

Help Us Solve  
The Cruel Mystery

**LUPUS**<sup>TM</sup>

FOUNDATION OF AMERICA

**Financial Statements**

*For the Years Ended September 30, 2017 and 2016*



**and  
Report Thereon**



**LUPUS FOUNDATION OF AMERICA, INC.**

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**For the Years Ended September 30, 2017 and 2016**

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*Certified Public Accountants*

## **INDEPENDENT AUDITOR'S REPORT**

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

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, 2017 and 2016, 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, 2017 and 2016, 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 24, 2018

LUPUS FOUNDATION OF AMERICA, INC.

STATEMENTS OF FINANCIAL POSITION  
September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,834,536	\$ 1,037,743
Accounts receivable, net of allowance for doubtful accounts of \$121,618	405,511	1,314,580
Pledges receivable, net of allowance for doubtful pledges of \$20,000	1,211,455	1,292,061
Prepaid expenses and deposits	233,279	236,788
Investments	1,888,047	2,237,890
Beneficial interest in a perpetual trust	252,450	231,423
Property and equipment, net of accumulated depreciation and amortization of \$813,120 and \$597,968, respectively	1,396,597	1,611,749
Restricted investments	<u>107,300</u>	<u>107,300</u>
TOTAL ASSETS	<u>\$ 8,329,175</u>	<u>\$ 8,069,534</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 1,247,324	\$ 1,655,975
Grants payable	623,334	925,001
Loans payable	199,114	247,752
Capital lease obligations	13,382	18,871
Deferred rent	670,194	51,553
Deferred lease incentive	932,254	1,009,408
Other liabilities	<u>193,994</u>	<u>116,850</u>
TOTAL LIABILITIES	<u>3,879,596</u>	<u>4,025,410</u>
<b>Net Assets</b>		
Unrestricted	2,740,916	2,628,104
Temporarily restricted	1,348,913	1,077,297
Permanently restricted	<u>359,750</u>	<u>338,723</u>
TOTAL NET ASSETS	<u>4,449,579</u>	<u>4,044,124</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,329,175</u>	<u>\$ 8,069,534</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, 2017 and 2016**

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE AND SUPPORT</b>								
Grants and contributions	\$ 4,600,677	\$ 1,766,354	\$ -	\$ 6,367,031	\$ 3,508,753	\$ 1,878,593	\$ -	\$ 5,387,346
Wills and bequests	454,456	5,000	-	459,456	195,531	-	-	195,531
Contributions from affiliates	53,106	-	-	53,106	120,209	187,954	-	308,163
Special events, net of direct benefit costs of \$103,292 and \$100,265, respectively	1,988,041	556,440	-	2,544,481	1,662,707	419,393	-	2,082,100
Donated goods program	3,044,719	-	-	3,044,719	3,122,650	-	-	3,122,650
Donated services	130,800	-	-	130,800	140,000	-	-	140,000
Membership dues	487,054	-	-	487,054	516,493	-	-	516,493
Program revenue	617,736	-	-	617,736	504,535	-	-	504,535
Publications	33,096	-	-	33,096	130,479	-	-	130,479
Royalty income	6,202	-	-	6,202	6,406	-	-	6,406
Investment income, net	14,694	3,630	-	18,324	15,647	3,695	-	19,342
Change in value of a perpetual trust held by a trustee	-	-	21,027	21,027	-	-	11,533	11,533
Other income	9,363	-	-	9,363	278,758	-	-	278,758
Net assets released from restrictions:								
Satisfaction of program restrictions	1,615,417	(1,615,417)	-	-	2,236,976	(2,236,976)	-	-
Satisfaction of time restrictions	444,391	(444,391)	-	-	347,624	(347,624)	-	-
<b>TOTAL REVENUE AND SUPPORT</b>	<b>13,499,752</b>	<b>271,616</b>	<b>21,027</b>	<b>13,792,395</b>	<b>12,786,768</b>	<b>(94,965)</b>	<b>11,533</b>	<b>12,703,336</b>
<b>EXPENSES</b>								
Program Services:								
Public information and education	4,308,557	-	-	4,308,557	4,258,392	-	-	4,258,392
Professional relations and education	166,197	-	-	166,197	561,529	-	-	561,529
Network support and services	1,972,100	-	-	1,972,100	2,372,088	-	-	2,372,088
Patient education and support	795,712	-	-	795,712	455,616	-	-	455,616
Research	2,100,702	-	-	2,100,702	1,507,764	-	-	1,507,764
Total Program Services	9,343,268	-	-	9,343,268	9,155,389	-	-	9,155,389
Supporting Services:								
Management and general	1,068,004	-	-	1,068,004	830,519	-	-	830,519
Fundraising	2,975,668	-	-	2,975,668	2,613,491	-	-	2,613,491
Total Supporting Services	4,043,672	-	-	4,043,672	3,444,010	-	-	3,444,010
<b>TOTAL EXPENSES</b>	<b>13,386,940</b>	<b>-</b>	<b>-</b>	<b>13,386,940</b>	<b>12,599,399</b>	<b>-</b>	<b>-</b>	<b>12,599,399</b>
<b>CHANGE IN NET ASSETS</b>	<b>112,812</b>	<b>271,616</b>	<b>21,027</b>	<b>405,455</b>	<b>187,369</b>	<b>(94,965)</b>	<b>11,533</b>	<b>103,937</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>2,628,104</b>	<b>1,077,297</b>	<b>338,723</b>	<b>4,044,124</b>	<b>2,440,735</b>	<b>1,172,262</b>	<b>327,190</b>	<b>3,940,187</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 2,740,916</b>	<b>\$ 1,348,913</b>	<b>\$ 359,750</b>	<b>\$ 4,449,579</b>	<b>\$ 2,628,104</b>	<b>\$ 1,077,297</b>	<b>\$ 338,723</b>	<b>\$ 4,044,124</b>

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, 2017

	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	\$ 1,452,961	\$ 58,940	\$ 1,084,404	\$ 500,252	\$ 546,728	\$ 3,643,285	\$ 593,321	\$ 663,824	\$ 1,257,145	\$ 4,900,430
Professional services	1,107,961	23,142	125,259	126,196	816,717	2,199,275	200,388	235,929	436,317	2,635,592
Postage, mailing and shipping	920,945	619	24,163	6,702	1,726	954,155	34,850	1,641,518	1,676,368	2,630,523
Conferences, meetings and travel	181,623	68,685	331,702	12,575	51,359	645,944	13,204	213,926	227,130	873,074
Occupancy, maintenance and insurance	191,326	6,184	154,772	68,908	74,206	495,396	77,273	82,712	159,985	655,381
Printing, publications and promotions	252,420	2,970	113,999	48,095	94,162	511,646	3,567	96,567	100,134	611,780
Grants and awards	51,298	-	46,461	-	475,536	573,295	-	-	-	573,295
Supplies, telecom and internet	58,555	3,628	33,777	10,664	15,919	122,543	11,710	14,689	26,399	148,942
Other expenses	5,543	183	16,949	2,013	2,196	26,884	113,383	2,504	115,887	142,771
Total expenses before depreciation and amortization	4,222,632	164,351	1,931,486	775,405	2,078,549	9,172,423	1,047,696	2,951,669	3,999,365	13,171,788
Depreciation and amortization	85,925	1,846	40,614	20,307	22,153	170,845	20,308	23,999	44,307	215,152
<b>TOTAL EXPENSES</b>	<b>\$ 4,308,557</b>	<b>\$ 166,197</b>	<b>\$ 1,972,100</b>	<b>\$ 795,712</b>	<b>\$ 2,100,702</b>	<b>\$ 9,343,268</b>	<b>\$ 1,068,004</b>	<b>\$ 2,975,668</b>	<b>\$ 4,043,672</b>	<b>\$ 13,386,940</b>

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
<b>TOTAL EXPENSES</b>	<b>\$ 4,258,392</b>	<b>\$ 561,529</b>	<b>\$ 2,372,088</b>	<b>\$ 455,616</b>	<b>\$ 1,507,764</b>	<b>\$ 9,155,389</b>	<b>\$ 830,519</b>	<b>\$ 2,613,491</b>	<b>\$ 3,444,010</b>	<b>\$ 12,599,399</b>

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, 2017 and 2016**  
**Increase (Decrease) in Cash and Cash Equivalents**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 405,455	\$ 103,937
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	215,152	200,196
Loss from write-off of leasehold improvements	-	450,116
Loss from disposal of property and equipment	-	60,897
Net unrealized losses (gains)	(136)	1,254
Change in value of perpetual trust held by trustee	(21,027)	(11,533)
Undistributed interest and dividends	(862)	(351)
Changes in assets and liabilities:		
Accounts receivable	909,069	(1,078,233)
Pledges receivable	80,606	(351,549)
Prepaid expenses and deposits	3,509	(31,739)
Accounts payable and accrued expenses	(408,651)	480,799
Grants payable	(301,667)	(566,666)
Deferred rent	618,641	(319,667)
Deferred lease incentive	(77,154)	(582,531)
Other liabilities	77,144	116,850
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>1,500,079</b>	<b>(1,528,220)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale and maturity of investments	2,807,016	3,615,638
Purchases of investments	(2,456,175)	(3,054,031)
Purchases of property and equipment	-	(334,561)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>350,841</b>	<b>227,046</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on loan payable	(48,638)	-
Proceeds from loan payable	-	247,752
Payments on capital lease obligations	(5,489)	(7,442)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>(54,127)</b>	<b>240,310</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,796,793</b>	<b>(1,060,864)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>1,037,743</b>	<b>2,098,607</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 2,834,536</b>	<b>\$ 1,037,743</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
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	\$ 862	\$ 351

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, 2017 and 2016

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### 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's research is anchored in what matters: Transforming Lives. The Foundation's peer-reviewed initiatives stimulate and sponsor 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. The Foundation is the only organization that tackles lupus from every direction to identify the causes, treatments, and means to prevent and cure this life-threatening disease. The Foundation's patient-first research approach delivers better results to improve quality of life. The Foundation convenes experts and partners with leading medical organizations that are on the front lines of lupus research to put lupus patients first. The Foundation not only brings leading researchers together, the Foundation connects them to the funding they need. The Foundation has stimulated more than \$90 million in federal funding for Lupus Research and Education. The Foundation spearheads efforts to advance lupus drug development at every step in the process, including identifying improvements in clinical trial design so new treatments can get into the hands of people who need them faster. The Foundation also works directly with the U.S. Food and Drug Administration to make certain lupus patients' voices are heard, bringing their perspective into drug development.

*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 a free e-newsletter, and through its websites, *lupus.org* and its new National Resource Center on Lupus, which combined, attract more than nine million visits per year. 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 the Foundation's 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 partnered with the American College of Rheumatology to launch a new online awareness

# LUPUS FOUNDATION OF AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2017 and 2016

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

#### **Organization (continued)**

campaign, "Be Fierce," to reach minority women between the ages of 18-24 who are living with lupus. 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.

*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, certificates of deposit,

# LUPUS FOUNDATION OF AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2017 and 2016

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

#### **Beneficial Interest in a Perpetual Trust Held by a Trustee (continued)**

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.

#### **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.

#### **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, 2017 and 2016, the reserve fund was \$2,390,000.
- Temporarily restricted net assets are specifically restricted by donors for various programs and/or future periods.
- 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 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.

**LUPUS FOUNDATION OF AMERICA, INC.**

**NOTES TO FINANCIAL STATEMENTS  
For the Years Ended September 30, 2017 and 2016**

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

**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 met – 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.

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.

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 and media agency services at an estimated fair value of \$120,000 and \$140,000 for the years ended September 30, 2017 and 2016, respectively, which were recorded under the public information and education program in the accompanying statements of activities. In addition, highly qualified volunteers serving on peer review research committee have donated their time and effort to the Foundation. These contributed services were valued at \$10,800 for the year ended September 30, 2017, and have been recognized as support and expense under the research program 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.

**LUPUS FOUNDATION OF AMERICA, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended September 30, 2017 and 2016**

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

**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 timekeeping system used by the Foundation's staff.

2. Pledges Receivable

All pledges receivable are expected to be received within one year. Pledges receivable consisted of the following as of September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Individuals and corporations	\$ 1,129,455	\$ 1,107,061
Wills and bequests	<u>102,000</u>	<u>205,000</u>
Gross Pledges Receivable	1,231,455	1,312,061
Less: Allowance for Doubtful Pledges	<u>(20,000)</u>	<u>(20,000)</u>
Net Pledges Receivable	<u>\$ 1,211,455</u>	<u>\$ 1,292,061</u>

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, 2017 and 2016, the value of the beneficial interest in a perpetual trust was \$252,450 and \$231,423, 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, 2017 and 2016 was a gain of \$21,027 and \$11,533, 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, 2017 and 2016, 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 as of September 30, 2017 and 2016 which include restricted investments, are summarized as follows:

	<u>2017</u>	<u>2016</u>
Certificates of deposit	\$ 1,962,601	\$ 2,312,444
Private equity fund (bequeathed)	<u>32,746</u>	<u>32,746</u>
Total Investments	<u>\$ 1,995,347</u>	<u>\$ 2,345,190</u>

Continued

**LUPUS FOUNDATION OF AMERICA, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended September 30, 2017 and 2016**

4. Investments (continued)

For the years ended September 30, 2017 and 2016, investment income consisted of the following:

	2017	2016
Interest and dividends	\$ 18,188	\$ 20,596
Unrealized gains (losses)	136	(1,254)
Net Investment Income	\$ 18,324	\$ 19,342

5. Property and Equipment

Property and equipment consisted of the following as of September 30, 2017 and 2016:

	2017	2016
Leasehold improvements	\$ 1,061,513	\$ 1,061,513
Furniture and office equipment	670,627	670,627
Computer software and website design	450,933	450,933
Capital leases	26,644	26,644
Total Property and Equipment at Cost	2,209,717	2,209,717
Less: Accumulated Depreciation and Amortization	(813,120)	(597,968)
Property and Equipment, Net	\$ 1,396,597	\$ 1,611,749

Depreciation and amortization expense was \$215,152 and \$200,196 for the years ended September 30, 2017 and 2016, respectively.

6. Research Grants

During the years ended September 30, 2017 and 2016, the Foundation awarded research grants totaling \$475,536 and \$427,667, respectively. Research grants, which had not been paid out during the years ended September 30, 2017 and 2016, totaled \$623,334 and \$925,001, respectively. These research grants are payable over one to five years and were expected to be paid as follows as of September 30, 2017 and 2016:

	2017	2016
Amounts payable within one year	\$ 523,334	\$ 725,001
Amounts payable in one to five years	100,000	200,000
Total Research Grants Payable	\$ 623,334	\$ 925,001

No discount to present value was recorded for multi-year grants payable as the amount was immaterial to the financial statements.

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**LUPUS FOUNDATION OF AMERICA, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended September 30, 2017 and 2016**

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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. The Foundation wrote-off the related leasehold improvements and derecognized the related unamortized deferred rent and deferred lease incentive, resulting in a net gain from early termination of the office space lease of \$262,417 during the year ended September 30, 2016, which was included in other income in the accompanying 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 a 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. 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>	
2018	\$ 540,215
2019	603,945
2020	619,043
2021	634,519
2022	650,383
Thereafter	<u>5,097,330</u>
Total	<u>\$ 8,145,435</u>

Occupancy expense was \$558,527 and \$552,769 for the years ended September 30, 2017 and 2016, 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, 2017 and 2016

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, 2017 and 2016, the Foundation exceeded the maximum limit insured by FDIC by approximately \$2,192,000 and \$981,000, 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 applicable federal programs for the year ended September 30, 2017, 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 agency, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management believes that any matters arising from the review of the federal agency of the independent auditor's reports for the year ended September 30, 2017, will not have a material effect on the financial position of the Foundation as of September 30, 2017, or its results of operations for the year then ended.

9. Line of Credit

The Foundation has a \$500,000 line of credit with a financial institution that is secured by the Foundation's investments. The line of credit expires on March 15, 2018. Amounts drawn on this line accrue interest at the bank's prime rate plus 1% or 6.5% as of September 30, 2017, 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, 2017.

10. Temporarily Restricted Net Assets

At September 30, 2017 and 2016, temporarily restricted net assets were composed of the following:

	<u>2017</u>	<u>2016</u>
Purpose-restricted:		
LFA REAL System™	\$ 421,370	\$ 618,370
MAPRX Coalition	203,977	-
World Lupus Federation	155,000	-
Educational Materials Initiative	50,000	-
Research	<u>29,296</u>	<u>14,534</u>
Total Purpose-Restricted	<u>859,643</u>	<u>632,904</u>

Continued



**LUPUS FOUNDATION OF AMERICA, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended September 30, 2017 and 2016**

10. Temporarily Restricted Net Assets (continued)

	2017	2016
Time-restricted:		
New York City Gala	326,068	316,699
Walk for Lupus Now®	163,202	102,694
Corporate Advisory Council	-	25,000
Total Time-Restricted	489,270	444,393
Total Temporarily Restricted Net Assets	\$ 1,348,913	\$ 1,077,297

11. Fair Value Measurement

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, 2017 and 2016**

11. Fair Value Measurement (continued)

The following table summarizes the Foundation's assets measured at fair value on a recurring basis as of September 30, 2017:

	<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	\$ 1,855,301	\$ -	\$ 1,855,301	\$ -
Private equity fund	<u>32,746</u>	<u>-</u>	<u>-</u>	<u>32,746</u>
Total Investments	1,888,047	-	1,855,301	32,746
Restricted investments:				
Certificates of deposit	107,300	-	107,300	-
Beneficial interest in				
a perpetual trust	<u>252,450</u>	<u>-</u>	<u>-</u>	<u>252,450</u>
Total Assets	<u>\$ 2,247,797</u>	<u>\$ -</u>	<u>\$ 1,962,601</u>	<u>\$ 285,196</u>

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>

Continued

**LUPUS FOUNDATION OF AMERICA, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended September 30, 2017 and 2016**

11. Fair Value Measurement (continued)

As of September 30, 2017 and 2016, 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 a 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, 2017, was as follows:

	Beneficial Interest in Perpetual Trust	Private Equity Fund
Fair value, beginning of year	\$ 231,423	\$ 32,746
Change in value in trust	21,027	-
Undistributed interest and dividends	862	-
Trustee fees	(862)	-
Fair Value, End of Year	\$ 252,450	\$ 32,746

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
Change in value in trust	11,533	-
Undistributed interest and dividends	351	-
Trustee fees	(969)	-
Fair Value, End of Year	\$ 231,423	\$ 32,746

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

## LUPUS FOUNDATION OF AMERICA, INC.

### NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2017 and 2016

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#### 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.

##### **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, 2017 and 2016.

##### **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.

**LUPUS FOUNDATION OF AMERICA, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended September 30, 2017 and 2016**

12. Endowment Funds (continued)

**Endowment Funds of the Foundation (continued)**

For the year ended September 30, 2017, 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	\$ -	\$ -	\$ 338,723	\$ 338,723
Change in value of a perpetual trust held by a trustee	-	-	21,027	21,027
Investment income	-	3,630	-	3,630
Amounts appropriated for expenditure	-	(2,253)	-	(2,253)
Trustee fees	-	(1,377)	-	(1,377)
Endowment fund, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 359,750</u>	<u>\$ 359,750</u>

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	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 338,723</u>	<u>\$ 338,723</u>

	<u>2017</u>	<u>2016</u>
The portion of the permanent endowment funds that is required to be retained permanently, either by explicit donor stipulation or by UPMIFA	<u>\$ 359,750</u>	<u>\$ 338,723</u>

**LUPUS FOUNDATION OF AMERICA, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended September 30, 2017 and 2016**

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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 (the 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 \$151,794 and \$53,615 for the years ended September 30, 2017 and 2016, 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.

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>2017</u>	<u>2016</u>
Program	\$ 1,219,600	\$ 916,695
Fundraising	2,067,043	2,050,564
Management and general	<u>27,775</u>	<u>27,558</u>
Total Allocation of Joint Costs	<u>\$ 3,314,418</u>	<u>\$ 2,994,817</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, 2017 and 2016, 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 uncertainty in taxes for the years ended September 30, 2017 and 2016, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of September 30, 2017, the statute of limitations for the tax years ended September 30, 2014 through September 30, 2016 remains open with the U.S. federal jurisdiction or the various

**LUPUS FOUNDATION OF AMERICA, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended September 30, 2017 and 2016**

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15. Income Taxes (continued)

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 uncertainty in income taxes, if any, in income tax expense. As of September 30, 2017 and 2016, 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 24, 2018, the date the financial statements were available to be issued. There were no other subsequent events that require recognition or disclosure in these financial statements.