

Help Us Solve
The Cruel Mystery

LUPUSTM

FOUNDATION OF AMERICA

Financial Statements

For the Years Ended September 30, 2019 and 2018



**and
Report Thereon**



LUPUS FOUNDATION OF AMERICA, INC.

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For the Years Ended September 30, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Lupus Foundation of America, Inc. (the Foundation), which comprise the statements of financial position as of September 30, 2019 and 2018, 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.

Auditors' 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 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 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, 2019 and 2018, 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.

Marcum LLP

Washington, DC
May 4, 2020

LUPUS FOUNDATION OF AMERICA, INC.

STATEMENTS OF FINANCIAL POSITION
September 30, 2019 and 2018

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 2,296,769	\$ 2,511,959
Accounts receivable, net of allowance for doubtful accounts of \$121,618	452,512	300,862
Pledges receivable, net of allowance for doubtful pledges of \$20,000	1,586,390	2,194,324
Prepaid expenses and deposits	170,881	148,247
Investments	2,990,386	2,667,201
Beneficial interest in a perpetual trust	271,979	269,827
Property and equipment, net of accumulated depreciation and amortization of \$793,286 and \$769,662, respectively	1,151,029	1,320,802
Restricted investments	107,300	107,300
TOTAL ASSETS	\$ 9,027,246	\$ 9,520,522
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,140,575	\$ 1,892,217
Grants payable	859,339	619,214
Loan payable	76,095	138,742
Capital lease obligations	16,055	21,509
Deferred rent	763,316	748,619
Deferred lease incentive	777,947	855,100
TOTAL LIABILITIES	3,633,327	4,275,401
Net Assets		
Without donor restrictions	3,393,054	3,303,761
With donor restrictions	2,000,865	1,941,360
TOTAL NET ASSETS	5,393,919	5,245,121
TOTAL LIABILITIES AND NET ASSETS	\$ 9,027,246	\$ 9,520,522

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, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
Grants and contributions	\$ 5,844,355	\$ 3,020,751	\$ 8,865,106	\$ 5,051,148	\$ 2,568,671	\$ 7,619,819
Wills and bequests	435,534	22,431	457,965	324,820	91,252	416,072
Special events, net of direct benefit costs of \$124,038 and \$128,741, respectively	2,276,958	575,991	2,852,949	2,152,188	506,021	2,658,209
Donated goods program	1,896,241	-	1,896,241	2,645,086	-	2,645,086
Donated services	383,800	-	383,800	181,561	-	181,561
Membership dues	412,672	-	412,672	360,320	-	360,320
Program service revenue	2,291,125	-	2,291,125	2,574,051	-	2,574,051
Royalty income	56,191	-	56,191	8,856	-	8,856
Investment income, net	65,537	2,593	68,130	35,973	3,857	39,830
Change in value of a perpetual trust held by a trustee	-	2,152	2,152	-	17,377	17,377
Other income	137,155	-	137,155	81,570	-	81,570
Net assets released from restrictions:						
Satisfaction of program restrictions	3,141,951	(3,141,951)	-	2,465,211	(2,465,211)	-
Satisfaction of time restrictions	422,462	(422,462)	-	489,270	(489,270)	-
TOTAL REVENUE AND SUPPORT	17,363,981	59,505	17,423,486	16,370,054	232,697	16,602,751
EXPENSES						
Program Services:						
Public information and education	6,960,834	-	6,960,834	5,911,919	-	5,911,919
Research	3,219,669	-	3,219,669	2,790,187	-	2,790,187
Network support and services	3,063,813	-	3,063,813	2,356,224	-	2,356,224
Patient education and support	856,544	-	856,544	929,293	-	929,293
Professional relations and education	72,111	-	72,111	139,035	-	139,035
Total Program Services	14,172,971	-	14,172,971	12,126,658	-	12,126,658
Supporting Services:						
Management and general	1,027,330	-	1,027,330	1,100,099	-	1,100,099
Fundraising	2,074,387	-	2,074,387	2,580,452	-	2,580,452
Total Supporting Services	3,101,717	-	3,101,717	3,680,551	-	3,680,551
TOTAL EXPENSES	17,274,688	-	17,274,688	15,807,209	-	15,807,209
CHANGE IN NET ASSETS	89,293	59,505	148,798	562,845	232,697	795,542
NET ASSETS, BEGINNING OF YEAR	3,303,761	1,941,360	5,245,121	2,740,916	1,708,663	4,449,579
NET ASSETS, END OF YEAR	\$ 3,393,054	\$ 2,000,865	\$ 5,393,919	\$ 3,303,761	\$ 1,941,360	\$ 5,245,121

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, 2019

	Program Services					Supporting Services			Total Expenses	
	Public Information and Education	Research	Network Support and Services	Patient Education and Support	Professional Relations and Education	Total Program Services	Management and General	Fundraising		Total Supporting Services
Salaries and benefits	\$ 2,247,002	\$ 731,952	\$ 1,832,378	\$ 642,238	\$ 30,737	\$ 5,484,307	\$ 562,027	\$ 322,743	\$ 884,770	\$ 6,369,077
Professional services	1,336,224	645,042	146,305	60,934	3,502	2,192,007	213,710	205,510	419,220	2,611,227
Printing, publications and promotions	2,054,638	10,516	97,188	26,136	275	2,188,753	4,055	112,554	116,608	2,305,361
Postage, mailing and shipping	577,634	1,203	24,643	2,882	584	606,946	27,692	1,096,377	1,124,069	1,731,015
Grants and awards	-	1,577,942	31,768	-	-	1,609,710	-	265	265	1,609,975
Conferences, meetings and travel	320,601	143,445	627,961	29,607	26,731	1,148,345	14,755	289,742	304,497	1,452,842
Occupancy, maintenance and insurance	223,355	76,538	205,942	63,781	6,378	575,994	67,015	32,544	99,559	675,553
Supplies, telecommunications and internet	63,541	10,618	39,023	12,288	2,036	127,506	8,924	5,179	14,103	141,609
Other expenses	5,913	811	8,201	676	68	15,669	112,951	473	113,424	129,093
Total Expenses Before Depreciation and Amortization	6,828,908	3,198,067	3,013,409	838,542	70,311	13,949,237	1,011,129	2,065,386	3,076,515	17,025,752
Depreciation and amortization	131,926	21,602	50,404	18,002	1,800	223,734	16,201	9,001	25,202	248,936
TOTAL EXPENSES	\$ 6,960,834	\$ 3,219,669	\$ 3,063,813	\$ 856,544	\$ 72,111	\$ 14,172,971	\$ 1,027,330	\$ 2,074,387	\$ 3,101,717	\$ 17,274,688

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

STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 148,798	\$ 795,542
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	248,936	242,021
Amortization of deferred lease incentive	(77,153)	(77,154)
Loss from write-off of accounts receivable	-	102,899
Loss from disposal of property and equipment	27,187	-
Net unrealized losses (gains)	(626)	1,101
Change in value of perpetual trust held by trustee	(2,152)	(17,377)
Changes in assets and liabilities:		
Accounts receivable	(151,650)	1,750
Pledges receivable	607,934	(982,869)
Prepaid expenses and deposits	(22,634)	85,032
Accounts payable and accrued expenses	(751,642)	545,918
Grants payable	240,125	(4,120)
Deferred rent	14,697	78,425
Other liabilities	-	(193,994)
NET CASH PROVIDED BY OPERATING ACTIVITIES	281,820	577,174
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturity of investments	3,505,000	1,607,000
Purchases of investments	(3,827,559)	(2,387,255)
Purchases of property and equipment	(106,350)	(53,316)
NET CASH USED IN INVESTING ACTIVITIES	(428,909)	(833,571)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on loan payable	(62,647)	(60,372)
Payments on capital lease obligations	(5,454)	(5,808)
NET CASH USED IN FINANCING ACTIVITIES	(68,101)	(66,180)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(215,190)	(322,577)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,511,959	2,834,536
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,296,769	\$ 2,511,959
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

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, 2019 and 2018

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:

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.

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 heard, bringing their perspective into drug development.

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.

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 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

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2019 and 2018

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

Organization (continued)

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.

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.

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 contribution with perpetual donor restrictions 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, U.S. government bonds and money market funds. These assets are not subject to control or direction by the Foundation. Gains and losses, which are not distributed by the trustee, are reflected as the change in value of a perpetual trust held by a trustee in the accompanying statements of activities.

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2019 and 2018

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

Property and Equipment and Depreciation and Amortization

The Foundation capitalizes property and equipment with unit values in excess of \$5,000 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:

- Net assets without donor restrictions represent the portion of expendable funds that are available for any purpose in performing the primary objectives of the Foundation at the discretion of the Foundation's management and the Board of Directors (the Board). From time to time, the Board designates a portion of these net assets for specific purposes, which makes them unavailable for use at management's discretion. The Board has designated \$2,390,000 of net assets without donor restrictions to serve as a reserve to secure the Foundation's long-term financial viability.
- Net assets with donor restrictions represent funds that are specifically restricted by donors for use in various programs and/or for a specific period of time. These donor restrictions can be temporary in nature in that they will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity.

Revenue Recognition

The Foundation receives contributions from its affiliated chapters and the general public. The Foundation reports gifts of cash and other assets as support without donor restrictions 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 – net assets with donor restrictions are reported as a release from net assets with donor restrictions in the accompanying statements of activities.

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2019 and 2018

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

Revenue Recognition (continued)

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 and when the deliverables associated with the payment terms have been met.

Donated Services

The Foundation received donated advertising at an estimated fair value of \$370,000 and \$170,161 for the years ended September 30, 2019 and 2018, 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 \$13,800 and \$11,400 for the years ended September 30, 2019 and 2018, 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 Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of functional expenses. Expenses directly attributed to a specific functional area of the Foundation are reported as expenses of those functional areas, while shared costs that benefit multiple functional areas, such as occupancy, maintenance and insurance, professional services and depreciation and amortization, have been

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

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

Functional Allocation of Expenses (continued)

allocated among the various functional areas based on direct salaries allocated to the specific area. Salary expenses are allocated based on time and effort tracked by time sheets. Costs related to the direct mail campaigns, walks and the household goods solicitation program that qualify under accounting standards as joint costs are allocated based on the portion of the direct mail pieces or activity that is programmatic or fundraising.

New Accounting Pronouncements

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return for nonprofit organizations. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Additionally, on August 28, 2018, FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. The update addresses the inconsistencies in applications of certain fair value measurements by removing certain disclosures, modifying existing disclosures and adding certain disclosures for public entities in an effort to improve the effectiveness of the disclosures and promote consistent use. The Foundation has elected to early implement the ASU and the Foundation has adjusted the presentation of these statements accordingly.

2. Pledges Receivable

All pledges receivable are expected to be received within one year. Pledges receivable consisted of the following as of September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Individuals and corporations	\$ 1,435,030	\$ 1,855,824
Wills and bequests	<u>171,360</u>	<u>358,500</u>
Gross Pledges Receivable	1,606,390	2,214,324
Less: Allowance for Doubtful Pledges	<u>(20,000)</u>	<u>(20,000)</u>
Net Pledges Receivable	<u>\$ 1,586,390</u>	<u>\$ 2,194,324</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, 2019 and 2018, the value of the beneficial interest in a perpetual trust was

Continued

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

3. Beneficial Interest in a Perpetual Trust (continued)

\$271,979 and \$269,827, 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, 2019 and 2018 was a gain of \$2,152 and \$17,377, 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, 2019 and 2018, restricted investments consisted of \$107,300 invested in a certificate of deposit. This represents the principal amount of an endowment fund. The Foundation's investments as of September 30, 2019 and 2018, which include restricted investments, are summarized as follows:

	2019	2018
Certificates of deposit	\$ 2,815,042	\$ 2,741,755
Corporate bonds	249,898	-
Private equity fund (bequeathed)	32,746	32,746
Total Investments	\$ 3,097,686	\$ 2,774,501

For the years ended September 30, 2019 and 2018, investment income consisted of the following:

	2019	2018
Interest and dividends, net	\$ 67,504	\$ 40,931
Unrealized gains (losses)	626	(1,101)
Net Investment Income	\$ 68,130	\$ 39,830

5. Property and Equipment

Property and equipment consisted of the following as of September 30, 2019 and 2018:

	2019	2018
Leasehold improvements	\$ 1,061,513	\$ 1,061,513
Furniture and office equipment	390,502	390,502
Computer software and website design	464,221	597,870
Capital leases	28,079	40,579
Total Property and Equipment at Cost	1,944,315	2,090,464
Less: Accumulated Depreciation and Amortization	(793,286)	(769,662)
Property and Equipment, Net	\$ 1,151,029	\$ 1,320,802

Depreciation and amortization expense was \$248,936 and \$242,021 for the years ended September 30, 2019 and 2018, respectively.

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LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

6. Research Grants

During the years ended September 30, 2019 and 2018, the Foundation awarded research grants totaling \$1,577,942 and \$1,279,346, respectively. Research grants, which had not been paid out during the years ended September 30, 2019 and 2018, totaled \$859,339 and \$619,214, respectively. These research grants are payable over one to five years and were expected to be paid as follows as of September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Amounts payable within one year	\$ 579,339	\$ 619,214
Amounts payable in one to five years	<u>280,000</u>	<u>-</u>
Total Research Grants Payable	<u>\$ 859,339</u>	<u>\$ 619,214</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 \$231,200 and \$956,000 was paid under the grants during the years ended September 30, 2019 and 2018. One of the grants with \$400,000 remaining was terminated in 2019. The remaining \$2,792,800 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, 2019. There were no additional conditional grants awarded during the year ended September 30, 2019.

7. Operating Lease

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.

Occupancy expense was \$578,447 and \$579,507 for the years ended September 30, 2019 and 2018, 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, 2019 and 2018

7. Operating Lease (continued)

Future minimum lease payments under the lease are as follows:

<u>For the Year Ending</u> <u>September 30,</u>	
2020	\$ 619,043
2021	634,519
2022	650,383
2023	666,642
2024	683,308
Thereafter	<u>3,747,381</u>
Total	<u>\$ 7,001,276</u>

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, 2019 and 2018, the Foundation exceeded the maximum limit insured by FDIC by approximately \$1,691,000 and \$2,205,000, 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.

9. Line of Credit

The Foundation had a \$500,000 line of credit with a financial institution that matured in May 2019. The line of credit was renewed on May 5, 2019 with a limit of \$300,000. The line of credit does not have an expiration date. Amounts drawn on this line accrue interest at the bank's prime rate plus 1.75% or 6.5% as of September 30, 2019, 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, 2019.

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LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

10. Net Assets

Net Assets Without Donor Restrictions

The Foundation's net assets without donor restrictions are composed of undesignated amounts and board-designated amounts for a working capital reserve. As of September 30, 2019 and 2018, the Foundation's net assets without donor restrictions were as follows:

	2019	2018
Undesignated – operating	\$ 1,003,054	\$ 913,761
Board-designated – reserve fund	2,390,000	2,390,000
Total Net Assets Without Donor Restrictions	\$ 3,393,054	\$ 3,303,761

Net Assets With Donor Restrictions

As of September 30, 2019 and 2018, net assets with donor restrictions were restricted for the following purposes or periods:

	2019	2018
Subject to purpose restriction:		
Research	\$ 420,061	\$ 560,082
MAPRX Coalition	210,015	1,886
Ambassador's Program	176,270	102,500
FACTs	123,276	124,516
Educational Materials Initiative	66,160	-
ALPHA	46,830	-
CLASI	41,482	-
Adios Lupus	16,736	-
World Lupus Federation	5,052	172,215
LFA REAL System™	3,004	180,572
Total Subject to Purpose Restriction	1,108,886	1,141,771
Subject to occurrence of specified events/passage of time:		
New York City Gala	225,750	211,880
Walk for Lupus Now®	286,950	185,582
Corporate Advisory Council	-	25,000
Total Subject to Occurrence of Specified Events/Passage of Time	512,700	422,462
Perpetual in nature, earnings from which are subject to endowment spending policy and appropriation:	379,279	377,127
Total Net Assets With Donor Restrictions	\$ 2,000,865	\$ 1,941,360

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LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

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 as 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, 2019:

	<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	\$ 2,707,742	\$ -	\$ 2,707,742	\$ -
Corporate bonds	249,898	-	249,898	-
Private equity fund	<u>32,746</u>	<u>-</u>	<u>-</u>	<u>32,746</u>
Total Investments	2,990,386	-	2,957,640	32,746
Restricted investments:				
Certificates of deposit	107,300	-	107,300	-
Beneficial interest in				
a perpetual trust	<u>271,979</u>	<u>-</u>	<u>-</u>	<u>271,979</u>
Total Assets	<u>\$ 3,369,665</u>	<u>\$ -</u>	<u>\$ 3,064,940</u>	<u>\$ 304,725</u>

Continued

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

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, 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>

As of September 30, 2019 and 2018, 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.

Corporate bonds – Estimated fair value is determined by utilizing a yield-based matrix system.

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, 2019 and 2018

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 net assets with donor restrictions (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 earnings from the donor-restricted endowment fund is classified as net assets with donor restrictions 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. The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under the law. There were no such deficiencies as of September 30, 2019 and 2018.

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

12. Endowment Funds (continued)

Endowment Funds of the Foundation

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

For the years ended September 30, 2019 and 2018, the donor-restricted endowment fund had the following activity:

Endowment net assets, September 30, 2017	\$ 359,750
Change in value of perpetual trust	17,377
Investment income	3,857
Amount appropriated for expenditure	<u>(3,857)</u>
Endowment net assets, September 30, 2018	377,127
Change in value of perpetual trust	2,152
Investment income	2,593
Amount appropriated for expenditure	<u>(2,593)</u>
Endowment net assets, September 30, 2019	<u>\$ 379,279</u>

13. Availability of Resources and Liquidity

The Foundation regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. The Foundation's financial assets available within one year of the statement of financial position date for general expenditures at September 30, 2019, were as follows:

Cash and cash equivalents	\$ 2,296,769
Accounts receivable due in one year	332,907
Pledges receivable	1,586,390
Investments redeemable in one year	2,957,640
Beneficial interest in perpetual trust	271,979
Restricted investments	<u>107,300</u>
Total Financial Assets	7,552,985
Less:	
Amounts unavailable for general expenditures within one year due to donor's restriction	(1,488,165)
Amounts unavailable for general expenditures within one year without Board approval	<u>(2,390,000)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 3,674,820</u>

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LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

13. Availability of Resources and Liquidity (continued)

The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents, receivables and investments, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of the Foundation throughout the year. This is done through monitoring and reviewing the Foundation's cash flow needs on a regular basis. As a result, management is aware of the cyclical nature of the Foundation's cash flow related to the Foundation's various funding sources and is therefore able to ensure that there is cash available to meet current liquidity needs. As part of its liquidity plan, excess cash is invested in certificates of deposit and corporate bonds. The Foundation can liquidate its investments anytime, other than those held in perpetuity, and therefore the investments are available to meet current cash flow needs. To help manage unanticipated liquidity needs, the Foundation has a committed line of credit of \$300,000, which is available to draw upon as needed. Additionally, the Foundation has board-designated net assets that could be available for current operations with Board approval.

14. 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 \$268,928 and \$229,834 for the years ended September 30, 2019 and 2018, respectively, and is included in salaries and benefits in the accompanying statements of functional expenses.

15. 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>2019</u>	<u>2018</u>
Program	\$ 1,553,912	\$ 863,316
Fundraising	1,404,298	1,459,326
Management and general	<u>23,434</u>	<u>27,426</u>
Total Allocation of Joint Costs	<u>\$ 2,981,644</u>	<u>\$ 2,350,068</u>

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LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

16. 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, 2019 and 2018, 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, 2019 and 2018, 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, 2019, the statute of limitations remained open with the U.S. federal jurisdiction or the various 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, 2019 and 2018, the Foundation had no accruals for interest and/or penalties.

17. Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 4, 2020, the date the financial statements were available to be issued. Except as described below, there were no subsequent events that require recognition or disclosure in these financial statements.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic that continues to spread throughout the United States international communities. The Foundation is monitoring the outbreak of COVID-19 and the related business and travel restrictions and changes to behavior intended to reduce its spread, in addition to the impact on its employees. Due to the rapid development and fluidity of this situation, the magnitude and duration of the pandemic and its impact on the Foundation's operations and liquidity is uncertain as of the date of this report. While there could ultimately be a material impact on operations and liquidity of the Foundation, at the time of issuance, the impact could not be determined.

On April 22, 2020, the Foundation's Small Business Administration loan application under the Paycheck Protection Program (PPP) for the amount of \$975,100 has been approved by a financial institution. The loan will mature in April 2022 with a fixed interest rate at 1% per annum. The payments of principal and interest are deferred during the first six months of the loan, with the first monthly installment on November 22, 2020 through the maturity. The loan amount may be eligible for forgiveness pursuant to the PPP, which minimally requires at least 75% of the loan proceeds cover payroll costs and the remainder be used for rent and utility

LUPUS FOUNDATION OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2019 and 2018

17. Subsequent Events (continued)

costs over a period of eight weeks after the loan was made; and the number of employees and compensation levels are maintained. The PPP note includes events of default. Upon the occurrence of an event of default, the Lender will have the right to exercise remedies against the Foundation, including the right to require immediate repayments of all amounts due under the PPP note.