

ALLIANCE FOR LUPUS RESEARCH, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2015 AND 2014

ALLIANCE FOR LUPUS RESEARCH, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Alliance for Lupus Research, Inc.

We have audited the accompanying financial statements of Alliance for Lupus Research, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities 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 of 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alliance for Lupus Research, Inc. 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.

Lotz + Carr, LLP

New York, New York
May 24, 2016

ALLIANCE FOR LUPUS RESEARCH, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Assets		
Cash and cash equivalents (Notes 1b and 3)	\$ 6,164,997	\$ 7,591,059
Investments (Notes 1c, 1d and 4)	50,425,764	53,444,000
Unconditional promises to give (Notes 1e and 6)	4,660,067	1,332,793
Prepaid expenses and other current assets	122,948	39,642
Land and building held for resale (Note 7)	1,600,000	1,600,000
Property and equipment, at cost, net of accumulated depreciation (Notes 1f and 8)	45,544	55,086
Security deposit	<u>94,708</u>	<u>94,708</u>
Total Assets	<u>\$63,114,028</u>	<u>\$64,157,288</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and other current liabilities	\$ 251,632	\$ 444,248
Research grants payable (Notes 1h and 9)	14,628,932	14,186,264
Security deposits payable (Note 10)	<u>12,675</u>	<u>12,675</u>
Total Liabilities	<u>14,893,239</u>	<u>14,643,187</u>
Commitments and Contingency (Notes 10 and 11)		
Net Assets (Deficit)		
Unrestricted		
Undesignated	3,500,989	(961,394)
Board designated endowment (Notes 2a and 5)	<u>44,173,045</u>	<u>48,100,254</u>
Total Unrestricted	47,674,034	47,138,860
Temporarily restricted (Note 2b)	<u>546,755</u>	<u>2,375,241</u>
Total Net Assets	<u>48,220,789</u>	<u>49,514,101</u>
Total Liabilities and Net Assets	<u>\$63,114,028</u>	<u>\$64,157,288</u>

See notes to financial statements.

ALLIANCE FOR LUPUS RESEARCH, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015				2014			
	Unrestricted	Board Designated	Temporarily Restricted	Total	Unrestricted	Board Designated	Temporarily Restricted	Total
Changes in Net Assets								
Revenue and Other Support								
Contributions (Note 1a)	\$11,072,554	\$ -	\$ 546,755	\$11,619,309	\$ 5,832,307	\$ -	\$ 2,375,241	\$ 8,207,548
Special events income	1,819,480	-	-	1,819,480	2,195,252	-	-	2,195,252
Less: Expenses directly benefiting contributors	(164,278)	-	-	(164,278)	(193,958)	-	-	(193,958)
Walkathon income	2,032,127	-	-	2,032,127	2,323,909	-	-	2,323,909
Less: Expenses directly benefiting contributors	(31,729)	-	-	(31,729)	(28,068)	-	-	(28,068)
Investment income (loss), net of investment fees of \$52,444 (2015) and \$52,355 (2014) (Notes 1c and 4)	(164,354)	(1,498,278)	-	(1,662,632)	250,614	3,340,405	-	3,591,019
Sublease income (Note 10a)	84,093	-	-	84,093	81,648	-	-	81,648
Merchandise sales, net	118	-	-	118	675	-	-	675
Property expenses and reimbursements (Note 7)	(58,324)	-	-	(58,324)	(59,590)	-	-	(59,590)
Board designated endowment earnings used for operations (Notes 2a and 5)	2,428,931	(2,428,931)	-	-	2,193,188	(2,193,188)	-	-
	<u>17,018,618</u>	<u>(3,927,209)</u>	<u>546,755</u>	<u>13,638,164</u>	<u>12,595,977</u>	<u>1,147,217</u>	<u>2,375,241</u>	<u>16,118,435</u>
Net assets released from restrictions								
Satisfaction of program restrictions	2,375,241	-	(2,375,241)	-	20,000	-	(20,000)	-
	<u>19,393,859</u>	<u>(3,927,209)</u>	<u>(1,828,486)</u>	<u>13,638,164</u>	<u>12,615,977</u>	<u>1,147,217</u>	<u>2,355,241</u>	<u>16,118,435</u>
Total Revenue and Other Support								
Expenses								
Program Services								
Research	9,578,918	-	-	9,578,918	9,540,288	-	-	9,540,288
Scientific programs	1,849,087	-	-	1,849,087	1,092,212	-	-	1,092,212
Public policy	152,897	-	-	152,897	123,897	-	-	123,897
Total Program Services	<u>11,580,902</u>	<u>-</u>	<u>-</u>	<u>11,580,902</u>	<u>10,756,397</u>	<u>-</u>	<u>-</u>	<u>10,756,397</u>
Supporting Services								
Administration	1,245,284	-	-	1,245,284	906,672	-	-	906,672
Fundraising	2,105,290	-	-	2,105,290	1,982,872	-	-	1,982,872
Total Supporting Services	<u>3,350,574</u>	<u>-</u>	<u>-</u>	<u>3,350,574</u>	<u>2,889,544</u>	<u>-</u>	<u>-</u>	<u>2,889,544</u>
Total Expenses	<u>14,931,476</u>	<u>-</u>	<u>-</u>	<u>14,931,476</u>	<u>13,645,941</u>	<u>-</u>	<u>-</u>	<u>13,645,941</u>
Increase (decrease) in net assets	4,462,383	(3,927,209)	(1,828,486)	(1,293,312)	(1,029,964)	1,147,217	2,355,241	2,472,494
Net assets (deficit), beginning of year	(961,394)	48,100,254	2,375,241	49,514,101	68,570	46,953,037	20,000	47,041,607
	<u>\$ 3,500,989</u>	<u>\$44,173,045</u>	<u>\$ 546,755</u>	<u>\$48,220,789</u>	<u>\$ (961,394)</u>	<u>\$48,100,254</u>	<u>\$ 2,375,241</u>	<u>\$49,514,101</u>
Net Assets (Deficit), End of Year								

See notes to financial statements.

ALLIANCE FOR LUPUS RESEARCH, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ (1,293,312)	\$ 2,472,494
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	31,360	32,659
Realized gain on sale of investments	(1,565,737)	(490,393)
Unrealized (gain) loss on investments	4,909,766	(1,471,509)
(Increase) decrease in:		
Unconditional promises to give	(3,327,274)	(590,962)
Prepaid expenses and other current assets	(83,306)	124,061
Security deposit	-	(1,300)
Increase (decrease) in:		
Accounts payable and other current liabilities	(192,616)	216,423
Research grants payable	442,668	1,598,076
Net Cash Provided (Used) By Operating Activities	(1,078,451)	1,889,549
 Cash Flows From Investing Activities		
Acquisition of property and equipment	(21,818)	(10,125)
Purchase of investments	(13,273,107)	(6,478,475)
Proceeds from sale of investments	12,947,314	5,160,885
Net Cash Used By Investing Activities	(347,611)	(1,327,715)
 Net increase (decrease) in cash and cash equivalents	(1,426,062)	561,834
Cash and cash equivalents, beginning of year	7,591,059	7,029,225
 Cash and Cash Equivalents, End of Year	\$ 6,164,997	\$ 7,591,059

See notes to financial statements.

ALLIANCE FOR LUPUS RESEARCH, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2015 AND 2014****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

The Alliance for Lupus Research, Inc. (ALR) is a national voluntary 501(c)(3) health organization based in New York City and chaired by Robert Wood Johnson IV, a member of the founding family of Johnson & Johnson. ALR is a Delaware nonprofit corporation, created on June 13, 1999. The mission of the ALR is to find better treatments and ultimately prevent and cure systemic lupus erythematosus (SLE or lupus), a debilitating autoimmune disease, by supporting medical research. Lupus is a chronic autoimmune disease that causes inflammation and tissue damage to any organ system in the body. The health effects of lupus include heart attacks, strokes, seizures, organ failure, and possible death. More information can be found at lupusresearch.org.

Since its founding in 1999, ALR has committed approximately \$106 million to fund lupus research projects. All supporting services are funded by contributions from the Board of Directors. One hundred percent (100%) of all other donations to ALR are available to support lupus research programs.

ALR received 56% of its contributions from one trust and one corporation during the year ended December 31, 2015 and 28% of its contributions from one trust during the year ended 2014.

The Board of Directors of ALR, along with the Boards of Directors SLE Lupus Foundation ("SLE") and the Lupus Research Institute ("LRI") unanimously voted in February 2015 to merge the three organizations subject to the approval of the New York State Attorney General. SLE and LRI will be dissolved and merged into the ALR, the surviving entity. The ALR will change its name to Lupus Research Alliance and the combined entity will continue current lupus research programs. The merger documents were sent to the New York State Attorney General for approval on November 12, 2015. As of the date of this report the official merger date has not yet been finalized but is expected to occur in 2016.

b - Cash and Cash Equivalents

For purposes of the statement of cash flows, ALR considers all short-term investments to be cash equivalents, except for those short-term investments managed by ALR's investment managers as part of their long-term investment strategies.

At December 31, 2015 and 2014, included in cash and cash equivalents is approximately \$1,637,000 and \$4,471,000, respectively, being held in interest bearing accounts.

c - Investments

ALR reflects investments at fair value in the statement of financial position. Investment income including unrealized gains and losses on investments are reflected in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

ALLIANCE FOR LUPUS RESEARCH, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2015 AND 2014****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****c - Investments (continued)**

Alternative investments, which do not have readily determinable fair values, are reported based upon the underlying net asset value per share or its equivalent as a practical expedient. Net asset value per share is estimated at fair value by the fund manager or general partner in a manner consistent with accounting principles generally accepted in the United States for investment companies. ALR reviews and evaluates the values provided by the fund managers and general partners and agrees with the valuation methods and assumptions used in determining the net asset values of these investments. These estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed.

d - Fair Value Measurements

Fair value is an estimate of the exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e., the exit price at the measurement date). Fair value measurements are not adjusted for transaction costs. Fair value hierarchy prioritizes inputs to valuation techniques used to measure fair value into three levels.

Unadjusted quoted prices in active markets for identical assets and liabilities are referred to as Level 1 inputs. Inputs other than quoted market prices that are observable, either directly or indirectly and reasonably available are referred to as Level 2 inputs. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of ALR. Unobservable inputs reflect the assumptions that ALR develops based on available information about what market participants would use in valuing the asset or liability and are referred to as Level 3 inputs.

An asset or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Availability of observable inputs can vary and is affected by a variety of factors.

e - Unconditional Promises to Give and Contributions

Contributions are recognized when the donor makes a promise to give to ALR, that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. ALR uses the allowance method to determine uncollectible promises to give. Such allowance, when necessary, is based on prior years' experience and management's analysis of specific promises made.

ALLIANCE FOR LUPUS RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 1 - Organization and Summary of Significant Accounting Policies (continued)f - Property and Equipment

Property, equipment, and leasehold improvements are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets.

g - Financial Statement Presentation

ALR is required to report 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. In addition, ALR is required to present a statement of cash flows.

h - Grants Awarded

Grants awarded are recognized as expenses in the period the award is made at fair value.

i - Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

j - Tax Status

Alliance for Lupus Research, Inc. is a not-for-profit corporation that is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

k - Subsequent Events

ALR has evaluated subsequent events through May 24, 2016, the date that the financial statements are considered available to be issued.

l - New Accounting Pronouncements

In May 2015, the FASB issued Accounting Standards Update ASU No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)* which amends disclosure requirements of Accounting Standards Codification Topic 820, Fair Value Measurement, for reporting entities that measure the fair value of an investment using the net asset value per share (or its equivalent) as a practical expedient. The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient, and also remove the requirements to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The ASU is effective for the fiscal years beginning after December 15, 2016, with early application permitted. ALR elected to adopt ASU 2015-07 as of December 31, 2015.

ALLIANCE FOR LUPUS RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 2 - Restrictions on Assets

a - Board Designated Endowment

The Board of Directors established a board designated endowment for lupus research, which was funded by a \$40,000,000 contribution.

b - Temporarily Restricted

Temporarily restricted net assets at December 31, 2015 and 2014 are restricted for the following future programs and periods:

	<u>2015</u>	<u>2014</u>
Clinical trials	\$546,755	\$ -
Drug re-positioning program	-	2,039,721
Gala sponsorship	-	300,000
Walks	-	35,520
	<u>\$546,755</u>	<u>\$2,375,241</u>

Note 3 - Concentration of Credit Risk

ALR maintains its cash balances in a number of financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at December 31, 2015.

Note 4 - Investments

Investments consist of the following at December 31:

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Common stock - Domestic	\$11,322,466	\$18,079,336	\$12,848,522	\$19,934,163
Mutual Funds:				
Equities	20,131,916	18,080,645	19,624,835	21,847,555
Bonds	9,343,640	8,779,794	10,762,254	10,504,810
Cash and short-term investments	286,591	286,591	1,157,472	1,157,472
Alternative Investments:				
Global multi-strategy	2,600,000	2,592,387	-	-
Relative value	2,600,000	2,607,011	-	-
	<u>\$46,284,613</u>	<u>\$50,425,764</u>	<u>\$44,393,083</u>	<u>\$53,444,000</u>

At December 31, 2015 and 2014, common stock-domestic was invested in one Fortune 500 company.

ALLIANCE FOR LUPUS RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 4 - Investments (continued)

The following summarizes the fair value of the investments that are measured on a recurring basis at December 31:

	2015	
	<u>Total</u>	<u>Level 1</u>
Common stock - Domestic	\$18,079,336	\$18,079,336
Mutual Funds:		
Equities	18,080,645	18,080,645
Bonds	8,779,794	8,779,794
Short-term investments	<u>286,591</u>	<u>286,591</u>
Total Assets in Fair Value Hierarchy	45,226,366	<u><u>\$45,226,366</u></u>
Investments measured at net asset value	<u>5,199,398</u>	
Total Investments	<u><u>\$50,425,764</u></u>	
	2014	
	<u>Total</u>	<u>Level 1</u>
Common stock - Domestic	\$19,934,163	\$19,934,163
Mutual Funds:		
Equities	21,847,555	21,847,555
Bonds	10,504,810	10,504,810
Short-term investments	<u>1,157,472</u>	<u>1,157,472</u>
Total Assets in Fair Value Hierarchy	<u><u>\$53,444,000</u></u>	<u><u>\$53,444,000</u></u>

Net investment income for the years ended December 31, 2015 and 2014 is summarized as follows:

	2015		
		Board	
	<u>Unrestricted</u>	<u>Designated Endowment</u>	<u>Total</u>
Interest and dividends	\$ 176,029	\$ 1,557,812	\$ 1,733,841
Realized gain on sale of investments	155,778	1,409,959	1,565,737
Unrealized loss on investments	<u>(490,917)</u>	<u>(4,418,849)</u>	<u>(4,909,766)</u>
	(159,110)	(1,451,078)	(1,610,188)
Investment fees	<u>(5,244)</u>	<u>(47,200)</u>	<u>(52,444)</u>
Net Investment Loss	<u><u>\$(164,354)</u></u>	<u><u>\$(1,498,278)</u></u>	<u><u>\$(1,662,632)</u></u>

ALLIANCE FOR LUPUS RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 4 - Investments (continued)

	<u>2014</u>		
	Board		
	<u>Unrestricted</u>	<u>Designated Endowment</u>	<u>Total</u>
Interest and dividends	\$112,375	\$1,569,097	\$1,681,472
Realized gain on investments	48,856	441,537	490,393
Unrealized gain on investments	<u>92,672</u>	<u>1,378,837</u>	<u>1,471,509</u>
	253,903	3,389,471	3,643,374
Investment fees	<u>(3,289)</u>	<u>(49,066)</u>	<u>(52,355)</u>
Net Investment Income	<u>\$250,614</u>	<u>\$3,340,405</u>	<u>\$3,591,019</u>

The alternative investments included in ALR's investment portfolio at December 31, 2015 are redeemable based on the following terms and conditions:

Monthly with 45 days' notice	\$1,284,785
Quarterly with 45 days' notice	2,607,011
Quarterly with 60 days' notice	<u>1,307,602</u>
	<u>\$5,199,398</u>

The following are descriptions of the investment strategies of the alternative investments:

Global Multi-Strategy

Invests in global equity markets, fixed income, interest rate products, credit instruments, currencies and commodities.

Relative Value

Invests in fixed income arbitrage, convertible securities arbitrage, Asian markets, capital structure arbitrage, value credit opportunities, equity securities and distressed credit and equity opportunities.

ALLIANCE FOR LUPUS RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 5 - Endowment Funds

ALR's endowment consists of a board designated endowment which was established to fund research projects and consists solely of funds designated by the Board of Directors to function as an endowment. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Changes in ALR's board designated endowment funds for the years ended December 31, 2015 and 2014 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Endowment funds, beginning of year	\$48,100,254	\$46,953,037
Investment Return:		
Interest and dividends	1,557,812	1,569,097
Net realized and unrealized gains (losses)	(3,008,890)	1,820,374
Investment fees	<u>(47,200)</u>	<u>(49,066)</u>
Total Investment Return (Loss)	<u>(1,498,278)</u>	<u>3,340,405</u>
Endowment earnings used for operations	<u>(2,428,931)</u>	<u>(2,193,188)</u>
Endowment Funds, End of Year	<u>\$44,173,045</u>	<u>\$48,100,254</u>

The board designated endowment was established with a contribution from an anonymous donor (Note 2a). The Board of Directors has established a spending policy of up to 5% per year of the three-year moving average of the market value of the portfolio. Additional funds may be used for special research projects at the Board's discretion.

ALR has adopted an investment policy. To satisfy long-term rate-of-return objectives, the investment policy relies on a total return strategy in which investment returns are achieved through asset appreciation (realized and unrealized) and current yield (interest and dividends). The policy targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives. The asset allocation includes equities, mutual funds, cash, short-term investments and alternative investments.

ALLIANCE FOR LUPUS RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 6 - Unconditional Promises to Give

Unconditional promises to give are due as follows:

	<u>2015</u>		
	Future Programs and Periods		
	<u>Unrestricted</u>	<u>and Periods</u>	<u>Total</u>
Due in less than one year	\$2,151,727	\$ -	\$2,151,727
Due in one to five years	1,987,815	560,722	2,548,537
Due in six to ten years	<u>114,285</u>	<u>-</u>	<u>114,285</u>
	4,253,827	560,722	4,814,549
Less: Discount to present value	<u>(140,515)</u>	<u>(13,967)</u>	<u>(154,482)</u>
	<u>\$4,113,312</u>	<u>\$546,755</u>	<u>\$4,660,067</u>
	<u>2014</u>		
	Future Programs and Periods		
	<u>Unrestricted</u>	<u>and Periods</u>	<u>Total</u>
Due in less than one year	\$178,750	\$ 277,899	\$ 456,649
Due in one to five years	<u>40,000</u>	<u>900,000</u>	<u>940,000</u>
	218,750	1,177,899	1,396,649
Less: Discount to present value	<u>-</u>	<u>(63,856)</u>	<u>(63,856)</u>
	<u>\$218,750</u>	<u>\$1,114,043</u>	<u>\$1,332,793</u>

Uncollectible promises are expected to be insignificant. Unconditional promises to give are discounted to net present value using the discount rate of 3%.

At December 31, 2015 and 2014, approximately 83% and 88%, respectively, of unconditional promises to give were from two donors.

Note 7 - Land and Building Held for Resale

In December 2006, ALR received a donation of land and building (the "Property"). The appraised value of the Property was subsequently adjusted to \$1,600,000, reflecting the depressed real estate market conditions. ALR is actively searching for a buyer.

ALLIANCE FOR LUPUS RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 8 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>2015</u>	<u>2014</u>
Furniture, fixtures and equipment	3-5 years	\$169,731	\$172,907
Computer equipment	3-5 years	106,207	131,496
Leasehold improvements	Life of lease	<u>42,129</u>	<u>42,129</u>
		318,067	346,532
Less: Accumulated depreciation		<u>(272,523)</u>	<u>(291,446)</u>
		<u>\$ 45,544</u>	<u>\$ 55,086</u>

Depreciation expense for the years ended December 31, 2015 and 2014 was \$31,360 and \$32,659, respectively.

Note 9 - Research Grants Payable

Research grants payable are due as follows:

	<u>2015</u>	<u>2014</u>
Due within one year	\$ 9,289,864	\$ 7,049,237
Due within one to three years	<u>5,619,908</u>	<u>7,537,486</u>
	14,909,772	14,586,723
Less: Discount to present value	<u>(280,840)</u>	<u>(400,459)</u>
	<u>\$14,628,932</u>	<u>\$14,186,264</u>

Research grants payable for periods due after one year are discounted to net present value using a discount rate of 3%.

Note 10 - Commitments

a - ALR leases office space in New York for its main office and in Chicago for its branch office. Minimum payments on the leases through December 31, 2016 is \$391,363.

In March, 2016, ALR entered into a lease agreement for a new office space. The term of the lease is for ten years, nine months from the commencement date which is expected to be in August 2016.

ALLIANCE FOR LUPUS RESEARCH, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2015 AND 2014****Note 10 - Commitments (continued)**

a - (continued)

Rent expense for the years ended December 31, 2015 and 2014 was \$480,796 and \$439,181, respectively.

ALR entered into a sublease agreement with a sub-tenant from September 1, 2014 through December 11, 2016. Minimum sublet income through December 11, 2016 will be \$78,870.

Sublease income for the years ended December 31, 2015 and 2014 was \$84,093 and \$81,648, respectively.

b - ALR has commitments of approximately \$665,000 for consulting services through December 31, 2016.

Note 11 - Employee Benefit Plan - Defined Contribution Plan

ALR maintains a defined contribution retirement plan (the "Plan"). ALR contributes up to 4% of each employee's eligible compensation and at ALR's discretion, makes an additional contribution between 4% and 7% the employee's eligible compensation depending on years of service. The contributions are subject to limitations as stated in relevant provisions of the Internal Revenue Code. Total contributions to the plan for the years ended December 31, 2015 and 2014 were \$143,289 and \$109,532, respectively.

Note 12 - Functional Expenses

The cost of providing the various program and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

ALLIANCE FOR LUPUS RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 12 - Functional Expenses (continued)

ALR achieves certain educational goals for its science program during its walkathon promotional events by providing informational discussions and materials regarding lupus research. The cost of conducting those joint activities included joint costs that are not directly attributable to either the program component or the fundraising component of the activities. Those joint costs were allocated as follows:

	<u>2015</u>	<u>2014</u>
Fundraising	\$183,189	\$156,876
Scientific programs	<u>45,797</u>	<u>39,219</u>
Total	<u>\$228,986</u>	<u>\$196,095</u>

SUPPLEMENTARY INFORMATION



LUTZ AND CARR

CERTIFIED PUBLIC ACCOUNTANTS, LLP
300 EAST 42ND ST., NEW YORK, NY 10017
212-697-2299 Fax 212-949-1768

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

To the Board of Directors of
Alliance for Lupus Research, Inc.

We have audited the financial statements of Alliance for Lupus Research, Inc. as of and for the years ended December 31, 2015 and 2014, and our report thereon dated May 24, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses for the year ended December 31, 2015 with comparative totals for 2014 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lutz + Carr, LLP

New York, New York
May 24, 2016

ALLIANCE FOR LUPUS RESEARCH, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2015 WITH COMPARATIVE TOTALS FOR 2014

	Program Services			Supporting Services			2015	2014	
	Research	Scientific Programs	Public Policy	Total	Administration	Fundraising	Total Expenses	Total Expenses	
Salaries	\$ 317,557	\$ 149,993	\$ 70,993	\$ 538,543	\$ 347,674	\$ 812,649	\$1,160,323	\$ 1,698,866	\$ 1,411,328
Payroll taxes and fringe benefits	101,673	48,024	22,730	172,427	111,316	260,188	371,504	543,931	470,240
Total Personnel Expenses	419,230	198,017	93,723	710,970	458,990	1,072,837	1,531,827	2,242,797	1,881,568
Peer reviewed research awards	4,449,437	-	-	4,449,437	-	-	-	4,449,437	8,550,130
Clinical studies award	4,383,936	-	-	4,383,936	-	-	-	4,383,936	-
Professional fees and contract services	46,580	1,040,206	15,000	1,101,786	299,758	167,654	467,412	1,569,198	1,101,329
Occupancy	92,257	43,576	20,625	156,458	101,007	236,092	337,099	493,557	453,437
Printing and publications	19,264	12,688	-	31,952	60,533	112,603	173,136	205,088	193,758
Staff and volunteer travel	17,475	187,943	3,123	208,541	60,718	100,184	160,902	369,443	311,186
Meetings and conferences	35,393	320,028	-	355,421	58,447	7,475	65,922	421,343	400,516
Walkathon promotional events and location expenses	-	-	-	-	-	183,189	183,189	183,189	156,876
Postage, shipping and delivery	691	7,016	-	7,707	20,075	54,727	74,802	82,509	86,347
Management information systems	77,732	17,076	15,503	110,311	52,425	59,718	112,143	222,454	200,159
Supplies	-	2,338	-	2,338	26,685	9,975	36,660	38,998	49,147
Data processing and accounting services	14,660	-	-	14,660	62,615	27,510	90,125	104,785	103,700
Branding and design	-	7,880	-	7,880	14,117	14,456	28,573	36,453	25,082
Telephone	6,335	3,501	1,362	11,198	6,682	16,017	22,699	33,897	31,993
Insurance	5,518	2,606	1,234	9,358	6,041	14,121	20,162	29,520	27,659
Licenses	1,815	857	406	3,078	1,987	4,645	6,632	9,710	15,772
Equipment lease	2,733	1,291	611	4,635	2,992	6,994	9,986	14,621	15,116
Dues and subscriptions	-	1,295	-	1,295	2,642	2,092	4,734	6,029	8,795
Professional development	-	-	-	-	3,152	-	3,152	3,152	712
Total expenses before depreciation	9,573,056	1,846,318	151,587	11,570,961	1,238,866	2,090,289	3,329,155	14,900,116	13,613,282
Depreciation	5,862	2,769	1,310	9,941	6,418	15,001	21,419	31,360	32,659
Total Expenses, 2015	<u>\$9,578,918</u>	<u>\$1,849,087</u>	<u>\$152,897</u>	<u>\$11,580,902</u>	<u>\$ 1,245,284</u>	<u>\$ 2,105,290</u>	<u>\$3,350,574</u>	<u>\$14,931,476</u>	
Total Expenses, 2014	<u>\$9,540,288</u>	<u>\$1,092,212</u>	<u>\$123,897</u>	<u>\$10,756,397</u>	<u>\$ 906,672</u>	<u>\$ 1,982,872</u>	<u>\$2,889,544</u>		<u>\$13,645,941</u>

See independent auditors' report on supplementary information.