

LUPUS LA

FINANCIAL STATEMENTS

JUNE 30, 2014

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Certified Public Accountants, LLP

INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

To the Board of Directors
Lupus LA

We have compiled the accompanying Statement of Financial Position of Lupus LA (a nonprofit organization) as of June 30, 2014, and the related Statements of Activities, Functional Expenses, and Cash Flows for the five months ended June 30, 2014. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Harrington Group

Pasadena, California
September 18, 2014

LUPUS LA

STATEMENT OF FINANCIAL POSITION

June 30, 2014

Assets	
Cash	\$ 302,315
Pledges receivable (Note 3)	39,532
Prepaid expenses	11,742
	<hr/>
Total assets	\$ 353,589
	<hr/> <hr/>
Liabilities and net assets	
Liabilities	
Accounts payable	\$ 73,930
	<hr/>
	73,930
	<hr/>
Net Assets	
Unrestricted	199,659
Temporarily restricted (Note 4)	80,000
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Total net assets	279,659
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Total liabilities and net assets	\$ 353,589
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See accompanying notes and accountants' compilation report.

LUPUS LA

STATEMENT OF ACTIVITIES

For the five months ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support			
Special event net of expenses of \$191,709	\$ 357,222	\$ -	\$ 357,222
Major donors	115,000	80,000	195,000
In-kind contributions (Note 5)	45,495		45,495
Memorials	38,912		38,912
Foundation	25,000		25,000
Corporate		17,000	17,000
Net assets released from program restrictions	17,000	(17,000)	-
	<u>598,629</u>	<u>80,000</u>	<u>678,629</u>
Total revenue and support			
	598,629	80,000	678,629
Expenses			
Program services	347,679		347,679
Support services	45,260		45,260
Fundraising	35,915		35,915
	<u>428,854</u>	<u>-</u>	<u>428,854</u>
Total expenses			
	428,854	-	428,854
Change in net assets	169,775	80,000	249,775
Net assets, beginning of year	<u>29,884</u>		<u>29,884</u>
Net assets, end of year	<u>\$ 199,659</u>	<u>\$ 80,000</u>	<u>\$ 279,659</u>

See accompanying notes and accountants' compilation report.

LUPUS LA

STATEMENT OF FUNCTIONAL EXPENSES

For the five months ended June 30, 2014

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 69,964	\$ 17,552	\$ 18,124	\$ 105,640
Payroll taxes and benefits	15,420	3,972	3,972	23,364
Total personnel costs	85,384	21,524	22,096	129,004
Program expenses	162,596			162,596
In-kind expenses	45,495			45,495
Consultants	23,678	6,099	6,099	35,876
Occupancy	16,442	4,235	4,235	24,912
Telephone, internet, and fax	3,922	1,010	1,010	5,942
Bank charges		5,321		5,321
Office	3,097	799	799	4,695
Accounting		4,484		4,484
Printing	1,490	384	384	2,258
Equipment and software	1,364	351	351	2,066
Website	1,008	260	260	1,528
Insurance	861	222	222	1,305
Meals	843	217	217	1,277
Copier lease	579	149	149	877
Travel and transportation	557			557
Dues and subscriptions	273	70	70	413
Postage and delivery	90	23	23	136
Taxes and license		112		112
Total functional expenses	\$ 347,679	\$ 45,260	\$ 35,915	\$ 428,854

See accompanying notes and accountants' compilation report.

LUPUS LA

STATEMENT OF CASH FLOWS For the five months ended June 30, 2014

Cash flows from operating activities:	
Change in net assets	\$ 249,775
Changes in operating assets and liabilities:	
(Increase) in pledges receivable	(39,532)
(Increase) in prepaid expenses	(11,742)
Increase in accounts payable	<u>3,814</u>
Net cash provided by operating activities	<u>202,315</u>
Net increase in cash	202,315
Cash, beginning of year	<u>100,000</u>
Cash, end of year	<u><u>\$ 302,315</u></u>

See accompanying notes and accountants' compilation report.

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.

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 services at fair value. The specific techniques used to measure the fair value for each element are described in the notes below that relate to each element.

Donated 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 5).

2. Summary of Significant Accounting Policies, continued

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 September 18, 2014, the date which the financial statements were available.

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, 2014. Discount on pledges receivables is immaterial, accordingly unamortized discount on pledges receivable is not recorded. Total amount of pledges receivable at June 30, 2014, of \$39,532 is expected to be collected within the year.

LUPUS LA

NOTES TO FINANCIAL STATEMENTS

4. 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 available for the pediatric fellowship program as of June 30, 2014 were \$80,000.

During the five months ended June 30, 2014, Lupus LA released \$17,000 from program restrictions.

5. In-Kind Contributions and Expense

Lupus LA received pro-bono legal services. The established fair value of legal services received for the five months ended June 30, 2014 amounted to \$45,495 and was based upon the number of hours contributed at appropriate billing rates and has been recorded as an in-kind contribution and expense.

6. Fair Value Measurements

The table below present transactions measured at fair value on a non-recurring basis during the five months ended June 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed services	\$ -	\$45,495	\$ -	\$45,495
Pledged contributions – current year	<u> </u>	<u> </u>	<u>39,532</u>	<u>39,532</u>
	<u>\$ -</u>	<u>\$45,495</u>	<u>\$39,532</u>	<u>\$85,027</u>

The fair value of contributed services 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 are 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).