

Spondylitis Association of America

Financial Statements

June 30, 2017



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's 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 - 15



INDEPENDENT AUDITOR'S REPORT

To the Finance Committee
Spondylitis Association of America
Van Nuys, California

We have audited the accompanying financial statements of Spondylitis Association of America (a California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of June 30, 2017, 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.

Auditor's 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 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 Spondylitis Association of America as of June 30, 2017, 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.

Correction of Error

As discussed in Note 7 to the financial statements, certain errors resulting in understatement of property and equipment and overstatement of functional expenses as of June 30, 2016, were discovered by management of the Organization during the current year. Accordingly, an adjustment has been made to net assets as of June 30, 2016, to correct the error. Our opinion is not modified with respect to that matter.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
Woodland Hills, California

November 29, 2017

Spondylitis Association of America
Statement of Financial Position
June 30, 2017

ASSETS

Current assets		
Cash and cash equivalents		\$ 384,497
Investments		2,129,789
Pledges receivable		129,500
Prepaid and other current assets		<u>8,208</u>
Total current assets		2,651,994
Property and equipment, net		122,922
Deposits		<u>5,441</u>
Total assets		<u><u>\$ 2,780,357</u></u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable		\$ 75,710
Accrued vacation		<u>32,641</u>
Total current liabilities		<u>108,351</u>
Commitment (Note 9)		
Net assets		
Unrestricted		
General		1,684,457
Board-designated fund		<u>342,826</u>
Total unrestricted		2,027,283
Temporarily restricted		<u>644,723</u>
Total net assets		<u>2,672,006</u>
Total liabilities and net assets		<u><u>\$ 2,780,357</u></u>

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

Spondylitis Association of America
Statement of Activities
For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, gains and other support			
Corporate and foundation contributions	\$ 805,156	\$ 344,250	\$ 1,149,406
Individual contributions	516,865	-	516,865
Program revenue	6,118	-	6,118
Interest income	25,145	-	25,145
Realized and unrealized gains on investments	4,665	-	4,665
Net assets released from restriction	<u>220,833</u>	<u>(220,833)</u>	<u>-</u>
Total revenues, gains and other support	<u>1,578,782</u>	<u>123,417</u>	<u>1,702,199</u>
Functional expenses			
Program services			
Biomarker Research	50,000	-	50,000
NIH Collaboration Unmet Needs	22,660	-	22,660
Patient Life Impact	60,475	-	60,475
Physicians Education (MRI, Rheumatology)	78,644	-	78,644
Patient Conferences, Education and Support	<u>777,141</u>	<u>-</u>	<u>777,141</u>
Total program services	<u>988,920</u>	<u>-</u>	<u>988,920</u>
Support services			
Management and general	232,635	-	232,635
Fundraising	<u>79,499</u>	<u>-</u>	<u>79,499</u>
Total support services	<u>312,134</u>	<u>-</u>	<u>312,134</u>
Total functional expenses	<u>1,301,054</u>	<u>-</u>	<u>1,301,054</u>
Change in net assets	277,728	123,417	401,145
Net assets, beginning of year (Note 7)	<u>1,749,555</u>	<u>521,306</u>	<u>2,270,861</u>
Net assets, end of year	<u>\$ 2,027,283</u>	<u>\$ 644,723</u>	<u>\$ 2,672,006</u>

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

Spondylitis Association of America
Statement of Functional Expenses
For the Year Ended June 30, 2017

	Biomarker Research	NIH Collaboration Unmet Needs	Patient Life Impact	Physicians Education (MRI, Rheumatology)	Patient Conferences, Education and Support	Total Program Services	Management and General	Fundraising	Total Support Services	Total
Personnel expenses										
Salaries	\$ -	\$ 15,350	\$ 14,500	\$ 12,500	\$ 407,950	\$ 450,300	\$ 104,812	\$ 56,575	\$ 161,387	\$ 611,687
Payroll taxes	-	1,450	1,375	1,120	30,203	34,148	8,175	4,413	12,588	46,736
Employee benefits	-	100	100	250	22,906	23,356	6,289	3,394	9,683	33,039
Total personnel expenses	-	16,900	15,975	13,870	461,059	507,804	119,276	64,382	183,658	691,462
Medical research grants	50,000	-	-	-	-	50,000	-	-	-	50,000
Administrative	-	-	-	1,233	25,367	26,600	16,540	1,343	17,883	44,483
Communication and website	-	-	-	3,866	133,489	137,355	600	-	600	137,955
Depreciation and amortization	-	-	-	-	16,325	16,325	950	-	950	17,275
Design and printing	-	-	-	-	27,141	27,141	2,044	1,849	3,893	31,034
Legal and accounting	-	-	-	-	-	-	62,212	-	62,212	62,212
Medical and scientific conferences	-	-	-	6,099	15,639	21,738	-	555	555	22,293
Postage	-	25	-	-	23,585	23,610	8,638	1,013	9,651	33,261
Professional services	-	-	40,000	26,000	22,576	88,576	16,875	-	16,875	105,451
Rent	-	4,500	4,500	9,500	38,926	57,426	5,500	4,500	10,000	67,426
State licensing	-	-	-	-	6,374	6,374	-	-	-	6,374
Travel	-	1,235	-	18,076	6,660	25,971	-	5,857	5,857	31,828
	<u>\$ 50,000</u>	<u>\$ 22,660</u>	<u>\$ 60,475</u>	<u>\$ 78,644</u>	<u>\$ 777,141</u>	<u>\$ 988,920</u>	<u>\$ 232,635</u>	<u>\$ 79,499</u>	<u>\$ 312,134</u>	<u>\$ 1,301,054</u>

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

Spondylitis Association of America
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash flows from operating activities	
Change in net assets	\$ 401,145
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Depreciation	17,275
Realized and unrealized gains on investments	(4,665)
Donated stock	(16,381)
Changes in operating assets and liabilities	
Pledges receivable	(102,500)
Prepaid expenses	(223)
Accounts payable	11,519
Accrued vacation	4,324
Net cash provided by operating activities	<u>310,494</u>
Cash flows from investing activities	
Proceeds from sales of investments	1,115,807
Purchase of investments	(1,294,408)
Purchases of property and equipment	(1,546)
Website development costs	(71,460)
Net cash used in investing activities	<u>(251,607)</u>
Net increase in cash and cash equivalents	58,887
Cash and cash equivalents, beginning of year	<u>325,610</u>
Cash and cash equivalents, end of year	<u>\$ 384,497</u>

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

Spondylitis Association of America
Notes to Financial Statements
June 30, 2017

1. NATURE OF OPERATIONS

Spondylitis Association of America (the "Organization") is a California tax-exempt nonprofit corporation dedicated to advancing education, research and treatment for ankylosing spondylitis and related diseases. As a patient advocacy organization, the Organization seeks to improve the lives of those affected through information, support and connection to community.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income tax status

The Organization is a nonprofit public benefit corporation organized under the laws of California and, as such, is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and corresponding state provisions.

The Organization's federal income tax and informational returns for tax years ended June 30, 2013 and subsequent remain subject to examination by the Internal Revenue Service. The returns for California, the Organization's only state tax jurisdiction, remain subject to examination by the California Franchise Tax Board for tax years ended June 30, 2012 and subsequent.

Basis of accounting and financial statement presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

- *Unrestricted net assets, general* - Include contributions, fundraising, fees, sales and other forms of revenue that are not restricted by the donor or grantor as well as expenditures related to the general operations of the organization.
- *Unrestricted net assets, board-designated* - Include unrestricted net assets the Organization's Board of Directors has designated as the Jane Bruckel Research Fund. This fund is to be used at the discretion of the Board of Directors for medical research related to ankylosing spondylitis.
- *Temporarily restricted net assets* - Include contributions that are temporarily restricted by the donor or grantor. When the restriction is met or expires, the net assets of this classification are reclassified to unrestricted net assets.
- *Permanently restricted net assets* - Include contributions that have been restricted by the donor in perpetuity. There were no permanently restricted net assets at June 30, 2017.

Spondylitis Association of America
Notes to Financial Statements
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

Concentration of risk

Occasionally the Organization's cash balances exceed FDIC-insured limits. The Organization has not experienced and does not anticipate any losses related to these balances.

The Organization has two major funding sources that each comprise approximately 13% of its contribution revenue during the year. Two major funding sources comprised 69% and 21% of the pledge receivable balance, respectively, as of June 30, 2017. Though the Organization is subject to business risks associated with the level of charitable giving in both the private and public sectors based on general economic conditions, the Organization anticipates this funding will continue at the present level.

Cash and cash equivalents

The Organization considers all highly-liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments

Investments are monitored by the members of the finance committee and are stated at fair value. Unrealized gains and losses are recognized aggregately. Realized gains and losses are recognized immediately and are computed using the specific identification method.

The Organization's Board of Directors has limited the use of investments such that the investment principal cannot be used unless approved by a vote of 75% of the Board of Directors present at a meeting.

ASC Topic *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP, and expands disclosures about fair value measurements. Under this topic, the Organization must report its investments at fair value among three categories of price inputs available. These categories of inputs are quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3). At June 30, 2017, all investments were considered to be Level 1 (see Note 3).

Spondylitis Association of America
Notes to Financial Statements
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pledges receivables

Pledges receivable consists of unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. All pledges receivable were expected to be collected within one year.

Property and equipment

Purchases of property and equipment are recorded at cost. Donated items are recorded at fair value when received. Depreciation and amortization on both purchased and donated items are recorded using the straight-line method over the shorter of the estimated useful life of the related asset or the term of the lease for leasehold improvements as follows:

Depreciation and amortization of property and equipment is computed using the straight-line method over the following estimated useful lives:

Furniture and equipment	5 - 7 years
Website development costs	5 years

Normal repairs and maintenance are expensed as incurred, whereas significant charges that materially increase values or extend useful lives are capitalized and depreciated over the estimated useful lives of the related assets.

Impairment of long-lived assets

Management reviews each asset or asset group for impairment whenever events or circumstances indicate the carrying value of an asset or asset group may not be recoverable, but at least annually. No impairment provision was recorded by the Organization during the year.

Revenue recognition

Contributions consist of donations from solicitations of foundations, corporations, individuals and the general public. Contributions are recognized when pledged to the Organization by the donor.

Functional expenses

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated accordingly.

Spondylitis Association of America
Notes to Financial Statements
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

The Organization has evaluated events subsequent to June 30, 2017, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through November 29, 2017, the date the financial statements were available to be issued. Based upon this evaluation, it was determined no subsequent events occurred that require recognition or additional disclosure in the financial statements.

3. INVESTMENTS

Investments consist of the following:

Certificates of deposit	\$ 1,896,381
Equity mutual funds	<u>233,408</u>
	<u>\$ 2,129,789</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ 1,896,381	\$ -	\$ -	\$ 1,896,381
Equity mutual funds	<u>233,408</u>	<u>-</u>	<u>-</u>	<u>233,408</u>
	<u>\$ 2,129,789</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,129,789</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Website development costs	\$ 125,370
Furniture and equipment	<u>54,472</u>
	179,842
Accumulated depreciation and amortization	<u>(56,920)</u>
	<u>\$ 122,922</u>

Depreciation and amortization expense for the year ended June 30, 2107 was \$4,738 and \$12,537, respectively.

Spondylitis Association of America
Notes to Financial Statements
June 30, 2017

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets during the year are as follows:

	<u>Released from Restrictions</u>	<u>Balance, June 30, 2017</u>
Patient education and seminars	\$ (47,435)	\$ 51,891
Patient registry	-	11,041
Unmet needs conference	(1,260)	167,290
Early detection training	(26,487)	44,281
Research	(50,000)	318,234
Webinars	(313)	1,986
Website development	(55,338)	-
Life impact of spondylitis study	(40,000)	50,000
	<u>\$ (220,833)</u>	<u>\$ 644,723</u>

6. ENDOWMENT

The Organization's endowment consists of several individual funds established to fund the continued research of spondylitis. Its endowment includes only board-designated endowment funds. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Organization's Board of Directors has interpreted the 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 Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

Spondylitis Association of America
Notes to Financial Statements
June 30, 2017

6. ENDOWMENT (continued)

Interpretation of relevant law (continued)

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Return objectives and risk parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the Organization diversifies its investments, subject to practicality constraints, among a variety of asset classes so as to provide a balance that will enhance total real return while avoiding undue risk concentration within any single asset class or investment category.

Strategies employed for achieving objectives

The Organization's investment policy, subject to direct oversight by the Board Finance Committee, and review and approval of the Board states:

Board-Designated funds represent a long term source of financial support for activities related to research for ankylosing spondylitis ("AS") and related diseases. The ultimate objective of the investment program will be to preserve the value of the Jane Bruckel Research Fund ("JBRF") after inflation and after spending. The Board recognizes that a long term investment program meeting this objective will require taking market risk in the portfolio, and that taking such risk could cause losses in the portfolio. The investment policy for the JBRF calls for target allocation of 70% to public equities, 25% to fixed incomes and 5% to real assets.

Spondylitis Association of America
Notes to Financial Statements
June 30, 2017

6. ENDOWMENT (continued)

Spending policy

Under the current policy adopted in October 2007 by the Board of Directors, spending from the JBRF shall be for AS-related research purposes and the amount shall be based on a percentage of the average market value of JBRF assets in the fund, calculated over 12 quarters. Spending shall typically be 5% of the average market value of 12 quarters, although the Board may designate more or less based on its assessment of opportunities available for expenditures from the fund. All earnings of the endowment funds not withdrawn shall be reinvested. Endowment Funds invested in connection with the Jane Bruckel Research Fund (as described in Notes 2 and 3) will be spent in compliance with the grant requirements.

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ 342,826</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 342,826</u>

Changes in endowment net assets for the fiscal year ended June 30, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, beginning of year	<u>\$ 164,206</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 164,206</u>
Investment return				
Reinvested interest income	3,567	-	-	3,567
Reinvested dividend income	3,397	-	-	3,397
Taxable interest	418	-	-	418
Unrealized gains	<u>13,238</u>	<u>-</u>	<u>-</u>	<u>13,238</u>
Total investment return	20,620	-	-	20,620
Fund additions	<u>158,000</u>	<u>-</u>	<u>-</u>	<u>158,000</u>
	<u>178,620</u>	<u>-</u>	<u>-</u>	<u>178,620</u>
Balance, end of year	<u>\$ 342,826</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 342,826</u>

Spondylitis Association of America
Notes to Financial Statements
June 30, 2017

7. PRIOR PERIOD ADJUSTMENT OF NET ASSETS

During the year ended June 30, 2017, the Organization corrected an error and restated net assets at the beginning of the year. The Organization previously recorded certain website development costs as functional expenses. Upon further analysis, management determined that these costs should have been capitalized and not expensed. The Organization then restated the net assets at June 30, 2016 by reclassifying the amounts to property and equipment.

The effect of the correction of the error on the June 30, 2016 financial statements is as follows:

	<u>As Originally Reported</u>	<u>Effect of Change</u>	<u>As Restated</u>
Statement of financial position			
Property and equipment	\$ 13,281	\$ 53,910	\$ 67,191
Statement of activities			
Program services	\$ 1,076,362	\$ (53,910)	\$ 1,022,452

The net assets corrected as of June 30, 2016 is:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Balance, June 30, 2016 as originally reported	\$ 1,695,645	\$ 521,306	\$ 2,216,951
Correction of Website Development costs	<u>53,910</u>	<u>-</u>	<u>53,910</u>
Balance, June 30, 2016 as restated	<u>\$ 1,749,555</u>	<u>\$ 521,306</u>	<u>\$ 2,270,861</u>

8. RETIREMENT PLAN

The Organization's employees may participate in an IRC section 403(b) retirement savings plan, established by the Organization. The plan is funded solely by employee contributions to the plan, pursuant to a salary reduction agreement.

Spondylitis Association of America
Notes to Financial Statements
June 30, 2017

9. COMMITMENT

The Organization entered into a five-year operating lease agreement to rent its office facilities expiring August 31, 2020. The lease agreement requires a minimum monthly lease payment plus a pro-rata share of building operation costs. Rent expense for the year ended June 30, 2017 totaled \$67,426.

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year Ending June 30,</u>	
2018	\$ 74,697
2019	76,938
2020	79,246
2021	<u>13,604</u>
	<u>\$ 244,485</u>