

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020



INDEPENDENT AUDITORS' REPORT

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

Opinion

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, 2021 and 2020, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lupus Research Alliance, Inc. and Subsidiary as of December 31, 2021, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lupus Research Alliance, Inc. and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Lupus Research Alliance, Inc. and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Lupus Research Alliance, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lupus Research Alliance, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Lotz + Carr, LLP

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

| | 2021 | 2020 |
|---|----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents (Notes 2b and 5) | \$ 13,231,268 | \$ 4,723,585 |
| Investments (Notes 2c, 2d and 6) | 93,265,350 | 81,150,155 |
| Unconditional promises to give (Notes 2e and 8) | 2,944,619 | 15,931,284 |
| Accounts receivable | 332,914 | 545,275 |
| Prepaid expenses and other assets | 370,260 | 193,080 |
| Property and equipment, at cost, net of accumulated depreciation (Notes 2f and 9) | 275,664 | 390,827 |
| Security deposit | 489,871 | 473,935 |
| Total Assets | \$110,909,946 | \$103,408,141 |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable and other current liabilities | \$ 763,708 | \$ 511,502 |
| Loan payable (Note 10) | - | 698,800 |
| Research grants payable (Notes 2i and 11) | 39,844,509 | 39,843,096 |
| Deferred sublet revenue | 42,880 | - |
| Deferred rent liability (Note 2j) | 772,731 | 797,688 |
| Total Liabilities | 41,423,828 | 41,851,086 |
| Commitments, Risks and Uncertainties (Notes 12, 13 and 15) | | |
| Net Assets | | |
| Without donor restrictions (Note 4a) | 58,936,120 | 45,047,938 |
| With donor restrictions (Note 4b) | 10,549,998 | 16,509,117 |
| Total Net Assets | 69,486,118 | 61,557,055 |
| Total Liabilities and Net Assets | \$110,909,946 | \$103,408,141 |

See notes to consolidated financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2021 AND 2020

| | 2021 | | | 2020 | | |
|---|----------------------------|-------------------------|---------------------|----------------------------|-------------------------|---------------------|
| | 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) | \$ 8,611,826 | \$ 2,521,502 | \$11,133,328 | \$22,342,002 | \$15,298,820 | \$37,640,822 |
| Special events income | 7,323,415 | - | 7,323,415 | 3,254,023 | - | 3,254,023 |
| Less: Expenses directly benefiting contributors | (459,670) | - | (459,670) | (122,774) | - | (122,774) |
| Walkathon income | 1,076,982 | - | 1,076,982 | 805,403 | - | 805,403 |
| Less: Expenses directly benefiting contributors | (132,218) | - | (132,218) | (37,728) | - | (37,728) |
| LuCIN consulting revenue (Note 2g) | 1,036,685 | - | 1,036,685 | 1,291,193 | - | 1,291,193 |
| Net investment income for operations (Note 6) | 2,924,158 | - | 2,924,158 | 1,596,137 | 4,270 | 1,600,407 |
| Board designated endowment spending policy withdrawals (Notes 4a and 7) | 3,111,233 | - | 3,111,233 | 1,453,727 | - | 1,453,727 |
| | <u>23,492,411</u> | <u>2,521,502</u> | <u>26,013,913</u> | <u>30,581,983</u> | <u>15,303,090</u> | <u>45,885,073</u> |
| Net assets released from restrictions | | | | | | |
| Satisfaction of program restrictions | 8,480,621 | (8,480,621) | - | 4,270,494 | (4,270,494) | - |
| | <u>31,973,032</u> | <u>(5,959,119)</u> | <u>26,013,913</u> | <u>34,852,477</u> | <u>11,032,596</u> | <u>45,885,073</u> |
| Expenses | | | | | | |
| Program Services | | | | | | |
| Research | 11,693,925 | - | 11,693,925 | 15,400,647 | - | 15,400,647 |
| Scientific programs | 9,253,814 | - | 9,253,814 | 12,839,966 | - | 12,839,966 |
| Public policy | 647,293 | - | 647,293 | 743,966 | - | 743,966 |
| Total Program Services | <u>21,595,032</u> | <u>-</u> | <u>21,595,032</u> | <u>28,984,579</u> | <u>-</u> | <u>28,984,579</u> |
| Supporting Services | | | | | | |
| Administration | 2,174,307 | - | 2,174,307 | 2,264,536 | - | 2,264,536 |
| Fundraising | 2,778,881 | - | 2,778,881 | 2,838,968 | - | 2,838,968 |
| Total Supporting Services | <u>4,953,188</u> | <u>-</u> | <u>4,953,188</u> | <u>5,103,504</u> | <u>-</u> | <u>5,103,504</u> |
| Total Expenses | <u>26,548,220</u> | <u>-</u> | <u>26,548,220</u> | <u>34,088,083</u> | <u>-</u> | <u>34,088,083</u> |
| Increase (Decrease) in Net Assets Before Items Below | 5,424,812 | (5,959,119) | (534,307) | 764,394 | 11,032,596 | 11,796,990 |
| Non-Operating Activities | | | | | | |
| Net investment income (Note 6) | 7,839,333 | - | 7,839,333 | 6,226,708 | - | 6,226,708 |
| Board designated endowment spending policy withdrawals (Notes 4a and 7) | (3,111,233) | - | (3,111,233) | (1,453,727) | - | (1,453,727) |
| Grants cancelled (Note 11) | 3,613,650 | - | 3,613,650 | 219,700 | - | 219,700 |
| Sublet income (Note 12b) | 121,620 | - | 121,620 | 20,119 | - | 20,119 |
| Loss on sale of donated land and building held for resale | - | - | - | (22,936) | - | (22,936) |
| Increase (decrease) in net assets | 13,888,182 | (5,959,119) | 7,929,063 | 5,754,258 | 11,032,596 | 16,786,854 |
| Net assets, beginning of year | 45,047,938 | 16,509,117 | 61,557,055 | 39,293,680 | 5,476,521 | 44,770,201 |
| Net Assets, End of Year | <u>\$58,936,120</u> | <u>\$10,549,998</u> | <u>\$69,486,118</u> | <u>\$45,047,938</u> | <u>\$16,509,117</u> | <u>\$61,557,055</u> |

See notes to financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2021 WITH COMPARATIVE TOTALS FOR 2020

| | 2021 | | | | | | | 2020 | |
|--|---------------------|---------------------|------------------|---------------------|---------------------|---------------------|--------------------|---------------------|---------------------|
| | Program Services | | | | Supporting Services | | | Total Expenses | Total Expenses |
| | Research | Scientific Programs | Public Policy | Total | Administration | Fundraising | Total | | |
| Salaries | \$ 551,291 | \$ 1,694,755 | \$243,814 | \$ 2,489,860 | \$ 946,812 | \$ 1,207,075 | \$2,153,887 | \$ 4,643,747 | \$ 4,527,234 |
| Payroll taxes and fringe benefits | 189,181 | 581,571 | 83,667 | 854,419 | 324,909 | 414,219 | 739,128 | 1,593,547 | 1,435,676 |
| Total Personnel Expenses | 740,472 | 2,276,326 | 327,481 | 3,344,279 | 1,271,721 | 1,621,294 | 2,893,015 | 6,237,294 | 5,962,910 |
| Peer reviewed research awards | 10,631,133 | - | - | 10,631,133 | - | - | - | 10,631,133 | 11,380,998 |
| LuCIN Grants | - | 4,359,632 | - | 4,359,632 | - | - | - | 4,359,632 | 8,612,243 |
| Clinical studies | - | 330,308 | - | 330,308 | - | - | - | 330,308 | 509,267 |
| Lupus emergency grant | - | - | 11,736 | 11,736 | - | - | - | 11,736 | 19,814 |
| COVID-19 research grant | - | - | - | - | - | - | - | - | 3,000,000 |
| Professional fees and contract services | 26,452 | 1,146,725 | 190,611 | 1,363,788 | 334,121 | 311,570 | 645,691 | 2,009,479 | 1,537,001 |
| Occupancy | 118,147 | 497,929 | 52,252 | 668,328 | 202,909 | 258,688 | 461,597 | 1,129,925 | 1,094,893 |
| Printing and publications | 20,356 | 12,021 | - | 32,377 | 11,632 | 171,576 | 183,208 | 215,585 | 170,699 |
| Staff and volunteer travel | 139 | 32,351 | - | 32,490 | 6,603 | 7,565 | 14,168 | 46,658 | 137,298 |
| Meetings and conferences | 18,250 | 300,554 | 24,231 | 343,035 | 11,092 | 7,974 | 19,066 | 362,101 | 314,148 |
| Walkathon promotional events and location expenses | - | - | - | - | - | 27,559 | 27,559 | 27,559 | 51,547 |
| Postage, shipping and delivery | 106 | 3,366 | 419 | 3,891 | 15,891 | 99,575 | 115,466 | 119,357 | 98,197 |
| Management information systems | 59,652 | 128,546 | 20,239 | 208,437 | 130,957 | 72,338 | 203,295 | 411,732 | 547,297 |
| Supplies | - | 3,113 | - | 3,113 | 19,849 | 4,021 | 23,870 | 26,983 | 38,941 |
| Data processing and accounting services | 37,694 | 2,375 | 851 | 40,920 | 73,921 | 103,530 | 177,451 | 218,371 | 165,336 |
| Branding and design | 7,575 | 21,980 | 375 | 29,930 | 225 | 11,689 | 11,914 | 41,844 | 44,720 |
| Telephone | 6,412 | 29,677 | 4,123 | 40,212 | 11,013 | 14,039 | 25,052 | 65,264 | 73,605 |
| Insurance | 6,070 | 33,041 | 2,685 | 41,796 | 10,425 | 13,291 | 23,716 | 65,512 | 64,154 |
| Licenses | 1,389 | 4,269 | 614 | 6,272 | 2,385 | 3,041 | 5,426 | 11,698 | 10,267 |
| Equipment lease | 2,592 | 7,968 | 1,146 | 11,706 | 4,453 | 5,675 | 10,128 | 21,834 | 28,176 |
| Professional development | 150 | 3,718 | - | 3,868 | 2,608 | 567 | 3,175 | 7,043 | 18,093 |
| Dues and subscriptions and other expenses | 537 | 8,271 | 3,100 | 11,908 | 35,649 | 8,107 | 43,756 | 55,664 | 35,104 |
| Total expenses before depreciation | 11,677,126 | 9,202,170 | 639,863 | 21,519,159 | 2,145,454 | 2,742,099 | 4,887,553 | 26,406,712 | 33,914,708 |
| Depreciation | 16,799 | 51,644 | 7,430 | 75,873 | 28,853 | 36,782 | 65,635 | 141,508 | 173,375 |
| Total Expenses, 2021 | <u>\$11,693,925</u> | <u>\$ 9,253,814</u> | <u>\$647,293</u> | <u>\$21,595,032</u> | <u>\$ 2,174,307</u> | <u>\$ 2,778,881</u> | <u>\$4,953,188</u> | <u>\$26,548,220</u> | |
| 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> |

See notes to consolidated financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2020

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

See notes to consolidated financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2021 AND 2020

| | <u>2021</u> | <u>2020</u> |
|---|----------------------------|----------------------------|
| Cash Flows From Operating Activities | | |
| Increase in net assets | \$ 7,929,063 | \$16,786,854 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Loan forgiveness - Paycheck Protection Program | (698,800) | - |
| Depreciation | 141,508 | 173,375 |
| Realized gain on sale of investments | (1,775,738) | (367,659) |
| Unrealized gain on investments | (7,278,535) | (6,026,720) |
| Donated securities | (157,911) | (10,054,692) |
| Loss on sale of donated land and building held for resale | - | 22,936 |
| (Increase) decrease in: | | |
| Unconditional promises to give | 12,986,665 | (13,351,635) |
| Accounts receivable | 212,361 | (171,505) |
| Prepaid expenses and other assets | (177,180) | (30,188) |
| Security deposit | (15,936) | 136,648 |
| Increase (decrease) in: | | |
| Accounts payable and other current liabilities | 252,206 | 72,617 |
| Research grants payable | 1,413 | 14,420,594 |
| Deferred sublet revenue | 42,880 | - |
| Deferred rent liability | (24,957) | (2,442) |
| Net Cash Provided By Operating Activities | <u>11,437,039</u> | <u>1,608,183</u> |
| Cash Flows From Investing Activities | | |
| Acquisition of property and equipment | (26,345) | (69,723) |
| Purchase of investments | (9,906,031) | (10,619,208) |
| Proceeds from sale of investments | 7,003,020 | 8,036,504 |
| Proceeds from sale of donated land and building held for resale | - | 470,564 |
| Net Cash Used By Investing Activities | <u>(2,929,356)</u> | <u>(2,181,863)</u> |
| Cash Flows From Financing Activities | | |
| Proceeds from loan payable | - | 698,800 |
| Net increase in cash and cash equivalents | 8,507,683 | 125,120 |
| Cash and cash equivalents, beginning of year | <u>4,723,585</u> | <u>4,598,465</u> |
| Cash and Cash Equivalents, End of Year | <u><u>\$13,231,268</u></u> | <u><u>\$ 4,723,585</u></u> |

See notes to consolidated financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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 \$228 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.

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, 2021, the Alliance received approximately 17% of its contributions from one trust and during the year ended December 31, 2020, approximately 72% of its contributions from one foundation 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, 2021 and 2020, included in cash and cash equivalents is approximately \$848,000 and \$846,000, respectively, being held in interest-bearing accounts.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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 consolidated 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, 2021 AND 2020

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.

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 consolidated 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, 2021 AND 2020

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 in the period the award is made. Grants payable later than one year from the end of a fiscal year are discounted to present value using a discount rate of 3%.

Conditional grants awarded are recognized as expenses in the period the condition is met.

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 12a). 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 consolidated 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 consolidated 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, 2021 AND 2020

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 - Prior Year Information

For comparability purposes, certain 2020 amounts have been reclassified, where appropriate, to conform to the consolidated financial statement presentation used in 2021.

o - Subsequent Events

The Alliance has evaluated subsequent events through June 7, 2022, the date that the consolidated financial statements are considered available to be issued.

p - New Accounting Standard

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 consolidated 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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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, 2021 and 2020 that are available to meet cash needs for general expenditures within one year are summarized as follows:

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| Financial Assets at Year End: | | |
| Cash and cash equivalents | \$13,231,268 | \$ 4,723,585 |
| Investments | 93,265,350 | 81,150,155 |
| Unconditional promises to give | 2,944,619 | 15,931,284 |
| Accounts receivable | <u>332,914</u> | <u>545,275</u> |
| Total Financial Assets | 109,774,151 | 102,350,299 |
| 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 | (10,549,998) | (16,509,117) |
| Plus: Net assets with donor restrictions expected to be met within one year | 8,990,736 | 8,115,054 |
| Net assets restricted by Board, subject to spending policy and appropriation | (61,314,781) | (56,586,681) |
| Plus: Amount appropriated in the budget for use within one year | <u>3,659,722</u> | <u>3,111,233</u> |
| Financial Assets Available to Meet General Expenditures within One Year | <u>\$50,559,830</u> | <u>\$40,480,788</u> |

In addition to these financial assets available within one year at December 31, 2021, the Alliance has board designated endowment funds not appropriated for use within one year of approximately \$57,655,000, 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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 4 - Net Assets

a - Net Assets Without Donor Restrictions

Net assets without donor restrictions at December 31, 2021 and 2020 consist of the following:

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| Board designated endowment | \$61,314,781 | \$56,586,681 |
| Accumulated net spending | <u>(2,378,661)</u> | <u>(11,538,743)</u> |
| Total Net Assets Without Donor Restrictions | <u>\$58,936,120</u> | <u>\$45,047,938</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, 2021 and 2020 are restricted for the following future programs and periods:

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Grants | \$ 6,144,270 | \$12,505,555 |
| Future periods | 1,146,615 | 97,655 |
| Change project | 1,000,000 | - |
| Lupus nexus | 896,240 | 2,055,390 |
| Meetings and Evaluations | 545,000 | 520,000 |
| Rally for Lupus | 371,548 | 571,548 |
| Patient advocacy fund | 217,807 | 223,438 |
| Multi-cultural outreach | 142,596 | 123,459 |
| Gala | 50,000 | 10,500 |
| Unraveling lupus complexity | 24,350 | 50,000 |
| Lupus index | 11,572 | 136,572 |
| Walk sponsorship | - | 175,000 |
| Clinical trials outreach | - | 20,000 |
| Patient advocates for lupus | <u>-</u> | <u>20,000</u> |
| Total Net Assets With Donor Restrictions | <u>\$10,549,998</u> | <u>\$16,509,117</u> |

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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, 2021. At times throughout the year, the balances may exceed these limits.

Note 6 - Investments

Investments consist of the following at December 31, 2021 and 2020.

| | 2021 | | 2020 | |
|---------------------------------|--------------|--------------|--------------|--------------|
| | Cost | Fair Value | Cost | Fair Value |
| Common Stock: | | | | |
| Domestic | \$31,913,038 | \$61,035,748 | \$31,056,898 | \$54,022,953 |
| Foreign | 2,578,236 | 3,300,655 | 2,544,219 | 3,129,872 |
| Mutual Funds: | | | | |
| Domestic equities | 2,933,639 | 5,093,335 | 2,838,615 | 4,252,940 |
| Foreign equities | 1,790,473 | 2,050,862 | 1,825,559 | 2,504,153 |
| Domestic fixed income | 5,367,143 | 5,382,553 | 2,765,931 | 2,793,531 |
| Foreign fixed income | 1,063,959 | 986,429 | 1,031,302 | 1,005,474 |
| Real assets | 2,796,458 | 4,050,263 | 2,693,384 | 2,970,410 |
| Fixed Income: | | | | |
| Corporate bonds | 4,565,767 | 4,558,523 | 4,702,508 | 4,860,010 |
| Government obligations | 4,064,716 | 4,010,119 | 3,172,490 | 3,250,115 |
| Mortgage backed securities | 395,416 | 385,564 | 184,019 | 184,378 |
| Cash and short-term investments | 1,385,567 | 1,385,567 | 1,467,775 | 1,467,775 |
| Alternative Investments: | | | | |
| Capital appreciation | 967,585 | 1,025,732 | 702,637 | 708,544 |
| | \$59,821,997 | \$93,265,350 | \$54,985,337 | \$81,150,155 |

At December 31, 2021 and 2020, approximately 44% and 47%, respectively, of total investments was invested in one Fortune 500 company.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 6 - Investments (continued)

The following summarizes the fair value of the investments that are measured on a recurring basis at December 31, 2021 and 2020.

| | <u>2021</u> | | <u>2020</u> | |
|---|---------------------|---------------------|---------------------|---------------------|
| | <u>Total</u> | <u>Level 1</u> | <u>Total</u> | <u>Level 1</u> |
| Common stock: | | | | |
| Domestic | \$61,035,748 | \$61,035,748 | \$54,022,953 | \$54,022,953 |
| Foreign | 3,300,655 | 3,300,655 | 3,129,872 | 3,129,872 |
| Mutual Funds: | | | | |
| Domestic equities | 5,093,335 | 5,093,335 | 4,252,940 | 4,252,940 |
| Foreign equities | 2,050,862 | 2,050,862 | 2,504,153 | 2,504,153 |
| Domestic fixed income | 5,382,553 | 5,382,553 | 2,793,531 | 2,793,531 |
| Foreign fixed income | 986,429 | 986,429 | 1,005,474 | 1,005,474 |
| Real assets | 4,050,263 | 4,050,263 | 2,970,410 | 2,970,410 |
| Fixed income: | | | | |
| Corporate bonds | 4,558,523 | 4,558,523 | 4,860,010 | 4,860,010 |
| Government obligations | 4,010,119 | 4,010,119 | 3,250,115 | 3,250,115 |
| Mortgage backed securities | 385,564 | 385,564 | 184,378 | 184,378 |
| Cash and short-term investments | <u>1,385,567</u> | <u>1,385,567</u> | <u>1,467,775</u> | <u>1,467,775</u> |
| Total Assets in Fair Value Hierarchy | 92,239,618 | <u>\$92,239,618</u> | 80,441,611 | <u>\$80,441,611</u> |
| Investments measured at net asset value | <u>1,025,732</u> | | <u>708,544</u> | |
| | <u>\$93,265,350</u> | | <u>\$81,150,155</u> | |

Net investment income for the years ended December 31, 2021 and 2020 is summarized as follows:

| | <u>2021</u> | | |
|--------------------------------------|-----------------------------------|-----------------------------------|---------------------|
| | <u>Without Donor Restrictions</u> | | |
| | <u>Operating</u> | <u>Board Designated Endowment</u> | <u>Total</u> |
| Interest and dividends | \$ 492,533 | \$1,411,617 | \$ 1,904,150 |
| Realized gain on sale of investments | 491,772 | 1,283,966 | 1,775,738 |
| Unrealized gain on investments | <u>1,993,632</u> | <u>5,284,903</u> | <u>7,278,535</u> |
| | 2,977,937 | 7,980,486 | 10,958,423 |
| Less: Investment fees | <u>(53,779)</u> | <u>(141,153)</u> | <u>(194,932)</u> |
| Net Investment Income | <u>\$2,924,158</u> | <u>\$7,839,333</u> | <u>\$10,763,491</u> |

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 6 - Investments (continued)

| | 2020 | | | |
|--------------------------------------|-----------------------------------|-----------------------------------|--------------------------------|--------------------|
| | Without Donor Restrictions | | With Donor Restrictions | |
| | Operating | Board Designated Endowment | Operating | Total |
| | Operating | Board Designated Endowment | Operating | Total |
| 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> |

The alternative investments included in the Alliance's investment portfolio at December 31, 2021 and 2020 are redeemable based on the following terms and conditions:

| | 2021 | 2020 |
|-------------------------------|--------------------|------------------|
| At the end of ten years' term | <u>\$1,025,732</u> | <u>\$708,544</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.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 7 - Endowment Funds (continued)

Changes in the Alliance's board designated endowment funds for the years ended December 31, 2021 and 2020 are summarized as follows:

| | <u>2021</u> | <u>2020</u> |
|------------------------------------|---------------------|---------------------|
| Endowment funds, beginning of year | \$56,586,681 | \$51,813,700 |
| Investment Return: | | |
| Interest and dividends | 1,411,617 | 1,287,066 |
| Net realized and unrealized gains | 6,568,869 | 5,075,747 |
| Investment fees | <u>(141,153)</u> | <u>(136,105)</u> |
| Total Investment Return | <u>7,839,333</u> | <u>6,226,708</u> |
| Spending policy withdrawals | <u>(3,111,233)</u> | <u>(1,453,727)</u> |
| Endowment Funds, End of Year | <u>\$61,314,781</u> | <u>\$56,586,681</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, 2021 and 2020 are due as follows:

| | <u>2021</u> | | |
|---------------------------------|---|--|--------------------|
| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
| Due in less than one year | \$1,377,491 | \$ 301,110 | \$1,678,601 |
| Due in one to six years | <u>214,284</u> | <u>1,164,285</u> | <u>1,378,569</u> |
| | 1,591,775 | 1,465,395 | 3,057,170 |
| Less: Discount to present value | <u>-</u> | <u>(112,551)</u> | <u>(112,551)</u> |
| | <u>\$1,591,775</u> | <u>\$1,352,844</u> | <u>\$2,944,619</u> |

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 8 - Unconditional Promises to Give (continued)

| | 2020 | | Total |
|---------------------------------|---|--|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | |
| Due in less than one year | \$308,942 | \$ 7,901,428 | \$ 8,210,370 |
| Due in one to five 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> |

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, 2021, approximately 68% of unconditional promises to give were from two donors. At December 31, 2020, approximately 91% of unconditional promises to give were from one donor.

Note 9 - Property and Equipment

Property and equipment at December 31, 2021 and 2020 consist of the following:

| | Life | 2021 | 2020 |
|-----------------------------------|---------------|-------------------|-------------------|
| Furniture, fixtures and equipment | 3-5 years | \$ 344,718 | \$ 342,154 |
| Computer equipment | 3-5 years | 341,851 | 355,518 |
| Leasehold improvements | Life of lease | <u>424,912</u> | <u>424,912</u> |
| | | 1,111,481 | 1,122,584 |
| Less: Accumulated depreciation | | <u>(835,817)</u> | <u>(731,757)</u> |
| | | <u>\$ 275,664</u> | <u>\$ 390,827</u> |

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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 loan was forgiven on June 9, 2021, and accordingly, it was recognized as contribution income during the year ended December 31, 2021.

Note 11 - Grants Payable

Grants payable at December 31, 2021 and 2020 are due as follows:

| | <u>2021</u> | <u>2020</u> |
|---------------------------------|---------------------|---------------------|
| Due within one year | \$26,703,086 | \$29,288,931 |
| Due within one to three years | <u>13,512,364</u> | <u>11,316,278</u> |
| | 40,215,450 | 40,605,209 |
| Less: Discount to present value | <u>(370,941)</u> | <u>(762,113)</u> |
| | <u>\$39,844,509</u> | <u>\$39,843,096</u> |

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

During 2021, three grants totaling \$3,613,650 that were awarded in prior years were cancelled by the Alliance due to the grantees' breach of their grant agreements. 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.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 12 - Commitments

- a - The Alliance leases office space in New York, NY for its main office and in Arlington, VA for its branch office. In January 2022, the Alliance leased a new smaller space for its main office and sublet its original office space to a third party. The leases for both New York offices and the Virginia office provide for minimum annual payments as follows:

| <u>Year Ending December 31,</u> | |
|------------------------------------|-------------|
| 2022 | \$1,232,474 |
| 2023 | 1,171,225 |
| 2024 | 1,197,126 |
| 2025 | 1,207,924 |
| 2026 | 1,058,778 |
| Thereafter, through April 30, 2027 | 355,534 |

Rent expense for the years ended December 31, 2021 and 2020 was \$1,114,940 and \$1,083,671, respectively.

- b - The Alliance's sublet agreements for its office space in New York and Virginia provide for minimum annual payments as follows:

| <u>Year Ending December 31,</u> | |
|--------------------------------------|-----------|
| 2022 | \$623,320 |
| 2023 | 519,395 |
| 2024 | 519,395 |
| 2025 | 519,395 |
| 2026 | 519,395 |
| Thereafter, through October 31, 2022 | 173,132 |

Sublet income for the years ended December 31, 2021 and 2020 was \$121,620 and \$20,199, respectively.

- c - The Alliance has commitments of approximately \$2,867,000 for consulting services through December 31, 2025.

Note 13 - 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, 2021 and 2020 was \$363,642 and \$350,691, respectively.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 14 - Joint Costs

During the year ended December 31, 2020, the Alliance held events to achieve 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. Joint costs were allocated as follows:

| | |
|---------------------|-----------------|
| Fundraising | \$51,547 |
| Scientific programs | <u>12,887</u> |
| Total | <u>\$64,434</u> |

There were no joint cost activities for the year ended December 31, 2021.

Note 15 - 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 suspended some of its program activities at the direction of state and local governmental authorities. These activities were slowly resumed in 2021 and expect to be at normal levels in 2022. 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.