

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021



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 organization) and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, 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, 2022 and 2021, and the changes in their net assets and their cash flows for the years 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 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 consolidated 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, 2022 AND 2021

	2022	2021
Assets		
Cash and cash equivalents (Notes 2b and 5)	\$ 5,963,185	\$ 13,231,268
Investments (Notes 2c, 2d and 6)	86,853,912	93,265,350
Unconditional promises to give (Notes 2e and 8)	1,416,005	2,944,619
Accounts receivable	626,727	332,914
Prepaid expenses and other assets	567,776	370,260
Accrued rental income (Notes 2k and 13)	133,477	-
Operating lease right-of-use assets (Note 2j)	2,694,192	-
Property and equipment, at cost, net of accumulated depreciation (Notes 2f and 9)	229,852	275,664
Security deposit	422,166	489,871
	\$98,907,292	\$110,909,946
Liabilities and Net Assets		
Liabilities		
Accounts payable and other current liabilities	\$ 878,056	\$ 763,708
Research grants payable (Notes 2i and 11)	29,652,068	31,164,509
Operating lease liabilities (Notes 2j and 12)	4,845,583	-
Deferred revenue	-	42,880
Deferred rent liability (Note 2j)	-	772,731
Total Liabilities	35,375,707	32,743,828
Commitments (Notes 14 and 15)		
Net Assets		
Without donor restrictions (Note 4a)	61,152,445	67,616,120
With donor restrictions (Note 4b)	2,379,140	10,549,998
Total Net Assets	63,531,585	78,166,118
	\$98,907,292	\$110,909,946

See notes to consolidated financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022			2021		
	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, 1d, 2e and 10)	\$12,146,753	\$ 728,156	\$12,874,909	\$ 8,611,826	\$ 2,521,502	\$11,133,328
Federal relief grant - Employee Retention Tax Credit (Note 16)	294,339	-	294,339	-	-	-
Special events income	4,272,623	-	4,272,623	7,323,415	-	7,323,415
Less: Expenses directly benefiting contributors	(374,803)	-	(374,803)	(459,670)	-	(459,670)
Walkathon income	1,482,394	-	1,482,394	1,076,982	-	1,076,982
Less: Expenses directly benefiting contributors	(173,909)	-	(173,909)	(132,218)	-	(132,218)
LuCIN consulting revenue (Note 2g)	1,232,995	-	1,232,995	1,036,685	-	1,036,685
Net investment income (loss) for operations (Note 6)	(2,018,595)	-	(2,018,595)	2,924,158	-	2,924,158
Board designated endowment spending policy withdrawals (Notes 4a and 7)	3,659,722	-	3,659,722	3,111,233	-	3,111,233
	<u>20,521,519</u>	<u>728,156</u>	<u>21,249,675</u>	<u>23,492,411</u>	<u>2,521,502</u>	<u>26,013,913</u>
Net assets released from restrictions						
Satisfaction of program restrictions	8,899,014	(8,899,014)	-	8,480,621	(8,480,621)	-
	<u>29,420,533</u>	<u>(8,170,858)</u>	<u>21,249,675</u>	<u>31,973,032</u>	<u>(5,959,119)</u>	<u>26,013,913</u>
Expenses						
Program Services						
Research	18,215,047	-	18,215,047	11,693,925	-	11,693,925
Scientific programs	7,011,730	-	7,011,730	9,253,814	-	9,253,814
Public policy	622,162	-	622,162	647,293	-	647,293
Total Program Services	<u>25,848,939</u>	<u>-</u>	<u>25,848,939</u>	<u>21,595,032</u>	<u>-</u>	<u>21,595,032</u>
Supporting Services						
Administration	2,690,676	-	2,690,676	2,174,307	-	2,174,307
Fundraising	2,944,799	-	2,944,799	2,778,881	-	2,778,881
Total Supporting Services	<u>5,635,475</u>	<u>-</u>	<u>5,635,475</u>	<u>4,953,188</u>	<u>-</u>	<u>4,953,188</u>
Total Expenses	<u>31,484,414</u>	<u>-</u>	<u>31,484,414</u>	<u>26,548,220</u>	<u>-</u>	<u>26,548,220</u>
Increase (Decrease) in Net Assets Before Non-Operating Activities	(2,063,881)	(8,170,858)	(10,234,739)	5,424,812	(5,959,119)	(534,307)
Non-Operating Activities						
Net investment income (loss) (Note 6)	(3,669,040)	-	(3,669,040)	7,839,333	-	7,839,333
Board designated endowment spending policy withdrawals (Notes 4a and 7)	(3,659,722)	-	(3,659,722)	(3,111,233)	-	(3,111,233)
Grants cancelled (Note 11)	4,854,118	-	4,854,118	3,613,650	-	3,613,650
Sublease income (Note 13)	638,138	-	638,138	121,620	-	121,620
Sublease lease expense	(653,185)	-	(653,185)	-	-	-
Impairment loss on operating lease right-of-use asset (Note 1p)	(1,910,103)	-	(1,910,103)	-	-	-
Increase (decrease) in net assets	<u>(6,463,675)</u>	<u>(8,170,858)</u>	<u>(14,634,533)</u>	<u>13,888,182</u>	<u>(5,959,119)</u>	<u>7,929,063</u>
Net assets, beginning of year, as previously reported				45,047,938	16,509,117	61,557,055
Prior period adjustment (Note 17)				8,680,000	-	8,680,000
Net assets, beginning of year, as restated	<u>67,616,120</u>	<u>10,549,998</u>	<u>78,166,118</u>	<u>53,727,938</u>	<u>16,509,117</u>	<u>70,237,055</u>
Net Assets, End of Year	<u>\$61,152,445</u>	<u>\$ 2,379,140</u>	<u>\$63,531,585</u>	<u>\$67,616,120</u>	<u>\$10,549,998</u>	<u>\$78,166,118</u>

See notes to financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2022 WITH COMPARATIVE TOTALS FOR 2021

	2022							2021	
	Program Services				Supporting Services			Total Expenses	Total Expenses
	Research	Scientific Programs	Public Policy	Total	Administration	Fundraising	Total		
Salaries	\$ 584,443	\$ 2,336,004	\$216,579	\$ 3,137,026	\$ 1,102,733	\$ 1,353,643	\$2,456,376	\$ 5,593,402	\$ 4,643,747
Payroll taxes and fringe benefits	202,642	809,953	75,094	1,087,689	382,345	469,343	851,688	1,939,377	1,593,547
Total Personnel Expenses	787,085	3,145,957	291,673	4,224,715	1,485,078	1,822,986	3,308,064	7,532,779	6,237,294
Peer reviewed research awards	17,178,191	-	-	17,178,191	-	-	-	17,178,191	10,631,133
LuCIN Grants	-	107,085	-	107,085	-	-	-	107,085	4,359,632
Clinical studies	-	197,416	-	197,416	-	-	-	197,416	330,308
Lupus emergency grant	-	-	82,232	82,232	-	-	-	82,232	11,736
Professional fees and contract services	9,957	1,639,325	126,919	1,776,201	673,799	246,428	920,227	2,696,428	2,009,479
Occupancy	32,225	115,861	11,942	160,028	60,802	74,638	135,440	295,468	1,129,925
Printing and publications	30,174	6,207	584	36,965	12,470	259,095	271,565	308,530	215,585
Staff and volunteer travel	28,499	254,221	10,519	293,239	96,720	37,331	134,051	427,290	46,658
Meetings and conferences	32,210	873,927	34,931	941,068	10,249	33,033	43,282	984,350	362,101
Walkathon promotional events and location expenses	-	-	-	-	-	105,850	105,850	105,850	27,559
Postage, shipping and delivery	7	7,951	9	7,967	21,460	105,569	127,029	134,996	119,357
Management information systems	57,350	496,138	45,874	599,362	154,177	93,745	247,922	847,284	411,732
Supplies	299	3,814	2,208	6,321	32,633	7,611	40,244	46,565	26,983
Data processing and accounting services	31,357	374	1,266	32,997	79,133	81,219	160,352	193,349	218,371
Branding and design	-	4,856	-	4,856	413	825	1,238	6,094	41,844
Telephone	6,115	39,325	2,566	48,006	11,540	14,164	25,704	73,710	65,264
Insurance	5,742	24,328	2,128	32,198	10,835	13,300	24,135	56,333	65,512
Licenses	2,213	8,846	820	11,879	4,176	5,126	9,302	21,181	11,698
Equipment lease	1,469	5,871	544	7,884	2,773	3,402	6,175	14,059	21,834
Professional development	-	25,348	-	25,348	5,662	13	5,675	31,023	7,043
Dues and subscriptions and other expenses	86	6,643	3,475	10,204	5,984	12,513	18,497	28,701	55,664
Total expenses before depreciation	18,202,979	6,963,493	617,690	25,784,162	2,667,904	2,916,848	5,584,752	31,368,914	26,406,712
Depreciation	12,068	48,237	4,472	64,777	22,772	27,951	50,723	115,500	141,508
Total Expenses, 2022	<u>\$18,215,047</u>	<u>\$ 7,011,730</u>	<u>\$622,162</u>	<u>\$25,848,939</u>	<u>\$ 2,690,676</u>	<u>\$ 2,944,799</u>	<u>\$5,635,475</u>	<u>\$31,484,414</u>	
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>

See notes to consolidated financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021

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

See notes to consolidated financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$(14,634,533)	\$ 7,929,063
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Non-cash operating lease expense	488,556	-
Impairment loss on operating lease right-of-use asset	1,910,103	-
Loan forgiveness - Paycheck Protection Program	-	(698,800)
Depreciation	115,500	141,508
Realized gain on sale of investments	(435,041)	(1,775,738)
Unrealized (gain) loss on investments	7,913,885	(7,278,535)
Donated securities	(268,505)	(157,911)
Grants cancelled	(4,854,118)	(3,613,650)
(Increase) decrease in:		
Unconditional promises to give	1,528,614	12,986,665
Accounts receivable	(293,813)	212,361
Prepaid expenses and other assets	(197,516)	(177,180)
Accrued rental income	(133,477)	-
Security deposit	67,705	(15,936)
Increase (decrease) in:		
Accounts payable and other current liabilities	114,348	252,206
Research grants payable	3,341,677	3,615,063
Deferred revenue	(42,880)	42,880
Operating lease liabilities	(1,019,999)	-
Deferred rent liability	-	(24,957)
Net Cash Provided (Used) By Operating Activities	<u>(6,399,494)</u>	<u>11,437,039</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	(69,688)	(26,345)
Purchase of investments	(10,827,083)	(9,906,031)
Proceeds from sale of investments	10,028,182	7,003,020
Net Cash Used By Investing Activities	<u>(868,589)</u>	<u>(2,929,356)</u>
Net increase (decrease) in cash and cash equivalents	(7,268,083)	8,507,683
Cash and cash equivalents, beginning of year	<u>13,231,268</u>	<u>4,723,585</u>
Cash and Cash Equivalents, End of Year	<u>\$ 5,963,185</u>	<u>\$13,231,268</u>
Supplemental disclosure of non-cash investing activities:		
Operating lease right-of-use assets obtained in exchange for lease liabilities	<u>\$ 3,332,330</u>	<u>\$ -</u>

See notes to consolidated financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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 \$246 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, 2022, the Alliance received approximately 34% of its contributions from two estates and during the year ended December 31, 2021, approximately 17% of its contributions from 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, 2022 and 2021, included in cash and cash equivalents is approximately \$865,000 and \$848,000, respectively, being held in interest-bearing accounts.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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, is 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, 2022 AND 2021

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.

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.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 2 - Summary of Significant Accounting Policies (continued)

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 - Operating Lease Right-of-Use Assets and Operating Lease Liabilities

For leases with an initial term greater than twelve months, the Alliance's operating lease liabilities are initially recorded at the present value of the unpaid lease payments as of January 1, 2022. The Alliance's operating lease right-of-use assets are initially recorded at the carrying amount of the lease liabilities adjusted for initial direct costs, accruals, deferred rent liability, lease incentives and impairment loss, if any. Operating lease cost is recognized on a straight-line basis over the lease term.

For 2021, the Alliance recorded rent expense associated with its office leases on a straight-line basis over the life of the leases. 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 - Sublease Income

The Alliance recognizes sublease income from its operating subleases on a straight-line basis over the lease term. The difference between the straight-line amount and the amount actually received during the year is recorded as accrued rental income.

l - 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.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 2 - Summary of Significant Accounting Policies (continued)

m - 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.

n - 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.

o - Subsequent Events

The Alliance has evaluated subsequent events through June 9, 2023, the date that the consolidated financial statements are considered available to be issued.

p - New Accounting Standard

During 2022, the Alliance adopted ASU 2016-02, *Leases (Topic 842)*. The core principles of ASU 2016-02 (the "ASU") change the way organizations account for their leases by recognizing lease assets and related liabilities on the statement of financial position for all leases with terms longer than twelve months and disclosing key information about leasing arrangements. As such, results for 2022 are presented under Topic 842, while results for 2021 continue to be reported in accordance with historical accounting practices.

As part of the adoption of the ASU, the Alliance elected to apply the modified retrospective transition approach as of the date of initial application without restating comparative period financial statements, to use a risk-free rate, equal to the five-year Treasury Bill rate for the discount of the operating leases and to apply the practical expedients which allows the Organization to not reassess (i) whether any expired or existing contracts are leases or contain leases (ii) the lease classification for any expired or existing leases (iii) initial direct costs for any existing leases.

LRA's right-of-use assets were evaluated for recoverability at the adoption of the ASU. In evaluating for recoverability, LRA considered the future cash flows expected from the assets. If the sum of the expected future cash flows, on an undiscounted basis, is less than the carrying amount of the asset, an impairment loss equal to the excess of the carrying amount over the fair value of the asset is recognized. During the year ended December 31, 2022, LRA recognized an impairment loss of \$1,910,103.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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.

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, 2022 and 2021 that are available to meet cash needs for general expenditures within one year are summarized as follows:

	<u>2022</u>	<u>2021</u>
Financial Assets at Year End:		
Cash and cash equivalents	\$ 5,963,185	\$13,231,268
Investments	86,853,912	93,265,350
Unconditional promises to give	1,416,005	2,944,619
Accounts receivable	<u>626,727</u>	<u>332,914</u>
Total Financial Assets	94,859,829	109,774,151
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	(2,379,140)	(10,549,998)
Plus: Net assets with donor restrictions expected to be met within one year	1,697,462	8,990,736
Net assets restricted by Board, subject to spending policy and appropriation	(53,986,019)	(61,314,781)
Plus: Amount appropriated in the budget for use within one year	<u>4,017,053</u>	<u>3,659,722</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$44,209,185</u>	<u>\$50,559,830</u>

In addition to these financial assets available within one year at December 31, 2022, the Alliance has board designated endowment funds not appropriated for use within one year of approximately \$49,969,000, 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, 2022 AND 2021

Note 4 - Net Assets

a - Net Assets Without Donor Restrictions

Net assets without donor restrictions at December 31, 2022 and 2021 consist of the following:

	<u>2022</u>	<u>2021</u>
Board designated endowment	\$53,986,019	\$61,314,781
Accumulated net earning	<u>7,166,426</u>	<u>6,301,339</u>
Total Net Assets Without Donor Restrictions	<u>\$61,152,445</u>	<u>\$67,616,120</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, 2022 and 2021 are restricted for the following future programs and periods:

	<u>2022</u>	<u>2021</u>
Future periods	\$ 891,647	\$1,146,615
Grants	4,270	6,144,270
Change project	773,222	1,000,000
Lupus nexus	99,417	896,240
Meetings and evaluations	20,000	545,000
Rally for Lupus	388,519	371,548
Patient advocacy fund	202,065	217,807
Multi-cultural outreach	-	142,596
Gala	-	50,000
Unraveling lupus complexity	-	24,350
Lupus index	<u>-</u>	<u>11,572</u>
Total Net Assets With Donor Restrictions	<u>\$2,379,140</u>	<u>\$10,549,998</u>

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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, 2022. At times throughout the year, the balances may exceed these limits.

Note 6 - Investments

Investments consist of the following at December 31, 2022 and 2021.

	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Common Stock:				
Domestic	\$33,502,624	\$58,972,396	\$31,913,038	\$61,035,748
Foreign	3,117,617	3,314,059	2,578,236	3,300,655
Mutual Funds:				
Domestic equities	4,014,314	4,976,787	2,933,639	5,093,335
Foreign equities	1,150,089	1,033,129	1,790,473	2,050,862
Domestic fixed income	-	-	5,367,143	5,382,553
Foreign fixed income	60,237	55,643	1,063,959	986,429
Real assets	2,596,322	2,679,929	2,796,458	4,050,263
Fixed Income:				
Corporate bonds	5,329,688	4,821,499	4,565,767	4,558,523
Government obligations	7,700,203	7,153,278	4,064,716	4,010,119
Mortgage backed securities	686,350	622,045	395,416	385,564
Cash and short-term investments	2,191,300	2,191,300	1,385,567	1,385,567
Alternative Investments:				
Capital appreciation	<u>1,033,847</u>	<u>1,033,847</u>	<u>1,025,732</u>	<u>1,025,732</u>
	<u>\$61,382,591</u>	<u>\$86,853,912</u>	<u>\$59,880,144</u>	<u>\$93,265,350</u>

At December 31, 2022 and 2021, approximately 49% and 44%, respectively, of total investments was invested in one Fortune 500 company.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 6 - Investments (continued)

The following summarizes the fair value of the investments that are measured on a recurring basis at December 31, 2022 and 2021.

	<u>2022</u>		<u>2021</u>	
	<u>Total</u>	<u>Level 1</u>	<u>Total</u>	<u>Level 1</u>
Common stock:				
Domestic	\$58,972,396	\$58,972,396	\$61,035,748	\$61,035,748
Foreign	3,314,059	3,314,059	3,300,655	3,300,655
Mutual Funds:				
Domestic equities	4,976,787	4,976,787	5,093,335	5,093,335
Foreign equities	1,033,129	1,033,129	2,050,862	2,050,862
Domestic fixed income	-	-	5,382,553	5,382,553
Foreign fixed income	55,643	55,643	986,429	986,429
Real assets	2,679,929	2,679,929	4,050,263	4,050,263
Fixed income:				
Corporate bonds	4,821,499	4,821,499	4,558,523	4,558,523
Government obligations	7,153,278	7,153,278	4,010,119	4,010,119
Mortgage backed securities	622,045	622,045	385,564	385,564
Cash and short-term investments	<u>2,191,300</u>	<u>2,191,300</u>	<u>1,385,567</u>	<u>1,385,567</u>
Total Assets in Fair Value Hierarchy	85,820,065	<u>\$85,820,065</u>	92,239,618	<u>\$92,239,618</u>
Investments measured at net asset value	<u>1,033,847</u>		<u>1,025,732</u>	
	<u>\$86,853,912</u>		<u>\$93,265,350</u>	

Net investment income for the years ended December 31, 2022 and 2021 is summarized as follows:

	<u>2022</u>		
	<u>Without Donor Restrictions</u>		
	<u>Board</u>		<u>Total</u>
	<u>Operating</u>	<u>Designated Endowment</u>	
Interest and dividends	\$ 631,127	\$ 1,386,637	\$ 2,017,764
Realized gain on sale of investments	146,900	288,141	435,041
Unrealized loss on investments	<u>(2,704,335)</u>	<u>(5,209,550)</u>	<u>(7,913,885)</u>
	(1,926,308)	(3,534,772)	(5,461,080)
Less: Investment fees	<u>(92,287)</u>	<u>(134,268)</u>	<u>(226,555)</u>
Net Investment Loss	<u>\$(2,018,595)</u>	<u>\$(3,669,040)</u>	<u>\$(5,687,635)</u>

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 6 - Investments (continued)

	2021		
	Without Donor Restrictions		
	Operating	Board Designated Endowment	Total
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>

The alternative investments included in the Alliance's investment portfolio at December 31, 2022 and 2021 are redeemable based on the following terms and conditions:

	2022	2021
At the end of ten years' term	<u>\$1,033,847</u>	<u>\$1,025,732</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, 2022 AND 2021

Note 7 - Endowment Funds (continued)

Changes in the Alliance's board designated endowment funds for the years ended December 31, 2022 and 2021 are summarized as follows:

	<u>2022</u>	<u>2021</u>
Endowment funds, beginning of year	\$61,314,781	\$56,586,681
Investment Return (Loss):		
Interest and dividends	1,386,637	1,411,617
Net realized and unrealized gains (losses)	(4,921,409)	6,568,869
Investment fees	(134,268)	(141,153)
Total Investment Return (Loss)	<u>(3,669,040)</u>	<u>7,839,333</u>
Spending policy withdrawals	<u>(3,659,722)</u>	<u>(3,111,233)</u>
Endowment Funds, End of Year	<u>\$53,986,019</u>	<u>\$61,314,781</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, 2022 and 2021 are due as follows:

	<u>2022</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Due in less than one year	\$144,428	\$ 516,110	\$ 660,538
Due in one to five years	<u>142,856</u>	<u>667,856</u>	<u>810,712</u>
	287,284	1,183,966	1,471,250
Less: Discount to present value	<u>-</u>	<u>(55,245)</u>	<u>(55,245)</u>
	<u>\$287,284</u>	<u>\$1,128,721</u>	<u>\$1,416,005</u>

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 8 - Unconditional Promises to Give (continued)

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Due in less than one year	\$1,377,491	\$ 301,110	\$1,678,601
Due in one to five 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>

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, 2022, approximately 69% of unconditional promises to give were from three donors. At December 31, 2021, approximately 68% of unconditional promises to give were from two donors.

Note 9 - Property and Equipment

Property and equipment at December 31, 2022 and 2021 consist of the following:

	Life	2022	2021
Furniture, fixtures and equipment	3-5 years	\$ 296,704	\$ 344,718
Computer equipment	3-5 years	400,932	341,851
Leasehold improvements	Life of lease	<u>416,504</u>	<u>424,912</u>
		1,114,140	1,111,481
Less: Accumulated depreciation		<u>(884,288)</u>	<u>(835,817)</u>
		<u>\$ 229,852</u>	<u>\$ 275,664</u>

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 10 - Loan Forgiveness - Paycheck Protection Program

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, 2022 and 2021 are due as follows:

	<u>2022</u>	<u>2021</u>
Due within one year	\$17,717,114	\$22,023,086
Due within one to three years	<u>12,820,107</u>	<u>9,512,364</u>
	30,537,221	31,535,450
Less: Discount to present value	<u>(885,153)</u>	<u>(370,941)</u>
	<u>\$29,652,068</u>	<u>\$31,164,509</u>

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

During 2022 and 2021, grants totaling \$4,854,118 and \$3,613,650 that were awarded in prior years were cancelled by the Alliance due to either the grantees’ breach of their grant agreements, grantees relinquishing their grant or due to expired grant terms.

Note 12 - Operating Lease Liabilities

The Alliance leases office space in New York, NY for its main office under an operating lease agreement expiring April 30, 2027. The Alliance is subleasing this entire space to another organization (Note 13).

In January 2022, the Alliance entered into another lease agreement for its new office space under an operating lease agreement expiring on November 29, 2025.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 12 - Operating Lease Liabilities (continued)

The Alliance leased an office space in Arlington, VA for its branch office. This space was subleased to another organization through October 31, 2022, lease expiration. The Alliance has vacated the space.

Operating lease expense for the year ended December 31, 2022 was \$828,130. There were no variable lease costs incurred. As of December 31, 2022, the weighted average remaining term of the Organization's operating leases is 50 months and the weighted average discount rate is 1.37%

Maturities of the Alliance's operating lease liabilities as of December 31, 2022 are as follows:

<u>Year Ending December 31</u>	
2023	\$1,171,225
2024	1,197,126
2025	1,207,924
2026	1,058,778
Thereafter, through April 30, 2027	<u>355,534</u>
	4,990,587
Less: Amount attributable to interest	<u>(145,004)</u>
	<u>\$4,845,583</u>

Rent expense for the year ended December 31, 2021 was \$1,114,940.

Note 13 - Subleases

On January 1, 2022, the Alliance entered into an operating sublease agreement with another organization which expires on April 29, 2027.

Minimum annual sublease income are as follows:

<u>Year Ending December 31,</u>	
2023	\$ 527,422
2024	540,607
2025	554,123
2026	567,976
Through April 30, 2027	<u>194,058</u>
	<u>\$2,384,186</u>

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 13 - Subleases (continued)

The Alliance subleased its branch office space in Arlington, VA to another organization through October 31, 2022.

Sublease income for the years ended December 31, 2022 and 2021 were \$638,138 and 121,620.

Note 14 - Commitment

As of December 31, 2022, the Alliance has commitments of approximately \$14,279,000 for consulting services through October 31, 2031. Approximately \$11,948,000 of the total commitments are related to the Alliance's Lupus Nexus Project.

Note 15 - 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, 2022 and 2021 was \$432,699 and \$363,642, respectively.

Note 16 - Employee Retention Tax Credit

The Coronavirus Aid, Relief and Economic Security ("CARES") Act enacted in 2020 allowed eligible employers to claim employee retention tax credits for qualified wages paid after March 12, 2020 and before September 30, 2021. The Alliance qualified for the credit during this period based on partial suspension due to government COVID-related orders and a decrease in gross receipts. The amount of the credit claimed by the Alliance during 2022 was \$294,339.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
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Note 17 **Prior Period Adjustment**

Net assets as of January 1, 2021 has been restated to reverse accruals for conditional grants awarded to grantees whose conditions had not yet been met. This resulted in an increase in net assets as of January 1, 2021 of \$8,680,000.