

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023



LUTZ AND GARR
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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, 2024 and 2023, 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, 2024 and 2023, 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
May 20, 2025

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
Assets		
Cash and cash equivalents	\$ 3,293,032	\$ 4,574,120
Investments	73,653,520	81,768,889
Unconditional promises to give	13,309,587	21,589,284
Accounts receivable	281,210	336,389
Prepaid expenses and other assets	635,827	826,852
Accrued rental income	104,238	125,450
Operating lease right-of-use assets	1,372,789	2,041,235
Property and equipment, at cost, net of accumulated depreciation	182,047	262,745
Security deposit	422,166	422,166
Total Assets	<u><u>\$93,254,416</u></u>	<u><u>\$111,947,130</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and other current liabilities	\$ 2,313,310	\$ 1,362,369
Research grants payable	32,647,877	31,537,305
Operating lease liabilities	2,580,654	3,733,812
Total Liabilities	<u>37,541,841</u>	<u>36,633,486</u>
Commitments (Notes 13 and 14)		
Net Assets		
Without donor restrictions	34,833,646	47,936,256
With donor restrictions	20,878,929	27,377,388
Total Net Assets	<u>55,712,575</u>	<u>75,313,644</u>
Total Liabilities and Net Assets	<u><u>\$93,254,416</u></u>	<u><u>\$111,947,130</u></u>

See notes to consolidated financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Changes in Net Assets						
Revenue and Other Support						
Contributions	\$ 5,159,647	\$ 2,224,807	\$ 7,384,454	\$ 9,967,439	\$26,432,625	\$36,400,064
Federal relief grant - Employee Retention Tax Credit	-	-	-	334,880	-	334,880
Special events income	3,487,331	-	3,487,331	3,675,150	-	3,675,150
Less: Expenses directly benefiting contributors	(653,326)	-	(653,326)	(465,514)	-	(465,514)
Walkathon income	993,237	-	993,237	1,132,852	-	1,132,852
Less: Expenses directly benefiting contributors	(39,092)	-	(39,092)	(38,771)	-	(38,771)
LuCIN consulting revenue	1,874,491	-	1,874,491	1,197,560	-	1,197,560
Net investment income for operations	1,785,490	-	1,785,490	1,834,184	-	1,834,184
Board designated endowment spending policy withdrawals	4,009,849	-	4,009,849	4,017,053	-	4,017,053
	<u>16,617,627</u>	<u>2,224,807</u>	<u>18,842,434</u>	<u>21,654,833</u>	<u>26,432,625</u>	<u>48,087,458</u>
Net assets released from restrictions						
Satisfaction of time and program restrictions	8,723,266	(8,723,266)	-	1,434,377	(1,434,377)	-
	<u>25,340,893</u>	<u>(6,498,459)</u>	<u>18,842,434</u>	<u>23,089,210</u>	<u>24,998,248</u>	<u>48,087,458</u>
Expenses						
Program Services						
Research	14,619,194	-	14,619,194	14,914,820	-	14,914,820
Scientific programs	14,814,000	-	14,814,000	12,221,275	-	12,221,275
Public policy	571,134	-	571,134	761,506	-	761,506
Total Program Services	<u>30,004,328</u>	<u>-</u>	<u>30,004,328</u>	<u>27,897,601</u>	<u>-</u>	<u>27,897,601</u>
Supporting Services						
Administration	3,274,283	-	3,274,283	3,107,200	-	3,107,200
Fundraising	4,204,298	-	4,204,298	3,609,881	-	3,609,881
Total Supporting Services	<u>7,478,581</u>	<u>-</u>	<u>7,478,581</u>	<u>6,717,081</u>	<u>-</u>	<u>6,717,081</u>
Total Expenses	<u>37,482,909</u>	<u>-</u>	<u>37,482,909</u>	<u>34,614,682</u>	<u>-</u>	<u>34,614,682</u>
Increase (Decrease) in Net Assets Before Non-Operating Activities	(12,142,016)	(6,498,459)	(18,640,475)	(11,525,472)	24,998,248	13,472,776
Non-Operating Activities						
Net investment income	2,690,242	-	2,690,242	1,956,112	-	1,956,112
Board designated endowment spending policy withdrawals	(4,009,849)	-	(4,009,849)	(4,017,053)	-	(4,017,053)
Grants cancelled	308,341	-	308,341	345,761	-	345,761
Sublease income	570,065	-	570,065	561,873	-	561,873
Sublease lease expense	(519,393)	-	(519,393)	(537,410)	-	(537,410)
Increase (decrease) in net assets	(13,102,610)	(6,498,459)	(19,601,069)	(13,216,189)	24,998,248	11,782,059
Net assets, beginning 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>
Net Assets, End of Year	<u>\$34,833,646</u>	<u>\$20,878,929</u>	<u>\$55,712,575</u>	<u>\$47,936,256</u>	<u>\$27,377,388</u>	<u>\$75,313,644</u>

See notes to financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2024 WITH COMPARATIVE TOTALS FOR 2023

	2024							2023
	Program Services				Supporting Services			
	Research	Scientific Programs	Public Policy	Total	Administration	Fundraising	Total	Total Expenses
Salaries	\$ 986,529	\$ 3,986,584	\$181,174	\$ 5,154,287	\$ 1,438,381	\$ 1,712,568	\$3,150,949	\$ 8,305,236
Payroll taxes and fringe benefits	338,915	1,492,045	82,806	1,913,766	471,556	596,672	1,068,228	2,981,994
Total Personnel Expenses	1,325,444	5,478,629	263,980	7,068,053	1,909,937	2,309,240	4,219,177	11,287,230
Peer reviewed research awards	12,856,659	-	-	12,856,659	-	-	-	12,856,659
LuCIN Grants	-	2,634,443	-	2,634,443	-	-	-	2,634,443
Clinical studies	-	1,242,977	-	1,242,977	-	-	-	1,242,977
Lupus emergency grant	-	-	-	-	-	-	-	-
Professional fees and contract services	71,329	1,557,982	180,399	1,809,710	481,381	870,464	1,351,845	3,161,555
Occupancy	39,082	157,930	7,177	204,189	56,983	67,844	124,827	329,016
Printing and publications	38,500	30,659	50	69,209	58,664	259,552	318,216	387,425
Staff and volunteer travel	43,154	392,762	1,058	436,974	163,243	92,690	255,933	692,907
Meetings and conferences	35,707	1,290,666	47,025	1,373,398	136,533	25,352	161,885	1,535,283
Walkathon promotional events and location expenses	-	-	-	-	-	115,287	115,287	115,287
Postage, shipping and delivery	1,973	9,299	1,000	12,272	10,744	165,674	176,418	188,690
Management information systems	151,629	1,727,112	54,578	1,933,319	188,519	145,988	334,507	2,267,826
Supplies	341	37,163	-	37,504	28,640	4,526	33,166	70,670
Data processing and accounting services	19,983	12,187	260	32,430	87,418	75,813	163,231	195,661
Telephone	8,547	67,091	1,870	77,508	12,462	14,837	27,299	104,807
Insurance	9,352	46,221	1,717	57,290	13,636	16,234	29,870	87,160
Licenses	2,969	11,998	545	15,512	4,328	5,154	9,482	24,994
Equipment lease	1,234	4,986	227	6,447	1,797	2,142	3,939	10,386
Professional development	-	30,149	4,500	34,649	84,833	976	85,809	120,458
Dues and subscriptions and other expenses	-	26,224	4,000	30,224	15,178	8,991	24,169	54,393
Total expenses before depreciation	14,605,903	14,758,478	568,386	29,932,767	3,254,296	4,180,764	7,435,060	37,367,827
Depreciation	13,291	55,522	2,748	71,561	19,987	23,534	43,521	115,082
Total Expenses, 2024	<u>\$14,619,194</u>	<u>\$14,814,000</u>	<u>\$571,134</u>	<u>\$30,004,328</u>	<u>\$ 3,274,283</u>	<u>\$ 4,204,298</u>	<u>\$7,478,581</u>	<u>\$37,482,909</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>

See notes to consolidated financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2023

	Program Services				Supporting Services			Total
	Research	Scientific Programs	Public Policy	Total	Administration	Fundraising	Total	Expenses
Salaries	\$ 616,525	\$ 3,124,173	\$280,568	\$ 4,021,266	\$ 1,355,319	\$ 1,361,911	\$2,717,230	\$ 6,738,496
Payroll taxes and fringe benefits	212,158	1,075,086	96,549	1,383,793	466,392	468,659	935,051	2,318,844
Total Personnel Expenses	828,683	4,199,259	377,117	5,405,059	1,821,711	1,830,570	3,652,281	9,057,340
Peer reviewed research awards	13,851,951	-	-	13,851,951	-	-	-	13,851,951
LuCIN Grants	-	2,632,847	-	2,632,847	-	-	-	2,632,847
Clinical studies	-	283,506	-	283,506	-	-	-	283,506
Lupus emergency grant	-	-	123,168	123,168	-	-	-	123,168
Professional fees and contract services	5,452	1,696,210	122,618	1,824,280	597,284	835,516	1,432,800	3,257,080
Occupancy	29,911	151,573	13,612	195,096	65,755	66,075	131,830	326,926
Printing and publications	35,376	14,808	-	50,184	30,018	276,084	306,102	356,286
Staff and volunteer travel	11,058	366,609	626	378,293	141,483	57,854	199,337	577,630
Meetings and conferences	33,817	1,045,390	73,522	1,152,729	65,370	29,058	94,428	1,247,157
Walkathon promotional events and location expenses	-	-	-	-	-	97,075	97,075	97,075
Postage, shipping and delivery	-	4,322	17	4,339	25,963	129,847	155,810	160,149
Management information systems	72,559	1,611,650	34,822	1,719,031	178,274	123,991	302,265	2,021,296
Supplies	122	27,170	-	27,292	39,472	11,239	50,711	78,003
Data processing and accounting services	20,074	12,790	769	33,633	77,295	89,813	167,108	200,741
Telephone	5,563	50,791	2,831	59,185	12,230	12,289	24,519	83,704
Insurance	6,066	40,618	2,760	49,444	13,334	13,399	26,733	76,177
Licenses	1,895	9,604	862	12,361	4,167	4,187	8,354	20,715
Equipment lease	1,154	5,848	525	7,527	2,537	2,549	5,086	12,613
Professional development	1,711	2,915	686	5,312	4,498	4,383	8,881	14,193
Dues and subscriptions and other expenses	-	15,389	2,870	18,259	6,196	4,485	10,681	28,940
Total expenses before depreciation	14,905,392	12,171,299	756,805	27,833,496	3,085,587	3,588,414	6,674,001	34,507,497
Depreciation	9,428	49,976	4,701	64,105	21,613	21,467	43,080	107,185
Total Expenses	<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>

See notes to consolidated financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$(19,601,069)	\$ 11,782,059
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:		
Non-cash operating lease expense	668,446	652,957
Depreciation	115,082	107,185
Realized gain on sale of investments	(3,070,525)	(6,133,877)
Unrealized loss on investments	288,960	4,019,948
Donated securities	(164,139)	(109,369)
Grants cancelled	(308,341)	(345,761)
(Increase) decrease in:		
Unconditional promises to give	8,279,697	(20,173,279)
Accounts receivable	55,179	290,338
Prepaid expenses and other assets	191,025	(259,076)
Accrued rental income	21,212	8,027
Increase (decrease) in:		
Accounts payable and other current liabilities	950,941	484,313
Research grants payable	1,418,913	2,230,998
Operating lease liabilities	(1,153,158)	(1,111,771)
Net Cash Used By Operating Activities	<u>(12,307,777)</u>	<u>(8,557,308)</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	(34,384)	(140,078)
Purchase of investments	(4,215,453)	(3,699,788)
Proceeds from sale of investments	15,276,526	11,008,109
Net Cash Provided By Investing Activities	<u>11,026,689</u>	<u>7,168,243</u>
Net decrease in cash and cash equivalents	(1,281,088)	(1,389,065)
Cash and cash equivalents, beginning of year	<u>4,574,120</u>	<u>5,963,185</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 3,293,032</u></u>	<u><u>\$ 4,574,120</u></u>

See notes to consolidated financial statements.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

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 \$272 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, 2024, the Alliance received approximately 10% of its contributions from one individual, and during the year ended December 31, 2023, approximately 74% of its contributions from one foundation.

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, 2024 and 2023, included in cash and cash equivalents is approximately \$258,000 and \$255,000, respectively, being held in interest-bearing accounts.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

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.

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.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 2 - Summary of Significant Accounting Policies (continued)

e - Unconditional Promises to Give and Contributions (continued)

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.

Accounts receivable are presented net of an allowance for credit losses, if any, which is an estimate of amounts that may not be collectible. The Alliance separates accounts receivable into risk pools based on their aging. In determining the amount of the allowance as of the statement of financial position date, the Alliance develops a loss rate for each risk pool. The loss rate is based on management's historical collection experience, adjusted for management's expectations about current and future economic conditions.

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.

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
DECEMBER 31, 2024 AND 2023

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 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, lease incentives and impairment loss, if any. Operating lease cost is recognized on a straight-line basis over the lease term.

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 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.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 2 - Summary of Significant Accounting Policies (continued)

o - Subsequent Events

The Alliance has evaluated subsequent events through May 20, 2025, the date that the consolidated financial statements are considered available to be issued.

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, 2024 and 2023 that are available to meet cash needs for general expenditures within one year are summarized as follows:

	<u>2024</u>	<u>2023</u>
Financial Assets at Year End:		
Cash and cash equivalents	\$ 3,293,032	\$ 4,574,120
Investments	73,653,520	81,768,889
Unconditional promises to give	13,309,587	21,589,284
Accounts receivable	<u>281,210</u>	<u>336,389</u>
Total Financial Assets	90,537,349	108,268,682
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	(20,878,929)	(27,377,388)
Plus: Net assets with donor restrictions expected to be met within one year	12,232,582	13,673,727
Net assets restricted by Board, subject to spending policy and appropriation	(50,605,471)	(51,925,078)
Plus: Amount appropriated in the budget for use within one year	<u>3,757,124</u>	<u>4,009,849</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$35,042,655</u>	<u>\$ 46,649,792</u>

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 3 - Information Regarding Liquidity and Availability (continued)

In addition to these financial assets available within one year at December 31, 2024, the Alliance has board designated endowment funds not appropriated for use within one year of approximately \$46,848,000, 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.

Note 4 - Net Assets

a - Net Assets Without Donor Restrictions

Net assets without donor restrictions at December 31, 2024 and 2023 consist of the following:

	<u>2024</u>	<u>2023</u>
Board designated endowment	\$50,605,471	\$51,925,078
Accumulated net loss	<u>(15,771,825)</u>	<u>(3,988,822)</u>
Total Net Assets Without Donor Restrictions	<u>\$34,833,646</u>	<u>\$47,936,256</u>

The Board of Directors established a board designated endowment for lupus research (Note 7). The Board has 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, 2024 and 2023 are restricted for the following future programs and periods:

	<u>2024</u>	<u>2023</u>
Future periods	\$ 1,951,590	\$ 2,188,699
Grants	11,030,989	12,294,269
Change project	-	288,956
Lupus nexus	3,622,887	7,968,824
Meetings and evaluations	27,500	20,000
Rally for Lupus	-	200,000
Patient advocacy fund	75,963	60,544
Patient advocates for Lupus	100,000	246,596
Clinical trials outreach	4,000,000	4,000,000
Fundraising events	<u>70,000</u>	<u>109,500</u>
Total Net Assets With Donor Restrictions	<u>\$20,878,929</u>	<u>\$27,377,388</u>

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

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, 2024. At times throughout the year, the balances may exceed these limits.

Note 6 - Investments

Investments consist of the following at December 31, 2024 and 2023.

	<u>2024</u>		<u>2023</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Common Stock:				
Domestic	\$23,647,339	\$39,410,697	\$24,630,766	\$44,067,196
Foreign	44,835	72,867	99,338	161,326
Mutual Funds:				
Domestic equities	16,476,530	22,203,158	21,643,546	24,063,116
Foreign equities	82,826	94,381	140,658	142,379
Foreign fixed income	69,241	71,917	176,680	179,576
Fixed Income:				
Corporate bonds	4,083,017	3,905,713	4,958,751	4,712,344
Government obligations	5,347,935	5,197,542	6,121,251	5,957,908
Mortgage backed securities	735,956	693,817	829,559	768,077
Cash and short-term investments	1,405,297	1,405,297	861,513	861,513
Alternative Investments:				
Capital appreciation	<u>598,131</u>	<u>598,131</u>	<u>855,454</u>	<u>855,454</u>
	<u>\$52,491,107</u>	<u>\$73,653,520</u>	<u>\$60,317,516</u>	<u>\$81,768,889</u>

At December 31, 2024 and 2023, approximately 47% and 46%, respectively, of total investments was invested in one Fortune 500 company.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 6 - Investments (continued)

The following summarizes the fair value of the investments that are measured on a recurring basis at December 31, 2024 and 2023.

	2024		2023	
	Total	Level 1	Total	Level 1
Common stock:				
Domestic	\$39,410,697	\$39,410,697	\$44,067,196	\$44,067,196
Foreign	72,867	72,867	161,326	161,326
Mutual Funds:				
Domestic equities	22,203,158	22,203,158	24,063,116	24,063,116
Foreign equities	94,381	94,381	142,379	142,379
Foreign fixed income	71,917	71,917	179,576	179,576
Fixed income:				
Corporate bonds	3,905,713	3,905,713	4,712,344	4,712,344
Government obligations	5,197,542	5,197,542	5,957,908	5,957,908
Mortgage backed securities	693,817	693,817	768,077	768,077
Cash and short-term investments	<u>1,405,297</u>	<u>1,405,297</u>	<u>861,513</u>	<u>861,513</u>
Total Assets in Fair Value Hierarchy	73,055,389	<u>\$73,055,389</u>	80,913,435	<u>\$80,913,435</u>
Investments measured at net asset value	<u>598,131</u>		<u>855,454</u>	
	<u>\$73,653,520</u>		<u>\$81,768,889</u>	

Net investment income for the years ended December 31, 2024 and 2023 is summarized as follows:

	2024		
	Without Donor Restrictions		
	Board		
	Operating	Designated Endowment	Total
Interest and dividends	\$ 598,472	\$1,268,825	\$1,867,297
Realized gain on sale of investments	1,152,585	1,917,940	3,070,525
Unrealized gain (loss) on investments	<u>97,622</u>	<u>(386,582)</u>	<u>(288,960)</u>
	1,848,679	2,800,183	4,648,862
Less: Investment fees	<u>(63,189)</u>	<u>(109,941)</u>	<u>(173,130)</u>
Net Investment Income	<u>\$1,785,490</u>	<u>\$2,690,242</u>	<u>\$4,475,732</u>

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 6 - Investments (continued)

	2023		
	Without Donor Restrictions		
		Board Designated Endowment	
	Operating		Total
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	(1,008,238)	(3,011,710)	(4,019,948)
	1,929,986	2,113,469	4,043,455
Less: Investment fees	(95,802)	(157,357)	(253,159)
Net Investment Income	<u>\$ 1,834,184</u>	<u>\$ 1,956,112</u>	<u>\$ 3,790,296</u>

The alternative investments included in the Alliance's investment portfolio at December 31, 2024 and 2023 are redeemable based on the following terms and conditions:

	2024	2023
At the end of ten years' term	<u>\$598,131</u>	<u>\$855,454</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, 2024 AND 2023

Note 7 - Endowment Funds (continued)

Changes in the Alliance's board designated endowment funds for the years ended December 31, 2024 and 2023 are summarized as follows:

	<u>2024</u>	<u>2023</u>
Endowment funds, beginning of year	\$51,925,078	\$53,986,019
Investment Return:		
Interest and dividends	1,268,825	1,314,994
Net realized and unrealized gains	1,531,358	798,475
Investment fees	(109,941)	(157,357)
Total Investment Return	<u>2,690,242</u>	<u>1,956,112</u>
Spending policy withdrawals	<u>(4,009,849)</u>	<u>(4,017,053)</u>
Endowment Funds, End of Year	<u>\$50,605,471</u>	<u>\$51,925,078</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. During 2024 and 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, 2024 and 2023 are due as follows:

	<u>2024</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Due in less than one year	\$1,260,080	\$10,540,044	\$11,800,124
Due in one to five years	<u>60,000</u>	<u>1,647,429</u>	<u>1,707,429</u>
	1,320,080	12,187,473	13,507,553
Less: Discount to present value	<u>-</u>	<u>(197,966)</u>	<u>(197,966)</u>
	<u>\$1,320,080</u>	<u>\$11,989,507</u>	<u>\$13,309,587</u>

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 8 - Unconditional Promises to Give (continued)

	2023		
	<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>

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, 2024, approximately 74% of unconditional promises to give was from one donor. At December 31, 2023, approximately 90% of unconditional promises to give were from one donor.

Note 9 - Property and Equipment

Property and equipment at December 31, 2024 and 2023 consist of the following:

	<u>Life</u>	<u>2024</u>	<u>2023</u>
Furniture, fixtures and equipment	3-5 years	\$ 296,704	\$ 296,704
Computer equipment	3-5 years	323,851	289,467
Leasehold improvements	Life of lease	<u>453,677</u>	<u>453,677</u>
		1,074,232	1,039,848
Less: Accumulated depreciation		<u>(892,185)</u>	<u>(777,103)</u>
		<u>\$ 182,047</u>	<u>\$ 262,745</u>

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 10 - Grants Payable

Grants payable at December 31, 2024 and 2023 are due as follows:

	<u>2024</u>	<u>2023</u>
Due within one year	\$23,630,769	\$17,690,388
Due within one to three years	<u>9,604,969</u>	<u>14,774,660</u>
	33,235,738	32,465,048
Less: Discount to present value	<u>(587,861)</u>	<u>(927,743)</u>
	<u>\$32,647,877</u>	<u>\$31,537,305</u>

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

During 2024 and 2023, grants totaling \$308,341 and \$345,761 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).

During the year ended December 31, 2022, the Alliance recognized an impairment loss on the operating lease right-of-use asset related to this lease.

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.

Operating lease expense for the years ended December 31, 2024 and 2023 was \$712,411. There were no variable lease costs incurred. As of December 31, 2024, the weighted average remaining term of the Organization's operating leases is 27 months and the weighted average discount rate is 1.37%.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 11 - Operating Lease Liabilities (continued)

Maturities of the Alliance's operating lease liabilities as of December 31, 2024 are as follows:

<u>Year Ending December 31</u>	
2025	\$1,207,931
2026	1,058,776
Thereafter, through April 30, 2027	<u>355,530</u>
	2,622,237
Less: Amount attributable to interest	<u>(41,583)</u>
	<u>\$2,580,654</u>

Note 12 - Subleases

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>	
2025	\$ 554,123
2026	567,976
Thereafter, through April 30, 2027	<u>194,058</u>
	<u>\$1,316,157</u>

Sublease income for the years ended December 31, 2024 and 2023 was \$570,065 and \$561,873, respectively.

Note 13 - Commitment

As of December 31, 2024, the Alliance has commitments of approximately \$12,619,247 for consulting services through October 31, 2031. Approximately \$11,435,036 of the total commitments are related to the Alliance's Lupus Nexus Project.

LUPUS RESEARCH ALLIANCE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

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, 2024 and 2023 was \$621,745 and \$469,910, respectively.