

Spondylitis Association of America
(A Nonprofit California Corporation)

Financial Statements
(With Independent Auditors' Report)

June 30, 2012

INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Spondylitis Association of America:

We have audited the accompanying statement of financial position of Spondylitis Association of America (a nonprofit California corporation) as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Spondylitis Association of America's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Levitt & Rosenblum

Los Angeles, California
December 28, 2012

SPONDYLITIS ASSOCIATION OF AMERICA
(A Nonprofit California Corporation)

Statement of Financial Position

June 30, 2012

<u>Assets</u>	
Cash and cash equivalents	\$ 588,553
Investments, at market value (note 3)	1,103,303
Grants receivable (note 4)	15,000
Accounts receivable	3,550
Prepaid expenses	8,027
Property, at cost (note 2)	
Furniture and equipment	113,309
Less: accumulated depreciation	<u>(100,818)</u>
Net property	<u>12,491</u>
Deposits	<u>5,441</u>
Total Assets	\$ <u>1,736,365</u>
 <u>Liabilities and Net Assets</u>	
Accounts payable	\$ 26,104
Accrued vacation	23,399
Commitments (note 8)	_____
Total Liabilities	<u>49,503</u>
Net assets:	
Unrestricted net assets	1,261,315
Board designated fund (note 5)	129,004
Temporarily restricted net assets (note 6)	<u>296,543</u>
Total Net Assets	<u>1,686,862</u>
Total Liabilities and Net Assets	\$ <u>1,736,365</u>

See accompanying notes to financial statements.

SPONDYLITIS ASSOCIATION OF AMERICA
(A Nonprofit California Corporation)

Statement of Activities

Year ended June 30, 2012

Changes in unrestricted net assets:

Revenue and Support:

Contributions	\$ 523,415
Corporate and foundation grants	479,311
Program revenue	18,222
Interest income	13,187
Realized and unrealized loss on investments	<u>(97)</u>
Total unrestricted revenue	1,034,038

Net assets released from restrictions:

Satisfaction of program restrictions	<u>149,679</u>
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Total unrestricted revenue and other support 1,183,717

Expenses:

Salaries	541,898
Employee benefits	43,193
Payroll taxes	<u>43,589</u>
Total salaries and related expenses	628,680

Office and administration	82,884
Medical research consulting	37,200
Physician education	57,135
Patient education	56,838
Legal and accounting	56,824
Rent	57,067
Medical conferences presented	123,248
Travel	21,264
Postage	40,769
Printing	39,817
Outreach	28,367
Depreciation	<u>7,288</u>

Total expenses 1,237,381

Decrease in unrestricted net assets (53,664)

Changes in temporarily restricted net assets:

Corporate and foundation grants	94,398
Net assets released from restrictions	<u>(149,679)</u>

Decrease in temporarily restricted net assets (55,281)

Total decrease in net assets (108,945)

Net assets, beginning of year 1,795,807

Net assets, end of year \$ 1,686,862

See accompanying notes to financial statements.

SPONDYLITIS ASSOCIATION OF AMERICA
(A Nonprofit California Corporation)

Statement of Cash Flows

Year ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (108,945)
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	7,288
Net realized and unrealized loss on investments	97
Decrease (Increase) in operating assets:	
Accounts receivable	6,950
Prepaid expenses	262
Increase (Decrease) in operating liabilities:	
Accounts payable	(1,981)
Accrued expenses	<u>1,789</u>
Net cash used in operating activities	<u>(94,540)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of furniture and equipment	(702)
Sale of investments	1,110,204
Purchase of investments	<u>(1,008,476)</u>
Net cash provided by investing activities	<u>101,026</u>

Net increase in cash	6,486
Cash, beginning	<u>582,067</u>
Cash, ending	\$ <u>588,553</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, 2012

(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, 2012

(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. Management believes that SAA has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities.

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, 2012.

Business and Credit Concentrations

SAA derived approximately 46% of its revenue from general public contributions, and 51% from corporation and foundation grants for the year ended June 30, 2012. 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, 2012, cash and cash equivalents were maintained at several banks where all amounts fell within the federally insured deposit limits. 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, 2012:

Income taxes: None

SPONDYLITIS ASSOCIATION OF AMERICA
(A Nonprofit California Corporation)

Notes to Financial Statements, Continued

June 30, 2012

(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

SAA follows the provisions of FASB Accounting Standards Codification, *Fair Value Measurement and Disclosure*, which clarifies the definition of fair value, prescribes methods for measuring fair value, 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, 2012:

<u>Investments:</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificates of Deposit	\$ 999,298	\$ 999,298	\$ -	\$ -
Equity Mutual Funds	<u>104,005</u>	<u>104,004</u>	-	-
Total	\$ <u>1,103,303</u>	\$ <u>1,103,303</u>	\$ -	\$ -

Subsequent Events

SAA has evaluated subsequent events that have occurred from June 30, 2012 through December 28, 2012, 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, 2012

(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, 2012, the fair market values of investments, classified by type, are as follows:

Certificates of Deposit	\$ 999,298
Equity Mutual Fund	<u>104,005</u>
Total	\$ <u>1,103,303</u>

Certificates of Deposit have maturity dates ranging between October, 2012 through October, 2015; with interest rates ranging from 0.30% to 1.9%.

The components of interest and investment income for the year ended June 30, 2012 are as follows:

Interest and dividend income	\$ 13,187
Net unrealized investment gain	2,461
Net realized investment loss	<u>(2,558)</u>
Total	\$ <u>13,090</u>

(4) Grants Receivable

Grants receivable at June 30, 2012 consist of the following amounts:

Janssen 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, 2012, are available for the following purposes:

Patient education and seminars	\$ 1,878
Patient Registry	90,000
Ankylosing spondylitis self-management App	22,801
Medical research	22,520
Physicians education	22,810
Spartan physicians medical conference	<u>136,534</u>
Total	\$ <u>296,543</u>

SPONDYLITIS ASSOCIATION OF AMERICA
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Notes to Financial Statements, Continued

June 30, 2012

(7) Functional Expenses

Functional expenses for the year ended June 30, 2012 are allocated as follows:

Program Services	\$ 1,005,290
Management and General	172,298
Fundraising	<u>59,793</u>
Total	\$ <u>1,237,381</u>

(8) Retirement Plan

SSA employees may participate in an Internal Revenue Code 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.

(9) Commitments

SSA entered into a five-year operating lease agreement to rent its office facilities expiring 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, 2012 approximated \$57,000.

SPONDYLITIS ASSOCIATION OF AMERICA
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Statement of Functional Expenses

Year ended June 30, 2012

	Research	Public Education	Patient Services	Professional Education	Total Program Services	Management and General	Fundraising	Totals
Salaries	\$ 57,011	163,033	178,236	17,203	415,483	99,009	27,406	\$ 541,898
Employee benefits	4,320	12,958	14,255	863	32,396	7,775	3,022	43,193
Payroll taxes	4,859	13,577	14,885	872	34,193	7,846	1,550	43,589
Total salaries and related expense	66,190	189,568	207,376	18,938	482,072	114,630	31,978	628,680
Office and administration	3,711	33,657	10,175	10,276	57,819	24,720	345	82,884
Medical research consulting	35,000	2,200	-	-	37,200	-	-	37,200
Physician education	-	-	-	57,135	57,135	-	-	57,135
Patient education	-	-	56,838	-	56,838	-	-	56,838
Legal and accounting	-	21,622	20,378	-	42,000	14,824	-	56,824
Rent	9,131	18,420	15,979	-	43,530	12,387	1,150	57,067
Medical conferences presented	1,069	22,983	2,160	97,036	123,248	-	-	123,248
Travel	-	9,003	-	2,515	11,518	-	9,746	21,264
Postage	1,250	12,305	8,762	2,649	24,966	4,052	11,751	40,769
Printing	-	29,309	5,685	-	34,994	-	4,823	39,817
Outreach	-	18,569	5,727	4,071	28,367	-	-	28,367
Depreciation	-	2,960	1,958	685	5,603	1,685	-	7,288
Total expenses	\$ 116,351	360,596	335,038	193,305	1,005,290	172,298	59,793	\$ 1,237,381

See accompanying notes to financial statements.