

**CYSTINOSIS RESEARCH FOUNDATION
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2018

WITH INDEPENDENT AUDITORS' REPORT

CYSTINOSIS RESEARCH FOUNDATION AND SUBSIDIARY
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NATALIE’S WISH

Natalie’s wish, ‘*To have my disease go away forever*’ – those seven words provided the inspiration 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 – and the wish of others with cystinosis – a reality.

MISSION STATEMENT

CRF’s mission is to support bench, clinical and translational 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 which has the potential to significantly improve the quality of life for patients with cystinosis.

CRF announces two global calls for research proposals each year. After careful evaluation of every application by the CRF Scientific Review Board, research grants are awarded. 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 – 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 fund provider of cystinosis research in the world – raising more than \$45 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 the funds donated goes to support cystinosis research.

We are pleased to announce that during the 12 month period ending June 30, 2018, CRF awarded 16 new grants totaling \$2.8 million for cystinosis research. The new grants bring us that much closer to better treatments and a cure.

CRF has issued grants, funded equipment purchases and on-going studies to the best and brightest researchers in the world. To date, we have funded 175 multi-year research studies at leading research institutions in 12 countries. CRF-funded researchers have published more than 72 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 that CRF 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.

In 2016, CRF formed Nanowafer, Inc., formerly known as Corneal Cystinolysis, Inc., for the purpose of research and development of a novel treatment for corneal cystinosis. The treatment proposes to use a nanowafer loaded with cysteamine medication to treat corneal cystinosis. CRF owns the license for the cysteamine nanowafer which was discovered by a scientist at Baylor College of Medicine. CRF is committed to this project and expects to file a new drug application in 2019.

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 together 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 2018. Once it is approved, we can help recruit patients soon thereafter. Dr. Cherqui’s work is our hope;

not only has the treatment reversed cystinosis in mice, last year she successfully cured corneal cystinosis in the mouse model.

CYSTINOSIS RESEARCH HELPS OTHERS

Many of the discoveries made by CRF researchers are currently being applied to other more prevalent and well-known disorders and diseases including other corneal diseases, kidney diseases and genetic and systemic diseases similar to cystinosis. Support for cystinosis research has reached far beyond the cystinosis community. **A cure for cystinosis will help find cures for other diseases potentially helping millions of people.**

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 2018, 61 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 576 cystinosis patients registered from 44 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. The symposium has created a synergistic research community working in partnership with CRF.

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Cystinosis Research Foundation and Subsidiary
Irvine, California

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, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year ended June 30, 2018, 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 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 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.

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, 2018, 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.

White Nelson Dick Evans LLP

Irvine, California
November 14, 2018

CYSTINOSIS RESEARCH FOUNDATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

Assets:	
Current Assets:	
Cash and cash equivalents	\$ 7,214,243
Receivables:	
Pledges	112,250
Grant	50,000
Other	61
Investments	1,610,731
Prepaid expenses	<u>133,730</u>
Total Assets	<u><u>\$ 9,121,015</u></u>
Liabilities:	
Current Liabilities:	
Accounts payable	\$ 130,996
Grants payable - current portion	1,884,663
Accrued expenses	<u>2,431</u>
Total Current Liabilities	2,018,090
Long-Term Liability:	
Grants payable, net of current portion and discount	<u>270,424</u>
Total Liabilities	2,288,514
Net Assets - Unrestricted	<u>6,832,501</u>
Total Liabilities and Net Assets	<u><u>\$ 9,121,015</u></u>

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, 2018

Unrestricted:	
Revenues and Other Support:	
Contributions	\$ 1,459,860
Fundraising, net of direct benefits to donors	<u>3,109,295</u>
Total Revenues and Other Support	<u>4,569,155</u>
Investment Revenues, Net:	
Interest	25,940
Investment returns - net	<u>73,064</u>
Total Investment Revenues, Net	<u>99,004</u>
Total Revenues and Other Support	4,668,159
Expenses:	
Program services:	
Research and education	3,314,474
Nanowafer research and development	<u>158,173</u>
Total Program Services	3,472,647
Supporting services:	
General and administrative	180,751
Fundraising	<u>616,935</u>
Total Supporting Services	<u>797,686</u>
Total Expenses	<u>4,270,333</u>
Increase in Unrestricted Net Assets	397,826
Unrestricted Net Assets, Beginning of Year	<u>6,434,675</u>
Unrestricted Net Assets, End of Year	<u><u>\$ 6,832,501</u></u>

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, 2018**

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
Accounting	\$ -	\$ 25,962	\$ 23,225	\$ 49,187
Advertising/Public relations	8,175	-	121,984	130,159
Auction items	-	-	8,553	8,553
Credit card fees	-	-	32,214	32,214
Education	298,143	-	-	298,143
Grants	2,811,234	-	-	2,811,234
Insurance	-	6,989	-	6,989
Magazine	56,307	-	85,601	141,908
Other	-	3,971	68,612	72,583
Outside services	30,353	45,657	90,867	166,877
Patient registry	9,063	-	-	9,063
Photography	-	-	42,918	42,918
Postage	-	5,001	696	5,697
Printing	-	4,406	21,376	25,782
Salaries	-	-	58,014	58,014
Supplies	-	5,512	22,563	28,075
Symposium	99,789	-	-	99,789
Taxes - payroll	-	-	4,671	4,671
Telephone	-	209	-	209
Tournament site	-	-	11,285	11,285
Travel	1,410	9,254	24,356	35,020
Website and software	-	52,256	-	52,256
Total Expenses before NanoWafer, Inc.	3,314,474	159,217	616,935	4,090,626
NanoWafer, Inc.:				
Nanowafer research and development	158,173	-	-	158,173
Professional fees	-	20,192	-	20,192
Other	-	1,342	-	1,342
	<u>158,173</u>	<u>21,534</u>	<u>-</u>	<u>179,707</u>
Total Expenses	\$ 3,472,647	\$ 180,751	\$ 616,935	\$ 4,270,333

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, 2018

Cash Flows from Operating Activities:	
Increase in unrestricted net assets	\$ 347,826
Adjustments to reconcile increase in unrestricted net assets to net cash and cash equivalents provided by operating activities:	
Realized gains on sales of investments	(25,797)
Unrealized gain on investments	(12,455)
Discount on pledges	1,706
Changes in assets and liabilities:	
(Increases) decreases in:	
Receivables	827,482
Prepaid expenses	(64,734)
Increases (decreases) in:	
Accounts payable	92,343
Accrued expenses	(938)
Grants payable	474,360
Total Adjustments	<u>1,291,967</u>
Net Cash and Cash Equivalents Provided by Operating Activities	1,639,793
Cash Flows from Investing Activities:	
Purchases of investments	(587,635)
Proceeds from sales of investments	517,220
Gains on sales of investments	<u>25,797</u>
Net Cash and Cash Equivalents Used in Investing Activities	<u>(44,618)</u>
Net Increase in Cash and Cash Equivalents	1,595,175
Cash and Cash Equivalents, Beginning of Year	<u>5,569,068</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 7,164,243</u></u>
Supplemental Disclosure of Cash Flow Information:	
Cash paid during the year for:	
Interest	<u>\$ 290</u>
Income taxes	<u>\$ -</u>

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

CYSTINOSIS RESEARCH FOUNDATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

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

The 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 Cystinosis, Inc. (“CCI”) as a Texas corporation. The business plan of CCI is to improve treatment for corneal cystinosis. This subsidiary is 100 percent owned by CRF. In December 2017, CCI filed with the states of California and Texas to have the corporate name changed to NanoWafer, Inc.

Principles of Consolidation

The consolidated financial statements include the accounts of CRF and NanoWafer, Inc. Collectively, these entities are referred to as the “Foundation.” All intercompany balances and transactions have been eliminated in the consolidation.

Basis of Accounting

The consolidated financial statements of the Foundation 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

The Foundation 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 - Unrestricted net assets are 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 - Temporarily restricted net assets are 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 June 30, 2018, there were no temporarily restricted net assets.

Permanently Restricted Net Assets - Permanently restricted net assets are net assets that are subject to donor-imposed restrictions that may be maintained permanently while permitting the Foundation to use or expense part or all of the income derived from the donated assets. At June 30, 2018, there were no permanently restricted net assets.

CYSTINOSIS RESEARCH FOUNDATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

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

Use of Estimates and Assumptions

The preparation of the consolidated financial statements in accordance 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 consolidated 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 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.

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 statement of activities and the consolidated statement of financial position.

Pledges Receivable

Pledges receivable are unconditional promises to give toward the Foundation's programs and are recorded as revenue when the pledge is received. At June 30, 2018, the Foundation had pledges receivable of \$112,250 and considered all are fully collectible. Accordingly, there were no allowances for doubtful pledges.

CYSTINOSIS RESEARCH FOUNDATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

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

Investments and Fair Value Measurements

The carrying value of the Foundation's cash and cash equivalents, pledges receivable, grant receivable, other receivables, prepaid expenses, accounts payable, and accrued expenses approximates their respective fair values due to their short maturities. 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. The hedge funds are valued based upon the internal financial statements of the various Portfolio Funds within the hedge fund or from redemption values at June 30, 2018. 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. 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 five to seven years for software and the website. Property and the intangible asset of \$56,838 were fully depreciated at June 30, 2018.

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 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, 2018.

CYSTINOSIS RESEARCH FOUNDATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1: Nature of Business and 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 consolidated statement of activities and the consolidated statement of functional expenses. CRF achieves some of its programmatic goals with its magazine. The joint costs of approximately \$138,000 associated with the magazine have been allocated to program services and fundraising. Certain other costs have also been allocated among the programs and supporting services benefited.

The major programs of the Foundation are as follows:

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. 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.

Education - CRF is dedicated to educating the public and the medical/scientific community about cystinosis to ensure early diagnosis and proper treatments. 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.

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

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 of income taxes has been made in the accompanying consolidated financial statements.

NanoWafer, Inc. 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 the financial statements and consist of taxes currently due or refundable plus deferred taxes. NanoWafer, Inc. accounts for income taxes under the asset and liability method.

CYSTINOSIS RESEARCH FOUNDATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

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

Income Taxes (Continued)

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 on deferred tax assets and liabilities of a change in tax rates 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, 2018, 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, 2018, 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, 2018, was approximately \$130,000. For the year ended June 30, 2018, approximately \$27,500 of advertising expense was in-kind donations.

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. The ASU 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, 2019; 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.

CYSTINOSIS RESEARCH FOUNDATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

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

New Accounting Pronouncements (Continued)

On August 18, 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which finalizes proposed ASU 2015-230 and simplifies and improves the manner in which a not-for-profit entity classifies its net assets, as well as the information that it presents in financial statements and notes concerning liquidity, financial performance, and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted prospectively as of the beginning of an interim or annual reporting period. The Foundation is currently evaluating the impact of the provisions of ASU 2016-14 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 should assist 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 is currently evaluating the impact of the provisions of ASU 2018-08 on the presentation of its consolidated financial statements.

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.

Using Level 3 inputs, the hedge funds and limited partnerships were primarily valued using internal financial statements of the various portfolio funds within the hedge funds and limited partnerships or from redemption values at June 30, 2018. Valuation techniques, which are utilized to determine fair value, are applied consistently.

CYSTINOSIS RESEARCH FOUNDATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

Note 2: Fair Value Measurements (Continued)

The fair value of assets measured on a recurring basis at June 30, 2018, is as follows:

	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Limited partnerships	\$ 780,108	\$ -	\$ -	\$ 780,108
Stocks	351,077	351,077	-	-
Mutual funds	<u>479,546</u>	<u>479,546</u>	-	-
Total	<u>\$ 1,610,731</u>	<u>\$ 830,623</u>	<u>\$ -</u>	<u>\$ 780,108</u>

The following table sets forth a summary of changes in hedge funds, which are Level 3 assets, for the year ended June 30, 2018:

Hedge Funds:	
Beginning balances	\$ 2,699
Purchases	-
Sales	(1,668)
Net losses - realized/unrealized	<u>(1,031)</u>
Ending Balances	<u>\$ -</u>

The following table sets forth a summary of changes in limited partnerships, which are Level 3 assets, for the year ended June 30, 2018:

Limited Partnerships:	
Beginning balances	\$ 771,163
Purchases	293,724
Sales	(322,354)
Net gains (losses) - realized/unrealized	<u>37,575</u>
Ending Balances	<u>\$ 780,108</u>

The following summarizes the investment returns in the consolidated statement of activities for the year ended June 30, 2018:

Interest and dividends	\$ 47,845
Realized gains	25,797
Unrealized gains	12,455
Investment fees	<u>(13,033)</u>
Investment Returns - Net	<u>\$ 73,064</u>

CYSTINOSIS RESEARCH FOUNDATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

Note 3: Grants Payable

During the year ended June 30, 2018, the Foundation expended approximately \$2,811,000 for research grants. At June 30, 2018, the Foundation had commitments of \$2,173,000 to fund 22 grants in the next two years. The award amounts of these grants range from approximately \$31,000 to \$380,000.

Research grants payable at June 30, 2018, are expected to be paid as follows:

		\$	
2019		1,884,663	
2020		<u>288,897</u>	
		2,173,560	
Less: Discount at 1.20% to 2.52%		<u>(18,473)</u>	
Research Grants Payable - Net		<u>\$ 2,155,087</u>	

Note 4: Common Stock

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

Note 5: Revenues and Support

By hosting two major events each year in Orange County, California, the Foundation receives the majority of its revenues from these fundraising events, which are the Natalie's Wish Gala Celebration and the Fore a Cure Golf Tournament. Each of these fundraisers 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 \$233,615 for the year ended June 30, 2018.

For the year ended June 30, 2018, the Foundation received approximately \$1,000,000 in contributions from anonymous donors to cover operating and fundraising costs.

Note 6: Contributed Services

For the year ended June 30, 2018, contributions include approximately \$27,500 of in-kind advertising and \$4,300 of in-kind professional 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.

CYSTINOSIS RESEARCH FOUNDATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

Note 7: Related-Party Transactions

A board member’s spouse provided fundraising and administrative consulting services to CRF for the year ended June 30, 2018, of approximately \$59,500. At June 30, 2018, approximately \$5,000, which is included in accounts payable, was due to related parties.

CRF awards grants to research institutions naming specific researchers. During 2018, CRF granted approximately \$449,000 to the University of California, San Diego (“UCSD”) on behalf of a researcher who is also a board member. At June 30, 2018, approximately \$319,000 was included in grants payable to UCSD.

Note 8: Income Taxes

NanoWafer, Inc.’s net operating loss (“NOL”) carryforwards of approximately \$779,000 will begin to expire in 2036 for federal and state purposes and could be limited for use under IRC Section 382. NanoWafer, Inc. 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, Inc. files its income tax compliance with the IRS and in the states of California and Texas with varying statutes of limitations. NanoWafer, Inc.’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, 2018.

The net deferred tax asset consists of the following components at June 30, 2018:

Deferred tax asset:	
NOL carryforwards:	
Federal	\$ 253,500
State	<u>68,900</u>
	322,400
Valuation allowance	<u>(322,400)</u>
Net Deferred Tax Asset	<u>\$ -</u>

CYSTINOSIS RESEARCH FOUNDATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

Note 8: Income Taxes (Continued)

The deferred income tax provision is summarized as follows:

Federal income tax benefit	\$ 53,300
State income tax benefit	<u>15,900</u>
Total income tax benefit	69,200
Change in valuation allowance	<u>(69,200)</u>
Income Tax Benefit - Net	<u><u>\$ -</u></u>

NanoWafer, Inc. 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 9: Subsequent Events

The Foundation has evaluated subsequent events through November 14, 2018, the date the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

The Board of Directors
Cystinosis Research Foundation and Subsidiary
Irvine, California

We have audited the consolidated financial statements of Cystinosis Research Foundation and subsidiary (a nonprofit organization) (the "Foundation") as of June 30, 2018, and our report thereon dated November 14, 2018, 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 14, 2018

CYSTINOSIS RESEARCH FOUNDATION AND SUBSIDIARY
SCHEDULE I - CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

	Cystinosis Research Foundation	NanoWafer, Inc.	Eliminations	Consolidated Total
Assets:				
Current Assets:				
Cash and cash equivalents	\$ 7,067,054	\$ 147,189	\$ -	\$ 7,214,243
Receivables:				
Note receivable - NanoWafer, Inc.	875,000	-	(875,000)	-
Pledges	112,250	-	-	112,250
Grant	50,000	-	-	50,000
Other	61	-	-	61
Investments	1,610,731	-	-	1,610,731
Prepaid expenses	38,730	95,000	-	133,730
	<u>9,753,826</u>	<u>242,189</u>	<u>(875,000)</u>	<u>9,121,015</u>
Total Current Assets				
	<u>\$ 9,753,826</u>	<u>\$ 242,189</u>	<u>\$ (875,000)</u>	<u>\$ 9,121,015</u>
Total Assets				
	<u>\$ 9,753,826</u>	<u>\$ 242,189</u>	<u>\$ (875,000)</u>	<u>\$ 9,121,015</u>
Liabilities:				
Current Liabilities:				
Note payable	\$ -	\$ 875,000	\$ (875,000)	\$ -
Accounts payable	34,904	96,092	-	130,996
Grants payable - current portion	1,884,663	-	-	1,884,663
Accrued expenses	2,431	-	-	2,431
	<u>1,921,998</u>	<u>971,092</u>	<u>(875,000)</u>	<u>2,018,090</u>
Total Current Liabilities				
Net Liabilities of Subsidiary	728,903	-	(728,903)	-
Long-Term Liability - Grants Payable, Net of Current Portion	<u>270,424</u>	<u>-</u>	<u>-</u>	<u>270,424</u>
Total Liabilities	2,921,325	971,092	(1,603,903)	2,288,514
Net Assets - Unrestricted	<u>6,832,501</u>	<u>(728,903)</u>	<u>728,903</u>	<u>6,832,501</u>
Total Liabilities and Net Assets	<u>\$ 9,753,826</u>	<u>\$ 242,189</u>	<u>\$ (875,000)</u>	<u>\$ 9,121,015</u>

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, 2018

	Cystinosis Research Foundation	NanoWafer, Inc.	Eliminations	Consolidated Total
Unrestricted:				
Revenues and Support:				
Contributions	\$ 1,459,860	\$ -	\$ -	\$ 1,459,860
Fundraising, net of direct benefits to donors	3,109,295	-	-	3,109,295
Interest	25,940	-	-	25,940
Investment returns - net	73,064	-	-	73,064
Total Revenues and Support	4,668,159	-	-	4,668,159
Expenses:				
Program services:				
Research and education	3,314,474	-	-	3,314,474
NanoWafer, Inc.	-	158,173	-	158,173
Total Program Services	3,314,474	158,173	-	3,472,647
Supporting services:				
General and administrative	159,217	21,534	-	180,751
Fundraising	616,935	-	-	616,935
Total Supporting Services	776,152	21,534	-	797,686
Loss from subsidiary	179,707	-	(179,707)	-
Total Expenses	4,270,333	179,707	(179,707)	4,270,333
Increase (Decrease) in Unrestricted Net Assets	397,826	(179,707)	179,707	397,826
Unrestricted Net Assets, Beginning of Year	6,434,675	(549,196)	549,196	6,434,675
Unrestricted Net Assets, End of Year	<u>\$ 6,832,501</u>	<u>\$ (728,903)</u>	<u>\$ 728,903</u>	<u>\$ 6,832,501</u>

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