

Help Us Solve
The Cruel Mystery

LUPUSTM

FOUNDATION OF AMERICA

Financial Statements

For the Years Ended September 30, 2018 and 2017



**and
Report Thereon**



LUPUS FOUNDATION OF AMERICA, INC.

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For the Years Ended September 30, 2018 and 2017

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INDEPENDENT AUDITORS' 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 statement of financial position as of September 30, 2018, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditors' 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.

Continued

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Opinion

In our opinion, the 2018 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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter*Prior Period Financial Statements*

The Foundation's 2017 financial statements were audited by Raffa, P.C. whose practice was combined with Marcum LLP as of October 1, 2018, and whose audit report dated February 24, 2018, expressed an unmodified opinion on those statements.

Handwritten signature of Marcum LLP in cursive script.

Washington, DC
March 5, 2019

LUPUS FOUNDATION OF AMERICA, INC.

STATEMENTS OF FINANCIAL POSITION
September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 2,511,959	\$ 2,834,536
Accounts receivable, net of allowance for doubtful accounts of \$121,618	300,862	405,511
Pledges receivable, net of allowance for doubtful pledges of \$20,000	2,194,324	1,211,455
Prepaid expenses and deposits	148,247	233,279
Investments	2,667,201	1,888,047
Beneficial interest in a perpetual trust	269,827	252,450
Property and equipment, net of accumulated depreciation and amortization of \$769,663 and \$813,120, respectively	1,320,802	1,396,597
Restricted investments	<u>107,300</u>	<u>107,300</u>
TOTAL ASSETS	<u>\$ 9,520,522</u>	<u>\$ 8,329,175</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,892,217	\$ 1,247,324
Grants payable	619,214	623,334
Loans payable	138,742	199,114
Capital lease obligations	21,509	13,382
Deferred rent	748,619	670,194
Deferred lease incentive	855,100	932,254
Other liabilities	<u>-</u>	<u>193,994</u>
TOTAL LIABILITIES	<u>4,275,401</u>	<u>3,879,596</u>
Net Assets		
Unrestricted	3,303,761	2,740,916
Temporarily restricted	1,564,233	1,348,913
Permanently restricted	<u>377,127</u>	<u>359,750</u>
TOTAL NET ASSETS	<u>5,245,121</u>	<u>4,449,579</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,520,522</u>	<u>\$ 8,329,175</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, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT								
Grants and contributions	\$ 5,051,148	\$ 2,568,671	\$ -	\$ 7,619,819	\$ 4,653,783	\$ 1,766,354	\$ -	\$ 6,420,137
Wills and bequests	324,820	91,252	-	416,072	454,456	5,000	-	459,456
Special events, net of direct benefit costs of \$128,741 and \$103,292, respectively	2,152,188	506,021	-	2,658,209	1,988,041	556,440	-	2,544,481
Donated goods program	2,645,086	-	-	2,645,086	3,044,719	-	-	3,044,719
Donated services	181,561	-	-	181,561	130,800	-	-	130,800
Membership dues	360,320	-	-	360,320	487,054	-	-	487,054
Program service revenue	2,574,051	-	-	2,574,051	650,832	-	-	650,832
Royalty income	8,856	-	-	8,856	6,202	-	-	6,202
Investment income, net	35,973	3,857	-	39,830	14,694	3,630	-	18,324
Change in value of a perpetual trust held by a trustee	-	-	17,377	17,377	-	-	21,027	21,027
Other income	81,570	-	-	81,570	9,363	-	-	9,363
Net assets released from restrictions:								
Satisfaction of program restrictions	2,465,211	(2,465,211)	-	-	1,615,417	(1,615,417)	-	-
Satisfaction of time restrictions	489,270	(489,270)	-	-	444,391	(444,391)	-	-
TOTAL REVENUE AND SUPPORT	16,370,054	215,320	17,377	16,602,751	13,499,752	271,616	21,027	13,792,395
EXPENSES								
Program Services:								
Public information and education	5,911,919	-	-	5,911,919	4,308,557	-	-	4,308,557
Professional relations and education	139,035	-	-	139,035	166,197	-	-	166,197
Network support and services	2,356,224	-	-	2,356,224	1,972,100	-	-	1,972,100
Patient education and support	929,293	-	-	929,293	795,712	-	-	795,712
Research	2,790,187	-	-	2,790,187	2,100,702	-	-	2,100,702
Total Program Services	12,126,658	-	-	12,126,658	9,343,268	-	-	9,343,268
Supporting Services:								
Management and general	1,100,099	-	-	1,100,099	1,068,004	-	-	1,068,004
Fundraising	2,580,452	-	-	2,580,452	2,975,668	-	-	2,975,668
Total Supporting Services	3,680,551	-	-	3,680,551	4,043,672	-	-	4,043,672
TOTAL EXPENSES	15,807,209	-	-	15,807,209	13,386,940	-	-	13,386,940
CHANGE IN NET ASSETS	562,845	215,320	17,377	795,542	112,812	271,616	21,027	405,455
NET ASSETS, BEGINNING OF YEAR	2,740,916	1,348,913	359,750	4,449,579	2,628,104	1,077,297	338,723	4,044,124
NET ASSETS, END OF YEAR	\$ 3,303,761	\$ 1,564,233	\$ 377,127	\$ 5,245,121	\$ 2,740,916	\$ 1,348,913	\$ 359,750	\$ 4,449,579

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, 2018

	Program Services					Supporting Services			Total Expenses	
	Public Information and Education	Professional Relations and Education	Network Support and Services	Patient Education and Support	Research	Total Program Services	Management and General	Fundraising		Total Supporting Services
Salaries and benefits	\$ 1,933,200	\$ 79,793	\$ 1,348,401	\$ 634,536	\$ 586,444	\$ 4,582,374	\$ 536,176	\$ 569,438	\$ 1,105,614	\$ 5,687,988
Professional services	2,409,121	22,235	95,129	95,554	679,787	3,301,826	218,470	254,127	472,597	3,774,423
Postage, mailing and shipping	744,747	454	17,940	3,055	2,314	768,510	31,638	1,360,628	1,392,266	2,160,776
Grants and awards	-	-	34,000	-	1,279,346	1,313,346	-	3,384	3,384	1,316,730
Conferences, meetings and travel	212,296	16,560	470,661	21,980	134,890	856,387	12,370	196,421	208,791	1,065,178
Occupancy, maintenance and insurance	213,665	12,569	175,739	69,127	63,203	534,303	66,012	64,807	130,819	665,122
Printing, publications and promotions	210,862	347	120,775	73,807	11,744	417,535	3,584	101,436	105,020	522,555
Other expenses	7,575	240	13,591	1,318	1,199	23,923	206,130	1,326	207,456	231,379
Supplies, telecommunications and internet	63,145	3,058	34,638	9,130	12,364	122,335	8,713	9,989	18,702	141,037
Total Expenses Before Depreciation and Amortization	5,794,611	135,256	2,310,874	908,507	2,771,291	11,920,539	1,083,093	2,561,556	3,644,649	15,565,188
Depreciation and amortization	117,308	3,779	45,350	20,786	18,896	206,119	17,006	18,896	35,902	242,021
TOTAL EXPENSES	\$ 5,911,919	\$ 139,035	\$ 2,356,224	\$ 929,293	\$ 2,790,187	\$ 12,126,658	\$ 1,100,099	\$ 2,580,452	\$ 3,680,551	\$ 15,807,209

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 Program Services	Management and General	Fundraising		Total Supporting Services
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, telecommmunications 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
TOTAL EXPENSES	\$ 4,308,557	\$ 166,197	\$ 1,972,100	\$ 795,712	\$ 2,100,702	\$ 9,343,268	\$ 1,068,004	\$ 2,975,668	\$ 4,043,672	\$ 13,386,940

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, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 795,542	\$ 405,455
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	242,021	215,152
Amortization of deferred lease incentive	(77,154)	(77,154)
Loss from write-off of accounts receivable	102,899	-
Net unrealized losses (gains)	1,101	(136)
Change in value of perpetual trust held by trustee	(17,377)	(21,027)
Undistributed interest and dividends	-	(862)
Changes in assets and liabilities:		
Accounts receivable	1,750	909,069
Pledges receivable	(982,869)	80,606
Prepaid expenses and deposits	85,032	3,509
Accounts payable and accrued expenses	545,918	(408,651)
Grants payable	(4,120)	(301,667)
Deferred rent	78,425	618,641
Other liabilities	(193,994)	77,144
NET CASH PROVIDED BY OPERATING ACTIVITIES	577,174	1,500,079
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturity of investments	1,607,000	2,807,016
Purchases of investments	(2,387,255)	(2,456,175)
Purchases of property and equipment	(53,316)	-
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(833,571)	350,841
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on loan payable	(60,372)	(48,638)
Payments on capital lease obligations	(5,808)	(5,489)
NET CASH USED IN FINANCING ACTIVITIES	(66,180)	(54,127)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(322,577)	1,796,793
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,834,536	1,037,743
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,511,959	\$ 2,834,536
SUPPLEMENTAL CASH FLOW INFORMATION		
Noncash activities:		
Equipment acquired under a capital lease	\$ 13,935	\$ -
Obligation incurred under a capital lease	\$ (13,935)	\$ -
Property and equipment included in accrued expenses	\$ 98,975	\$ -
Undistributed interest and dividends	\$ -	\$ 862

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, 2018 and 2017

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. These activities are funded primarily through grants, contributions and contracts. The Foundation's major program services are as follows:

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 \$100 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 National Resource Center on Lupus, which combined, attract more than seven 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

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2018 and 2017

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

Organization (continued)

awareness 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, regional offices, community ambassadors and local support groups located across 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, 2018 and 2017

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 and an economic life in excess of one year. 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, 2018 and 2017, 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, 2018 and 2017

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

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

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

Donated Services

The Foundation received donated online advertising and media agency services at an estimated fair value of \$170,161 and \$120,000 for the years ended September 30, 2018 and 2017, respectively, which were recorded under the public information and education program in the accompanying statements of activities. In addition, highly qualified volunteers serving on a peer review research committee have donated their time and effort to the Foundation. These contributed services were valued at \$11,400 and \$10,800 for the years ended September 30, 2018 and 2017, respectively, 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.

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Individuals and corporations	\$ 1,855,824	\$ 1,129,455
Wills and bequests	<u>358,500</u>	<u>102,000</u>
Gross Pledges Receivable	2,214,324	1,231,455
Less: Allowance for Doubtful Pledges	<u>(20,000)</u>	<u>(20,000)</u>
Net Pledges Receivable	<u>\$ 2,194,324</u>	<u>\$ 1,211,455</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, 2018 and 2017, the value of the beneficial interest in a perpetual trust was \$269,827 and \$252,450, 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, 2018 and 2017 was a gain of \$17,377 and \$21,027, respectively, and is included as change in value of a perpetual trust held by a trustee in the accompanying statements of activities.

Continued

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

4. Investments

As of September 30, 2018 and 2017, 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, 2018 and 2017, which include restricted investments, are summarized as follows:

	2018	2017
Certificates of deposit	\$ 2,741,755	\$ 1,962,601
Private equity fund (bequeathed)	32,746	32,746
Total Investments	\$ 2,774,501	\$ 1,995,347

For the years ended September 30, 2018 and 2017, investment income consisted of the following:

	2018	2017
Interest and dividends	\$ 40,931	\$ 18,188
Unrealized gains (losses)	(1,101)	136
Net Investment Income	\$ 39,830	\$ 18,324

5. Property and Equipment

Property and equipment consisted of the following as of September 30, 2018 and 2017:

	2018	2017
Leasehold improvements	\$ 1,061,513	\$ 1,061,513
Furniture and office equipment	390,502	670,627
Computer software and website design	597,870	450,933
Capital leases	40,579	26,644
Total Property and Equipment at Cost	2,090,464	2,209,717
Less: Accumulated Depreciation and Amortization	(769,662)	(813,120)
Property and Equipment, Net	\$ 1,320,802	\$ 1,396,597

Depreciation and amortization expense was \$242,021 and \$215,152 for the years ended September 30, 2018 and 2017, respectively.

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

6. Research Grants

During the years ended September 30, 2018 and 2017, the Foundation awarded research grants totaling \$1,279,346 and \$475,536, respectively. Research grants, which had not been paid out during the years ended September 30, 2018 and 2017, totaled \$619,214 and \$623,334, respectively. These research grants are payable over one to five years and were expected to be paid as follows as of September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Amounts payable within one year	\$ 619,214	\$ 523,334
Amounts payable in one to five years	<u>-</u>	<u>100,000</u>
Total Research Grants Payable	<u>\$ 619,214</u>	<u>\$ 623,334</u>

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

During the year ended September 30, 2018, the Foundation awarded multi-year grants of \$4,380,000. A total of \$956,000 was paid under the grants during the year ended September 30, 2018. The remaining \$3,424,000 are considered conditional grants and future grant payments on these grants are contingent upon the grantees' achievement of certain goals and milestones and are not included in grants payable as of September 30, 2018. There were no conditional grants awarded during the year ended September 30, 2017.

7. Operating Leases

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 10-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.

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

7. Operating Leases (continued)

Future minimum lease payments under the lease are as follows:

<u>For the Year Ending</u> <u>September 30,</u>	
2019	\$ 603,945
2020	619,043
2021	634,519
2022	650,383
2023	666,642
Thereafter	<u>4,430,689</u>
Total	<u>\$ 7,605,221</u>

Occupancy expense was \$579,507 and \$558,527 for the years ended September 30, 2018 and 2017, respectively, and is included in occupancy, maintenance and insurance expense in the accompanying statements of functional expenses.

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, 2018 and 2017, the Foundation exceeded the maximum limit insured by FDIC by approximately \$2,205,000 and \$2,192,000, 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 may 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.

Compliance Audit

The Foundation has received federal grants that are subject to review, audit and adjustment by various federal agencies for qualified expenses charged to the grants. Such audits could lead to requests for reimbursement to the federal agencies for any expenditures or claims disallowed under the terms of the agreements. The amount of expenditures which may be disallowed by the federal agencies cannot be determined at this time although the Foundation expects such amounts, if any, to be insignificant.

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

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 matures on May 15, 2019. Amounts drawn on this line accrue interest at the bank's prime rate plus 1% or 6.5% as of September 30, 2018, 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, 2018.

10. Temporarily Restricted Net Assets

At September 30, 2018 and 2017, temporarily restricted net assets were composed of the following:

	2018	2017
Purpose-restricted:		
Research	\$ 560,082	\$ 29,296
LFA REAL System™	180,572	421,370
World Lupus Federation	172,215	155,000
FACTs	124,516	-
Ambassador's Program	102,500	-
MAPRX Coalition	1,886	203,977
Educational Materials Initiative	-	50,000
Total Purpose-Restricted	1,141,771	859,643
Time-restricted:		
New York City Gala	211,880	326,068
Walk for Lupus Now®	185,582	163,202
Corporate Advisory Council	25,000	-
Total Time-Restricted	422,462	489,270
Total Temporarily Restricted Net Assets	\$ 1,564,233	\$ 1,348,913

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.

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

11. Fair Value Measurement (continued)

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.

The following table summarizes the Foundation’s assets measured at fair value on a recurring basis as of September 30, 2018:

	<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	\$ 2,634,455	\$ -	\$ 2,634,455	\$ -
Private equity fund	<u>32,746</u>	<u>-</u>	<u>-</u>	<u>32,746</u>
Total Investments	2,667,201	-	2,634,455	32,746
Restricted investments:				
Certificates of deposit	107,300	-	107,300	-
Beneficial interest in a perpetual trust	<u>269,827</u>	<u>-</u>	<u>-</u>	<u>269,827</u>
Total Assets	<u>\$ 3,044,328</u>	<u>\$ -</u>	<u>\$ 2,741,755</u>	<u>\$ 302,573</u>

Continued

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

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>

As of September 30, 2018 and 2017, 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).

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

11. Fair Value Measurement (continued)

A rollforward of the fair value measurements using unobservable inputs (Level 3) as of September 30, 2018, is as follows:

	Beneficial Interest in Perpetual Trust	Private Equity Fund
Fair value, beginning of year	\$ 252,450	\$ 32,746
Change in value in trust	17,377	-
Fair Value, End of Year	\$ 269,827	\$ 32,746

A rollforward of the fair value measurements using unobservable inputs (Level 3) as of September 30, 2017, is 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

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.

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

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

12. Endowment Funds (continued)

Interpretation of Relevant Law (continued)

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, 2018 and 2017.

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, 2018 and 2017

12. Endowment Funds (continued)

Endowment Funds of the Foundation (continued)

For the year ended September 30, 2018, 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	\$ -	\$ -	\$ 359,750	\$ 359,750
Change in value of a perpetual trust held by a trustee	-	-	17,377	17,377
Investment income	-	3,857	-	3,857
Amounts appropriated for expenditure	-	(3,857)	-	(3,857)
Trustee fees	-	-	-	-
Endowment fund, end of year	\$ -	\$ -	\$ 377,127	\$ 377,127

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	\$ -	\$ -	\$ 359,750	\$ 359,750

	<u>2018</u>	<u>2017</u>
The portion of the permanent endowment funds that is required to be retained permanently, either by explicit donor stipulation or by UPMIFA	\$ 377,127	\$ 359,750

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2018 and 2017

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 \$229,834 and \$151,794 for the years ended September 30, 2018 and 2017, respectively, and is included in salaries and benefits in the accompanying statements of functional expenses.

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>2018</u>	<u>2017</u>
Program	\$ 863,316	\$ 1,219,600
Fundraising	1,459,326	2,067,043
Management and general	<u>27,426</u>	<u>27,775</u>
Total Allocation of Joint Costs	<u>\$ 2,350,068</u>	<u>\$ 3,314,418</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, 2018 and 2017, no provision for income taxes was required, as the Foundation had no significant 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, 2018 and 2017, 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, 2018, the statute of limitations for the tax years ended September 30, 2015 through September 30, 2017 remained 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, 2018 and 2017

15. Income Taxes (continued)

state and local jurisdictions in which the Foundation files tax returns, however, there are currently no audits for any tax periods in progress. It is the Foundation's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax or interest expense. As of September 30, 2018 and 2017, 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 March 5, 2019, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in these financial statements.