

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022



LUTZ AND GARR

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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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, 2023 and 2022, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the 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, 2023 and 2022, 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 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

New York, New York
June 17, 2024

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Assets		
Cash and cash equivalents (Notes 2b and 5)	\$ 4,574,120	\$ 5,963,185
Investments (Notes 2c, 2d and 6)	81,768,889	86,853,912
Unconditional promises to give (Notes 2e and 8)	21,589,284	1,416,005
Accounts receivable	336,389	626,727
Prepaid expenses and other assets	826,852	567,776
Accrued rental income (Notes 2k and 12)	125,450	133,477
Operating lease right-of-use assets (Note 2j)	2,041,235	2,694,192
Property and equipment, at cost, net of accumulated depreciation (Notes 2f and 9)	262,745	229,852
Security deposit	422,166	422,166
	<u> </u>	<u> </u>
Total Assets	<u><u>\$111,947,130</u></u>	<u><u>\$98,907,292</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and other current liabilities	\$ 1,362,369	\$ 878,056
Research grants payable (Notes 2i and 10)	31,537,305	29,652,068
Operating lease liabilities (Notes 2j and 11)	3,733,812	4,845,583
Total Liabilities	<u>36,633,486</u>	<u>35,375,707</u>
Commitments (Notes 13 and 14)		
Net Assets		
Without donor restrictions (Note 4a)	47,936,256	61,152,445
With donor restrictions (Note 4b)	27,377,388	2,379,140
Total Net Assets	<u>75,313,644</u>	<u>63,531,585</u>
	<u> </u>	<u> </u>
Total Liabilities and Net Assets	<u><u>\$111,947,130</u></u>	<u><u>\$98,907,292</u></u>

See notes to consolidated financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023			2022		
	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)	\$9,967,439	\$26,432,625	\$36,400,064	\$12,146,753	\$ 728,156	\$12,874,909
Federal relief grant - Employee Retention Tax Credit (Note 15)	334,880	-	334,880	294,339	-	294,339
Special events income	3,675,150	-	3,675,150	4,272,623	-	4,272,623
Less: Expenses directly benefiting contributors	(465,514)	-	(465,514)	(374,803)	-	(374,803)
Walkathon income	1,132,852	-	1,132,852	1,482,394	-	1,482,394
Less: Expenses directly benefiting contributors	(38,771)	-	(38,771)	(173,909)	-	(173,909)
LuCIN consulting revenue (Note 2g)	1,197,560	-	1,197,560	1,232,995	-	1,232,995
Net investment income (loss) for operations (Note 6)	1,834,184	-	1,834,184	(2,018,595)	-	(2,018,595)
Board designated endowment spending policy withdrawals (Notes 4a and 7)	4,017,053	-	4,017,053	3,659,722	-	3,659,722
	<u>21,654,833</u>	<u>26,432,625</u>	<u>48,087,458</u>	<u>20,521,519</u>	<u>728,156</u>	<u>21,249,675</u>
Net assets released from restrictions						
Satisfaction of time and program restrictions	1,434,377	(1,434,377)	-	8,899,014	(8,899,014)	-
Total Revenue and Other Support	<u>23,089,210</u>	<u>24,998,248</u>	<u>48,087,458</u>	<u>29,420,533</u>	<u>(8,170,858)</u>	<u>21,249,675</u>
Expenses						
Program Services						
Research	14,914,820	-	14,914,820	18,215,047	-	18,215,047
Scientific programs	12,221,275	-	12,221,275	7,011,730	-	7,011,730
Public policy	761,506	-	761,506	622,162	-	622,162
Total Program Services	<u>27,897,601</u>	<u>-</u>	<u>27,897,601</u>	<u>25,848,939</u>	<u>-</u>	<u>25,848,939</u>
Supporting Services						
Administration	3,107,200	-	3,107,200	2,690,676	-	2,690,676
Fundraising	3,609,881	-	3,609,881	2,944,799	-	2,944,799
Total Supporting Services	<u>6,717,081</u>	<u>-</u>	<u>6,717,081</u>	<u>5,635,475</u>	<u>-</u>	<u>5,635,475</u>
Total Expenses	<u>34,614,682</u>	<u>-</u>	<u>34,614,682</u>	<u>31,484,414</u>	<u>-</u>	<u>31,484,414</u>
Increase (Decrease) in Net Assets Before Non-Operating Activities	(11,525,472)	24,998,248	13,472,776	(2,063,881)	(8,170,858)	(10,234,739)
Non-Operating Activities						
Net investment income (loss) (Note 6)	1,956,112	-	1,956,112	(3,669,040)	-	(3,669,040)
Board designated endowment spending policy withdrawals (Notes 4a and 7)	(4,017,053)	-	(4,017,053)	(3,659,722)	-	(3,659,722)
Grants cancelled (Note 10)	345,761	-	345,761	4,854,118	-	4,854,118
Sublease income (Note 12)	561,873	-	561,873	638,138	-	638,138
Sublease lease expense	(537,410)	-	(537,410)	(653,185)	-	(653,185)
Impairment loss on operating lease right-of-use asset (Note 2j)	-	-	-	(1,910,103)	-	(1,910,103)
Increase (decrease) in net assets	(13,216,189)	24,998,248	11,782,059	(6,463,675)	(8,170,858)	(14,634,533)
Net assets, beginning 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>
Net Assets, End of Year	<u>\$47,936,256</u>	<u>\$27,377,388</u>	<u>\$75,313,644</u>	<u>\$61,152,445</u>	<u>\$2,379,140</u>	<u>\$63,531,585</u>

See notes to financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2023 WITH COMPARATIVE TOTALS FOR 2022

	2023							2022	
	Program Services				Supporting Services			Total	Total
	Research	Scientific Programs	Public Policy	Total	Administration	Fundraising	Total	Expenses	Expenses
Salaries	\$ 616,525	\$ 3,124,173	\$280,568	\$ 4,021,266	\$ 1,355,319	\$ 1,361,911	\$2,717,230	\$ 6,738,496	\$ 5,593,402
Payroll taxes and fringe benefits	212,158	1,075,086	96,549	1,383,793	466,392	468,659	935,051	2,318,844	1,939,377
Total Personnel Expenses	<u>828,683</u>	<u>4,199,259</u>	<u>377,117</u>	<u>5,405,059</u>	<u>1,821,711</u>	<u>1,830,570</u>	<u>3,652,281</u>	<u>9,057,340</u>	<u>7,532,779</u>
Peer reviewed research awards	13,851,951	-	-	13,851,951	-	-	-	13,851,951	17,178,191
LuCIN Grants	-	2,632,847	-	2,632,847	-	-	-	2,632,847	107,085
Clinical studies	-	283,506	-	283,506	-	-	-	283,506	197,416
Lupus emergency grant	-	-	123,168	123,168	-	-	-	123,168	82,232
Professional fees and contract services	5,114	1,694,916	122,618	1,822,648	597,098	832,084	1,429,182	3,251,830	2,696,428
Occupancy	29,911	151,573	13,612	195,096	65,755	66,075	131,830	326,926	295,468
Printing and publications	35,376	14,808	-	50,184	30,018	276,084	306,102	356,286	308,530
Staff and volunteer travel	11,058	366,609	626	378,293	141,483	57,854	199,337	577,630	427,290
Meetings and conferences	33,817	1,045,390	73,522	1,152,729	65,370	29,058	94,428	1,247,157	984,350
Walkathon promotional events and location expenses	-	-	-	-	-	97,075	97,075	97,075	105,850
Postage, shipping and delivery	-	4,322	17	4,339	25,963	129,847	155,810	160,149	134,996
Management information systems	72,559	1,611,650	34,822	1,719,031	178,274	123,991	302,265	2,021,296	847,284
Supplies	122	27,170	-	27,292	39,472	11,239	50,711	78,003	46,565
Data processing and accounting services	20,074	12,790	769	33,633	77,295	89,813	167,108	200,741	193,349
Branding and design	338	1,294	-	1,632	186	3,432	3,618	5,250	6,094
Telephone	5,563	50,791	2,831	59,185	12,230	12,289	24,519	83,704	73,710
Insurance	6,066	40,618	2,760	49,444	13,334	13,399	26,733	76,177	56,333
Licenses	1,895	9,604	862	12,361	4,167	4,187	8,354	20,715	21,181
Equipment lease	1,154	5,848	525	7,527	2,537	2,549	5,086	12,613	14,059
Professional development	1,711	2,915	686	5,312	4,498	4,383	8,881	14,193	31,023
Dues and subscriptions and other expenses	-	15,389	2,870	18,259	6,196	4,485	10,681	28,940	28,701
Total expenses before depreciation	<u>14,905,392</u>	<u>12,171,299</u>	<u>756,805</u>	<u>27,833,496</u>	<u>3,085,587</u>	<u>3,588,414</u>	<u>6,674,001</u>	<u>34,507,497</u>	<u>31,368,914</u>
Depreciation	<u>9,428</u>	<u>49,976</u>	<u>4,701</u>	<u>64,105</u>	<u>21,613</u>	<u>21,467</u>	<u>43,080</u>	<u>107,185</u>	<u>115,500</u>
Total Expenses, 2023	<u>\$14,914,820</u>	<u>\$12,221,275</u>	<u>\$761,506</u>	<u>\$27,897,601</u>	<u>\$ 3,107,200</u>	<u>\$ 3,609,881</u>	<u>\$6,717,081</u>	<u>\$34,614,682</u>	
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>

See notes to consolidated financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2022

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

See notes to consolidated financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$11,782,059	\$(14,634,533)
Adjustments to reconcile increase (decrease) in net assets		
cash used by operating activities:		
Non-cash operating lease expense	652,957	488,556
Impairment loss on operating lease right-of-use asset	-	1,910,103
Depreciation	107,185	115,500
Realized gain on sale of investments	(6,133,877)	(435,041)
Unrealized loss on investments	4,019,948	7,913,885
Donated securities	(109,369)	(268,505)
Grants cancelled	(345,761)	(4,854,118)
(Increase) decrease in:		
Unconditional promises to give	(20,173,279)	1,528,614
Accounts receivable	290,338	(293,813)
Prepaid expenses and other assets	(259,076)	(197,516)
Accrued rental income	8,027	(133,477)
Security deposit	-	67,705
Increase (decrease) in:		
Accounts payable and other current liabilities	484,313	114,348
Research grants payable	2,230,998	3,341,677
Deferred revenue	-	(42,880)
Operating lease liabilities	(1,111,771)	(1,019,999)
Net Cash Used By Operating Activities	<u>(8,557,308)</u>	<u>(6,399,494)</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	(140,078)	(69,688)
Purchase of investments	(3,699,788)	(10,827,083)
Proceeds from sale of investments	11,008,109	10,028,182
Net Cash Provided (Used) By Investing Activities	<u>7,168,243</u>	<u>(868,589)</u>
Net decrease in cash and cash equivalents	(1,389,065)	(7,268,083)
Cash and cash equivalents, beginning of year	<u>5,963,185</u>	<u>13,231,268</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,574,120</u>	<u>\$ 5,963,185</u>
Supplemental disclosure of non-cash investing activities:		
Operating lease right-of-use assets obtained in exchange for lease liabilities	<u>\$ -</u>	<u>\$ 3,332,330</u>

See notes to consolidated financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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 \$259 million to fund lupus research projects. All of the Alliance's supporting services are funded by contributions from the Board of Directors and its Board designated endowment fund. 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, 2023, the Alliance received approximately 74% of its contributions from one foundation, and during the year ended December 31, 2022, approximately 34% of its contributions from two estates.

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, 2023 and 2022, included in cash and cash equivalents is approximately \$255,000 and \$865,000, respectively, being held in interest-bearing accounts.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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 statements 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, 2023 AND 2022

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 accounting principles, generally accepted in the Unites States of America ("U.S. GAAP") 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, 2023 AND 2022

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 - 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 lease commencement date. 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.

During the year ended December 31, 2022, LRA recognized an impairment loss of \$1,910,103.

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.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 2 - Summary of Significant Accounting Policies (continued)

l - Functional Allocation of Expenses (continued)

The cost of providing the various programs and supporting services has been summarized on a functional basis in the statements 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.

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 17, 2024, the date that the consolidated financial statements are considered available to be issued.

p - New Accounting Standard

During 2023, the Alliance adopted ASU 2016-13, *Current Expected Credit Losses* ("Topic 326"). The core principles of ASU 2016-13 (the "ASU") significantly change the way organizations recognize credit losses from the incurred loss model to the expected loss model for most financial assets. The financial asset held by the Alliance that is subject to the ASU was trade accounts receivable. The adoption of the ASU did not have a significant impact on net assets.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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, 2023 and 2022 that are available to meet cash needs for general expenditures within one year are summarized as follows:

	<u>2023</u>	<u>2022</u>
Financial Assets at Year End:		
Cash and cash equivalents	\$ 4,574,120	\$ 5,963,185
Investments	81,768,889	86,853,912
Unconditional promises to give	21,589,284	1,416,005
Accounts receivable	<u>336,389</u>	<u>626,727</u>
Total Financial Assets	108,268,682	94,859,829
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	(27,377,388)	(2,379,140)
Plus: Net assets with donor restrictions expected to be met within one year	13,673,727	1,697,462
Net assets restricted by Board, subject to spending policy and appropriation	(51,925,078)	(53,986,019)
Plus: Amount appropriated in the budget for use within one year	<u>4,009,849</u>	<u>4,017,053</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$46,649,792</u>	<u>\$44,209,185</u>

In addition to these financial assets available within one year at December 31, 2023, the Alliance has board designated endowment funds not appropriated for use within one year of approximately \$47,915,000, 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, 2023 AND 2022

Note 4 - Net Assets

a - Net Assets Without Donor Restrictions

Net assets without donor restrictions at December 31, 2023 and 2022 consist of the following:

	<u>2023</u>	<u>2022</u>
Board designated endowment	\$51,925,078	\$53,986,019
Accumulated net earnings (loss)	<u>(3,988,822)</u>	<u>7,166,426</u>
Total Net Assets Without Donor Restrictions	<u>\$47,936,256</u>	<u>\$61,152,445</u>

The Board of Directors established a board designated endowment for lupus research (Note 7). In 2023, the Board authorized usage of the spending policy withdrawal towards cost of operations. Investment return, net of spending policy withdrawals, are added to the board designated endowment.

The accumulated net earning (loss) represents the net spending on research and operations since inception.

b - Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, 2023 and 2022 are restricted for the following future programs and periods:

	<u>2023</u>	<u>2022</u>
Future periods	\$ 2,188,699	\$ 891,647
Grants	12,294,269	4,270
Change project	288,956	773,222
Lupus nexus	7,968,824	99,417
Meetings and evaluations	20,000	20,000
Rally for Lupus	200,000	388,519
Patient advocacy fund	60,544	202,065
Patient advocates for Lupus	246,596	-
Clinical trials outreach	4,000,000	-
Fundraising events	<u>109,500</u>	<u>-</u>
Total Net Assets With Donor Restrictions	<u>\$27,377,388</u>	<u>\$2,379,140</u>

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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, 2023. At times throughout the year, the balances may exceed these limits.

Note 6 - Investments

Investments consist of the following at December 31, 2023 and 2022.

	2023		2022	
	Cost	Fair Value	Cost	Fair Value
Common Stock:				
Domestic	\$24,630,766	\$44,067,196	\$33,502,624	\$58,972,396
Foreign	99,338	161,326	3,117,617	3,314,059
Mutual Funds:				
Domestic equities	21,643,546	24,063,116	4,014,314	4,976,787
Foreign equities	140,658	142,379	1,150,089	1,033,129
Foreign fixed income	176,680	179,576	60,237	55,643
Real assets	-	-	2,596,322	2,679,929
Fixed Income:				
Corporate bonds	4,958,751	4,712,344	5,329,688	4,821,499
Government obligations	6,121,251	5,957,908	7,700,203	7,153,278
Mortgage backed securities	829,559	768,077	686,350	622,045
Cash and short-term investments	861,513	861,513	2,191,300	2,191,300
Alternative Investments:				
Capital appreciation	<u>855,454</u>	<u>855,454</u>	<u>1,033,847</u>	<u>1,033,847</u>
	<u>\$60,317,516</u>	<u>\$81,768,889</u>	<u>\$61,382,591</u>	<u>\$86,853,912</u>

At December 31, 2023 and 2022, approximately 46% and 49%, respectively, of total investments was invested in one Fortune 500 company.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 6 - Investments (continued)

The following summarizes the fair value of the investments that are measured on a recurring basis at December 31, 2023 and 2022.

	<u>2023</u>		<u>2022</u>	
	<u>Total</u>	<u>Level 1</u>	<u>Total</u>	<u>Level 1</u>
Common stock:				
Domestic	\$44,067,196	\$44,067,196	\$58,972,396	\$58,972,396
Foreign	161,326	161,326	3,314,059	3,314,059
Mutual Funds:				
Domestic equities	24,063,116	24,063,116	4,976,787	4,976,787
Foreign equities	142,379	142,379	1,033,129	1,033,129
Foreign fixed income	179,576	179,576	55,643	55,643
Real assets	-	-	2,679,929	2,679,929
Fixed income:				
Corporate bonds	4,712,344	4,712,344	4,821,499	4,821,499
Government obligations	5,957,908	5,957,908	7,153,278	7,153,278
Mortgage backed securities	768,077	768,077	622,045	622,045
Cash and short-term investments	<u>861,513</u>	<u>861,513</u>	<u>2,191,300</u>	<u>2,191,300</u>
Total Assets in Fair Value Hierarchy	80,913,435	<u>\$80,913,435</u>	85,820,065	<u>\$85,820,065</u>
Investments measured at net asset value	<u>855,454</u>		<u>1,033,847</u>	
	<u>\$81,768,889</u>		<u>\$86,853,912</u>	

Net investment income (loss) for the years ended December 31, 2023 and 2022 is summarized as follows:

	<u>2023</u>		
	<u>Without Donor Restrictions</u>		
	<u>Operating</u>	<u>Board Designated Endowment</u>	<u>Total</u>
Interest and dividends	\$ 614,532	\$1,314,994	\$1,929,526
Realized gain on sale of investments	2,323,692	3,810,185	6,133,877
Unrealized loss on investments	<u>(1,008,238)</u>	<u>(3,011,710)</u>	<u>(4,019,948)</u>
	1,929,986	2,113,469	4,043,455
Less: Investment fees	<u>(95,802)</u>	<u>(157,357)</u>	<u>(253,159)</u>
Net Investment Income	<u>\$1,834,184</u>	<u>\$1,956,112</u>	<u>\$3,790,296</u>

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 6 - Investments (continued)

	2022		
	Without Donor Restrictions		
	Operating	Board Designated Endowment	Total
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><u>\$(2,018,595)</u></u>	<u><u>\$(3,669,040)</u></u>	<u><u>\$(5,687,635)</u></u>

The alternative investments included in the Alliance's investment portfolio at December 31, 2023 and 2022 are redeemable based on the following terms and conditions:

	2023	2022
At the end of ten years' term	<u><u>\$855,454</u></u>	<u><u>\$1,033,847</u></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, 2023 AND 2022

Note 7 - Endowment Funds (continued)

Changes in the Alliance's board designated endowment funds for the years ended December 31, 2023 and 2022 are summarized as follows:

	<u>2023</u>	<u>2022</u>
Endowment funds, beginning of year	\$53,986,019	\$61,314,781
Investment Return (Loss):		
Interest and dividends	1,314,994	1,386,637
Net realized and unrealized gains (losses)	798,475	(4,921,409)
Investment fees	<u>(157,357)</u>	<u>(134,268)</u>
Total Investment Return (Loss)	<u>1,956,112</u>	<u>(3,669,040)</u>
Spending policy withdrawals	<u>(4,017,053)</u>	<u>(3,659,722)</u>
Endowment Funds, End of Year	<u>\$51,925,078</u>	<u>\$53,986,019</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. In 2023, the Board authorized usage of the spending policy withdrawal towards cost of supporting operations.

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, 2023 and 2022 are due as follows:

	<u>2023</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Due in less than one year	\$495,305	\$11,076,430	\$11,571,735
Due in one to five years	<u>171,430</u>	<u>10,455,407</u>	<u>10,626,837</u>
	666,735	21,531,837	22,198,572
Less: Discount to present value	<u>-</u>	<u>(609,288)</u>	<u>(609,288)</u>
	<u>\$666,735</u>	<u>\$20,922,549</u>	<u>\$21,589,284</u>

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 8 - Unconditional Promises to Give (continued)

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
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>

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, 2023, approximately 90% of unconditional promises to give was from one donor. At December 31, 2022, approximately 69% of unconditional promises to give were from three donors.

Note 9 - Property and Equipment

Property and equipment at December 31, 2023 and 2022 consist of the following:

	Life	2023	2022
Furniture, fixtures and equipment	3-5 years	\$ 296,704	\$ 296,704
Computer equipment	3-5 years	289,467	400,932
Leasehold improvements	Life of lease	<u>453,677</u>	<u>416,504</u>
		1,039,848	1,114,140
Less: Accumulated depreciation		<u>(777,103)</u>	<u>(884,288)</u>
		<u>\$ 262,745</u>	<u>\$ 229,852</u>

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 10 - Grants Payable

Grants payable at December 31, 2023 and 2022 are due as follows:

	<u>2023</u>	<u>2022</u>
Due within one year	\$17,690,388	\$17,717,114
Due within one to three years	<u>14,774,660</u>	<u>12,820,107</u>
	32,465,048	30,537,221
Less: Discount to present value	<u>(927,743)</u>	<u>(885,153)</u>
	<u>\$31,537,305</u>	<u>\$29,652,068</u>

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

During 2023 and 2022, grants totaling \$345,761 and \$4,854,118 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 11 - 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 lease requires annual rent of \$997,000, paid monthly. The rental rate increases annually on May 1 at the rate of 2.25%. The lease also requires the Alliance to pay its proportionate share of the expenses of the premises. The Alliance is subleasing this entire space to another organization (Note 12).

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. The lease requires annual rent of \$180,000, paid monthly. The rental rate increases annually on January 1 at the rate of 2%. The lease also requires the Alliance to pay its proportionate share of the expenses of the premises.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 11 - Operating Lease Liabilities (continued)

Operating lease expense for the years ended December 31, 2023 and 2022 was \$712,411 and \$828,130, respectively. There were no variable lease costs incurred. As of December 31, 2023, the weighted average remaining term of the Organization's operating leases is 38 months and the weighted average discount rate is 1.37%.

Maturities of the Alliance's operating lease liabilities as of December 31, 2023 are as follows:

<u>Year Ending December 31</u>	
2024	\$1,197,124
2025	1,207,931
2026	1,058,776
Thereafter, through April 30, 2027	<u>355,530</u>
	3,819,361
Less: Amount attributable to interest	<u>(85,549)</u>
	<u>\$3,733,812</u>

Note 12 - 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 is as follows:

<u>Year Ending December 31,</u>	
2024	\$ 540,607
2025	554,123
2026	567,976
Through April 30, 2027	<u>194,058</u>
	<u>\$1,856,764</u>

Sublease income for the years ended December 31, 2023 and 2022 was \$561,873 and \$638,138, respectively.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 13 - Commitment

As of December 31, 2023, the Alliance has commitments of approximately \$14,505,000 for consulting services through October 31, 2031. Approximately \$12,775,000 of the total commitments are related to the Alliance's Lupus Nexus Project.

Note 14 - Employee Benefit Plan - Defined Contribution Plan

The Alliance maintains a defined contribution retirement plan (the "Plan"). The Alliance contributes up to 4% of each employee's eligible compensation and at the Alliance's discretion, makes an additional contribution between 4% and 7% the employee's eligible compensation depending on years of service. The contributions are subject to limitations as stated in relevant provisions of the Internal Revenue Code. Total contributions to the plan for the years ended December 31, 2023 and 2022 was \$469,910 and \$432,699, respectively.

Note 15 - 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 2023 and 2022 was \$334,880 and \$294,339, respectively.