

LUPUS LA

FINANCIAL STATEMENTS

JUNE 30, 2016

CONTENTS

Independent Auditors' Report	1-2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-11

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Lupus LA

Report on the Financial Statements

We have audited the accompanying financial statements of Lupus LA (a nonprofit organization), which comprise the Statement of Financial Position as of June 30, 2016, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lupus LA as of June 30, 2016, 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.

INDEPENDENT AUDITORS' REPORT

continued

Other Matter

Summarized Comparative Information

We have previously audited Lupus LA's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 25, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harrington Group

Pasadena, California
October 4, 2016

LUPUS LA

STATEMENT OF FINANCIAL POSITION

June 30, 2016

With comparative totals at June 30, 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 239,520	\$ 358,515
Pledges receivable (Note 3)	28,204	130,475
Prepaid expenses	29,496	15,019
Property and equipment (Note 4)	36,574	38,478
TOTAL ASSETS	<u>\$ 333,794</u>	<u>\$ 542,487</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 9,163	\$ 127,969
Accrued liabilities (Note 5)	18,330	8,180
TOTAL LIABILITIES	<u>27,493</u>	<u>136,149</u>
NET ASSETS		
Unrestricted	306,301	315,706
Temporarily restricted (Note 7)	-	90,632
TOTAL NET ASSETS	<u>306,301</u>	<u>406,338</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 333,794</u>	<u>\$ 542,487</u>

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

LUPUS LA

STATEMENT OF ACTIVITIES
 For the year ended June 30, 2016
 With comparative totals for the year ended June 30, 2015

	Unrestricted	Temporarily Restricted	2016	2015
REVENUE AND SUPPORT				
Special event net of expenses of \$461,432	\$ 559,412	\$ -	\$ 559,412	\$ 683,544
Memorials	79,047		79,047	71,023
Foundation		30,100	30,100	37,000
Major donors	15,000	3,000	18,000	365,000
Corporate	16,500		16,500	1,750
Other income	11,666		11,666	9,976
In-kind contributions			-	35,000
Net assets released from purpose restrictions	123,732	(123,732)	-	-
TOTAL REVENUE AND SUPPORT	805,357	(90,632)	714,725	1,203,293
EXPENSES				
Program services	618,792		618,792	878,773
Support services	121,380		121,380	109,330
Fundraising	74,590		74,590	88,511
TOTAL EXPENSES	814,762	-	814,762	1,076,614
CHANGE IN NET ASSETS	(9,405)	(90,632)	(100,037)	126,679
NET ASSETS, BEGINNING OF YEAR	315,706	90,632	406,338	279,659
NET ASSETS, END OF YEAR	\$ 306,301	\$ -	\$ 306,301	\$ 406,338

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

LUPUS LA

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2016

With comparative totals for the year ended June 30, 2015

	Program	Support		Total Expenses	
	Services	Services		Fundraising	2016
Salaries	\$ 265,645	\$ 45,595	\$ 44,864	\$ 356,104	\$ 318,268
Payroll taxes and benefits	59,754	10,497	10,497	80,748	66,193
Total personnel costs	<u>325,399</u>	<u>56,092</u>	<u>55,361</u>	<u>436,852</u>	<u>384,461</u>
Program expenses	183,736			183,736	481,784
Occupancy	54,920	9,648	9,648	74,216	67,294
Bank charges		27,260		27,260	17,186
Accounting		18,075		18,075	9,576
Consultants	10,504	1,845	1,845	14,194	54,053
Office	10,387	1,825	1,825	14,037	12,391
Telephone, internet, and fax	6,553	1,151	1,151	8,855	8,695
Depreciation	6,529	1,147	1,147	8,823	2,179
Copier lease	3,814	670	670	5,154	1,761
Board meeting	3,550	624	624	4,798	-
Insurance	3,088	542	542	4,172	4,152
Printing	2,740	481	481	3,702	8,991
Website	2,093	368	368	2,829	13,158
Equipment and software purchases	1,562	274	274	2,110	1,361
Meals	1,471	258	258	1,987	4,299
Postage and delivery	1,168	205	205	1,578	1,052
Dues and subscriptions	992	174	174	1,340	2,402
Taxes and license		724		724	337
Travel and transportation	188			188	855
Staff training	98	17	17	132	627
TOTAL 2016 FUNCTIONAL EXPENSES	<u><u>\$ 618,792</u></u>	<u><u>\$ 121,380</u></u>	<u><u>\$ 74,590</u></u>	<u><u>\$ 814,762</u></u>	
TOTAL 2015 FUNCTIONAL EXPENSES	<u><u>\$ 878,773</u></u>	<u><u>\$ 109,330</u></u>	<u><u>\$ 88,511</u></u>		<u><u>\$ 1,076,614</u></u>

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

LUPUS LA

STATEMENT OF CASH FLOWS

For the year ended June 30, 2016

With comparative totals for the year ended June 30, 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (100,037)	\$ 126,679
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	8,823	2,179
Donation of fixed assets	-	(35,000)
(Increase) decrease in operating assets:		
Pledges receivable	102,271	(90,943)
Prepaid expenses	(14,477)	(3,277)
Increase (decrease) in operating liabilities:		
Accounts payable	(118,806)	54,039
Accrued liabilities	10,150	8,180
	(112,076)	61,857
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(6,919)	(5,657)
	(6,919)	(5,657)
 NET (DECREASE) INCREASE IN CASH	(118,995)	56,200
 CASH, BEGINNING OF YEAR	358,515	302,315
 CASH, END OF YEAR	\$ 239,520	\$ 358,515

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

LUPUS LA

NOTES TO FINANCIAL STATEMENTS

1. **Organization**

Lupus LA promotes lupus research, awareness, and education, and serves the needs of people with lupus and their families in Los Angeles County.

Lupus LA was founded in 2000 by Daniel J. Wallace, MD, a renowned physician and author and attending physician in the division of rheumatology at Cedars-Sinai Medical Center and a clinical professor of medicine at UCLA's David Geffen School of Medicine. Under his guidance, Lupus LA offers monthly support groups, as well as education programs and workshops throughout Los Angeles County.

Committed to the hope and demonstrated promise of innovative science, Lupus LA partners with the Lupus Research Institute ("LRI") to fund novel lupus research that will prevent, treat, and cure the complex disease.

With the power of Hollywood and the strength of its volunteer leadership, Lupus LA raises lupus awareness throughout the United States. Its fundraising events harness the might of the media and entertainment industries to spread the word about lupus and its symptoms and dangers, and the need for safe and effective new treatments and a cure.

2. **Summary of Significant Accounting Policies**

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Lupus LA maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted. These generally result from revenue generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

2. **Summary of Significant Accounting Policies**, continued

Temporarily Restricted. Lupus LA reports gifts of cash and other assets as temporarily 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 the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions. Lupus LA had no temporarily restricted net assets at June 30, 2016.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit Lupus LA to expend all of the income (or other economic benefits) derived from the donated assets.

Contributions and Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs – quoted prices in active markets for identical assets

Level 2 inputs – quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs – estimates using the best information available when there is little or no market

Lupus LA is required to measure pledged contributions and contributed materials or services at fair value. The specific techniques used to measure the fair value for these financial statement elements are described in the notes below that relate to each element.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to one thousand dollars and the useful life is greater than one year.

2. Summary of Significant Accounting Policies, continued

Donated Material and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are measured on a non-recurring basis and recorded at fair value in the period received (see Note 8).

Income Taxes

Lupus LA is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by Lupus LA in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. Lupus LA's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

Costs of providing Lupus LA's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through October 4, 2016, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

LUPUS LA

NOTES TO FINANCIAL STATEMENTS

3. Pledges Receivable

Pledges receivable are recorded as support when pledged unless designated otherwise. Management deemed pledges collectible; accordingly no allowance for doubtful accounts has been established for uncollectible pledges. Additionally, all pledges are valued at their estimated fair value at June 30, 2016. Discount on pledges receivables is immaterial, accordingly unamortized discount on pledges receivable is not recorded. Total amount of pledges receivable at June 30, 2016, of \$28,204 is expected to be collected within the year.

4. Property and Equipment

Property and equipment at June 30, 2016 consist of the following:

Equipment	\$ 40,656
Furniture	<u>6,919</u>
	47,575
Less: accumulated depreciation	<u>(11,001)</u>
	<u>\$ 36,574</u>

Depreciation expense for the year ended June 30, 2016 was \$8,823.

5. Accrued Liabilities

Accrued liabilities at June 30, 2016 consist of the following:

Accrued vacation	\$16,480
Other accrued liabilities	<u>1,850</u>
	<u>\$18,330</u>

6. Commitments and Contingencies

Obligations Under Operating Leases

Lupus LA leases office space and equipment under operating leases with various terms. Future minimum payments, which does not include payments on year-to-year leases, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

<u>Year ended June 30,</u>	
2017	\$ 76,269
2018	78,938
2019	81,701
2020	84,560
2021	<u>57,844</u>
	<u>\$379,312</u>

continued

LUPUS LA

NOTES TO FINANCIAL STATEMENTS

7. Temporarily Restricted Net Assets

Funds that are restricted by the donor for particular purposes are deemed to be earned and are reported as temporarily restricted when received. As the funds are spent, the assets are released from restriction and transferred to unrestricted net assets. Temporarily restricted net assets as of June 30, 2016 were \$0.

During the year ended June 30, 2016, Lupus LA released \$123,732 from purpose restrictions.

8. Fair Value Measurements

The table below present transactions measured at fair value on a non-recurring basis during the year ended June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledged contributions – current year	<u>\$ -</u>	<u>\$ -</u>	<u>\$65,661</u>	<u>\$65,661</u>

The fair value of contributed equipment has been measured on a non-recurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

The fair value of pledged contributions – current year has been measured on a non-recurring basis using the value provided by the donor at the date of pledge and based on evaluating the credit worthiness of the donor (Level 3 inputs).