

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Lupus Research Alliance, Inc. (a nonprofit corporation) and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lupus Research Alliance, Inc. and Subsidiary as of December 31, 2020 and 2019, 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 16, 2021

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

	2020	2019
Assets		
Cash and cash equivalents (Notes 2b and 5)	\$ 4,723,585	\$ 4,598,465
Investments (Notes 2c, 2d and 6)	81,150,155	62,118,380
Unconditional promises to give (Notes 2e and 8)	15,931,284	2,579,649
Accounts receivable	545,275	373,770
Prepaid expenses and other current assets	193,080	162,892
Land and building held for resale (Note 12)	-	493,500
Property and equipment, at cost, net of accumulated depreciation (Notes 2f and 9)	390,827	494,479
Security deposit	473,935	610,583
Total Assets	\$103,408,141	\$71,431,718
Liabilities and Net Assets		
Liabilities		
Loan payable (Note 10)	\$ 698,800	\$ -
Accounts payable and other current liabilities	511,502	438,885
Research grants payable (Notes 2i and 11)	39,843,096	25,422,502
Deferred rent liability (Note 2j)	797,688	800,130
Total Liabilities	41,851,086	26,661,517
Commitments and Risks and Uncertainties (Notes 13, 14 and 16)		
Net Assets		
Without donor restrictions (Note 4a)	45,047,938	39,293,680
With donor restrictions (Note 4b)	16,509,117	5,476,521
Total Net Assets	61,557,055	44,770,201
Total Liabilities and Net Assets	\$103,408,141	\$71,431,718

See notes to consolidated financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Changes in Net Assets						
Revenue and Other Support						
Contributions (Notes 1 and 2e)	\$22,342,002	\$15,298,820	\$37,640,822	\$ 7,279,254	\$ 4,645,830	\$11,925,084
Pledge reduction	-	-	-	-	(100,000)	(100,000)
Special events income	3,254,023	-	3,254,023	4,509,497	-	4,509,497
Less: Expenses directly benefiting contributors	(122,774)	-	(122,774)	(486,194)	-	(486,194)
Walkathon income	805,403	-	805,403	1,361,711	-	1,361,711
Less: Expenses directly benefiting contributors	(37,728)	-	(37,728)	(29,976)	-	(29,976)
Donated land and property held for resale (Note 12)	-	-	-	493,500	-	493,500
LuCIN consulting revenue (Note 2g)	1,291,193	-	1,291,193	1,236,449	-	1,236,449
Sublet income (Note 13b)	20,119	-	20,119	-	-	-
Net investment income (loss) for operations (Note 6)	1,596,137	4,270	1,600,407	1,467,354	-	1,467,354
Board designated endowment spending policy withdrawals (Notes 4a and 7)	1,453,727	-	1,453,727	2,713,456	-	2,713,456
	<u>30,602,102</u>	<u>15,303,090</u>	<u>45,905,192</u>	<u>18,545,051</u>	<u>4,545,830</u>	<u>23,090,881</u>
Net assets released from restrictions						
Satisfaction of program restrictions	4,270,494	(4,270,494)	-	3,526,799	(3,526,799)	-
Total Revenue and Other Support	<u>34,872,596</u>	<u>11,032,596</u>	<u>45,905,192</u>	<u>22,071,850</u>	<u>1,019,031</u>	<u>23,090,881</u>
Expenses						
Program Services						
Research	15,400,647	-	15,400,647	11,771,155	-	11,771,155
Scientific programs	12,839,966	-	12,839,966	8,746,496	-	8,746,496
Public policy	743,966	-	743,966	846,235	-	846,235
Total Program Services	<u>28,984,579</u>	<u>-</u>	<u>28,984,579</u>	<u>21,363,886</u>	<u>-</u>	<u>21,363,886</u>
Supporting Services						
Administration	2,264,536	-	2,264,536	2,129,277	-	2,129,277
Fundraising	2,838,968	-	2,838,968	3,029,588	-	3,029,588
Total Supporting Services	<u>5,103,504</u>	<u>-</u>	<u>5,103,504</u>	<u>5,158,865</u>	<u>-</u>	<u>5,158,865</u>
Total Expenses	<u>34,088,083</u>	<u>-</u>	<u>34,088,083</u>	<u>26,522,751</u>	<u>-</u>	<u>26,522,751</u>
Increase (Decrease) in Net Assets Before Items Below	784,513	11,032,596	11,817,109	(4,450,901)	1,019,031	(3,431,870)
Non-Operating Activities						
Net investment income (Note 6)	6,226,708	-	6,226,708	8,404,231	-	8,404,231
Board designated endowment spending policy withdrawals (Notes 4a and 7)	(1,453,727)	-	(1,453,727)	(2,713,456)	-	(2,713,456)
Grants cancelled (Note 10)	219,700	-	219,700	1,250,000	-	1,250,000
Loss on sale of donated land and building held for resale (Note 11)	(22,936)	-	(22,936)	-	-	-
Increase in net assets	5,754,258	11,032,596	16,786,854	2,489,874	1,019,031	3,508,905
Net assets, beginning of year	<u>39,293,680</u>	<u>5,476,521</u>	<u>44,770,201</u>	<u>36,803,806</u>	<u>4,457,490</u>	<u>41,261,296</u>
Net Assets, End of Year	<u>\$45,047,938</u>	<u>\$16,509,117</u>	<u>\$61,557,055</u>	<u>\$39,293,680</u>	<u>\$ 5,476,521</u>	<u>\$44,770,201</u>

See notes to financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2020 WITH COMPARATIVE TOTALS FOR 2019

	2020							2019	
	Program Services				Supporting Services			Total Expenses	Total Expenses
	Research	Scientific Programs	Public Policy	Total	Administration	Fundraising	Total		
Salaries	\$ 530,406	\$ 1,373,529	\$293,625	\$ 2,197,560	\$ 1,018,461	\$ 1,311,213	\$2,329,674	\$ 4,527,234	\$ 3,944,941
Payroll taxes and fringe benefits	168,202	435,573	93,114	696,889	322,976	415,811	738,787	1,435,676	1,227,994
Total Personnel Expenses	698,608	1,809,102	386,739	2,894,449	1,341,437	1,727,024	3,068,461	5,962,910	5,172,935
Peer reviewed research awards	11,355,998	-	25,000	11,380,998	-	-	-	11,380,998	10,872,939
COVID-19 research grant	3,000,000	-	-	3,000,000	-	-	-	3,000,000	-
LuCIN Grants	-	8,612,243	-	8,612,243	-	-	-	8,612,243	4,465,282
Clinical studies	-	509,267	-	509,267	-	-	-	509,267	512,086
Lupus emergency grant	-	-	19,814	19,814	-	-	-	19,814	1,828
Professional fees and contract services	71,279	822,657	111,804	1,005,740	274,758	256,503	531,261	1,537,001	1,424,619
Occupancy	114,518	413,988	63,396	591,902	219,892	283,099	502,991	1,094,893	1,087,395
Printing and publications	18,249	1,762	39	20,050	14,630	136,019	150,649	170,699	229,776
Staff and volunteer travel	3,631	65,671	28,420	97,722	15,291	24,285	39,576	137,298	440,447
Meetings and conferences	13,660	213,792	47,646	275,098	32,117	6,933	39,050	314,148	829,731
Walkathon promotional events and location expenses	-	-	-	-	-	51,547	51,547	51,547	216,339
Postage, shipping and delivery	316	4,183	670	5,169	11,123	81,905	93,028	98,197	93,583
Management information systems	63,133	214,757	27,010	304,900	154,649	87,748	242,397	547,297	514,570
Supplies	-	7,925	1,525	9,450	27,985	1,506	29,491	38,941	61,204
Data processing and accounting services	23,796	137	272	24,205	75,553	65,578	141,131	165,336	172,250
Branding and design	-	16,631	6,275	22,906	5,732	16,082	21,814	44,720	70,838
Telephone	6,749	32,209	5,005	43,963	12,958	16,684	29,642	73,605	54,363
Insurance	5,774	29,825	3,196	38,795	11,086	14,273	25,359	64,154	63,877
Licenses	1,203	3,115	666	4,984	2,309	2,974	5,283	10,267	10,711
Equipment lease	3,301	8,548	1,827	13,676	6,339	8,161	14,500	28,176	29,949
Professional development	-	7,440	-	7,440	9,830	823	10,653	18,093	5,447
Dues and subscriptions and other expenses	120	14,113	3,417	17,650	9,843	7,611	17,454	35,104	20,457
Total expenses before depreciation	15,380,335	12,787,365	732,721	28,900,421	2,225,532	2,788,755	5,014,287	33,914,708	26,350,626
Depreciation	20,312	52,601	11,245	84,158	39,004	50,213	89,217	173,375	172,125
Total Expenses, 2020	<u>\$15,400,647</u>	<u>\$12,839,966</u>	<u>\$743,966</u>	<u>\$28,984,579</u>	<u>\$ 2,264,536</u>	<u>\$ 2,838,968</u>	<u>\$5,103,504</u>	<u>\$34,088,083</u>	
Total Expenses, 2019	<u>\$11,771,155</u>	<u>\$ 8,746,496</u>	<u>\$846,235</u>	<u>\$21,363,886</u>	<u>\$ 2,129,277</u>	<u>\$ 3,029,588</u>	<u>\$5,158,865</u>		<u>\$26,522,751</u>

See notes to consolidated financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	Program Services			Supporting Services			Total Expenses	
	Research	Scientific Programs	Public Policy	Total	Administration	Fundraising		Total
Salaries	\$ 359,061	\$1,084,035	\$315,373	\$ 1,758,469	\$ 900,005	\$ 1,286,467	\$2,186,472	\$ 3,944,941
Payroll taxes and fringe benefits	111,770	337,442	98,170	547,382	280,155	400,457	680,612	1,227,994
Total Personnel Expenses	470,831	1,421,477	413,543	2,305,851	1,180,160	1,686,924	2,867,084	5,172,935
Peer reviewed research awards	10,872,939	-	-	10,872,939	-	-	-	10,872,939
LuCIN Grants	-	4,465,282	-	4,465,282	-	-	-	4,465,282
Clinical studies	-	512,086	-	512,086	-	-	-	512,086
Lupus emergency grant	-	-	1,828	1,828	-	-	-	1,828
Professional fees and contract services	123,000	806,270	104,186	1,033,456	161,572	229,591	391,163	1,424,619
Occupancy	88,276	384,033	77,535	549,844	221,269	316,282	537,551	1,087,395
Printing and publications	20,111	27,762	900	48,773	27,194	153,809	181,003	229,776
Staff and volunteer travel	26,490	224,709	41,447	292,646	47,496	100,305	147,801	440,447
Meetings and conferences	40,771	568,088	142,363	751,222	62,651	15,858	78,509	829,731
Walkathon promotional events and location expenses	-	-	-	-	-	216,339	216,339	216,339
Postage, shipping and delivery	1,121	17,455	853	19,429	11,151	63,003	74,154	93,583
Management information systems	72,489	149,699	33,645	255,833	198,927	59,810	258,737	514,570
Supplies	156	15,176	322	15,654	43,637	1,913	45,550	61,204
Data processing and accounting services	26,507	490	334	27,331	84,325	60,594	144,919	172,250
Branding and design	750	32,555	2,575	35,880	14,933	20,025	34,958	70,838
Telephone	4,264	19,728	3,693	27,685	10,487	16,191	26,678	54,363
Insurance	4,082	31,350	3,586	39,018	10,233	14,626	24,859	63,877
Licenses	975	2,943	856	4,774	2,444	3,493	5,937	10,711
Equipment lease	2,726	8,230	2,394	13,350	6,833	9,766	16,599	29,949
Professional development	-	-	-	-	4,755	692	5,447	5,447
Dues and subscriptions and other expenses	-	11,864	2,415	14,279	1,941	4,237	6,178	20,457
Total expenses before depreciation	11,755,488	8,699,197	832,475	21,287,160	2,090,008	2,973,458	5,063,466	26,350,626
Depreciation	15,667	47,299	13,760	76,726	39,269	56,130	95,399	172,125
Total Expenses	\$11,771,155	\$8,746,496	\$846,235	\$21,363,886	\$ 2,129,277	\$ 3,029,588	\$5,158,865	\$26,522,751

See notes to consolidated financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Increase in net assets	\$16,786,854	\$3,508,905
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation	173,375	172,125
Realized gain on sale of investments	(367,659)	(702,675)
Unrealized gain on investments	(6,026,720)	(7,845,756)
Donated securities	(10,054,692)	-
Loss on sale of donated land and building held for resale	22,936	-
Donated land and building held for resale	-	(493,500)
(Increase) decrease in:		
Unconditional promises to give	(13,351,635)	2,199,136
Accounts receivable	(171,505)	(216,090)
Prepaid expenses and other current assets	(30,188)	5,968
Security deposit	136,648	(1,238)
Increase (decrease) in:		
Accounts payable and other current liabilities	72,617	(27,010)
Research grants payable	14,420,594	2,850,299
Deferred rent	(2,442)	19,569
Net Cash Provided (Used) By Operating Activities	<u>1,608,183</u>	<u>(530,267)</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	(69,723)	(92,833)
Purchase of investments	(10,619,208)	(9,507,895)
Proceeds from sale of investments	8,036,504	9,522,480
Proceeds from sale of donated land and building held for resale	470,564	-
Net Cash Used By Investing Activities	<u>(2,181,863)</u>	<u>(78,248)</u>
Cash Flows From Financing Activities		
Proceeds from loan payable	<u>698,800</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	125,120	(608,515)
Cash and cash equivalents, beginning of year	<u>4,598,465</u>	<u>5,206,980</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 4,723,585</u></u>	<u><u>\$4,598,465</u></u>

See notes to consolidated financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 1 - Organization

Lupus Research Alliance, Inc. (the "Alliance") is a national voluntary 501(c)(3) health organization based in New York City. 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 \$218 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.

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

During the year ended December 31, 2020, the Alliance received approximately 72% of its contributions from one foundation and one trust and during the year ended December 31, 2019, approximately 34% of its contributions from one corporation and one trust.

Note 2 - Summary of Significant Accounting Policies

a - Principles of Consolidation

The consolidated financial statements include the accounts of the Alliance and its subsidiary, LLC. All significant intercompany transactions and accounts have been eliminated in consolidation.

b - 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, 2020 and 2019, included in cash and cash equivalents is approximately \$846,000 and \$874,000, respectively, being held in interest-bearing accounts.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 2 - Summary of Significant Accounting Policies (continued)

c - 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 net assets without donor restrictions unless their use is 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.

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 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.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 2 - Summary of Significant Accounting Policies (continued)

e - 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. Conditional promises to give, that have a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. 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.

The contribution of donated property held for resale at December 31, 2019 (Note 12) was recorded at fair value (less the estimated costs to sell the property) on the date that the Alliance assumed legal ownership of the property. This property was sold during the year ended December 31, 2020.

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 - Revenue Recognition

The Alliance provides consulting services to various pharmaceutical companies. These services are accounted for as exchange transactions and are recognized as revenue as the Alliance completes each milestone as defined by the contracts.

h - Financial Statement Presentation

The financial statements of the have been prepared in accordance with U.S. generally accepting accounting principles, which require the Alliance to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Alliance. These net assets may be used at the discretion of the Alliance's management and the Board of Directors.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 2 - Summary of Significant Accounting Policies (continued)

h - Financial Statement Presentation (continued)

Net Assets With Donor Restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Alliance or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

i - Grants Awarded

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

j - Deferred Rent Liability

The Alliance records rent expense associated with its office leases on a straight-line basis over the life of the leases (Note 13a). 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.

k - Functional Allocation of Expenses

The cost of providing the various programs and supporting services has been summarized on a functional basis in the statement of activities. The Alliance's primary programming areas are categorized as Research, Scientific Programs and Public Policy. Accordingly, certain costs have been allocated among the programs and the supporting services benefited. Expenses are allocated directly to programs, where applicable, on a reasonable and consistent basis. A substantial portion of the Alliance's expenses are directly related to program activities. Certain other expenses are attributable to more than one program or supporting function and require allocation. The expenses that are allocated include salaries, payroll taxes and benefits, which are allocated on the basis of estimates of employee time and effort, while occupancy, telephone, insurance, licenses, equipment lease, and depreciation are allocated on overall salary percentages.

l - 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.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 2 - Summary of Significant Accounting Policies (continued)

m - 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.

n - Subsequent Events

The Alliance has evaluated subsequent events through June 16, 2021, the date that the financial statements are considered available to be issued.

o - New Accounting Pronouncements

For 2020, The Alliance adopted Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)*. Analysis of the various provisions of this standard resulted in no significant changes in the way the Alliance recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

During 2020, the Alliance adopted Accounting Standards Update (ASU) 2019-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services. Adoption of this standard had no impact on the financial statements.

In February 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842)*". The core principles of ASU 2016-02 change the way organizations will account for their leases by recognizing lease assets and related liabilities on the statement of financial position for all leases with terms longer than 12 months and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021. The Alliance is currently evaluating the impact of ASU 2016-02 on its financial statements.

Note 3 - Information Regarding Liquidity and Availability

The Alliance operates with a balanced budget for each fiscal year based on the revenue expected to be available to fund anticipated expenses. A substantial portion of annual revenue is comprised of contribution revenue raised during the current year. The Alliance considers general expenditures to consist of all expenses related to its ongoing program activities, and the expenses related to administrative and fundraising activities undertaken to support those services.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
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Note 3 - Information Regarding Liquidity and Availability (continued)

The Alliance regularly monitors liquidity to meet its operating needs and other commitments and obligations, while seeking to maximize the investment of its available funds. Management prepares regular cash flow projections to determine liquidity needs and has a policy to maintain liquid financial assets on an ongoing basis sufficient to cover ninety days of general expenditures.

The Alliance's financial assets as of December 31, 2020 and 2019 that are available to meet cash needs for general expenditures within one year are summarized as follows:

	<u>2020</u>	<u>2019</u>
Financial Assets at Year End:		
Cash and cash equivalents	\$ 4,723,585	\$ 4,598,465
Investments	81,150,155	62,118,380
Unconditional promises to give	15,931,284	2,579,649
Accounts receivable	<u>545,275</u>	<u>373,770</u>
Total Financial Assets	102,350,299	69,670,264
Less: Amounts not Available to be Used within One Year:		
Net assets with donor restrictions, subject to expenditure for specific purposes or passage of time	(16,509,117)	(5,476,521)
Plus: Net assets with donor restrictions expected to be met within one year	8,115,054	2,745,159
Net assets restricted by Board, subject to spending policy and appropriation	(56,586,681)	(51,813,700)
Plus: Amount appropriated in the budget for use within one year	<u>3,111,233</u>	<u>2,835,293</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$40,480,788</u>	<u>\$17,960,495</u>

In addition to these financial assets available within one year at December 31, 2020, the Alliance has board designated endowment funds not appropriated for use within one year of approximately \$53,475,000, which are invested for long-term appreciation and current income. However, these funds could be made available at any time to meet cash needs for general expenditures at the discretion of the Board.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
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Note 4 - Net Assets

a - Net Assets Without Donor Restrictions

Net assets without donor restrictions at December 31, 2020 and 2019 consist of the following:

	<u>2020</u>	<u>2019</u>
Board designated endowment	\$56,586,681	\$51,813,700
Accumulated net spending	(11,538,743)	(12,520,020)
Total Net Assets Without Donor Restrictions	<u>\$45,047,938</u>	<u>\$39,293,680</u>

The Board of Directors established a board designated endowment for lupus research (Note 7). Investment return, net of spending policy withdrawals, are added to the board designated endowment.

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

b - Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, 2020 and 2019 are restricted for the following future programs and periods:

	<u>2020</u>	<u>2019</u>
Grants	\$12,505,555	\$3,288,518
Lupus nexus	2,055,390	-
Rally for Lupus	571,548	749,245
Meetings and Evaluations	520,000	-
Patient advocacy fund	223,438	196,723
Walk sponsorship	175,000	200,000
Lupus index	136,572	-
Multi-cultural outreach	123,459	-
Future periods	97,655	892,035
Unraveling lupus complexity	50,000	-
Clinical trials outreach	20,000	-
Patient advocates for lupus	20,000	-
Gala	10,500	-
Conferences	-	150,000
Total Net Assets With Donor Restrictions	<u>\$16,509,117</u>	<u>\$5,476,521</u>

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
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Note 5 - 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, 2020. At times throughout the year, the balances may exceed these limits.

Note 6 - Investments

Investments consist of the following at December 31, 2020 and 2019.

	<u>2020</u>		<u>2019</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Common Stock:				
Domestic	\$31,056,898	\$54,022,953	\$20,202,895	\$38,246,436
Foreign	2,544,219	3,129,872	2,523,802	3,022,847
Mutual Funds:				
Domestic equities	2,838,615	4,252,940	2,856,617	3,647,916
Foreign equities	1,825,559	2,504,153	1,825,559	2,150,135
Domestic fixed income	2,765,931	2,793,531	4,218,638	4,244,223
Foreign fixed income	1,031,302	1,005,474	910,000	882,732
Real assets	2,693,384	2,970,410	2,677,828	3,101,050
Fixed Income:				
Corporate bonds	4,702,508	4,860,010	2,733,816	2,769,395
Government obligations	3,172,490	3,250,115	2,230,192	2,256,464
Mortgage backed securities	184,019	184,378	316,121	312,368
Cash and short-term investments	1,467,775	1,467,775	1,086,083	1,086,083
Alternative Investments:				
Capital appreciation	<u>702,637</u>	<u>708,544</u>	<u>398,731</u>	<u>398,731</u>
	<u>\$54,985,337</u>	<u>\$81,150,155</u>	<u>\$41,980,282</u>	<u>\$62,118,380</u>

At December 31, 2020 and 2019, approximately 47% and 42%, respectively, of total investments was invested in one Fortune 500 company.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Note 6 - Investments (continued)

The following summarizes the fair value of the investments that are measured on a recurring basis at December 31, 2020 and 2019.

	<u>2020</u>		<u>2019</u>	
	<u>Total</u>	<u>Level 1</u>	<u>Total</u>	<u>Level 1</u>
Common stock:				
Domestic	\$54,022,953	\$54,022,953	\$38,246,436	\$38,246,436
Foreign	3,129,872	3,129,872	3,022,847	3,022,847
Mutual Funds:				
Domestic equities	4,252,940	4,252,940	3,647,916	3,647,916
Foreign equities	2,504,153	2,504,153	2,150,135	2,150,135
Domestic fixed income	2,793,531	2,793,531	4,244,223	4,244,223
Foreign fixed income	1,005,474	1,005,474	882,732	882,732
Real assets	2,970,410	2,970,410	3,101,050	3,101,050
Fixed income:				
Corporate bonds	4,860,010	4,860,010	2,769,395	2,769,395
Government obligations	3,250,115	3,250,115	2,256,464	2,256,464
Mortgage backed securities	184,378	184,378	312,368	312,368
Cash and short-term investments	<u>1,467,775</u>	<u>1,467,775</u>	<u>1,086,083</u>	<u>1,086,083</u>
Total Assets in Fair Value Hierarchy	80,441,611	<u>\$80,441,611</u>	61,719,649	<u>\$61,719,649</u>
Investments measured at net asset value	<u>708,544</u>		<u>398,731</u>	
	<u>\$81,150,155</u>		<u>\$62,118,380</u>	

Net investment income for the years ended December 31, 2020 and 2019 is summarized as follows:

	<u>2020</u>			
	<u>Without Donor Restrictions</u>		<u>With Donor Restrictions</u>	
	<u>Operating</u>	<u>Board Designated Endowment</u>	<u>Operating</u>	<u>Total</u>
Interest and dividends	\$ 302,935	\$1,287,066	\$4,270	\$1,594,271
Realized gain on sale of investments	64,895	302,764	-	367,659
Unrealized gain on investments	<u>1,253,737</u>	<u>4,772,983</u>	-	<u>6,026,720</u>
	1,621,567	6,362,813	4,270	7,988,650
Less: Investment fees	<u>(25,430)</u>	<u>(136,105)</u>	-	<u>(161,535)</u>
Net Investment Income	<u>\$1,596,137</u>	<u>\$6,226,708</u>	<u>\$4,270</u>	<u>\$7,827,115</u>

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
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Note 6 - Investments (continued)

	<u>2019</u>		
	<u>Without Donor Restrictions</u>		
		<u>Board Designated Endowment</u>	
	<u>Operating</u>		<u>Total</u>
Interest and dividends	\$ 250,948	\$1,194,998	\$1,445,946
Realized gain on sale of investments	110,140	592,535	702,675
Unrealized loss on investments	<u>1,123,364</u>	<u>6,722,392</u>	<u>7,845,756</u>
	1,484,452	8,509,925	9,994,377
Less: Investment fees	<u>(17,098)</u>	<u>(105,694)</u>	<u>(122,792)</u>
Net Investment Income	<u>\$1,467,354</u>	<u>\$8,404,231</u>	<u>\$9,871,585</u>

The alternative investments included in the Alliance's investment portfolio at December 31, 2020 and 2019 are redeemable based on the following terms and conditions:

	<u>2020</u>	<u>2019</u>
At the end of ten years' term	<u>\$708,544</u>	<u>\$398,731</u>

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

Capital Appreciation

Invests in long/short equity, event driven/distressed credit, asset-backed securities, global macro, relative value and portfolios of controlling private equity investments in companies in the United States and Canada.

Note 7 - 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.

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Note 7 - Endowment Funds (continued)

Changes in the Alliance's board designated endowment funds for the years ended December 31, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Endowment funds, beginning of year	\$51,813,700	\$46,122,925
Investment Return:		
Interest and dividends	1,287,066	1,194,998
Net realized and unrealized gains	5,075,747	7,314,927
Investment fees	<u>(136,105)</u>	<u>(105,694)</u>
Total Investment Return	<u>6,226,708</u>	<u>8,404,231</u>
Spending policy withdrawals	<u>(1,453,727)</u>	<u>(2,713,456)</u>
Endowment Funds, End of Year	<u>\$56,586,681</u>	<u>\$51,813,700</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.

Note 8 - Unconditional Promises to Give

Unconditional promises to give at December 31, 2020 and 2019 are due as follows:

	<u>2020</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Due in less than one year	\$308,942	\$ 7,901,428	\$ 8,210,370
Due in one to six years	<u>285,713</u>	<u>7,935,714</u>	<u>8,221,427</u>
	594,655	15,837,142	16,431,797
Less: Discount to present value	<u>-</u>	<u>(500,513)</u>	<u>(500,513)</u>
	<u>\$594,655</u>	<u>\$15,336,629</u>	<u>\$15,931,284</u>

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Note 8 - Unconditional Promises to Give (continued)

	<u>2019</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Due in less than one year	\$267,525	\$ 814,045	\$1,081,570
Due in one to five years	-	<u>1,605,227</u>	<u>1,605,227</u>
	<u>267,525</u>	2,419,272	2,686,797
Less: Discount to present value	-	<u>(107,148)</u>	<u>(107,148)</u>
	<u>\$267,525</u>	<u>\$2,312,124</u>	<u>\$2,579,649</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, 2020, approximately 91% of unconditional promises to give were from one donor. At December 31, 2019, approximately 78% of unconditional promises to give were from three donors.

Note 9 - Property and Equipment

Property and equipment at December 31, 2020 and 2019 consist of the following:

	<u>Life</u>	<u>2020</u>	<u>2019</u>
Furniture, fixtures and equipment	3-5 years	\$ 342,154	\$ 336,526
Computer equipment	3-5 years	355,518	336,160
Leasehold improvements	Life of lease	<u>424,912</u>	<u>424,912</u>
		1,122,584	1,097,598
Less: Accumulated depreciation		<u>(731,757)</u>	<u>(603,119)</u>
		<u>\$ 390,827</u>	<u>\$ 494,479</u>

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Note 10 - Loan Payable

In April 2020, the Alliance received a \$698,800 Paycheck Protection Program (PPP) loan with an interest rate of 1.00% and a maturity of 2 years. The loan and any accrued interest can be forgiven in its entirety if the loan proceeds are applied towards applicable payroll and occupancy costs, as defined by the Coronavirus Aid, Relief and Economic Security Act. The Alliance was informed that the loan was forgiven on June 9, 2021.

Note 11 - Grants Payable

Grants payable at December 31, 2020 and 2019 are due as follows:

	<u>2020</u>	<u>2019</u>
Due within one year	\$29,288,931	\$20,053,085
Due within one to three years	<u>11,316,278</u>	<u>5,693,689</u>
	40,605,209	25,746,774
Less: Discount to present value	<u>(762,113)</u>	<u>(324,272)</u>
	<u>\$39,843,096</u>	<u>\$25,422,502</u>

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

During 2020, one grant totaling \$219,700 that was awarded in prior year was cancelled by the Alliance due to the grantee relinquishing the grant. During 2019, two grants totaling \$1,250,000 that were awarded in prior years were cancelled by the Alliance due to the grantees' breach of their grant agreements.

Note 12 - Land and Building Held for Resale

In December 2019, the Alliance received a donation of land and building (the "Property"). The Property was recorded at fair value less estimated costs to sell the property. In July 2020, the Alliance sold the property and recognized a loss on the sale determined as follows:

Sales price	\$525,000
Less: Closing costs	<u>(54,436)</u>
Net proceeds	470,564
Less: Book value of property sold	<u>(493,500)</u>
Net Loss on Sale	<u>\$ (22,936)</u>

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
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Note 13 - Commitments

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

<u>Year Ending December 31,</u>	
2021	\$1,009,000
2022	1,055,000
2023	990,000
2024	1,013,000
2025	1,035,000
Thereafter, through April 30, 2027	1,414,000

Rent expense for the years ended December 31, 2020 and 2019 was \$1,083,671 and \$1,077,918, respectively.

- b - The Alliance entered into a sublease agreement for its office space in Arlington, VA. The lease provides for minimum annual payments as follows:

Year Ending December 31, 2021	\$118,000
Thereafter, through October 31, 2022	98,000

Sublet income for the year ended December 31, 2020 was \$20,199.

- c - The Alliance has commitments of approximately \$200,000 for consulting services through November 2022.

Note 14 - 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, 2020 and 2019 was \$350,691 and \$297,330, respectively.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
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Note 15 - Joint Costs

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>2020</u>	<u>2019</u>
Fundraising	\$51,547	\$216,339
Scientific programs	<u>12,887</u>	<u>54,084</u>
Total	<u>\$64,434</u>	<u>\$270,423</u>

Note 16 - Risks and Uncertainties

In March 2020, the United States declared the global pandemic novel coronavirus COVID-19 outbreak a national emergency. As a result, the Alliance has suspended some of its program activities at the direction of state and local governmental authorities. Management continues to evaluate the potential impact that the resulting economic uncertainties may have on the Alliance and believes that its current financial assets are sufficient to support the Alliance's operations on an ongoing basis.