

CYSTINOSIS RESEARCH FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

**WITH INDEPENDENT AUDITORS'
REPORT THEREON**

CYSTINOSIS RESEARCH FOUNDATION

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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 ongoing 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 which has 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 careful evaluation of every application 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.

RESEARCH GIVES US HOPE

We firmly believe that research gives us HOPE ó and hope allows us to live with cystinosis until the day a cure is found.

Since 2003, the Cystinosis Research Foundation (CRF) has become the largest private fund provider of cystinosis research in the world ó raising more than \$30.5 million. CRF has changed the course of cystinosis by investing donors' gifts strategically and aggressively to create a thriving research community. From the beginning, all CRF operating costs are privately underwritten so that 100 percent of every dollar donated for research goes to research.

We are pleased to announce that in 2015 CRF issued 9 grants totaling \$1,581,820. The new grants bring us that much closer to better treatments and a cure.

CRF has issued grants to the best and brightest researchers in the world. To date, we have funded 131 multi-year research studies at leading research institutions in 12 countries. CRF-funded researchers have published more than 58 articles in prestigious, top-rated journals. Those articles, available to everyone in the world, have added to the understanding of the pathogenesis of cystinosis.

From the beginning we have understood that funding basic and bench research was important to understanding cystinosis. Over the years, as discoveries were made in the lab, CRF began funding clinical research, and now we are translating the data from the clinical studies to the patients. One of our earliest milestones, and the one of which we are most proud, is having funded every bench and clinical trial that led to the discovery of a delayed-release form of the life-saving medication cystinosis patients must take. The delayed-release medication, approved by the FDA in 2013, is considered the most significant advancement in the treatment of cystinosis in 30 years. Our latest research milestone is the creation of the first donor stem cell transplantation trial at UCLA, which brings us tantalizingly close to a cure.

Moving forward, we have targeted several areas of research including muscle wasting, neurological issues, corneal cystinosis, and stem cell and gene therapy, all with the goal of finding better treatments and a cure for cystinosis.

NANOTECHNOLOGY AND CORNEAL CYSTINOSIS

We are dedicated to finding better treatments for corneal cystinosis. Corneal cystinosis is the build-up of cystine crystals in the eyes that causes photophobia (extreme sensitivity to light) severe eye pain, and sometimes, blindness. There is an existing treatment but it is rigorous and requires hourly dosing of medicated eye drops. For many, compliance is difficult.

Ghanashyam Acharya, PhD, and Jennifer Simpson, MD, have collaborated on a novel treatment for corneal cystinosis. Dr. Acharya has invented a nanowafer that we believe will revolutionize the treatment of corneal cystinosis. The nanowafer can be loaded with cysteamine medication to treat corneal cystinosis. The nanowafer is placed in the eye, and as it dissolves, the medication slowly releases in the eye offering relief for hours. CRF owns the license for the cysteamine-loaded wafer, so we are able to drive the research forward as quickly as possible with the ultimate goal of a new FDA approved treatment for corneal cystinosis. Dr. Acharya has been working day and night to ensure that this potential treatment will reach patients with cystinosis. This is a multi-year project but we have an excellent team in place dedicated to working with us to reach our goal.

STEM CELL AND GENE THERAPY

We believe that stem cells will be the cure for cystinosis. CRF works closely with Stéphanie Cherqui, PhD, whose focus is stem cells and gene therapy. Dr. Cherqui has worked closely with the FDA for several years and is awaiting FDA approval to commence the first autologous stem cell and gene therapy clinical trial. We are optimistic that the FDA will approve this study in 2016. Once it is approved, we can recruit patients soon thereafter. Dr. Cherqui's work is our hope ó not only has the treatment reversed cystinosis in mice, last year she successfully cured corneal cystinosis in the mouse model.

CYSTINOSIS RESEARCH HELPS OTHERS

Almost every discovery made by CRF researchers has applications to other more prevalent and well-known disorders and diseases. CRF-funded stem cell research will help other corneal diseases, kidney, diseases and genetic diseases with systemic community. Finding a cure for cystinosis will help find cures for other diseases.

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 2015, 45 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 500 cystinosis patients registered from 42 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 International Research 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.

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, 2015 and 2014, 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, 2015 and 2014, 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

A handwritten signature in cursive script that reads "Link, Murrel & Co., LLP".

Irvine, California
May 18, 2016

FINANCIAL STATEMENTS

CYSTINOSIS RESEARCH FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 3,565,590	\$ 3,233,403
Receivables:		
Pledges	112,500	26,644
Other	-	1,736
Investments	977,965	1,053,173
Prepaid expenses	<u>123,678</u>	<u>152,262</u>
Total current assets	4,779,733	4,467,218
Property and Intangible Asset:		
Software	12,038	12,038
Website	<u>44,800</u>	<u>44,800</u>
	56,838	56,838
Accumulated depreciation and amortization	<u>(56,838)</u>	<u>(54,817)</u>
Net property and intangible asset	-	2,021
Other Assets - Pledge Receivable -		
Long-Term Portion	<u>-</u>	<u>12,500</u>
Total Assets	<u>\$ 4,779,733</u>	<u>\$ 4,481,739</u>
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 73,224	\$ 78,593
Grants payable - current portion	1,701,647	1,696,412
Accrued expenses	<u>2,323</u>	<u>2,246</u>
Total current liabilities	1,777,194	1,777,251
Long-Term Liability - Grants Payable, net		
of Current Portion	<u>418,566</u>	<u>530,982</u>
Total liabilities	2,195,760	2,308,233
Net Assets - Unrestricted	<u>2,583,973</u>	<u>2,173,506</u>
Total Liabilities and Net Assets	<u>\$ 4,779,733</u>	<u>\$ 4,481,739</u>

See accompanying notes.

CYSTINOSIS RESEARCH FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Unrestricted:		
Revenues and Support:		
Contributions	\$ 1,476,451	\$ 1,698,868
Fundraising, net of direct benefits to donors	1,736,676	1,625,680
Interest	6,738	9,190
Investment returns - net gain (loss)	<u>(11,036)</u>	<u>32,325</u>
Total revenues and support	3,208,829	3,366,063
Expenses:		
Program services	2,221,488	2,462,112
Supporting services:		
General and administrative	111,359	153,849
Fundraising	<u>465,515</u>	<u>487,659</u>
Total supporting services	<u>576,874</u>	<u>641,508</u>
Total expenses	<u>2,798,362</u>	<u>3,103,620</u>
Increase in Unrestricted Net Assets	410,467	262,443
Unrestricted Net Assets, Beginning of Year	<u>2,173,506</u>	<u>1,911,063</u>
Unrestricted Net Assets, End of Year	<u><u>\$ 2,583,973</u></u>	<u><u>\$ 2,173,506</u></u>

See accompanying notes.

**CYSTINOSIS RESEARCH FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015
(WITH SUMMARIZED TOTALS FOR 2014)**

	Program Services	Supporting Services		Totals 2015	Totals 2014
		General and Administrative	Fundraising		
Accounting	\$ 2,351	\$ 24,576	\$ 11,598	\$ 38,525	\$ 38,110
Advertising	-	-	75,090	75,090	69,163
Auction items	-	-	13,186	13,186	6,690
Credit card fees	-	-	21,992	21,992	28,132
Education	118,456	-	-	118,456	144,357
Grants	1,890,841	-	-	1,890,841	2,147,058
Insurance	-	8,318	-	8,318	4,575
Magazine	77,087	-	42,003	119,090	127,221
Nanowafer project	60,002	-	-	60,002	8,894
Other	12,620	670	39,390	52,680	24,609
Outside services	29,624	38,092	81,180	148,896	189,961
Patient registry	12,059	-	-	12,059	2,774
Photography	-	-	36,249	36,249	2,485
Postage	-	5,755	11,666	17,421	6,516
Printing	9,842	764	26,769	37,375	55,597
Salaries	-	-	55,700	55,700	55,038
Supplies	-	3,886	35,027	38,913	32,616
Symposium	8,606	-	-	8,606	94,325
Taxes - payroll	-	-	4,446	4,446	4,374
Telephone	-	1,798	-	1,798	1,754
Tournament site	-	-	5,313	5,313	23,615
Travel	-	5,579	-	5,579	2,856
Video	-	-	-	-	1,800
Website and software	-	19,900	5,906	25,806	26,953
Expenses before depreciation and amortization	2,221,488	109,338	465,515	2,796,341	3,099,473
Depreciation and amortization	-	2,021	-	2,021	4,147
Total expenses	<u>\$ 2,221,488</u>	<u>\$ 111,359</u>	<u>\$ 465,515</u>	<u>\$ 2,798,362</u>	<u>\$ 3,103,620</u>

See accompanying notes.

**CYSTINOSIS RESEARCH FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Program Services	Supporting Services		Totals
		General and Administrative	Fundraising	
Accounting	\$ 2,320	\$ 21,392	\$ 14,398	\$ 38,110
Advertising	-	-	69,163	69,163
Auction items	-	-	6,690	6,690
Credit card fees	-	-	28,132	28,132
Education	144,357	-	-	144,357
Grants	2,147,058	-	-	2,147,058
Insurance	-	4,575	-	4,575
Magazine	32,488	-	94,733	127,221
Nanowafer project	8,894	-	-	8,894
Other	1,850	214	22,545	24,609
Outside services	26,982	84,666	78,313	189,961
Patient registry	2,774	-	-	2,774
Photography	-	-	2,485	2,485
Postage	-	2,893	3,623	6,516
Printing	1,064	3,467	51,066	55,597
Salaries	-	-	55,038	55,038
Supplies	-	1,599	31,017	32,616
Symposium	94,325	-	-	94,325
Taxes - payroll	-	-	4,374	4,374
Telephone	-	1,754	-	1,754
Tournament site	-	-	23,615	23,615
Travel	-	2,470	386	2,856
Video	-	-	1,800	1,800
Website and software	-	26,672	281	26,953
Expenses before depreciation and amortization	2,462,112	149,702	487,659	3,099,473
Depreciation and amortization	-	4,147	-	4,147
Total expenses	<u>\$ 2,462,112</u>	<u>\$ 153,849</u>	<u>\$ 487,659</u>	<u>\$ 3,103,620</u>

See accompanying notes.

CYSTINOSIS RESEARCH FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Increase in net assets	\$ 410,467	\$ 262,443
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,021	4,147
Net (gain) or loss on investments	17,931	67,910
Changes in assets and liabilities:		
(Increases) decreases in:		
Receivables	(71,620)	45,428
Prepaid expenses	28,584	(93,043)
Increases (decreases) in:		
Accounts payable	(5,369)	66,676
Accrued expenses	77	2,246
Grants payable	<u>(107,181)</u>	<u>449,568</u>
Total adjustments	<u>(135,557)</u>	<u>542,932</u>
Net cash provided by operating activities	274,910	805,375
Cash Flows from Investing Activities:		
Purchases of investments	(712,823)	(510,538)
Proceeds from sales of investments	<u>770,100</u>	<u>415,830</u>
Net cash provided by (used in) investing activities	<u>57,277</u>	<u>(94,708)</u>
Net Increase in Cash and Cash Equivalents	332,187	710,667
Cash and Cash Equivalents, Beginning of Year	<u>3,233,403</u>	<u>2,522,736</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,565,590</u>	<u>\$ 3,233,403</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest	\$ -	\$ -
Income taxes	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes.

**CYSTINOSIS RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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, 2015 and 2014, 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, 2015 and 2014, there were no permanently restricted net assets.

**CYSTINOSIS RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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, 2015 and 2014, CRF considered all remaining pledges of \$112,500 and \$39,144, respectively, to be fully collectible. Accordingly, there were no allowances for doubtful pledges.

**CYSTINOSIS RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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, 2015 and 2014. Such financial statements generally value securities and other financial instruments on a mark-to-market basis of accounting. The limited partnerships invest in hedge funds and private equity funds.

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, 2015 and 2014.

**CYSTINOSIS RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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.

Advertising

CRF follows the policy of charging the costs of advertising to expenses as incurred. Advertising expense for the years ended December 31, 2015 and 2014 were approximately \$75,000 and \$69,000, respectively. For the years ended December 31, 2015 and 2014 approximately \$22,000 and \$39,000 of advertising expense were in-kind donations.

**CYSTINOSIS RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

CRF has evaluated subsequent events through May 18, 2016, 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 and limited partnerships, using level 3 inputs, were primarily valued using internal financial statements of the various portfolio funds within the hedge funds and limited partnerships or from redemption values at December 31, 2015 and 2014. Valuation techniques utilized to determine fair value are applied consistently.

The fair value of assets measured on a recurring basis at December 31, 2015 and 2014 are as follows:

Fair Value Measurements Using:

<u>December 31, 2015</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Limited partnerships	\$ 464,056	\$ -	\$ -	\$ 464,056
Stocks	261,864	260,864	-	1,000
Mutual funds	247,355	247,355	-	-
Hedge funds	<u>4,690</u>	<u>-</u>	<u>-</u>	<u>4,690</u>
Totals	<u>\$ 977,965</u>	<u>\$ 508,219</u>	<u>\$ -</u>	<u>\$ 469,746</u>

CYSTINOSIS RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

3. FAIR VALUE MEASUREMENTS (Continued)

<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	\$ 478,832	\$ -	\$ 1,000
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>\$ 729,161</u>	<u>\$ -</u>	<u>\$ 324,012</u>

The following table sets forth a summary of changes in hedge funds and limited partnerships, which are Level 3 assets, for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
<u>Hedge Funds</u>		
Beginning balances	\$ 323,012	\$ 316,649
Purchases	1,584	-
Sales	(321,643)	-
Net gains (losses) - realized/unrealized	<u>1,737</u>	<u>6,363</u>
Ending balances	<u>\$ 4,690</u>	<u>\$ 323,012</u>

	<u>2015</u>	<u>2014</u>
<u>Limited Partnerships</u>		
Beginning balances	\$ -	\$ -
Purchases	500,000	-
Sales	(11,482)	-
Net gains (losses) - realized/unrealized	<u>(24,462)</u>	<u>-</u>
Ending balances	<u>\$ 464,056</u>	<u>\$ -</u>

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

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 16,020	\$ 9,472
Realized gains	55,943	105,646
Unrealized losses	(73,874)	(69,869)
Investment fees	<u>(9,125)</u>	<u>(12,924)</u>
Investment returns ó net gain (loss)	<u>\$ (11,036)</u>	<u>\$ 32,325</u>

**CYSTINOSIS RESEARCH FOUNDATION
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DECEMBER 31, 2015 AND 2014**

4. GRANTS PAYABLE

During the years ended December 31, 2015 and 2014, CRF committed to fund research grants of approximately \$1,813,000 and \$2,153,000, respectively. At December 31, 2015, CRF had commitments of \$2,135,365 to fund twenty-one grants in the next three years. The award amounts of these grants range from approximately \$75,000 to \$500,000.

Research grants payable as of December 31, 2015 are expected to be paid as follows:

Year Ending December 31,

2016	\$ 1,701,647
2017	396,218
2018	<u>37,501</u>
	2,135,366
Less discount at 0.38% to 1.06%	<u>(15,153)</u>
Research grants payable - net	<u><u>\$ 2,120,213</u></u>

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 \$290,170 and \$231,622 for the years ended December 31, 2015 and 2014, respectively.

For the years ended December 31, 2015 and 2014, CRF received approximately \$626,000 and \$578,000, respectively, from anonymous donors to cover operating and fundraising costs.

**CYSTINOSIS RESEARCH FOUNDATION
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6. CONTRIBUTED SERVICES

For the year ended December 31, 2015, contributions include approximately \$22,000 of in-kind advertising and printing and \$6,100 of in-kind professional services. For the year ended December 31, 2014, contributions included approximately \$39,000 of in-kind advertising and printing and \$14,000 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 years ended December 31, 2015 and 2014 the services totaled approximately \$115,000 and \$227,000, respectively. Another Board member's spouse provides fundraising and administrative consulting services to CRF for the years ended December 31, 2015 and 2014 of approximately \$54,000 and \$57,500, respectively. At December 31, 2015 and 2014, \$600 and \$2,039 were included in accounts payable due to related parties, respectively. At December 31, 2014, \$1,736 was due from a board member and was repaid shortly after year-end.

8. RECLASSIFICATIONS

Certain figures for the year ended December 31, 2014 have been reclassified to conform to the year ended December 31, 2015 presentation.