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Spondylitis Association of America
(A Nonprofit California Corporation)

Financial Statements
(With Independent Auditors' Report)

June 30, 2011

SPONDYLITIS ASSOCIATION OF AMERICA
(A Nonprofit California Corporation)

Statement of Financial Position

June 30, 2011

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Assets

Cash and cash equivalents	\$ 582,067
Investments, at market value (note 3)	1,205,128
Grants receivable (note 4)	15,000
Accounts receivable	10,500
Prepaid expenses	8,289
Property, at cost (note 2)	
Furniture and equipment	112,607
Less: accumulated depreciation	<u>(93,530)</u>
Net property	<u>19,077</u>
Deposits	<u>5,441</u>
Total Assets	\$ <u>1,845,502</u>

Liabilities and Net Assets

Accounts payable	\$ 28,085
Accrued vacation	21,610
Commitments (note 8)	<u> </u>
Total Liabilities	<u>49,695</u>
Net assets:	
Unrestricted net assets	1,342,809
Board designated fund (note 5)	101,174
Temporarily restricted net assets (note 6)	<u>351,824</u>
Total Net Assets	<u>1,795,807</u>
Total Liabilities and Net Assets	\$ <u>1,845,502</u>

See accompanying notes to financial statements.

SPONDYLITIS ASSOCIATION OF AMERICA
(A Nonprofit California Corporation)

Statement of Activities

Year ended June 30, 2011

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Changes in unrestricted net assets:

Revenue and Support:

Contributions	\$ 475,916
Corporate and foundation grants	331,845
Program revenue	21,786
Interest income	13,545
Realized and unrealized gain on investments	<u>13,461</u>
Total unrestricted revenue	856,553

Net assets released from restrictions:

Satisfaction of program restrictions	<u>353,237</u>
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Total unrestricted revenue and other support 1,209,790

Expenses:

Salaries	549,107
Employee benefits	40,094
Payroll taxes	<u>45,250</u>
Total salaries and related expenses	634,451

Office and administration	65,969
Medical research consulting	29,520
Physician education	50,844
Patient education	62,373
Legal and accounting	57,149
Rent	61,502
Medical conferences presented	107,821
Travel	28,742
Postage	45,761
Printing	50,860
Outreach	22,829
Depreciation	<u>9,730</u>

Total expenses 1,227,551

Decrease in unrestricted net assets (17,761)

Changes in temporarily restricted net assets:

Corporate and foundation grants	239,300
Net assets released from restrictions	<u>(353,237)</u>

Decrease in temporarily restricted net assets (113,937)

Total decrease in net assets (131,698)

Net assets, beginning of year 1,927,505

Net assets, end of year \$ 1,795,807

See accompanying notes to financial statements.

**SPONDYLITIS ASSOCIATION OF AMERICA
(A Nonprofit California Corporation)**

Statement of Cash Flows

Year ended June 30, 2011

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CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (131,698)
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	9,730
Net realized and unrealized gain on investments	(13,461)
Decrease (Increase) in operating assets:	
Grants receivable	205,450
Accounts receivable	(10,500)
Prepaid expenses	6,811
Increase (Decrease) in operating liabilities:	
Accounts payable	19,842
Accrued expenses	<u>(2,815)</u>
Net cash provided by operating activities	<u>83,359</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of furniture and equipment	(7,210)
Sale of investments	1,300,900
Purchase of investments	<u>(1,304,436)</u>
Net cash used in investing activities	<u>(10,746)</u>
Net increase in cash	72,613
Cash, beginning	<u>509,454</u>
Cash, ending	\$ <u>582,067</u>

Supplemental disclosure of cash flow information – cash paid during the year for interest.	\$ <u> -</u>
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See accompanying notes to financial statements.

SPONDYLITIS ASSOCIATION OF AMERICA
(A Nonprofit California Corporation)

Notes to Financial Statements

June 30, 2011

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(1) Purpose and Activities

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

(2) Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Organization have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America. Accordingly, income is recognized as earned and expenses incurred, regardless of timing of payments.

Revenue Recognition

The Organization follows provisions of FASB *ASC 958-605-25, Not for Profit Entity Revenue Recognition*. In accordance with this provision SAA reports contributions of cash as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires because the stipulated time restriction ends or the purpose restriction is accomplished, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. General support received under grants is recorded when unconditionally promised by the grantor.

Depreciation

Additions and improvements that materially extend the life of assets are capitalized. Depreciation is provided over the estimated useful lives of the depreciable assets on a straight-line basis. Buildings are depreciated over forty years. Furniture and equipment are depreciated over five years. Leasehold improvements are capitalized and depreciated over the remaining term of the lease. The estimated life of the assets for depreciation purposes may be different than their actual economic useful lives.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Government Contracts

Revenue from contracted services is recognized as support in accordance with the terms of the contract.

SPONDYLITIS ASSOCIATION OF AMERICA
(A Nonprofit California Corporation)

Notes to Financial Statements, Continued

June 30, 2011

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(2) Summary of Significant Accounting Policies, Continued

Income Taxes

SAA is exempt from Federal and California income taxes under Section 501(c)(3) of the Internal Revenue code and corresponding California provisions. However, the Organization could be subject to Federal and California tax on unrelated business income, if any, as stipulated in IRC Section 511.

Management has determined that the application of FASB *Accounting Standards Codification (ASC) 740, Accounting for Uncertainty In Income Taxes*, does not impact the operations of SAA, as under current Federal and state laws, SAA is not subject to income taxes and does not have any income that it believes would be subject to unrelated business income tax, as defined. Accordingly, no provision has been made for taxes in the accompanying financial statements.

Contracts and Grants Receivable

SAA does not maintain an allowance for uncollectible amounts because receivables primarily consist of grants and contracted government reimbursement requests. If any amounts become uncollectible, they will be charged to operations when that determination is made. GAAP requires that an allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method. Management believes all receivables to be collectible at June 30, 2011.

Business and Credit Concentrations

SAA derived approximately 43% of its revenue from general public contributions, and 52% from corporation and foundation grants for the year ended June 30, 2011. 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's cash and cash equivalents are maintained in bank deposit accounts and a brokerage account, which at times may exceed federally insured limits. The balance varies throughout the year. SAA has exposure to credit risk to the extent its cash and cash equivalents exceed the limits established by the federal deposit insurance corporation and the security investor protection corporation. The Organization has not experienced any losses in such accounts. At June 30, 2011, uninsured balance approximates \$24,000 based on the actual bank balance. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

Statement of Cash Flows

For purposes of the statement of cash flows, SAA considers all highly liquid investments, with an original maturity date of three months or less, to be cash equivalents.

Cash paid for the following as of June 30, 2011:

Income taxes: None

SPONDYLITIS ASSOCIATION OF AMERICA
(A Nonprofit California Corporation)

Notes to Financial Statements, Continued

June 30, 2011

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(2) Summary of Significant Accounting Policies, Continued

Investments

Investments are reported at their fair value in the statement of financial position in accordance with *Not-for-Profit Entities* topic of the FASB Accounting Standards Codification. Investment income or losses (including interest, dividends, realized and unrealized gains or losses on investments) are included in the statement of activities as increases or decreases in unrestricted assets unless the income or loss restricted by explicit donor stipulations or by law.

Fair Value Measurements

The accounting topic for Fair Value Measurements and disclosures provides a framework for the measuring the fair value of assets and liabilities under GAAP and establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The fair value hierarchy can be summarized as follows:

- Level 1 – Fair value determined based on quoted prices in active markets for identical assets or liabilities.
- Level 2 – Fair value determined using significant observable inputs, such as quoted prices for similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data, by correlation or other means.
- Level 3 – Fair value determined using significant unobservable inputs such as pricing models, discounted cash flows, or similar techniques.

Assets or liabilities fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The table below indicates the level of fair value inputs used in measuring investments on a recurring basis as of June 30, 2011:

<u>Investments:</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificates of Deposit	\$ 1,093,954	\$ 1,093,954	\$ -	\$ -
Equity Mutual Funds	111,174	111,174	-	-
Total	\$ 1,205,128	\$ 1,205,128	\$ -	\$ -

Subsequent Events

SAA has evaluated subsequent events that have occurred from June 30, 2011 through December 27, 2011, which is the date that the financial statements were issued, and determined that there were no subsequent events or transactions that required recognition or disclosure in the financial statements.

SPONDYLITIS ASSOCIATION OF AMERICA
(A Nonprofit California Corporation)

Notes to Financial Statements, Continued

June 30, 2011

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(3) Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the statement of activities. At June 30, 2011, the fair market values of investments, classified by type, are as follows:

Certificates of Deposit	\$ 1,093,954
Equity Mutual Fund	<u>111,174</u>
Total	\$ <u>1,205,128</u>

Certificates of Deposit have maturity dates ranging between October, 2011 through October, 2015; with interest rates ranging from 0.25% to 3.05%.

(4) Grants Receivable

Grants receivable at June 30, 2011 consist of the following amounts:

Centocor Ortho Biotech, Inc.	\$ <u>15,000</u>
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(5) Board Designated Net Assets

In March 2006, the Board of Directors established the "Jane Bruckel Research Fund," as a Board designated fund. These funds are to be used at the discretion of the board for medical research related to ankylosing spondylitis.

(6) Restrictions on Net Assets

Temporarily restricted net assets at June 30, 2011, are available for the following purposes:

Development of diagnostic procedures	\$ 30,876
Patient education and seminars	46,812
Needs assessment survey	31,500
Ankylosing spondylitis self-management App	32,500
Medical research	20,000
Physicians education	50,000
Spartan physicians medical conference	<u>140,136</u>
Total	\$ <u>351,824</u>

SPONDYLITIS ASSOCIATION OF AMERICA
(A Nonprofit California Corporation)

Notes to Financial Statements, Continued

June 30, 2011

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(7) Functional Expenses

Functional expenses for the year ended June 30, 2011 are allocated as follows:

Program Services	\$ 1,002,324
Management and General	171,641
Fundraising	<u>53,586</u>
Total	\$ <u>1,227,551</u>

(8) Commitments

SSA entered into a five-year and one-half month operating lease agreement to rent its office facilities effective June 15, 2010 through June 30, 2015. The lease agreement requires a minimum monthly lease payment of \$4,800, subject to annual increases in base year rent to \$5,441 throughout the lease term plus a pro-rata share of building operation costs. Rent expense for the year ending June 30, 2011 totaled \$61,502.

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**SPONDYLITIS ASSOCIATION OF AMERICA
(A Nonprofit California Corporation)**

Statement of Functional Expenses

Year ended June 30, 2011

	<u>Research</u>	<u>Public Education</u>	<u>Patient Services</u>	<u>Professional Education</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Totals</u>
Salaries	55,850	165,675	181,891	13,900	417,316	97,860	33,931	549,107
Employee benefits	4,077	12,094	13,278	1,015	30,464	7,144	2,486	40,094
Payroll taxes	4,608	13,668	15,006	1,097	34,379	8,073	2,798	45,250
Total salaries and related expense	64,535	191,437	210,175	16,012	482,159	113,077	39,215	634,451
Office and administration	5,283	27,446	14,947	-	47,676	16,020	2,273	65,969
Medical research consulting	10,000	19,520	-	-	29,520	-	-	29,520
Physician education	50,844	-	-	-	50,844	-	-	50,844
Patient education	-	59,373	3,000	-	62,373	-	-	62,373
Legal and accounting	147	22,500	19,500	-	42,147	15,002	-	57,149
Rent	9,940	20,387	17,375	-	47,702	11,850	1,950	61,502
Medical conferences presented	77,644	1,220	28,957	-	107,821	-	-	107,821
Travel	9,704	4,022	12,527	-	26,253	600	1,889	28,742
Postage	1,793	16,888	13,626	458	32,765	9,069	3,927	45,761
Printing	10,839	26,038	7,682	-	44,559	4,248	2,053	50,860
Outreach	399	20,743	-	-	21,142	-	1,687	22,829
Depreciation	1,100	5,103	1,160	-	7,363	1,775	592	9,730
Total expenses	<u>242,228</u>	<u>414,677</u>	<u>328,949</u>	<u>16,470</u>	<u>1,002,324</u>	<u>171,641</u>	<u>53,586</u>	<u>1,227,551</u>

See accompanying notes to financial statements.

SPONDYLITIS ASSOCIATION OF AMERICA

AJEs

6-30-11

A-2

Description	W/P Ref	Statement of Position		Statement of Activities	
		DR	CR	DR	CR
<1>	B-5				
700 - Unrealized loss				1,258.83	
XXX - Realized loss		1,248.43		39.14	
106 - Investment (Crowell, Weedon)					
118 - Investment - Contra			1,258.83		
109 - Investment (Vanguard)			39.14		
701 - Investment expense					1,248.43
To correct investment accounts at year end					
<2>	I-2				
Depreciation expense				9,730	
Accumulated depreciation			9,730		
To record depreciation exp for the CY					
<3>	X-2				
Temporarily Restricted Net Assets		202,338			
BOD Designated Net Assets			21,979		
Unrestricted Net Assets			180,359		
To Correct ending net assets					

**SPONDYLITIS ASSOCIATION OF AMERICA
STATEMENT OF FINANCIAL POSITION
6-30-11**

Description	W/P Ref.	Balance per Books @6-30-11	TM #	DR	AJES	CR	Adjusted Balance @6-30-11	#	DR	RUES	CR	Final Balance @6-30-11	Prior Yr's Balance @6-30-10		
ASSETS															
Cash	B-1	235,489					235,489	<A>				582,067	509,454	72,613	
Investment		1,551,755	<I>	1,249	<I>		1,298			1,551,706		1,205,128	1,188,131	16,997	
Grants receivable	E-1	15,000					15,000					15,000	220,450	(205,450)	
Other receivable	E-1	5,500					5,500			5,000		10,500	0	10,500	
Prepaid expense	C-1	8,289					8,289					8,289	15,100	(6,811)	
Furniture & Equipment	I-1	112,607					112,607					112,607	105,397	7,210	
Accumulated Depreciation	I-1	(83,800)			<2>		9,730			(93,530)		(93,530)	(83,800)	(9,730)	
Deposits	J-1	5,441					5,441					5,441	5,441	0	
Total Assets		1,850,281		1,249			11,028		1,840,502		351,578	346,578	1,845,502	1,960,173	
LIABILITIES															
Accounts Payable	N-1	23,085					23,085					28,085	8,243	19,842	
Accrued Vacation	N-1	21,610					21,610					21,610	24,425	(2,815)	
Total Liabilities		44,695					0		44,695			5,000	49,695	32,668	
NET ASSETS															
Unrestricted	U-1	1,172,229					11,028			<3>		1,249	1,342,809	1,382,548	(39,739)
Board designated		79,195					79,195			<3>		21,979	101,174	79,195	21,979
Temporarily restricted		554,162	<3>				202,338			<3>		351,824	351,824	(113,938)	
Total Net Assets		1,805,586					213,366		203,587			1,795,807	1,927,505	(131,698)	
Total Liabilities & Net Assets		1,850,281		213,366			203,587		1,840,502		0	5,000	1,845,502	1,960,173	

Tickmarks:
 * Per PV's WPs
 / Agreed to G/L

SPONDYLITIS ASSOCIATION OF AMERICA
REVENUE
 6-30-11

X-1

Description	W/P Ref.	Balance Per Books @6-30-11	TM #	DR	AJES CR	Adjusted Balance @6-30-11	#	DR	RJES CR	Final Balance @6-30-11	Prior Yr's Balance @6-30-10	Δ ↑	Analytical Comments
Foundation grant	X-4	121,845				121,845				121,845	117,711	4,134	Comparable to PY and CY budget; further TW NCN
Corporation (special projects)	X-4	107,500				107,500				107,500	176,490	(68,990)	Timing difference; Abbott contract for \$67,950 received in PY for CY, none in CY
Corporation (partners)	X-4	235,000				235,000				235,000	190,000	45,000	Centoor and Abbott contributed more
Corporation (spartan)	X-4	106,800				106,800				106,800	210,500	(103,700)	Timing difference; Funds for both PY and CY conferences received in PY
Individual		470,282				470,282				470,282	466,882	4,400	Comparable to PY and CY budget; further TW NCN
Board Designated - Jane Brucker Research Fund		2,925				2,925				2,925	1,260	1,665	\$2K unsolicited donation in CY
Car Donation Program		2,709				2,709				2,709	1,939	770	Comparable to PY and CY budget; further TW NCN
Publication sales		21,786				21,786				21,786	25,462	(3,676)	No new products to sell (books, dvd, etc)
Interest / dividends	X-3	13,545				13,545				13,545	26,615	(13,070)	Considerably lower interest rates
Realized loss on sale of investmt	B-5	0	<1>	39		(39)				(39)	0	(39)	Immaterial; pass further TW
Unrealized (Loss)/Gain	B-5	16,344	<1>	1,259		15,085	<8>	1,585		13,500	1,604	11,896	Market fluctuations
Miscellaneous income (Admin)		68,244				68,244	<A>	68,244		0	0	0	Comparable to PY and CY budget; further TW NCN
Total Revenue	X-5	1,166,980		1,298	0	1,166,682		69,829	0	1,095,853	1,217,463	(121,610)	
			U-1										

Remarks:
 Per PY's WPS
 Agreed to GIL

**SPONDYLITIS ASSOCIATION OF AMERICA
EXPENSES
6-30-11**

Description	W/P Ref	Balance Per Books @6-30-11	TW	#	DR	ALES CR	Adjusted Balance @6-30-11	#	DR	RIES CR	Final Balance @6-30-11	Prior Yr's Balance @6-30-10	Δ	↑	↓	Analytical Comments		
Salaries	Y-100	551,922					551,922				551,922	519,255	32,667					
Vacation expense	N-4	(2,815)					(2,815)				(2,815)	5,256	(8,071)				Director of Fund Development w/ high vac accrual was terminated	
Payroll tax	Y-100	45,250					45,250				45,250	42,008	3,242				Comparable increase in salary	
Health Insurance	C-2	35,253					35,253				35,253	39,954	(4,701)				Director of Fund Development was terminated in Jan of CY (-995/month)	
Workers' Comp	C-2	4,841					4,841				4,841	3,861	980				** Comparable to PY and CY budget; further TW NCN	
Consultants	Y-2	132,737					132,737				132,737	130,027	2,710				**	
Legal	Y-3	649					649				649	2,225	(1,576)				Intellectual property advice (-2K) in PY; none in CY	
Accounting		42,000					42,000				42,000	36,000	6,000				Increase \$500 in monthly fee beg July of CY; agrees to budget	
Audit		14,500					14,500				14,500	14,000	500				**	
Internet		10,983					10,983				10,983	15,786	(4,793)				Website improvements in PY	
Insurance	C-2	5,920					5,920				5,920	6,301	(381)				**	
Rent	Y-4	61,502					61,502				61,502	40,506	20,996				Moved to bigger offices in June of PY; monthly pymt higher by ~ \$1,500 with rent and parking	
Telephone		10,596					10,596				10,596	11,210	(614)				**	
Equipment maintenance		6,790					6,790				6,790	5,138	1,652				Server repair (~1200) plus annual maintenance contract (500) for new copier purchased in PY	
Supplies		12,810					12,810				12,810	11,929	881				**	
Special Proj Admin		68,244					68,244				68,244	0	68,244				**	
Postage		45,761					45,761				45,761	50,751	(4,990)				About 10% reduction in postage usage by all programs	
Printing/Copying		50,860					50,860				50,860	46,984	3,876				SPARTAN printing to newsletter/manual -10K in CY; none in PY; plus reduction in printing in CY	
Bank fee		11,627					11,627				11,627	10,121	1,506				Credit card companies increase rates plus more CC donations in CY	
Payroll Processing fee		1,669					1,669				1,669	2,903	(1,234)				Switched payroll services to less expensive vendor in Nov of CY	
Investment Exp		1,249					0				0	0	0				CY had 2 board meetings and 2 teleconferences vs. 4 meetings in PY	
Board expense		5,938					5,938				5,938	11,161	(5,223)				No longer subscrip't to research tool by director of Fund Development (-2600)	
Dues and Subscription		3,968					3,968				3,968	7,716	(3,748)				SPARTAN conference smaller in CY; hotel charge 28K less; 25 less in attendees (-42K in reimb for travel and hotel); 3 less Patient education seminars in CY (40K)	
Conferences	Y-5	109,508					109,508				109,508	233,337	(125,516)				SPARTAN conference smaller in CY; hotel charge 28K less; 25 less in attendees (-42K in reimb for travel and hotel); 3 less Patient education seminars in CY (40K)	
Outreach		5,056					5,056				5,056	3,201	3,542				Held an open house in CY	
Training		905					905				905	4,716	(3,811)				Fundraiser certificate in PY	
Travel		28,742					28,742				28,742	38,020	(9,278)				Attended 5 seminars in PY; 3 in CY	
Moving expense		0					0				0	11,760	(11,760)				Moved office in Prior Year	
Office expense		5,746					5,746				5,746	3,883	1,863				Acquired an additional storage space in CY (\$143/month, 1716/cy)	
Medical Research exp		10,000					10,000				10,000	85,000	(75,000)				Screening tool project expense paid to Cedars Sinai in PY; AS research at University of Wisconsin in CY	
DVD Production		5,093					5,093				5,093	2,938	2,155				Ordered 2,000 DVDs in CY	
Unrealized loss		1,585					1,585				1,585	0	0				**	
Depreciation		0					0				0	9,061	9,061				**	
TOTAL		1,288,899					1,297,380				1,687	71,516	1,227,551	1,405,018	(177,467)			Per PY's WPs Agreed to GIL
												917,557	1,227,551	0,747				