

LUPUS RESEARCH ALLIANCE, INC.
(formerly known as Alliance for Lupus Research, Inc.)

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2016

LUPUS RESEARCH ALLIANCE, INC.
(formerly known as Alliance for Lupus Research, Inc.)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Lupus Research Alliance, Inc.
(formerly known as Alliance for Lupus Research, Inc.)

We have audited the accompanying financial statements of Lupus Research Alliance, Inc. (formerly known as Alliance for Lupus Research, Inc.) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year 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 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 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 Lupus Research Alliance, Inc. (formerly known as Alliance for Lupus Research, Inc.) as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Lotz + Carr, LLP

New York, New York
June 6, 2017

LUPUS RESEARCH ALLIANCE, INC.
(formerly known as Alliance for Lupus Research, Inc.)

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016

Assets

Cash and cash equivalents (Notes 2a and 4)	\$ 4,205,786
Investments (Notes 2b, 2c and 5)	52,296,854
Unconditional promises to give (Notes 2d and 7)	7,780,945
Prepaid expenses and other current assets	255,040
Land and building held for resale (Note 8)	1,725,928
Property and equipment, at cost, net of accumulated depreciation (Notes 2e and 9)	670,929
Security deposits	<u>704,053</u>

Total Assets \$67,639,535

Liabilities and Net Assets

Liabilities	
Accounts payable and other current liabilities	\$ 485,285
Grants payable (Notes 2g and 10)	21,604,469
Security deposit payable (Note 11)	28,355
Deferred rent liability (Note 2h)	<u>362,507</u>
Total Liabilities	<u>22,480,616</u>

Commitments and Contingency (Notes 11 and 12)

Net Assets

Unrestricted (Note 3a)	41,267,063
Temporarily restricted (Note 3b)	<u>3,891,856</u>
Total Net Assets	<u>45,158,919</u>

Total Liabilities and Net Assets \$67,639,535

See notes to financial statements.

LUPUS RESEARCH ALLIANCE, INC.
(formerly known as Alliance for Lupus Research, Inc.)

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Changes in Net Assets			
Revenue and Other Support			
Contributions (Notes 1 and 2d)	\$ 9,878,594	\$ 1,765,140	\$11,643,734
Special events income	3,387,646	-	3,387,646
Less: Expenses directly benefiting contributors	(401,225)	-	(401,225)
Walkathon income	2,058,564	-	2,058,564
Less: Expenses directly benefiting contributors	(21,313)	-	(21,313)
Sublease income (Note 11a)	87,058	-	87,058
Merchandise sales, net	(440)	-	(440)
Property expenses and reimbursements (Note 8)	(67,030)	-	(67,030)
Net investment income for operations (Note 5)	599,367	-	599,367
Board designated endowment earnings used for research (Notes 3a and 6)	<u>2,566,823</u>	<u>-</u>	<u>2,566,823</u>
	18,088,044	1,765,140	19,853,184
Net assets released from restrictions			
Satisfaction of program restrictions	<u>312,388</u>	<u>(312,388)</u>	<u>-</u>
Total Revenue and Other Support	<u>18,400,432</u>	<u>1,452,752</u>	<u>19,853,184</u>
Expenses			
Program Services			
Research	17,758,721	-	17,758,721
Scientific programs	3,943,902	-	3,943,902
Public policy	541,256	-	541,256
Total Program Services	<u>22,243,879</u>	<u>-</u>	<u>22,243,879</u>
Supporting Services			
Administration	2,071,205	-	2,071,205
Fundraising	2,724,883	-	2,724,883
Total Supporting Services	<u>4,796,088</u>	<u>-</u>	<u>4,796,088</u>
Total Expenses	<u>27,039,967</u>	<u>-</u>	<u>27,039,967</u>
Increase (Decrease) in Net Assets Before Items Below	(8,639,535)	1,452,752	(7,186,783)
Non-Operating Activities			
Net investment income (Note 5)	4,257,605	-	4,257,605
Board designated endowment earnings used for research (Notes 3a and 6)	(2,566,823)	-	(2,566,823)
Excess of assets over liabilities assumed in donations from merged entities (Note 1)	<u>541,782</u>	<u>1,892,349</u>	<u>2,434,131</u>
Increase (decrease) in net assets	(6,406,971)	3,345,101	(3,061,870)
Net assets, beginning of year	<u>47,674,034</u>	<u>546,755</u>	<u>48,220,789</u>
Net Assets, End of Year	<u><u>\$41,267,063</u></u>	<u><u>\$ 3,891,856</u></u>	<u><u>\$45,158,919</u></u>

See notes to financial statements.

LUPUS RESEARCH ALLIANCE, INC.
(formerly known as Alliance for Lupus Research, Inc.)

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016

Cash Flows From Operating Activities	
Decrease in net assets	\$ (3,061,870)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	87,582
Realized loss on sale of investments	1,983,212
Unrealized gain on investments	(5,768,030)
Excess of assets over liabilities assumed in donations from merged entities	(2,434,131)
Increase in:	
Unconditional promises to give	(1,812,996)
Prepaid expenses and other current assets	(8,398)
Security deposit	(609,345)
Increase in:	
Accounts payable and other current liabilities	154,418
Research grants payable	6,075,537
Security deposit payable	15,680
Deferred revenue	(19,480)
Deferred rent	362,507
Net Cash Used By Operating Activities	<u>(5,035,314)</u>
 Cash Flows From Investing Activities	
Acquisition of property and equipment	(712,967)
Improvements to land and building held for resale	(125,928)
Purchase of investments	(32,500,581)
Proceeds from sale of investments	35,165,766
Cash received from merged entities	1,249,813
Net Cash Provided By Investing Activities	<u>3,076,103</u>
 Net decrease in cash and cash equivalents	(1,959,211)
Cash and cash equivalents, beginning of year	<u>6,164,997</u>
 Cash and Cash Equivalents, End of Year	<u><u>\$ 4,205,786</u></u>

See notes to financial statements.

LUPUS RESEARCH ALLIANCE, INC.
(formerly known as Alliance for Lupus Research, Inc.)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

Note 1 - Organization and Merger

Lupus Research Alliance, Inc. (LRA) (formerly known as Alliance for Lupus Research, Inc.) 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. LRA is a Delaware nonprofit corporation. The mission of the LRA 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, LRA has committed approximately \$173 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 LRA are available to support lupus research programs.

LRA received 31% of its contributions from one foundation and one trust during the year ended December 31, 2016.

On July 1, 2016, Lupus Research Institute, Inc. ("LRI") and S.L.E. Lupus Foundation, Inc. (the "Foundation"), both not-for-profit corporations formed to encourage and support research to discover the causes and cure of Lupus Erythematosus, were merged into LRA. At that time, the Organization's name was also changed to Lupus Research Alliance, Inc. The merger allows LRA expand its programs. LRA paid no consideration in the merger.

The following table summarizes the amounts of the assets acquired and the liabilities assumed that were recognized at the merger date.

	<u>Foundation</u>	<u>LRI</u>	<u>Total</u>
Cash	\$540,810	\$ 709,003	\$1,249,813
Investments	-	751,458	751,458
Unconditional promises to give	20,720	1,287,162	1,307,882
Other assets and sundry receivables	36,885	86,809	123,694
Accounts payable	(77,395)	(1,841)	(79,236)
Deferred revenue	(19,480)	-	(19,480)
Grants payable	-	(900,000)	(900,000)
Net Asset	<u>\$501,540</u>	<u>\$1,932,591</u>	<u>\$2,434,131</u>

LUPUS RESEARCH ALLIANCE, INC.
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

Note 1 - Organization and Merger (continued)

At the date of the merger, LRI had \$4,000,000 of conditional grants payable. The conditions were satisfied prior to December 31, 2016 and the grants were recognized as expense. In addition, there were approximately \$87,000 of inter-company receivables which were eliminated.

Note 2 - Summary of Significant Accounting Policies

a - Cash and Cash Equivalents

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

At December 31, 2016, included in cash and cash equivalents is approximately \$1,175,000 being held in interest-bearing accounts.

b - Investments

LRA 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.

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. LRA 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.

c - 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.

LUPUS RESEARCH ALLIANCE, INC.
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

Note 2 - Summary of Significant Accounting Policies (continued)

c - Fair Value Measurements (continued)

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 LRA. Unobservable inputs reflect the assumptions that LRA 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.

d - Unconditional Promises to Give and Contributions

Contributions are recognized when the donor makes a promise to give to LRA, 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. LRA 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.

e - 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.

f - Financial Statement Presentation

LRA 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, LRA is required to present a statement of cash flows.

g - Grants Awarded

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

LUPUS RESEARCH ALLIANCE, INC.
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

Note 2 - Summary of Significant Accounting Policies (continued)

h - Deferred Rent Liability

LRA records rent expense associated with its office lease on a straight-line basis over the life of the lease (See note 11a). The difference between the straight-line amount and the amount actually paid during the year is recorded as a liability and an expense in the accompanying financial statements.

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

LRA has evaluated subsequent events through June 6, 2017, the date that the financial statements are considered available to be issued.

Note 3 - Net Assets

a - Unrestricted

Unrestricted net assets at December 31, 2016 consists of the following:

Board designated endowment	\$45,863,827
Undesignated deficit	<u>(4,596,764)</u>
Total Unrestricted Net Assets	<u>\$41,267,063</u>

The Board of Directors established a board designated endowment for lupus research (See note 6). Investment return net of spending policy withdrawals are added to the Endowment.

LUPUS RESEARCH ALLIANCE, INC.
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

Note 3 - Net Assets (continued)

b - Temporarily Restricted

Temporarily restricted net assets at December 31, 2016 are restricted for the following future programs and periods:

Future periods	\$3,206,018
Clinical trials	449,886
Mobile application and hardware	122,393
Patient advocacy fund	93,059
Benefit event	<u>20,500</u>
Total Temporarily Restricted Net Assets	<u><u>\$3,891,856</u></u>

Note 4 - Concentration of Credit Risk

LRA 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, 2016. At times throughout the year, the balances may exceed these limits.

Note 5 - Investments

Investments consist of the following at December 31, 2016.

	<u>Cost</u>	<u>Fair Value</u>
Common stock:		
Domestic	\$18,361,308	\$28,039,743
Foreign	2,854,845	2,976,678
Mutual Funds:		
Domestic equities	4,544,596	4,771,389
Foreign equities	3,334,871	3,414,419
Domestic fixed income	663,000	671,564
Foreign fixed income	860,000	865,821
Real assets	3,527,049	3,382,070
Fixed income:		
Corporate bonds	2,430,200	2,376,198
Government obligations	1,930,449	1,879,219
Mortgage backed securities	219,964	216,293
Cash and short-term investments	1,090,712	1,090,712
Cash in transit	720,647	720,647
Alternative Investments:		
Relative value	650,032	654,948
Long/short	<u>1,200,000</u>	<u>1,237,153</u>
	<u><u>\$42,387,673</u></u>	<u><u>\$52,296,854</u></u>

LUPUS RESEARCH ALLIANCE, INC.
(formerly known as Alliance for Lupus Research, Inc.)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

Note 5 - Investments (continued)

At December 31, 2016, approximately 39% of total investments was invested in one Fortune 500 company.

The following summarizes the fair value of the investments that are measured on a recurring basis at December 31, 2016.

	<u>Total</u>	<u>Level 1</u>
Common stock:		
Domestic	\$28,039,743	\$28,039,743
Foreign	2,976,678	2,976,678
Mutual Funds:		
Domestic equities	4,771,389	4,771,389
Foreign equities	3,414,419	3,414,419
Domestic fixed income	671,564	671,564
Foreign fixed income	865,821	865,821
Real assets	3,382,070	3,382,070
Fixed income:		
Corporate bonds	2,376,198	2,376,198
Government obligations	1,879,219	1,879,219
Mortgage backed securities	216,293	216,293
Cash and short-term investments	1,090,712	1,090,712
Redemptions held back	<u>720,647</u>	<u>720,647</u>
Total Assets in Fair Value Hierarchy	50,404,753	<u>\$50,404,753</u>
Investments measured at net asset value	<u>1,892,101</u>	
	<u>\$52,296,854</u>	

Net investment income (loss) for the year ended December 31, 2016 is summarized as follows:

	<u>Unrestricted</u>	<u>Board Designated Endowment</u>	<u>Total</u>
Interest and dividends	\$140,410	\$ 991,804	\$1,132,214
Realized loss on sale of investments	(245,915)	(1,737,297)	(1,983,212)
Unrealized gain on investments	<u>712,319</u>	<u>5,055,711</u>	<u>5,768,030</u>
	606,814	4,310,218	4,917,032
Less: Investment fees	<u>(7,447)</u>	<u>(52,613)</u>	<u>(60,060)</u>
Net Investment Income (Loss)	<u>\$599,367</u>	<u>\$4,257,605</u>	<u>\$4,856,972</u>

LUPUS RESEARCH ALLIANCE, INC.
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

Note 5 - Investments (continued)

The alternative investments included in LRA's investment portfolio at December 31, 2016 are redeemable based on the following terms and conditions:

Monthly with 45 days' notice	\$ 654,948
Quarterly with 95 days' notice	<u>1,237,153</u>
	<u>\$1,892,101</u>

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

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.

Long/Short

Invests in long/short equity focused on various global regions and sectors including emerging markets.

Note 6 - Endowment Funds

LRA'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.

LUPUS RESEARCH ALLIANCE, INC.
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

Note 6 - Endowment Funds (continued)

Changes in LRA's board designated endowment funds for the year ended December 31, 2016 are summarized as follows:

Endowment funds, beginning of year	<u>\$44,173,045</u>
Investment Return:	
Interest and dividends	991,804
Net realized and unrealized gains	3,318,414
Investment fees	<u>(52,613)</u>
Total Investment Return	<u>4,257,605</u>
Endowment earnings used for research	<u>(2,566,823)</u>
Endowment Funds, End of Year	<u>\$45,863,827</u>

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.

LRA 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.

Note 7 - Promises to Give

a - Unconditional promises to give at December 31, 2016 are due as follows:

	<u>Unrestricted</u>	<u>Future Programs and Periods</u>	<u>Total</u>
Due in less than one year	\$4,529,688	\$ 892,017	\$5,421,705
Due in one to five years	528,572	1,925,000	2,453,572
Due in six to ten years	<u>57,142</u>	<u>-</u>	<u>57,142</u>
	5,115,402	2,817,017	7,932,419
Less: Discount to present value	<u>(32,754)</u>	<u>(118,720)</u>	<u>(151,474)</u>
	<u>\$5,082,648</u>	<u>\$2,698,297</u>	<u>\$7,780,945</u>

LUPUS RESEARCH ALLIANCE, INC.
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

Note 7 - Promises to Give (continued)

a - (continued)

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, 2016, approximately 53% of unconditional promises to give were from two donors.

b - During 2016, LRA entered into a collaboration agreement (the "Agreement") with Centers for Therapeutic Innovation ("CTI") to identify and jointly fund up to three research programs over a two-year period. CTI will contribute up to approximately \$610,000 per year over two years to fund this program. The second year contribution of \$610,000 is contingent on certain conditions as defined by the Agreement and has not been recorded in the accompanying financial statements.

Note 8 - Land and Building Held for Resale

In December 2006, LRA 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. In October, 2016, LRA entered into an eighty-eight month lease agreement with a tenant. LRA made approximately \$126,000 of improvements to the Property during the year ended December 31, 2016. In February, 2017, LRA sold the property for \$1,900,000 to its property manager who assumed the lease agreement.

Note 9 - Property and Equipment

Property and equipment at December 31, 2016 consist of the following:

	<u>Life</u>	<u>Amount</u>
Furniture, fixtures and equipment	3-5 years	\$339,012
Computer equipment	3-5 years	125,927
Leasehold improvements	Life of lease	<u>384,902</u>
		849,841
Less: Accumulated depreciation		<u>(178,912)</u>
		<u>\$670,929</u>

Depreciation expense for the year ended December 31, 2016 was \$87,582.

LUPUS RESEARCH ALLIANCE, INC.
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

Note 10 - Grants Payable

a - Grants payable at December 31, 2016 are due as follows:

Due within one year	\$13,396,332
Due within one to three years	<u>8,658,453</u>
	22,054,785
Less: Discount to present value	<u>(450,316)</u>
	<u>\$21,604,469</u>

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

b - At December 31, 2016, LRA awarded approximately \$2,398,000 of outstanding grants that are contingent on certain conditions being met as defined by the grant agreements. Accordingly, this amount has not been accrued in the accompanying financial statements at December 31, 2016.

Note 11 - Commitments

a - LRA leases office space in New York for its main office and in Chicago for its branch office. The leases provide for minimum annual payments as follows:

<u>Year Ending December 31,</u>	
2017	\$ 556,772
2018	828,430
2019	843,201
2020	862,174
2021	881,572
Thereafter, through April 30, 2027	5,418,356

Rent expense for the year ended December 31, 2016 was \$900,114.

LRA entered into a sublease agreement with a sub-tenant which expired on December 11, 2016. Sublease income for the year ended December 31, 2016 was \$87,058.

b - LRA has commitments of approximately \$894,000 for consulting services through June 30, 2019.

LUPUS RESEARCH ALLIANCE, INC.
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

Note 12 - Employee Benefit Plan - Defined Contribution Plan

LRA maintains a defined contribution retirement plan (the "Plan"). LRA contributes up to 4% of each employee's eligible compensation and at LRA'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 year ended December 31, 2016 was \$208,588.

Note 13 - 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.

LRA 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:

Fundraising	\$162,739
Scientific programs	<u>40,685</u>
Total	<u>\$203,424</u>

SUPPLEMENTARY INFORMATION



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**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

To the Board of Directors of
Lupus Research Alliance, Inc.
(formerly known as Alliance for Lupus Research, Inc.)

We have audited the financial statements of Lupus Research Alliance, Inc. (formerly known as Alliance for Lupus Research, Inc.) as of and for the year ended December 31, 2016, and our report thereon dated June 6, 2017, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was 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, 2016 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 audit 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
June 6, 2017

LUPUS RESEARCH ALLIANCE, INC.
(formerly known as Alliance for Lupus Research, Inc.)

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016

	Program Services			Supporting Services			Total Expenses	
	Research	Scientific Programs	Public Policy	Total	Administration	Fundraising		Total
Salaries	\$ 235,868	\$ 325,950	\$178,521	\$ 740,339	\$ 684,678	\$ 1,114,842	\$1,799,520	\$ 2,539,859
Payroll taxes and fringe benefits	72,768	100,559	55,076	228,403	211,229	343,941	555,170	783,573
Total Personnel Expenses	308,636	426,509	233,597	968,742	895,907	1,458,783	2,354,690	3,323,432
Peer reviewed research awards	17,095,913	-	-	17,095,913	-	-	-	17,095,913
LuCIN Grants	-	1,640,000	-	1,640,000	-	-	-	1,640,000
Professional fees and contract services	49,649	940,748	122,783	1,113,180	301,422	241,221	542,643	1,655,823
Occupancy	84,621	116,939	64,047	265,607	245,640	399,966	645,606	911,213
Printing and publications	18,393	29,484	-	47,877	62,226	101,430	163,656	211,533
Staff and volunteer travel	17,540	204,223	16,197	237,960	45,382	82,882	128,264	366,224
Meetings and conferences	61,586	515,619	70,098	647,303	43,669	8,922	52,591	699,894
Walkathon promotional events and location expenses	-	-	-	-	-	162,739	162,739	162,739
Postage, shipping and delivery	664	6,170	-	6,834	21,899	54,645	76,544	83,378
Management information systems	83,533	19,378	16,272	119,183	52,453	48,534	100,987	220,170
Supplies	-	2,583	-	2,583	47,206	24,952	72,158	74,741
Data processing and accounting services	16,994	69	-	17,063	124,451	18,185	142,636	159,699
Branding and design	19	11,346	-	11,365	86,543	20,748	107,291	118,656
Telephone	4,868	8,148	4,362	17,378	13,049	22,190	35,239	52,617
Insurance	3,498	4,834	2,647	10,979	10,153	16,532	26,685	37,664
Licenses	1,725	2,383	1,305	5,413	5,007	8,151	13,158	18,571
Equipment lease	2,699	3,729	2,042	8,470	7,833	12,755	20,588	29,058
Dues and subscriptions	250	500	1,750	2,500	8,782	2,435	11,217	13,717
Moving expenses	-	-	-	-	72,131	-	72,131	72,131
Miscellaneous	-	-	-	-	181	101	282	282
Professional development	-	-	-	-	3,661	1,269	4,930	4,930
Total expenses before depreciation	17,750,588	3,932,662	535,100	22,218,350	2,047,595	2,686,440	4,734,035	26,952,385
Depreciation	8,133	11,240	6,156	25,529	23,610	38,443	62,053	87,582
Total Expenses	\$17,758,721	\$3,943,902	\$541,256	\$22,243,879	\$ 2,071,205	\$ 2,724,883	\$4,796,088	\$27,039,967

See independent auditors' report on supplementary information.