

LUPUS RESEARCH ALLIANCE, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2017 AND 2016

LUPUS RESEARCH ALLIANCE, INC.

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LUTZ AND GARR

CERTIFIED PUBLIC ACCOUNTANTS, LLP

551 FIFTH AVENUE - SUITE 400, NEW YORK, NY 10176

212-697-2299 FAX: 212-949-1768

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Lupus Research Alliance, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, 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 Lupus Research Alliance, Inc. as of December 31, 2017 and 2016, 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
June 5, 2018

LUPUS RESEARCH ALLIANCE, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

	2017	2016
Assets		
Cash and cash equivalents (Notes 2a and 4)	\$ 4,788,885	\$ 4,205,786
Investments (Notes 2b, 2c and 5)	59,650,727	52,296,854
Unconditional promises to give (Notes 2d and 7)	11,077,526	7,780,945
Prepaid expenses and other current assets	197,627	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)	681,864	670,929
Security deposit	609,345	704,053
Total Assets	\$77,005,974	\$67,639,535
Liabilities and Net Assets		
Liabilities		
Accounts payable and other current liabilities	\$ 503,931	\$ 485,285
Research grants payable (Notes 2g and 10)	25,308,455	21,604,469
Security deposits payable (Note 11)	-	28,355
Deferred rent liability (Note 2h)	709,940	362,507
Total Liabilities	26,522,326	22,480,616
Commitments (Notes 11 and 12)		
Net Assets		
Unrestricted (Note 3a)	41,101,395	41,267,063
Temporarily restricted (Note 3b)	9,382,253	3,891,856
Total Net Assets	50,483,648	45,158,919
Total Liabilities and Net Assets	\$77,005,974	\$67,639,535

See notes to financial statements.

LUPUS RESEARCH ALLIANCE, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Changes in Net Assets						
Revenue and Other Support						
Contributions (Notes 1 and 2d)	\$11,590,528	\$ 7,100,296	\$18,690,824	\$ 9,790,026	\$ 1,765,140	\$11,555,166
Special events income	3,881,408	-	3,881,408	3,437,505	-	3,437,505
Less: Expenses directly benefiting contributors	(490,770)	-	(490,770)	(401,225)	-	(401,225)
Walkathon income	1,651,424	-	1,651,424	2,097,273	-	2,097,273
Less: Expenses directly benefiting contributors	(39,753)	-	(39,753)	(21,313)	-	(21,313)
LuCIN consulting revenue	244,406	-	244,406	-	-	-
Sublease income	7,353	-	7,353	87,058	-	87,058
Merchandise sales, net	204	-	204	(440)	-	(440)
Property expenses and reimbursements (Note 8)	(16,930)	-	(16,930)	(67,030)	-	(67,030)
Net investment income for operations (Note 5)	1,091,365	-	1,091,365	599,367	-	599,367
Board designated endowment spending policy withdrawals (Notes 3a and 6)	2,600,343	-	2,600,343	2,566,823	-	2,566,823
	<u>20,519,578</u>	<u>7,100,296</u>	<u>27,619,874</u>	<u>18,088,044</u>	<u>1,765,140</u>	<u>19,853,184</u>
Net assets released from restrictions						
Satisfaction of program restrictions	1,609,899	(1,609,899)	-	312,388	(312,388)	-
	<u>1,609,899</u>	<u>(1,609,899)</u>	<u>-</u>	<u>312,388</u>	<u>(312,388)</u>	<u>-</u>
Total Revenue and Other Support	<u>22,129,477</u>	<u>5,490,397</u>	<u>27,619,874</u>	<u>18,400,432</u>	<u>1,452,752</u>	<u>19,853,184</u>
Expenses						
Program Services						
Research	10,894,950	-	10,894,950	17,758,721	-	17,758,721
Scientific programs	10,986,100	-	10,986,100	3,943,902	-	3,943,902
Public policy	776,350	-	776,350	541,256	-	541,256
Total Program Services	<u>22,657,400</u>	<u>-</u>	<u>22,657,400</u>	<u>22,243,879</u>	<u>-</u>	<u>22,243,879</u>
Supporting Services						
Administration	2,131,622	-	2,131,622	2,071,205	-	2,071,205
Fundraising	3,345,716	-	3,345,716	2,724,883	-	2,724,883
Total Supporting Services	<u>5,477,338</u>	<u>-</u>	<u>5,477,338</u>	<u>4,796,088</u>	<u>-</u>	<u>4,796,088</u>
Total Expenses	<u>28,134,738</u>	<u>-</u>	<u>28,134,738</u>	<u>27,039,967</u>	<u>-</u>	<u>27,039,967</u>
Increase (Decrease) in Net Assets Before Items Below	(6,005,261)	5,490,397	(514,864)	(8,639,535)	1,452,752	(7,186,783)
Non-Operating Activities						
Net investment income (Note 5)	8,478,913	-	8,478,913	4,257,605	-	4,257,605
Loss on sale of land and building held for resale (Note 8)	(38,977)	-	(38,977)	-	-	-
Board designated endowment spending policy withdrawals (Notes 3a and 6)	(2,600,343)	-	(2,600,343)	(2,566,823)	-	(2,566,823)
Excess of assets over liabilities assumed in donations from merged entities (Note 1)	-	-	-	541,782	1,892,349	2,434,131
Increase (decrease) in net assets	(165,668)	5,490,397	5,324,729	(6,406,971)	3,345,101	(3,061,870)
Net assets, beginning of year	<u>41,267,063</u>	<u>3,891,856</u>	<u>45,158,919</u>	<u>47,674,034</u>	<u>546,755</u>	<u>48,220,789</u>
Net Assets, End of Year	<u>\$41,101,395</u>	<u>\$ 9,382,253</u>	<u>\$50,483,648</u>	<u>\$41,267,063</u>	<u>\$ 3,891,856</u>	<u>\$45,158,919</u>

See notes to financial statements.

LUPUS RESEARCH ALLIANCE, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ 5,324,729	\$ (3,061,870)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	142,619	87,582
Realized (gain) loss on sale of investments	(496,860)	1,983,212
Unrealized gain on investments	(7,894,056)	(5,768,030)
Loss on sale from land and building held for resale	38,977	-
Excess of assets over liabilities assumed in donations from merged entities	-	(2,434,131)
(Increase) decrease in:		
Unconditional promises to give	(3,296,581)	(1,812,996)
Prepaid expenses and other current assets	(14,145)	(8,398)
Security deposit	94,708	(609,345)
Increase (decrease) in:		
Accounts payable and other current liabilities	18,646	154,418
Research grants payable	3,703,986	6,075,537
Security deposit payable	(28,355)	15,680
Deferred rent	347,433	362,507
Deferred revenue	-	(19,480)
Net Cash Used By Operating Activities	<u>(2,058,899)</u>	<u>(5,035,314)</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	(153,554)	(712,967)
Improvements to land and building held for resale	-	(125,928)
Proceeds from land and building held for resale	1,758,509	-
Purchase of investments	(8,194,307)	(32,500,581)
Proceeds from sale of investments	9,231,350	35,165,766
Cash received from merged entities	-	1,249,813
Net Cash Provided By Investing Activities	<u>2,641,998</u>	<u>3,076,103</u>
Net increase (decrease) in cash and cash equivalents	583,099	(1,959,211)
Cash and cash equivalents, beginning of year	<u>4,205,786</u>	<u>6,164,997</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,788,885</u>	<u>\$ 4,205,786</u>

See notes to financial statements.

LUPUS RESEARCH ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 1 - Organization and Merger

Lupus Research Alliance, Inc. (the "Alliance") 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. The Alliance is a Delaware nonprofit corporation. The mission of the Alliance 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, the Alliance has committed approximately \$183 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 the Alliance are available to support lupus research programs.

During the years ended December 31, 2017 and 2016, the Alliance received 55% and 31%, respectively, of its contributions from one foundation and one trust.

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 the Alliance. At that time, the Organization's name was also changed to Lupus Research Alliance, Inc. The merger allows the Alliance expand its programs. The Alliance 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, July 1, 2016.

	<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 Assets	<u>\$501,540</u>	<u>\$1,932,591</u>	<u>\$2,434,131</u>

LUPUS RESEARCH ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 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, the Alliance considers all short-term investments to be cash equivalents, except for those short-term investments managed by the Alliance's investment managers as part of their long-term investment strategies.

At December 31, 2017 and 2016, included in cash and cash equivalents is approximately \$1,058,000 and \$1,175,000, respectively, being held in interest-bearing accounts.

b - Investments

The Alliance 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. The Alliance 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.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017 AND 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 the Alliance. Unobservable inputs reflect the assumptions that the Alliance 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 the Alliance, 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. The Alliance 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

The Alliance 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, the Alliance 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.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 2 - Summary of Significant Accounting Policies (continued)

h - Deferred Rent Liability

The Alliance records rent expense associated with its office leases on a straight-line basis over the life of the leases (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

Lupus Research Alliance, 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

The Alliance has evaluated subsequent events through June 5, 2018, the date that the financial statements are considered available to be issued.

Note 3 - Net Assets

a - Unrestricted

Unrestricted net assets at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Board designated endowment	\$51,742,397	\$45,863,827
Accumulated deficit	<u>(10,641,002)</u>	<u>(4,596,764)</u>
Total Unrestricted Net Assets	<u>\$41,101,395</u>	<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 Board designated endowment.

The accumulated deficit represents the net spending on research and operations since inception.

LUPUS RESEARCH ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 3 - Net Assets (continued)**b - Temporarily Restricted**

Temporarily restricted net assets at December 31, 2017 and 2016 are restricted for the following future programs and periods:

	<u>2017</u>	<u>2016</u>
Future periods	\$8,767,187	\$3,206,018
Clinical trials	378,000	449,886
Patient advocacy fund	182,563	93,059
Mobile application and hardware	40,503	122,393
Benefit event	<u>14,000</u>	<u>20,500</u>
Total Temporarily Restricted Net Assets	<u>\$9,382,253</u>	<u>\$3,891,856</u>

Note 4 - Concentration of Credit Risk

The Alliance 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, 2017. At times throughout the year, the balances may exceed these limits.

Note 5 - Investments

Investments consist of the following at December 31, 2017 and 2016.

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Common Stock:				
Domestic	\$17,745,980	\$33,251,479	\$18,361,308	\$28,039,743
Foreign	2,821,109	3,505,700	2,854,845	2,976,678
Mutual Funds:				
Domestic equities	4,390,035	5,091,593	4,544,596	4,771,389
Foreign equities	3,125,917	3,978,550	3,334,871	3,414,419
Domestic fixed income	1,663,000	1,667,567	663,000	671,564
Foreign fixed income	910,000	948,248	860,000	865,821
Real assets	3,209,625	3,169,721	3,527,049	3,382,070
Fixed Income:				
Corporate bonds	2,475,430	2,431,977	2,430,200	2,376,198
Government obligations	1,886,764	1,830,668	1,930,449	1,879,219
Mortgage backed securities	280,681	276,112	219,964	216,293
Cash and short-term investments	1,988,949	1,988,949	1,090,712	1,090,712
Redemptions held back	-	-	720,647	720,647
Alternative Investments:				
Relative value	-	-	650,032	654,948
Long/short - absolute return	550,000	636,705	550,000	563,991
Capital appreciation	<u>800,000</u>	<u>873,458</u>	<u>650,000</u>	<u>673,162</u>
	<u>\$41,847,490</u>	<u>\$59,650,727</u>	<u>\$42,387,673</u>	<u>\$52,296,854</u>

LUPUS RESEARCH ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 5 - Investments (continued)

At December 31, 2017 and 2016, approximately 42% and 39%, respectively, 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, 2017 and 2016.

	2017		2016	
	Total	Level 1	Total	Level 1
Common stock:				
Domestic	\$33,251,479	\$33,251,479	\$28,039,743	\$28,039,743
Foreign	3,505,700	3,505,700	2,976,678	2,976,678
Mutual Funds:				
Domestic equities	5,091,593	5,091,593	4,771,389	4,771,389
Foreign equities	3,978,550	3,978,550	3,414,419	3,414,419
Domestic fixed income	1,667,567	1,667,567	671,564	671,564
Foreign fixed income	948,248	948,248	865,821	865,821
Real assets	3,169,721	3,169,721	3,382,070	3,382,070
Fixed income:				
Corporate bonds	2,431,977	2,431,977	2,376,198	2,376,198
Government obligations	1,830,668	1,830,668	1,879,219	1,879,219
Mortgage backed securities	276,112	276,112	216,293	216,293
Cash and short-term investments	1,988,949	1,988,949	1,090,712	1,090,712
Redemptions held back	-	-	720,647	720,647
Total Assets in Fair Value Hierarchy	58,140,564	<u>\$58,140,564</u>	50,404,753	<u>\$50,404,753</u>
Investments measured at net asset value	<u>1,510,163</u>		<u>1,892,101</u>	
	<u>\$59,650,727</u>		<u>\$52,296,854</u>	

Net investment income for the years ended December 31, 2017 and 2016 is summarized as follows:

	2017		
	Unrestricted	Board Designated Endowment	Total
Interest and dividends	\$ 148,322	\$1,150,753	\$1,299,075
Realized gain on sale of investments	65,841	431,019	496,860
Unrealized gain on investments	<u>890,497</u>	<u>7,003,559</u>	<u>7,894,056</u>
	1,104,660	8,585,331	9,689,991
Less: Investment fees	<u>(13,295)</u>	<u>(106,418)</u>	<u>(119,713)</u>
Net Investment Income	<u>\$1,091,365</u>	<u>\$8,478,913</u>	<u>\$9,570,278</u>

LUPUS RESEARCH ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 5 - Investments (continued)

	<u>2016</u>		
	<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>

The alternative investments included in the Alliance's investment portfolio at December 31, 2017 and 2016 are redeemable based on the following terms and conditions:

	<u>2017</u>	<u>2016</u>
Monthly with 45 days' notice	\$ 636,705	\$1,218,939
Quarterly with 100 days' notice	<u>873,458</u>	<u>673,162</u>
	<u>\$1,510,163</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 - Absolute Return

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

Capital Appreciation

Invests in long/short equity, event driven/distressed credit, asset-backed securities, global macro and relative value.

LUPUS RESEARCH ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 6 - Endowment Funds

The Alliance'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 the Alliance's board designated endowment funds for the years ended December 31, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Endowment funds, beginning of year	\$45,863,827	\$44,173,045
Investment Return:		
Interest and dividends	1,150,753	991,804
Net realized and unrealized gains	7,434,578	3,318,414
Investment fees	(106,418)	(52,613)
Total Investment Return	<u>8,478,913</u>	<u>4,257,605</u>
Spending policy withdrawals	<u>(2,600,343)</u>	<u>(2,566,823)</u>
Endowment Funds, End of Year	<u>\$51,742,397</u>	<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 to support research projects. Additional funds may be used for special research projects at the Board's discretion.

The Alliance 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, real estate investment trusts, short-term investments and alternative investments.

LUPUS RESEARCH ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 7 - Promises to Give

a - Unconditional promises to give at December 31, 2017 and 2016 are due as follows:

	2017		
	Unrestricted	Future Programs and Periods	Total
Due in less than one year	\$2,148,076	\$5,303,000	\$ 7,451,076
Due in one to five years	<u>171,426</u>	<u>3,651,000</u>	<u>3,822,426</u>
	2,319,502	8,954,000	11,273,502
Less: Discount to present value	<u>(12,163)</u>	<u>(183,813)</u>	<u>(195,976)</u>
	<u>\$2,307,339</u>	<u>\$8,770,187</u>	<u>\$11,077,526</u>
	2016		
	Unrestricted	Future Programs and Periods	Total
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>

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

At December 31, 2017 and 2016, approximately 70% and 53%, respectively, of unconditional promises to give were from two donors.

b - During 2016, the Alliance 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.

LUPUS RESEARCH ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 8 - Land and Building Held for Resale

In December 2006, the Alliance received a donation of land and building (the "Property"). In October 2016, the Alliance entered into an eighty-eight month lease agreement with a tenant and made improvements to the Property. In February 2017, the Alliance sold the property to its property manager who assumed the lease agreement. The Alliance recognized a loss on the sale determined as follows:

Sales price	\$1,900,000
Less: Closing costs	<u>(141,491)</u>
Net proceeds	<u>1,758,509</u>
Less:	
Book value of property sold	1,725,928
Unamortized leasing costs	<u>71,558</u>
	<u>1,797,486</u>
Net Loss on Sale	<u>\$ (38,977)</u>

Note 9 - Property and Equipment

Property and equipment at December 31, 2017 and 2016 consist of the following:

	<u>Life</u>	<u>2017</u>	<u>2016</u>
Furniture, fixtures and equipment	3-5 years	\$332,198	\$339,012
Computer equipment	3-5 years	220,125	125,927
Leasehold improvements	Life of lease	<u>395,742</u>	<u>384,902</u>
		948,065	849,841
Less: Accumulated depreciation		<u>(266,201)</u>	<u>(178,912)</u>
		<u>\$681,864</u>	<u>\$670,929</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$142,619 and \$87,582, respectively.

LUPUS RESEARCH ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 10 - Grants Payable

Grants payable at December 31, 2017 and 2016 are due as follows:

	<u>2017</u>	<u>2016</u>
Due within one year	\$17,194,540	\$13,396,332
Due within one to three years	<u>8,576,082</u>	<u>8,658,453</u>
	25,770,622	22,054,785
Less: Discount to present value	<u>(462,167)</u>	<u>(450,316)</u>
	<u>\$25,308,455</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%.

Note 11 - Commitments

a - The Alliance leases office space in New York, NY for its main office and in Arlington, VA and Chicago, IL for its branch offices. The leases provide for minimum annual payments as follows:

<u>Year Ending December 31,</u>	
2018	\$ 917,518
2019	964,787
2020	986,799
2021	1,009,313
2022	1,055,204
Thereafter, through April 30, 2027	4,452,896

Rent expense for the years ended December 31, 2017 and 2016 was \$1,001,401 and \$900,114, respectively.

b - The Alliance has commitments of approximately \$550,000 for consulting services through June 30, 2019.

LUPUS RESEARCH ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 12 - Employee Benefit Plan - Defined Contribution Plan

The Alliance maintains a defined contribution retirement plan (the "Plan"). The Alliance contributes up to 4% of each employee's eligible compensation and at the Alliance'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, 2017 and 2016 was \$259,533 and \$208,588.

Note 13 - Subsequent Event

On January 5, 2018, the Alliance formed Lupus Therapeutics, LLC (the "LLC"), a single member limited liability company, wholly owned by the Alliance. The LLC was formed to conduct clinical trial studies.

Note 14 - 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.

The Alliance 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>2017</u>	<u>2016</u>
Fundraising	\$239,903	\$162,739
Scientific programs	<u>59,976</u>	<u>40,685</u>
Total	<u>\$299,879</u>	<u>\$203,424</u>

SUPPLEMENTARY INFORMATION



LUTZ AND CARR

CERTIFIED PUBLIC ACCOUNTANTS, LLP

551 FIFTH AVENUE - SUITE 400, NEW YORK, NY 10176

212-697-2299 FAX: 212-949-1768

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

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

We have audited the financial statements of Lupus Research Alliance, Inc. as of and for the years ended December 31, 2017 and 2016, and our report thereon dated June 5, 2018 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, 2017 with comparative totals for 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 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
June 5, 2018

LUPUS RESEARCH ALLIANCE, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017 WITH COMPARATIVE TOTALS FOR 2016

	Program Services			Supporting Services			2017	2016	
	Research	Scientific Programs	Public Policy	Total	Administration	Fundraising	Total Expenses	Total Expenses	
Salaries	\$ 353,455	\$ 644,588	\$285,085	\$ 1,283,128	\$ 871,459	\$ 1,340,392	\$2,211,851	\$ 3,494,979	\$ 2,539,859
Payroll taxes and fringe benefits	106,062	193,423	85,546	385,031	261,499	402,214	663,713	1,048,744	783,573
Total Personnel Expenses	<u>459,517</u>	<u>838,011</u>	<u>370,631</u>	<u>1,668,159</u>	<u>1,132,958</u>	<u>1,742,606</u>	<u>2,875,564</u>	<u>4,543,723</u>	<u>3,323,432</u>
Peer reviewed research awards	9,516,440	-	-	9,516,440	-	-	-	9,516,440	17,095,913
LuCIN Grants	-	8,075,114	-	8,075,114	-	-	-	8,075,114	1,640,000
Clinical studies	425,925	-	-	425,925	-	-	-	425,925	-
Professional fees and contract services	159,094	916,525	127,138	1,202,757	214,237	357,248	571,485	1,774,242	1,655,823
Occupancy	99,555	205,663	80,297	385,515	245,455	377,537	622,992	1,008,507	911,213
Printing and publications	27,678	30,512	6,608	64,798	82,496	132,407	214,903	279,701	211,533
Staff and volunteer travel	25,090	220,766	103,397	349,253	29,892	160,634	190,526	539,779	366,224
Meetings and conferences	42,269	516,268	28,728	587,265	54,368	16,807	71,175	658,440	699,894
Walkathon promotional events and location expenses	-	-	-	-	-	239,903	239,903	239,903	162,739
Postage, shipping and delivery	1,480	20,993	2,242	24,715	18,531	65,160	83,691	108,406	83,378
Management information systems	84,808	37,515	27,942	150,265	80,588	53,060	133,648	283,913	220,170
Supplies	525	6,207	432	7,164	29,968	15,204	45,172	52,336	74,741
Data processing and accounting services	21,552	-	98	21,650	98,274	34,882	133,156	154,806	159,699
Branding and design	1,263	42,245	2,500	46,008	68,392	37,907	106,299	152,307	118,656
Telephone	6,207	9,551	4,074	19,832	11,322	18,736	30,058	49,890	52,617
Insurance	4,116	29,007	3,320	36,443	10,149	15,610	25,759	62,202	37,664
Licenses	2,278	4,155	1,838	8,271	5,616	8,640	14,256	22,527	18,571
Equipment lease	2,730	4,979	2,202	9,911	6,733	10,354	17,087	26,998	29,058
Dues and subscriptions	-	2,165	2,250	4,415	3,475	2,281	5,756	10,171	13,717
Moving expenses	-	-	-	-	-	-	-	-	72,131
Miscellaneous	-	-	-	-	555	15	570	570	282
Professional development	-	120	1,020	1,140	3,051	2,028	5,079	6,219	4,930
Total expenses before depreciation	<u>10,880,527</u>	<u>10,959,796</u>	<u>764,717</u>	<u>22,605,040</u>	<u>2,096,060</u>	<u>3,291,019</u>	<u>5,387,079</u>	<u>27,992,119</u>	<u>26,952,385</u>
Depreciation	<u>14,423</u>	<u>26,304</u>	<u>11,633</u>	<u>52,360</u>	<u>35,562</u>	<u>54,697</u>	<u>90,259</u>	<u>142,619</u>	<u>87,582</u>
Total Expenses, 2017	<u>\$10,894,950</u>	<u>\$10,986,100</u>	<u>\$776,350</u>	<u>\$22,657,400</u>	<u>\$ 2,131,622</u>	<u>\$ 3,345,716</u>	<u>\$5,477,338</u>	<u>\$28,134,738</u>	
Total Expenses, 2016	<u>\$17,758,721</u>	<u>\$ 3,943,902</u>	<u>\$541,256</u>	<u>\$22,243,879</u>	<u>\$ 2,071,205</u>	<u>\$ 2,724,883</u>	<u>\$4,796,088</u>		<u>\$27,039,967</u>

See independent auditors' report on supplementary information.