,568	(479,899)
Total adjustments	542,932	(582,535)
Net cash provided by operating activities	805,375	326,519
Cash Flows from Investing Activities:		
Purchases of investments	(510,538)	(756,717)
Proceeds from sales of investments	415,830	612,895
Net cash used in investing activities	(94,708)	(143,822)
Net Increase in Cash and Cash Equivalents	710,667	182,697
Cash and Cash Equivalents, Beginning of Year	2,522,736	2,340,039
Cash and Cash Equivalents, End of Year	\$ 3,233,403	\$ 2,522,736
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -

See accompanying notes.

**CYSTINOSIS RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

1. ORGANIZATION AND NATURE OF SERVICES

The Cystinosis Research Foundation (öCRFö) was founded in 2003 as a California nonprofit public benefit corporation. The mission of CRF is two-fold and focused: 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of CRF have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

CRF reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted Net Assets ó Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets generally result from unrestricted contributions and interest and dividends, less expenses incurred in providing services and fundraising and other administrative expenses.

Temporarily Restricted Net Assets ó Net assets that are subject to donor-imposed restrictions that require the passage of time or the occurrence of a specific event to become available for unrestricted use. At December 31, 2014 and 2013, there were no temporarily restricted net assets.

Permanently Restricted Net Assets ó Net assets that are subject to donor-imposed restrictions that may be maintained permanently while permitting CRF to use or expense part or all of the income derived from the donated assets. At December 31, 2014 and 2013, there were no permanently restricted net assets.

**CYSTINOSIS RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

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

Cash and Cash Equivalents

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

Concentration of Credit Risk

CRF 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

CRF 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 Statements of Activities and the Statements of Financial Position.

Pledges Receivable

Pledges receivable are unconditional promises to give towards CRF's programs and fundraising events and are recorded as revenue when the pledge is received. At December 31, 2014 and 2013, CRF considered all remaining pledges receivable of \$39,144 and \$50,564, respectively, to be fully collectible. Accordingly, there were no allowances for doubtful pledges.

**CYSTINOSIS RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and Fair Value Measurements

The carrying value of CRF's cash and cash equivalents, pledges receivable, grant receivable, other receivables, prepaid expenses, accounts payable, and accrued expenses approximate their respective fair values due to their short maturities. Grants payable are discounted based upon the average yield of United States treasury securities with a two-year maturity which approximates fair value.

CRF 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 Statement of Activities. The Hedge Funds were valued based upon the internal financial statements of the various Portfolio Funds within the Hedge Fund or from redemption values at December 31, 2014 and 2013. Such financial statements generally value securities and other financial instruments on a mark-to-market basis of accounting.

Property and Intangible Asset

Assets are carried at cost, if purchased, or fair market value at date of contribution, if contributed. Donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. CRF follows the practice of capitalizing all expenditures for property in excess of \$500. CRF'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 five to seven years for software and the website.

Contributions and Grant Payments

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted net assets depending on the existence or nature of any donor restrictions.

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 represents all unconditional grants that have been authorized prior to year end, but remain unpaid as of the statement of financial position date. There were no conditional grants at December 31, 2014 and 2013.

**CYSTINOSIS RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities and in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The major programs of CRF are as follows:

Research ó CRF is dedicated to finding better treatments to improve the quality of life for those with cystinosis and to ultimately find a cure for this devastating disease. Through their aggressively funded research agenda, CRF issues grants for bench and clinical research studies bi-annually in order to accelerate research progress and ensure that cystinosis research is on-going and focused on novel treatments and a cure.

Education ó CRF is dedicated to educating the public and the medical community about cystinosis to ensure early diagnosis and proper treatment.

Income Taxes

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

CRF follows the accounting for uncertainty in income taxes recognized in a nonpublic entity's financial statements. 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. There was no impact to CRF's financial statements as a result of the implementation of these provisions.

CRF's Form 990, *Return of Organization Exempt from Income Tax*, for the years ended December 31, 2011 through 2013 are subject to examination by the IRS, generally for three years after they were filed. CRF's California Form 199, *California Exempt Organization Annual Information Return*, for the years ended December 31, 2010 through 2013 are subject to examination by the California Franchise Tax Board.

**CYSTINOSIS RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

CRF follows the policy of charging the costs of advertising to expenses as incurred. Advertising expense for the years ended December 31, 2014 and 2013 were approximately \$85,000 and \$81,000, respectively. For the years ended December 31, 2014 and 2013 approximately \$38,800 and \$38,200 of advertising expense were in-kind donations.

Recently Adopted Accounting Standards

In October 2012, the Financial Accounting Standards Board (FASB) issued an accounting standards update that amends the standards for preparing the statement of cash flows. This guidance requires CRF to classify cash receipts from the sale of donated financial assets consistently with cash donations received if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any organization-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes. If the donor restricted the use to long-term purposes, those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by CRF. This guidance became effective prospectively for fiscal years and interim periods within those years, beginning after June 15, 2013, which is CRF's year ended December 31, 2014. Retrospective application to all prior periods presented upon the date of adoption is permitted but not required. Earlier adoption from the beginning of the fiscal year of adoption is permitted. CRF adopted the provisions of this guidance in 2014. The adoption did not have a material impact on CRF's financial statements.

New Accounting Standards Not Yet Adopted

In April 2013, the FASB issued an accounting standards update that requires a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. The amendments in this update are effective prospectively for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter.

**CYSTINOSIS RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Standards Not Yet Adopted (Continued)

A recipient not-for-profit entity may apply the amendments using a modified retrospective approach under which all prior periods presented upon the date of adoption should be adjusted, but no adjustment should be made to the beginning balance of net assets of the earliest period presented. Early adoption is permitted. CRF does not expect the adoption of the guidance will have a material impact on the CRF financial statements.

Subsequent Events

CRF has evaluated subsequent events through April 13, 2015, the date the financial statements were available to be issued.

3. FAIR VALUE MEASUREMENTS

CRF 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 valuation methodology that is unobservable and significant to the fair value measurement.

The Hedge Funds, using level 3 inputs, were primarily valued using internal financial statements of the various Portfolio Funds within the Hedge Funds or from redemption values at December 31, 2014 and 2013. Valuation techniques utilized to determine fair value are applied consistently.

**CYSTINOSIS RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

3. FAIR VALUE MEASUREMENTS (Continued)

The fair value of assets measured on a recurring basis at December 31, 2014 and 2013 are as follows:

<u>Fair Value Measurements Using:</u>				
<u>December 31, 2014</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Stocks	\$ 479,832	\$ 479,832	\$ -	\$ -
Hedge funds	323,012	-	-	323,012
Mutual funds	<u>250,329</u>	<u>250,329</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 1,053,173</u>	<u>\$ 730,161</u>	<u>\$ -</u>	<u>\$ 323,012</u>
<u>December 31, 2013</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Stocks	\$ 594,272	\$ 594,272	\$ -	\$ -
Hedge funds	316,649	-	-	316,649
Mutual funds	<u>115,454</u>	<u>115,454</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 1,026,375</u>	<u>\$ 709,726</u>	<u>\$ -</u>	<u>\$ 316,649</u>

Fair Value Measurements Using Significant Unobservable Inputs (Level 3) ó Hedge Funds at December 31:

	<u>2014</u>	<u>2013</u>
Beginning balances	\$ 316,649	\$ 293,107
Purchases	-	-
Sales	-	(2,055)
Net gains (losses) - realized/unrealized	<u>6,363</u>	<u>25,597</u>
Ending balances	<u>\$ 323,012</u>	<u>\$ 316,649</u>

**CYSTINOSIS RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

3. FAIR VALUE MEASUREMENTS (Continued)

The following summarizes the investment returns in the Statements of Activities for the years ended December 31:

	<u>2014</u>	<u>2013</u>
Dividends	\$ 9,472	\$ 8,138
Realized gain - net	105,646	149,956
Change in unrealized gains (losses)	(69,869)	67,967
Investment fees and withholding tax	<u>(12,924)</u>	<u>(11,272)</u>
Investment returns ó net gain	<u>\$ 32,325</u>	<u>\$ 214,789</u>

4. GRANTS PAYABLE

During the years ended December 31, 2014 and 2013, CRF committed to fund research grants of approximately \$2,153,000 and \$1,648,000, respectively. At December 31, 2014, CRF had commitments of \$2,238,502 to fund nineteen grants in the next three years. The award amounts of these grants range from approximately \$28,000 to \$500,000.

Research grants payable as of December 31, 2014 are expected to be paid as follows:

Year Ending December 31,

2015	\$ 1,696,412
2016	504,590
2017	<u>37,500</u>
	2,238,502
Less discount at 0.67%	<u>(11,108)</u>
Research grants payable - net	<u>\$ 2,227,394</u>

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5. REVENUES AND SUPPORT

CRF receives the majority of its revenues from fundraising events, hosting two major events each year in Orange County, California, the Natalie's Wish Gala Celebration and the Fore a Cure Golf Tournament. Each of these fundraisers provides CRF with the opportunity to educate donors and the public about cystinosis. Funds were raised through corporate sponsorships, donations and auctions. Other fundraising activities are hosted by cystinosis families across the U.S. who enlighten their local communities about cystinosis and the progress of CRF funded research. Fundraising revenue was decreased for the costs of direct benefits to donors of \$231,622 and \$245,368 for the years ended December 31, 2014 and 2013, respectively.

For the years ended December 31, 2014 and 2013, CRF received approximately \$578,000 and \$542,000, respectively, from anonymous donors to cover operating and fundraising costs.

6. CONTRIBUTED SERVICES

For the year ended December 31, 2014, contributions include approximately \$39,000 of in-kind advertising and printing and \$14,000 of in-kind professional services. For the year ended December 31, 2013, contributions included approximately \$45,000 of in-kind advertising and printing and \$24,000 of in-kind professional services.

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

7. RELATED PARTY TRANSACTIONS

CRF utilizes advertising and printing services from a Board member's company, which also pays postage that CRF reimburses. For the year ended December 31, 2014 the services totaled approximately \$227,000, including approximately \$8,000 of donated services. For the year ended December 31, 2013 the services totaled approximately \$296,000, including \$7,639 of donated services. Another Board member's spouse provides fundraising and administrative consulting services to CRF. Consulting services for the years ended December 31, 2014 and 2013 were approximately \$57,500 and \$44,000, respectively. At December 31, 2014 and 2013, \$2,039 and \$4,544 were included in accounts payable due to related parties, respectively. At December 31, 2014 and 2013, \$1,736 and \$531, respectively were due from a board member and were repaid shortly after year-end.

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8. RECLASSIFICATIONS

Certain figures for the year ended December 31, 2013 have been reclassified to conform to the year ended December 31, 2014 presentation.