

Help Us Solve
The Cruel Mystery

LUPUSTM

FOUNDATION OF AMERICA

Financial Statements

For the Years Ended September 30, 2016 and 2015



**and
Report Thereon**





Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Lupus Foundation of America, Inc.

Report of the Financial Statements

We have audited the accompanying financial statements of the Lupus Foundation of America, Inc. (the Foundation), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lupus Foundation of America, Inc. as of September 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Raffa, P.C.

Raffa, P.C.

Washington, DC
February 28, 2017

LUPUS FOUNDATION OF AMERICA, INC.

STATEMENTS OF FINANCIAL POSITION
September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 1,037,743	\$ 2,098,607
Accounts receivable, net of allowance for doubtful accounts of \$121,618	1,314,580	236,347
Pledges receivable, net of allowance for doubtful pledges of \$20,000	1,292,061	940,512
Prepaid expenses and deposits	236,788	205,049
Investments	2,237,890	2,799,782
Beneficial interest in a perpetual trust	231,423	220,508
Property and equipment, net of accumulated depreciation and amortization of \$597,968 and \$1,034,109, respectively	1,611,749	834,542
Restricted investments	<u>107,300</u>	<u>107,300</u>
TOTAL ASSETS	<u>\$ 8,069,534</u>	<u>\$ 7,442,647</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,655,975	\$ 1,051,300
Grants payable	925,001	1,491,667
Other liabilities	116,850	-
Loans payable	247,752	-
Capital lease obligations	18,871	12,169
Deferred rent	51,553	371,220
Deferred lease incentive	<u>1,009,408</u>	<u>576,104</u>
TOTAL LIABILITIES	<u>4,025,410</u>	<u>3,502,460</u>
Net Assets		
Unrestricted	2,628,104	2,440,735
Temporarily restricted	1,077,297	1,172,262
Permanently restricted	<u>338,723</u>	<u>327,190</u>
TOTAL NET ASSETS	<u>4,044,124</u>	<u>3,940,187</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,069,534</u>	<u>\$ 7,442,647</u>

The accompanying notes are an integral part of these financial statements.

LUPUS FOUNDATION OF AMERICA, INC.

STATEMENTS OF ACTIVITIES
For the Years Ended September 30, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT								
Grants and contributions	\$ 3,508,753	\$ 1,878,593	\$ -	\$ 5,387,346	\$ 3,143,889	\$ 1,596,136	\$ -	\$ 4,740,025
Wills and bequests	195,531	-	-	195,531	681,709	-	29	681,738
Contributions from affiliates	120,209	187,954	-	308,163	-	13,169	-	13,169
Special events, net of direct benefit costs of \$100,265 and \$193,284, respectively	1,662,707	419,393	-	2,082,100	1,922,788	347,624	-	2,270,412
Donated goods programs	3,122,650	-	-	3,122,650	2,896,358	-	-	2,896,358
Donated services	140,000	-	-	140,000	523,400	-	-	523,400
Membership dues	516,493	-	-	516,493	556,020	-	-	556,020
Program revenue	504,535	-	-	504,535	619,982	-	-	619,982
Publications	130,479	-	-	130,479	165,534	-	-	165,534
Royalty income	6,406	-	-	6,406	10,795	-	-	10,795
Investment income	15,647	3,695	-	19,342	16,440	4,312	-	20,752
Change in value of a perpetual trust held by a trustee	-	-	11,533	11,533	-	-	(4,456)	(4,456)
Other income	278,758	-	-	278,758	8,348	-	-	8,348
Net assets released from restrictions:								
Satisfaction of program restrictions	2,236,976	(2,236,976)	-	-	1,900,866	(1,900,866)	-	-
Satisfaction of time restrictions	347,624	(347,624)	-	-	509,785	(509,785)	-	-
TOTAL REVENUE AND SUPPORT	12,786,768	(94,965)	11,533	12,703,336	12,955,914	(449,410)	(4,427)	12,502,077
EXPENSES								
Program Services:								
Public information and education	4,258,392	-	-	4,258,392	4,533,789	-	-	4,533,789
Professional relations and education	561,529	-	-	561,529	716,872	-	-	716,872
Network support and services	2,372,088	-	-	2,372,088	2,281,901	-	-	2,281,901
Patient education and support	455,616	-	-	455,616	711,984	-	-	711,984
Research	1,507,764	-	-	1,507,764	1,693,557	-	-	1,693,557
Total Program Services	9,155,389	-	-	9,155,389	9,938,103	-	-	9,938,103
Supporting Services:								
Management and general	830,519	-	-	830,519	663,519	-	-	663,519
Fundraising	2,613,491	-	-	2,613,491	2,199,600	-	-	2,199,600
Total Supporting Services	3,444,010	-	-	3,444,010	2,863,119	-	-	2,863,119
TOTAL EXPENSES	12,599,399	-	-	12,599,399	12,801,222	-	-	12,801,222
CHANGE IN NET ASSETS	187,369	(94,965)	11,533	103,937	154,692	(449,410)	(4,427)	(299,145)
NET ASSETS, BEGINNING OF YEAR	2,440,735	1,172,262	327,190	3,940,187	2,286,043	1,621,672	331,617	4,239,332
NET ASSETS, END OF YEAR	\$ 2,628,104	\$ 1,077,297	\$ 338,723	\$ 4,044,124	\$ 2,440,735	\$ 1,172,262	\$ 327,190	\$ 3,940,187

The accompanying notes are an integral part of these financial statements.

LUPUS FOUNDATION OF AMERICA, INC.

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2016

	Program Services					Supporting Services			Total Expenses	
	Public Information and Education	Professional Relations and Education	Network Support and Services	Patient Education and Support	Research	Total	Management and General	Fundraising		Total
Salaries and benefits	\$ 1,536,080	\$ 333,599	\$ 1,249,383	\$ 193,674	\$ 446,752	\$ 3,759,488	\$ 494,509	\$ 317,728	\$ 812,237	\$ 4,571,725
Professional services	1,249,620	120,913	260,830	141,056	488,404	2,260,823	132,888	220,349	353,237	2,614,060
Postage, mailing and shipping	655,445	1,144	28,800	10,615	1,680	697,684	32,812	1,684,073	1,716,885	2,414,569
Conferences, meetings and travel	78,026	93,803	370,010	12,049	30,099	583,987	6,075	210,118	216,193	800,180
Occupancy, maintenance and insurance	313,783	1,301	163,326	34,606	78,046	591,062	29,212	54,285	83,497	674,559
Printing, publications and promotions	212,778	7,600	162,960	50,703	4,787	438,828	2,174	103,802	105,976	544,804
Grants and awards	11,000	-	60,873	-	427,667	499,540	-	-	-	499,540
Supplies, telecom and internet	77,953	2,864	30,244	5,388	12,030	128,479	4,946	10,499	15,445	143,924
Other expenses	1,205	5	10,565	176	300	12,251	123,253	338	123,591	135,842
Total expenses before depreciation and amortization	4,135,890	561,229	2,336,991	448,267	1,489,765	8,972,142	825,869	2,601,192	3,427,061	12,399,203
Depreciation and amortization	122,502	300	35,097	7,349	17,999	183,247	4,650	12,299	16,949	200,196
TOTAL EXPENSES	\$ 4,258,392	\$ 561,529	\$ 2,372,088	\$ 455,616	\$ 1,507,764	\$ 9,155,389	\$ 830,519	\$ 2,613,491	\$ 3,444,010	\$ 12,599,399

The accompanying notes are an integral part of these financial statements.

LUPUS FOUNDATION OF AMERICA, INC.

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2015

	Program Services					Supporting Services			Total Expenses	
	Public Information and Education	Professional Relations and Education	Network Support and Services	Patient Education and Support	Research	Total	Management and General	Fundraising		Total
Salaries and benefits	\$ 1,797,859	\$ 478,993	\$ 924,306	\$ 388,862	\$ 316,564	\$ 3,906,584	\$ 378,490	\$ 334,477	\$ 712,967	\$ 4,619,551
Professional services	690,554	121,635	299,786	171,530	397,574	1,681,079	75,916	252,655	328,571	2,009,650
Postage, mailing and shipping	1,108,334	2,110	51,845	11,882	1,716	1,175,887	39,340	1,154,621	1,193,961	2,369,848
Conferences, meetings and travel	174,933	62,714	391,089	14,045	64,273	707,054	5,804	275,756	281,560	988,614
Occupancy, maintenance and insurance	277,830	31,008	129,997	58,626	39,953	537,414	30,093	50,090	80,183	617,597
Printing, publications and promotions	220,739	4,388	303,399	46,326	3,022	577,874	9,543	110,154	119,697	697,571
Grants and awards	-	-	118,000	-	853,167	971,167	-	-	-	971,167
Supplies, telecom and internet	63,806	8,061	22,488	8,464	7,029	109,848	4,040	8,739	12,779	122,627
Other expenses	4,438	498	9,696	765	641	16,038	115,254	1,049	116,303	132,341
Total expenses before depreciation and amortization	4,338,493	709,407	2,250,606	700,500	1,683,939	9,682,945	658,480	2,187,541	2,846,021	12,528,966
Depreciation and amortization	195,296	7,465	31,295	11,484	9,618	255,158	5,039	12,059	17,098	272,256
TOTAL EXPENSES	\$ 4,533,789	\$ 716,872	\$ 2,281,901	\$ 711,984	\$ 1,693,557	\$ 9,938,103	\$ 663,519	\$ 2,199,600	\$ 2,863,119	\$ 12,801,222

The accompanying notes are an integral part of these financial statements.

LUPUS FOUNDATION OF AMERICA, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2016 and 2015
Increase (Decrease) in Cash and Cash Equivalents

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 103,937	\$ (299,145)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	200,196	272,256
Loss from write-off of leasehold improvements	450,116	-
Loss from disposal of property and equipment	60,897	-
Net realized and unrealized losses (gains)	1,254	(2,438)
Change in value of perpetual trust held by trustee	(11,533)	4,456
Undistributed interest and dividends	(351)	(282)
Contribution of beneficial interest in perpetual trust	-	(29)
Changes in assets and liabilities:		
Accounts receivable	(1,078,233)	50,460
Pledges receivable	(351,549)	607,434
Prepaid expenses and deposits	(31,739)	(10,833)
Accounts payable and accrued expenses	480,799	165,789
Grants payable	(566,666)	131,517
Other liabilities	116,850	-
Deferred rent	(319,667)	29,107
Deferred lease incentive	(582,531)	(72,013)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(1,528,220)</u>	<u>876,279</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturity of investments	3,615,638	2,309,466
Purchases of investments	(3,054,031)	(2,768,000)
Purchases of property and equipment	(334,561)	(122,621)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>227,046</u>	<u>(581,155)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan payable	247,752	-
Payments on capital lease obligations	(7,442)	(7,775)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>240,310</u>	<u>(7,775)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,060,864)	287,349
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,098,607</u>	<u>1,811,258</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,037,743</u>	<u>\$ 2,098,607</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Noncash activities:		
Leasehold improvements acquired in operating lease	\$ 1,015,835	\$ -
Deferred lease incentive included in operating lease	\$ (1,015,835)	\$ -
Property and equipment included in accrued expenses	\$ 123,876	\$ -
Equipment acquired under a capital lease	\$ 14,144	\$ -
Undistributed interest and dividends	\$ 351	\$ 282
Contribution of beneficial interest in a perpetual trust	\$ -	\$ 29

The accompanying notes are an integral part of these financial statements.

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2016 and 2015

1. Organization and Summary of Significant Accounting Policies

Organization

The Lupus Foundation of America, Inc. (the Foundation) is the only national force devoted to solving the mystery of lupus, while giving caring support to those who suffer from its brutal impact. The Foundation's mission is to improve the quality of life for all people affected by lupus through programs of research, education, support and advocacy.

Research. The Foundation stimulates and sponsors basic, clinical, behavioral, translational and epidemiological research on lupus. The Foundation also leads scientific initiatives, directly funds lupus researchers and advocates for increased government funding of lupus research studies to help solve the cruel mystery of lupus. The Foundation's efforts seek to challenge what is not working well in research on lupus and fund research designed to uncover the causes of lupus, understand its progression, identify smarter, more efficient ways to get treatments to people with lupus faster, and accelerate the search for cures that ultimately will end lupus forever.

Public Information and Education. The Foundation provides comprehensive information about lupus, created in consultation with top lupus medical experts who offer insight on how to manage the challenges of lupus. The Foundation distributes information through its website, lupus.org, which attracts more than nine million users a year, a free e-newsletter and the award-winning national magazine Lupus Living (formerly known as Lupus Now®). The Foundation also develops and distributes national public awareness campaigns to improve the early diagnosis and treatment of the disease and help people living with lupus improve their quality of life.

Professional Relations and Education. The Foundation conducts professional education programs that are designed to translate the latest research findings into public health recommendations for physicians and other healthcare professionals and their respective organizations. The Foundation sponsors continuing medical education (CME) programs and seminars for physicians and other health professionals, develops a more robust educational curriculum for nurses and works with lupus investigators and industry leaders to train clinical investigators on instruments to measure lupus disease activity that are used in clinical practice and lupus clinical trials.

Patient Education and Support. In collaboration with its national network, direct services to help people affected by lupus are provided through health educators, live and online educational programs, and live and telephone-based support groups. The Foundation is also committed to working with the United States Congress, federal government agencies and state legislatures and agencies to improve the lives of those affected by lupus, including efforts to improve the regulatory structure that guides the process of developing, testing and approving new therapies for lupus in order to ensure a full arsenal of new, effective and tolerable treatments.

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2016 and 2015

1. Organization and Summary of Significant Accounting Policies (continued)

Organization (continued)

Network Support and Services. The Foundation's national network is composed of chapters, offices and local support groups located throughout the United States. As a united force, the national network supports a nationwide movement to solve the cruel mystery of lupus and improve the quality of life for all people who suffer from its impact.

As separate legal entities, chapters elect their own board of directors and maintain separate sets of financial accounts; therefore, the accompanying financial statements do not include the accounts of the chapters.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, money market funds and certificates of deposit with maturities of less than 90 days.

Investments

Investments consist of certificates of deposit with maturities greater than 90 days and a private equity fund bequeathed to the Foundation. The Foundation carries its investments at fair value, with any related gain or loss reported in the accompanying statements of activities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Beneficial Interest in a Perpetual Trust Held by a Trustee

The Foundation is a beneficiary of a perpetual irrevocable trust held by an independent trustee. Under the terms of the trust, the Foundation has the irrevocable right to receive the income earned, after administration expenses, on the trust assets in perpetuity to be used for lupus research. The fair value of the beneficial interest in a perpetual trust is recognized as an asset and as a permanently restricted contribution at the date the trust is established. The Foundation's estimate of fair value at each reporting date is based on fair value information received from the trustee. The trust assets consist of mutual funds, certificate of deposits, U.S. government bonds and money market funds. These assets are not subject to control or direction by the Foundation. Gains and losses, which are not distributed by the trustee, are reflected as the change in value of a perpetual trust held by a trustee in the accompanying statements of activities.

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

1. Organization and Summary of Significant Accounting Policies (continued)

Property and Equipment and Depreciation and Amortization

The Foundation capitalizes property and equipment with unit values in excess of \$5,000. Furniture, equipment, computers and software are recorded at cost and are depreciated on a straight-line basis over estimated useful lives of three to five years. Leasehold improvements are amortized over the lease period or the estimated useful life of the improvements, whichever is shorter. Costs related to developing internal-use software are capitalized in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, while costs incurred during the preliminary and post-implementation operation stages are expensed. Expenditures for minor repairs and maintenance costs are expensed when incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss, if any, is included in support and revenue or expenses in the accompanying statements of activities.

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as increases in restricted net assets. It is the Foundation's policy to imply a time restriction, based on the asset's estimated useful life, on donations of property and equipment that are not restricted as to their use by the donor. Accordingly, those donations are recorded as increases in temporarily restricted net assets. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets each year for the amount of depreciation expense related to the donated property and equipment.

Grants Payable

Research grants are awarded annually and are payable over one to five years, beginning October 1. The liabilities and expenses of such awards are recognized in the year in which the grants are awarded.

Classification of Net Assets

The Foundation's net assets are reported as follows:

- Unrestricted net assets represent the accumulation of assets that are available for support of the Foundation's operations. Unrestricted net assets also include funds that have been designated by the Board of Directors as an operating reserve. As of September 30, 2016 and 2015, the reserve fund was \$2,390,000.
- Temporarily restricted net assets are specifically restricted by donors for various programs and/or future periods.

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2016 and 2015

1. Organization and Summary of Significant Accounting Policies (continued)

Classification of Net Assets (continued)

- Permanently restricted net assets represent proceeds received from the liquidation of a chapter for which the principal must be invested in perpetuity and only the earned investment income can be used for general operating purposes. Permanently restricted net assets also include the beneficial interest in a perpetual trust in which the assets are invested and managed by the trustee in perpetuity and the earnings, net of administration fees, are donor-restricted for lupus research in the honor and memory of Amy V. Welsh. Any earnings related to these endowments that have not been appropriated for expenditure are included in temporarily restricted net assets.

Revenue Recognition

The Foundation receives contributions from its affiliated chapters and the general public. The Foundation reports gifts of cash and other assets as unrestricted support in the absence of donor restrictions and as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires – that is, when a stipulated time restriction ends or purpose restriction is accomplished – temporarily restricted net assets are reported as a release from temporarily restricted net assets in the accompanying statements of activities.

The Foundation has cost-reimbursable grants with U.S. government agencies. Revenue from these grants is recognized as costs are incurred on the basis of direct costs plus allowable indirect expenses. Direct and indirect expenses incurred, but not yet reimbursed or billed, under these grants are reported as accounts receivable in the accompanying statements of financial position.

Contributions of long-lived assets or of cash and other assets restricted to the purchase of long-lived assets are reported as restricted support that increase temporarily restricted net assets. Depreciation is recorded over the asset's useful life, and net assets are released from temporarily restricted net assets as depreciation is recognized.

Grants and contributions are reported as revenue and support in the year in which payments are received and/or unconditional promises are made. The Foundation recognizes income from bequests and contributions in the year the Foundation is notified of the bequest, the promise to give becomes unconditional and the proceeds are measurable. Amounts that have not been collected as of year-end are included in pledges receivable in the accompanying statements of financial position. Conditional promises to give are not recognized in the financial statements until the conditions are substantially met.

Revenue from the donated goods program is recognized as revenue when the donated goods are collected by the third party based on the price agreed to in the contract between the Foundation and the third party who has agreed to purchase the goods.

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Program revenue represents revenue earned on contracts in which the Foundation is hired to perform a specific service. Program revenue is recognized based on the payment terms established in the contracts.

Donated Services

The Foundation received donated online advertising, media, creation and production of public service announcements (PSAs) which was recorded at an estimated fair value of \$140,000 and \$485,000 for the years ended September 30, 2016 and 2015, respectively, in the accompanying statements of activities. In addition, highly qualified volunteers serving on peer review research committees have donated their time and effort to the Foundation. These contributed services were valued at \$38,400 for the year ended September 30, 2015, and have been recognized as support and expense in the accompanying statements of activities.

Other volunteers have also donated significant time to the Foundation's services. No amounts have been reflected in the financial statements for these donated services, because such donated services do not meet the necessary criteria for recognition under GAAP.

Functional Expenses

The costs of providing the Foundation's programs and activities have been summarized on a functional basis in the accompanying statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services based on the time and effort reports of the Foundation's management staff allocated to each program or activity.

2. Pledges Receivable

All pledges receivable are expected to be received within one year. Pledges receivable consisted of the following as of September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Individuals and corporations	\$ 1,107,061	\$ 665,512
Wills and bequests	<u>205,000</u>	<u>295,000</u>
Gross Pledges Receivable	1,312,061	960,512
Less: Allowance for Doubtful Pledges	<u>(20,000)</u>	<u>(20,000)</u>
Net Pledges Receivable	<u>\$ 1,292,061</u>	<u>\$ 940,512</u>

Continued

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

3. Beneficial Interest in a Perpetual Trust

During the year ended September 30, 2014, the Foundation was named the beneficiary of 25% of the trust assets that a donor's estate left to a trustee bank to hold, manage and invest in perpetuity for the benefit of the Foundation. Each year, the Foundation receives the investment income net of administration expenses which is to be used for lupus research. As of September 30, 2016 and September 30, 2015, the value of the beneficial interest in a perpetual trust was \$231,423 and \$220,508, respectively. This is included in the accompanying statements of financial position as beneficial interest in a perpetual trust. The change in value of the trust assets during the years ended September 30, 2016 and 2015 was a gain of \$11,533 and a loss of \$4,456, respectively, and is included as change in value of a perpetual trust held by a trustee in the accompanying statements of activities.

4. Investments

As of September 30, 2016 and 2015, restricted investments consisted of \$107,300 invested in a certificate of deposit. This represents the principal amount of a permanently restricted contribution.

The Foundation's investments, which include restricted investments, are summarized as follows as of September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Certificates of deposit	\$ 2,312,444	\$ 2,874,336
Private equity fund (bequeathed)	<u>32,746</u>	<u>32,746</u>
Total Investments	<u>\$ 2,345,190</u>	<u>\$ 2,907,082</u>

As of September 30, 2016 and 2015, investment income consisted of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 20,596	\$ 18,314
Unrealized gains (losses)	(1,254)	1,902
Realized gains	<u>-</u>	<u>536</u>
Total Investment Income	<u>\$ 19,342</u>	<u>\$ 20,752</u>

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

5. Property and Equipment

Property and equipment consisted of the following as of September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 1,061,513	\$ 790,463
Furniture and office equipment	670,627	561,672
Computer software and website design	450,933	356,610
Capital leases	<u>26,644</u>	<u>159,906</u>
Total Property and Equipment at Cost	2,209,717	1,868,651
Less: Accumulated Depreciation and Amortization	<u>(597,968)</u>	<u>(1,034,109)</u>
Property and Equipment, Net	<u>\$ 1,611,749</u>	<u>\$ 834,542</u>

Depreciation and amortization expense was \$200,196 and \$272,256 for the years ended September 30, 2016 and 2015, respectively.

6. Research Grants

During the years ended September 30, 2016 and 2015, the Foundation awarded research grants totaling \$427,667 and \$853,167, respectively. Research grants which had not been paid out during the years ended September 30, 2016 and 2015 totaled \$925,001 and \$1,491,667, respectively. These research grants are payable over one to five years and are expected to be paid as follows as of September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Amounts payable within one year	\$ 725,001	\$ 1,191,667
Amounts payable in one to five years	<u>200,000</u>	<u>300,000</u>
Total Research Grants Payable	<u>\$ 925,001</u>	<u>\$ 1,491,667</u>

7. Operating Leases

The Foundation had a non-cancellable office space lease for office space that was set to expire in September 2023. In January 2016, the Foundation requested and signed an agreement to terminate this office space lease and the related storage license agreement effective August 31, 2016. As consideration for early termination, the Foundation agreed to pay a termination fee of \$196,530, \$163,775 of which had not been paid as of September 30, 2016, and is included as part of accounts payable and accrued expenses in the statements of financial position. The Foundation wrote-off the related leasehold improvements and recognized a loss of \$450,116 during the year ended September 30, 2016. In addition, the Foundation derecognized the related unamortized deferred rent and deferred

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LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

7. Operating Leases (continued)

lease incentive, resulting in a gain of \$909,063 during the year ended September 30, 2016. The net gain from early termination of the office space lease of \$262,417 is included as part of other income in the statements of activities.

In February 2016, the Foundation entered into a lease agreement for new office space in Washington, DC. The lease commencement date was September 1, 2016. The lease has an initial lease term of 158 months from the lease commencement date, with a ten-year renewal option. Annual base rent is \$573,648, with fixed annual escalation of 2.5%. The Foundation received an abatement of the base rent during the first 14 months of the lease term. Further, the lease included a tenant improvement allowance of \$1,015,835. As of September 30, 2016, the Foundation had utilized all of the tenant improvement allowance to build out its office space, \$565,079 of which was paid for by the Foundation and not yet reimbursed by the landlord, and is included in accounts receivable in the accompanying statements of financial position. The lease also required a security deposit of \$95,608, which is secured by a letter of credit issued by Wells Fargo Bank, N.A.

Under GAAP, all rental payments, including fixed rent increases, less any rental abatements and other incentives, are recognized on a straight-line basis over the term of the lease. The difference between the GAAP rent expense and the required lease payments is reflected as deferred rent in the accompanying statements of financial position. The tenant improvement allowance is reflected as deferred lease incentive in the accompanying statements of financial position and is being amortized ratably over the term of the lease.

Future minimum lease payments under the lease are as follows:

<u>For the Year Ending</u> <u>September 30,</u>	
2017	\$ -
2018	540,215
2019	603,945
2020	619,043
2021	634,519
Thereafter	<u>5,747,713</u>
Total	<u>\$ 8,145,435</u>

Occupancy expense was \$552,769 and \$536,497 for the years ended September 30, 2016 and 2015, respectively, and is included in occupancy, maintenance and insurance expense in the accompanying statements of functional expenses.

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LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

8. Risks

Financial Instruments and Credit Risks

The Foundation maintains its cash and cash equivalents with certain commercial financial institutions, which aggregate balance, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per depositor per institution. As of September 30, 2016 and 2015, the Foundation exceeded the maximum limit insured by FDIC by approximately \$981,000 and \$1,467,000, respectively. From time to time, in order to maintain a level that fulfills the Foundation's monthly cash requirements, the Foundation's cash and cash equivalents exceed the maximum limit insured by FDIC. The Foundation monitors the creditworthiness of these institutions and has not experienced any credit losses on its cash and cash equivalents.

Office of Management and Budget Uniform Guidance

The Foundation has instructed its independent auditors to audit its federal programs for the year ended September 30, 2016, in compliance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance), issued by the U.S. Office of Management and Budget (OMB). Until such audit is reviewed and accepted by the contracting or granting agencies, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management believes that any matters arising from the federal agency review of the independent auditor's reports for the year ended September 30, 2016 will not have a material effect on the financial position of the Foundation, or its results of operations for the year then ended.

9. Line of Credit

The Foundation had a \$500,000 line of credit with a financial institution that was secured by the Foundation's investments. The line of credit expired in November 2016 and was renewed in February 2017 with a new expiration date of March 15, 2018. Amounts drawn on this line accrue interest at the bank's prime rate plus 1% or 4.5% as of September 30, 2016, and are payable on demand. There were no borrowings during the year, nor was there a balance due on the line of credit as of September 30, 2016.

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

10. Temporarily Restricted Net Assets

At September 30, 2016 and 2015, temporarily restricted net assets were composed of the following:

	2016	2015
Purpose-restricted:		
LFA REAL System™	\$ 618,370	\$ 824,021
Research	14,534	-
Lupus Research – undistributed endowment earnings	-	618
Total Purpose-restricted	632,904	824,639
Time-restricted:		
New York City Gala	316,699	257,654
Walk for Lupus Now®	102,694	89,969
Corporate Advisory Council	25,000	-
Total Time-restricted	444,393	347,623
Total Temporarily Restricted Net Assets	\$ 1,077,297	\$ 1,172,262

11. Fair Value Measurements

Accounting standards define fair value and establish a framework for measuring fair value for those assets and liabilities that are measured at fair value on a recurring basis. In accordance with the fair value measurement standards, the Foundation has categorized its applicable financial instruments into a required fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs based on quoted prices (unadjusted) in an active market for identical assets or liabilities accessible at the measurement date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such a quoted prices for similar assets or liabilities in active markets.

Level 3 – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

11. Fair Value Measurements (continued)

The following table summarizes the Foundation's assets measured at fair value on a recurring basis as of September 30, 2016:

	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Investments:				
Certificates of deposit	\$ 2,205,144	\$ -	\$ 2,205,144	\$ -
Private equity fund	<u>32,746</u>	<u>-</u>	<u>-</u>	<u>32,746</u>
Total Investments	2,237,890	-	2,205,144	32,746
Restricted investments:				
Certificates of deposit	107,300	-	107,300	-
Beneficial interest in				
a perpetual trust	<u>231,423</u>	<u>-</u>	<u>-</u>	<u>231,423</u>
Total Assets	<u>\$ 2,576,613</u>	<u>\$ -</u>	<u>\$ 2,312,444</u>	<u>\$ 264,169</u>

The following table summarizes the Foundation's assets measured at fair value on a recurring basis as of September 30, 2015:

	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Investments:				
Certificates of deposit	\$ 2,767,036	\$ -	\$ 2,767,036	\$ -
Private equity fund	<u>32,746</u>	<u>-</u>	<u>-</u>	<u>32,746</u>
Total Investments	2,799,782	-	2,767,036	32,746
Restricted investments:				
Certificates of deposit	107,300	-	107,300	-
Beneficial interest in				
a perpetual trust	<u>220,508</u>	<u>-</u>	<u>-</u>	<u>220,508</u>
Total Assets	<u>\$ 3,127,590</u>	<u>\$ -</u>	<u>\$ 2,874,336</u>	<u>\$ 253,254</u>

Continued

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

11. Fair Value Measurements (continued)

As of September 30, 2016 and 2015, the Foundation used the following methods and significant assumptions to estimate fair value for assets and liabilities recorded at fair value:

Certificates of deposit – Certificates of deposit are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations while considering the creditworthiness of the issuer.

Private equity fund – This investment is subject to certain restrictions and generally has no established trading market. Fair value is determined based on the value as provided by the investee fund management or the general partner of the respective entity.

Beneficial interest in a perpetual trust – The fair value of the beneficial interest in perpetual trust is measured using the fair value of the assets contributed to the trust (see Note 3).

A rollforward of the fair value measurements using unobservable inputs (Level 3) as of September 30, 2016 was as follows:

	Beneficial Interest in Perpetual Trust	Private Equity Fund
Fair value, beginning of year	\$ 220,508	\$ 32,746
Beneficial interest in perpetual trust contribution	-	-
Change in value in trust	11,533	-
Undistributed interest and dividends	351	-
Trustee fees	(969)	-
	\$ 231,423	\$ 32,746

A rollforward of the fair value measurements using unobservable inputs (Level 3) as of September 30, 2015 was as follows:

	Beneficial Interest in Perpetual Trust	Private Equity Fund
Fair value, beginning of year	\$ 224,653	\$ 32,746
Beneficial interest in perpetual trust contribution	29	-
Change in value in trust	(4,456)	-
Undistributed interest and dividends	1,734	-
Trustee fees	(1,452)	-
	\$ 220,508	\$ 32,746

Continued

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2016 and 2015

11. Fair Value Measurements (continued)

The beneficial interest in perpetual trust approximates the fair value of the assets contributed to the trust. The undistributed interest and dividends are included in investment income in the accompanying statements of activities.

12. Endowment Funds

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the District of Columbia Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The fund's duration and preservation;
- The Foundation's purpose and the donor-restricted endowment fund;
- General economic conditions;
- The possible effects of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- The Foundation's other resources; and
- The Foundation's investment policies.

Return Objectives and Spending Policy

The Foundation strives to provide a predictable stream of investment return while seeking to maintain the purchasing power of the endowment assets. The earnings on the donor-restricted endowments are for general operations and research. The Foundation's Board of Directors approves the spending of the earnings on the endowment fund on an annual basis when it approves the annual budget.

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

12. Endowment Funds (continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of permanent duration. There were no such deficiencies as of September 30, 2016 and 2015.

Endowment Funds of the Foundation

The Foundation's endowment net assets are composed of donor-restricted funds and the beneficial interest in a perpetual trust.

For the year ended September 30, 2016, the endowment fund had the following activity:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment fund, beginning of year	\$ -	\$ 618	\$ 327,190	\$ 327,808
Change in value of a perpetual trust held by a trustee	-	-	11,533	11,533
Investment income	-	3,695	-	3,695
Amounts appropriated for expenditure	-	(3,344)	-	(3,344)
Trustee fees	-	(969)	-	(969)
Endowment fund, end of year	\$ -	\$ -	\$ 338,723	\$ 338,723

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

12. Endowment Funds (continued)

Endowment Funds of the Foundation (continued)

For the year ended September 30, 2015, the endowment fund had the following activity:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment fund, beginning of year	\$ -	\$ 336	\$ 331,617	\$ 331,953
Beneficial interest in perpetual trust contributions	-	-	29	29
Change in value of a perpetual trust held by a trustee	-	-	(4,456)	(4,456)
Investment income	-	4,312	-	4,312
Amounts appropriated for expenditure	-	(2,578)	-	(2,578)
Trustee fees	-	(1,452)	-	(1,452)
Endowment fund, end of year	<u>\$ -</u>	<u>\$ 618</u>	<u>\$ 327,190</u>	<u>\$ 327,808</u>
			<u>2016</u>	<u>2015</u>
The portion of the permanent endowment funds that is required to be retained permanently, either by explicit donor stipulation or by UPMIFA			<u>\$ 338,723</u>	<u>\$ 327,190</u>

13. Pension Plan

The Foundation has a contributory defined contribution pension plan (the Plan), which operates under Section 403(b) of the Internal Revenue Code (IRC). The Plan covers all employees who have completed at least one year of service and worked at least 1,000 hours in a plan year. The Foundation's contributions to the Plan are discretionary. The Plan allows for a three-tiered employer contribution rate schedule based on years of service with a percentage rate determined by the Board of Directors annually, ranging from 5% to 9%. Total pension expense was \$53,615 and \$200,515 for the years ended September 30, 2016 and 2015, respectively, and is included in salaries and benefits in the accompanying statements of functional expenses. There were no discretionary employer contributions made for the calendar year (plan year) 2016.

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015

14. Allocation of Joint Costs

The Foundation conducts activities that include appeals for contributions, as well as program and management and general components. Those activities include direct mail campaigns, walks and the household goods solicitation program. These joint costs were allocated in the accompanying statements of functional expenses as follows:

	<u>2016</u>	<u>2015</u>
Program	\$ 916,695	\$ 1,353,476
Fundraising	2,050,564	1,592,887
Management and general	<u>27,558</u>	<u>35,462</u>
Total	<u>\$ 2,994,817</u>	<u>\$ 2,981,825</u>

15. Income Taxes

The Foundation is exempt from federal taxes on income other than net unrelated business income under Section 501(c)(3) of the IRC. For the years ended September 30, 2016 and 2015, no provision for income taxes was required, as the Foundation had no net unrelated business income.

The Foundation follows the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB ASC Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Foundation performed an evaluation of uncertain tax positions for the years ended September 30, 2016 and 2015, and determined that it has no material uncertain income tax positions, and accordingly, it has not recognized any liability for unrecognized income tax. As of September 30, 2016, the statute of limitations for the tax years ended September 30, 2013 through September 30, 2015 remain open with the U.S. federal jurisdiction or the various state and local jurisdictions in which the Foundation files tax returns. It is the Foundation's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of September 30, 2016 and 2015, the Foundation had no accruals for interest and/or penalties.

16. Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through February 28, 2017, the date the financial statements were available to be issued. Except for the renewal of the line of credit disclosed in Note 9, there were no other subsequent events that require recognition or disclosure in these financial statements.