

**LUPUS FOUNDATION OF AMERICA,  
TEXAS GULF COAST CHAPTER, INC.  
AUDITED FINANCIAL STATEMENTS**

**December 31, 2016 and 2015**

**LUPUS FOUNDATION OF AMERICA,  
TEXAS GULF COAST CHAPTER, INC.**

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**Reimer, McGuinness & Associates, PC**

**CPAs & Advisors**

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Lupus Foundation of America,  
Texas Gulf Coast Chapter, Inc.  
Houston, Texas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Lupus Foundation Of America-Gulf Coast Chapter which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lupus Foundation of America, Gulf Coast Chapter as of December 31, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Reimer, McGuinness & Associates, P.C*

Houston, Texas  
May 5, 2017

## **FINANCIAL STATEMENTS**

**LUPUS FOUNDATION OF AMERICA,  
TEXAS GULF COAST CHAPTER, INC.  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 181,689	\$ 140,957
Investments	145,446	143,447
Pledges receivable, net of allowance	14,825	24,496
<b>Total Current Assets</b>	<b>341,960</b>	<b>308,900</b>
 <b>PROPERTY AND EQUIPMENT</b>		
Computer and equipment	21,841	21,841
Less: Accumulated depreciation	(21,841)	(21,841)
<b>Property and Equipment, Net</b>		
<b>TOTAL ASSETS</b>	<b>\$ 341,960</b>	<b>\$ 308,900</b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 492	\$ 2,369
Accrued payroll	5,500	5,500
<b>Total Current Liabilities</b>	<b>5,992</b>	<b>7,869</b>
 <b>TOTAL LIABILITIES</b>	 <b>5,992</b>	 <b>7,869</b>
 <b>NET ASSETS</b>		
Unrestricted net assets	335,968	301,031
<b>Total Net Assets</b>	<b>335,968</b>	<b>301,031</b>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <b>\$ 341,960</b>	 <b>\$ 308,900</b>

See independent auditors' report and notes to the financial statements.

**LUPUS FOUNDATION OF AMERICA,  
TEXAS GULF COAST CHAPTER, INC.  
STATEMENTS OF ACTIVITIES  
FOR YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>UNRESTRICTED NET ASSETS</b>		
<b>REVENUES</b>		
Special events		
Gala	\$ 113,801	\$ 73,241
Less: Direct expenses	<u>(39,238)</u>	<u>(44,253)</u>
Net proceeds	74,563	28,988
Lupus Walk	242,484	296,907
Less: Direct expenses	<u>(48,610)</u>	<u>(42,669)</u>
Net proceeds	193,874	254,238
Total Special events net proceeds	268,437	283,226
Other events	100,697	13,839
Contributions	63,709	84,688
Investment return, net	<u>3,961</u>	<u>3,327</u>
<b>TOTAL UNRESTRICTED REVENUES AND GAINS</b>	436,804	385,080
 <b>TOTAL UNRESTRICTED REVENUES AND GAINS AND OTHER SUPPORT</b>	 436,804	 385,080
 <b>EXPENSES</b>		
General and administrative	63,432	58,860
Program expenses	325,063	313,283
Fundraising expenses	<u>13,371</u>	<u>15,825</u>
<b>TOTAL EXPENSES</b>	401,866	387,967
 <b>INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS</b>	 34,938	 (2,887)
 <b>INCREASE (DECREASE) IN NET ASSETS</b>	 34,938	 (2,887)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>301,031</u>	<u>303,918</u>
<b>NET ASSETS AT END OF YEAR</b>	<u><u>\$ 335,968</u></u>	<u><u>\$ 301,031</u></u>

See independent auditors' report and notes to the financial statements.

**LUPUS FOUNDATION OF AMERICA  
TEXAS GULF COAST CHAPTER, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<b>PROGRAM SERVICES</b>	<b>GENERAL AND ADMINISTRATIVE</b>	<b>FUNDRAISING</b>	<b>TOTAL</b>
Accounting Fees	\$	\$	15,500	\$ 15,500
Bank/Credit Card/Payroll Fees		18,876		18,876
Business Insurance	1,299	1,564		2,863
Conference & Meetings	1,824			1,824
Contract Assistance				
Depreciation Expense				
Dues/Memberships	53			53
Equipment Rental & Maintenance	7,572	630	195	8,397
Food and Entertainment				
Grants to Patients	42,412			42,412
Lupus Research	10,020			10,020
Fees and Licenses	696			696
Salaries and related expenses	155,597	24,651	8,531	188,779
Permits				
Postage & Delivery	5,217	614	307	6,138
Printing & Publications	3,823			3,823
Contract Labor				
Rent	20,332	1,130	1,130	22,592
Supplies	2,043	139	139	2,322
Miscellaneous Costs	(33)			(33)
Technology Equipment/Supplies	1,040	58	58	1,155
Telephone & ISP	4,877	270	271	5,418
Travel & Mileage	1,310			1,310
Volunteer Recognition	4,202			4,202
General Lupus Awareness	24,658			24,658
Fundraising Expenses			2,740	2,740
LFA National Dues	38,122			38,122
<b>Total</b>	<b>\$ 325,063</b>	<b>\$ 63,432</b>	<b>\$ 13,371</b>	<b>\$ 401,866</b>

See independent auditors' report and notes to the financial statements.



**LUPUS FOUNDATION OF AMERICA  
TEXAS GULF COAST CHAPTER, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<b>PROGRAM SERVICES</b>	<b>GENERAL AND ADMINISTRATIVE</b>	<b>FUNDRAISING</b>	<b>TOTAL</b>
Accounting Fees	\$	\$	11,000	\$ 11,000
Bank/Credit Card/Payroll Fees		19,478		19,478
Business Insurance	1,243	1,498		2,741
Conference & Meetings	1,873			1,873
Contract Assistance				
Depreciation Expense				
Dues/Memberships	117			117
Equipment Rental & Maintenance	8,151	678	210	9,041
Food and Entertainment				
Grants to Patients	34,832			34,832
Lupus Research				
Fees and Licenses	721			721
Salaries and related expenses	150,738	23,788	8,302	182,828
Permits	223		25	248
Postage & Delivery	5,974	703	351	7,028
Printing & Publications	3,143			3,143
Contract Labor	9,100			9,100
Rent	20,775	1,154	1,154	23,083
Supplies	1,076	73	73	1,223
Miscellaneous Costs	267			267
Technology Equip/Supplies	4,296	239	239	4,773
Telephone & ISP	4,477	249	249	4,974
Travel & Mileage	3,532			3,532
Volunteer Recognition	2,395			2,395
General Awareness	17,778			17,778
Fundraising expenses			5,222	5,222
LFA National Dues	42,572			42,572
<b>Total</b>	<b>\$ 313,283</b>	<b>\$ 58,860</b>	<b>\$ 15,825</b>	<b>\$ 387,968</b>

See independent auditors' report and notes to the financial statements.

**LUPUS FOUNDATION OF AMERICA  
TEXAS GULF COAST CHAPTER, INC.  
STATEMENTS OF CASH FLOWS  
FOR YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ 34,938	\$ (2,887)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Unrealized gain (loss) on investments	(327)	1,373
Increase in operating assets		
Prepayment decrease to National Chapter		8,984
Increase (decrease) to receivable from gala	9,671	(10,796)
Decrease in operating liabilities		
Accounts payable	(1,878)	(1,126)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	42,404	(4,452)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of securities		150
Purchases of securities	(1,671)	(2,660)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	(1,671)	(2,510)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	40,732	(6,962)
<b>BEGINNING CASH AND CASH EQUIVALENTS</b>	140,957	147,919
<b>ENDING CASH AND CASH EQUIVALENTS</b>	\$ 181,689	\$ 140,957

See independent auditors' report and notes to the financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

***Lupus Foundation of America, Texas Gulf Coast Chapter, Inc.***  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

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**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

Organization

The Lupus Foundation of America, Texas Gulf Coast Chapter, Inc. (the Foundation) is a nonprofit corporation organized in 1984 to improve the diagnosis and treatment of lupus, support individuals and families affected by the disease, increase awareness of lupus among health professionals and the public, and encourage research to discover the causes and cure of lupus. The Foundation is affiliated with The Lupus Foundation of America. The service area consists of 49 counties in the Texas Gulf Coast and El Paso areas. The services provided include an information and referral line, brochures, educational programs, support groups, physician referral, quarterly newsletters, and public awareness and community outreach. The Foundation is supported through membership and public contributions.

Federal income tax status

The Foundation is exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §170(b)(1)(A)(vi). The Foundation files an annual Form 990 information report with the Internal Revenue Service. Currently, reports for tax years December 31, 2012 through 2016 are open to examination by the Internal Revenue Service. The Foundation is current with all filings.

Net asset classification

Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or future time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.
- *Permanently restricted net assets* are resources subject to donor imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Foundation.

The Foundation currently has no temporarily or permanently restricted net assets.

Cash and cash equivalents

The Foundation considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

*Lupus Foundation of America, Texas Gulf Coast Chapter, Inc.*  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

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**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – continued**

Pledges receivable

Pledges that are expected to be collected within one year are recorded at net realizable value, which approximates fair value. Amounts expected to be collected in more than one year are discounted, if material, to estimate the present value of future cash flows. At December 31, 2016, there was \$14,825 in pledges outstanding. As of December 31, 2015 there was \$24,496 in pledges outstanding.

Management monitors pledges receivable for collectability. When pledges are likely to not be received, it becomes necessary to adjust the allowance for doubtful receivables and associated uncollectible pledge expense. The allowance was zero at both December 31, 2016 and 2015. There was no uncollectible pledge expense for the years ended December 31, 2016 and 2015.

Property and equipment

It is the Foundation's policy to capitalize property and equipment over \$5,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose.

Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Property and equipment are depreciated using the straight-line method.

Investments

Investments are recorded at fair value, with changes in fair value reflected in current period earnings.

Contributions

Contributions are recorded as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are recorded as restricted revenue. Conditional contributions are recognized in the same manner when the conditions are substantially met.

*Lupus Foundation of America, Texas Gulf Coast Chapter, Inc.*  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

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**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – continued**

Contributed materials and services

Contributed materials and services are recorded as revenue at fair value when an unconditional commitment is received from the donor. The related expense is recorded as the item is used or when the service is provided. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the years ended December 31, 2016 and 2015 the Foundation recognized contributed materials of \$25,718 and \$31,465, respectively. These amounts are included in Special Events revenue in the Statements of Activities.

Statement of cash flows

For purposes of supplemental disclosures of cash paid for interest and income taxes, the Foundation paid none for the years ended December 31, 2016 and 2015.

Estimates

Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenues and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Risks and uncertainties

The Foundation's investments are held in a brokerage account that is insured by the Securities Investor Protection Corporation. Securities in this account are subject to market risk in the form of decline in value, potentially up to the total value of the investments. Management does not believe that current holdings are likely to undergo significant decline in value, and monitors the investments to ensure that the Foundation does not experience significant losses.

Subsequent events

Subsequent events have been evaluated through May 5, 2017, which is the date the financial statements were issued.

Reclassification adjustments

Certain prior year balances have been reclassified to conform to the current year presentation.

***Lupus Foundation of America, Texas Gulf Coast Chapter, Inc.***

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016 and 2015**

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**NOTE 2 - INVESTMENTS**

Investments at December 31, 2016 and 2015 consist of the following:

	<b>2016</b>	<b>2015</b>
Mutual Funds	\$ 145,446	\$ 143,447
Total Investments	<u>\$ 145,446</u>	<u>\$ 143,447</u>
Investment return consists of the following:		
Dividends and interest	\$ 3,634	\$ 4,700
Unrealized (loss) on investments	<u>327</u>	<u>(1,373)</u>
Investment return, net	<u>\$ 3,961</u>	<u>\$ 3,327</u>

During the year ended December 31, 2016 the Foundation did not sell securities. During the year ended December 31, 2015 the Foundation sold securities with a cost basis of \$150 for a net realized gain of \$0.

**NOTE 3 – FAIR VALUE MEASUREMENTS**

The Foundation follows *Accounting Standards Codification (ASC) 820: Fair Value Measurements and Disclosures*, which among other things, requires enhanced disclosures about assets and liabilities that are measured and reported at fair value. ASC 820 establishes a hierarchal disclosure framework which prioritizes the inputs to valuation techniques used to measure fair value. The hierarchal disclosure framework which prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy established under ASC 820 gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to observable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted, quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 – Inputs, excluding those included in Level 1, are either observable prices for identical assets or liabilities in active markets, observable prices for similar assets and liabilities, or other inputs derived principally from, or corroborated by, observable market data at the measurement date.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

*Lupus Foundation of America, Texas Gulf Coast Chapter, Inc.*

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016 and 2015**

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**NOTE 3 – FAIR VALUE MEASUREMENTS – continued**

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016.

Mutual funds are valued at the net asset value (NAV) of shares held by the Foundation at year end.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2016:

	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Mutual Funds	\$ 145,446	\$	\$
Total Assets at Fair Value	\$ 145,446	\$	\$

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2015:

	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Mutual Funds	\$ 143,447	\$	\$
Total Assets at Fair Value	\$ 143,447	\$	\$

All of the Foundation's investments are widely traded mutual funds, and are categorized as Level 1 at both December 31, 2016 and 2015.



*Lupus Foundation of America, Texas Gulf Coast Chapter, Inc.*

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016 and 2015**

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**NOTE 4-PROPERTY AND EQUIPMENT**

Property and equipment are depreciated using the straight-line method. Computers and equipment are depreciated over useful lives of three to seven years.

**NOTE 5 - OPERATING LEASES**

The Foundation leases office space and equipment under noncancellable operating leases that expire in 2021. Lease expense under these agreements was approximately \$30,989 and \$32,123 for the years ended December 31, 2016 and 2015, respectively. Future minimum lease payments are as follows:

2017	30,674
2018	31,157
2019	25,921
2020	26,485
2021 and thereafter	<u>4,428</u>
Total	<u>\$ 118,663</u>

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