

Spondylitis Association of America  
(A Nonprofit California Corporation)

Financial Statements  
(With Independent Auditors' Report)

June 30, 2013

**INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
Spondylitis Association of America:

We have audited the accompanying financial statements of Spondylitis Association of America (a nonprofit California corporation), which comprise the statement of financial position as of June 30, 2013 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 of 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, 2013 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.



Los Angeles, California  
October 29, 2013

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

**Statement of Financial Position**

**June 30, 2013**

<u><b>Assets</b></u>	
Cash and cash equivalents	\$ 777,300
Investments, at market value (note 3)	1,008,294
Accounts receivable	10,000
Prepaid expenses	7,358
Property, at cost (note 2)	
Furniture and equipment	118,572
Less: accumulated depreciation	<u>(106,130)</u>
Net property	<u>12,442</u>
Deposits	<u>5,441</u>
<b>Total Assets</b>	<b>\$ <u>1,820,835</u></b>
<u><b>Liabilities and Net Assets</b></u>	
Accounts payable	\$ 5,970
Accrued vacation	28,585
Commitments (note 8)	<u>          </u>
<b>Total Liabilities</b>	<u>34,555</u>
Net assets:	
Unrestricted net assets	1,259,695
Board designated fund (note 4)	131,853
Temporarily restricted net assets (note 5)	<u>394,732</u>
<b>Total Net Assets</b>	<u>1,786,280</u>
<b>Total Liabilities and Net Assets</b>	<b>\$ <u>1,820,835</u></b>

See accompanying notes to financial statements.

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

**Statement of Activities**

**Year ended June 30, 2013**

Changes in unrestricted net assets:

**Revenue and Support:**

Contributions	\$ 515,577
Corporate and foundation grants	437,412
Program revenue	20,266
Interest income	9,564
Realized and unrealized gain on investments	<u>12,462</u>

Total unrestricted revenue 995,281

Net assets released from restrictions:

Satisfaction of program restrictions 267,002

Total unrestricted revenue and other support 1,262,283

**Expenses:**

Salaries	587,134
Employee benefits	49,069
Payroll taxes	<u>47,376</u>

Total salaries and related expenses 683,579

Office and administration	71,386
Medical research consulting	17,070
Physician education	58,973
Patient education	84,500
Legal and accounting	56,800
Rent	61,448
Medical conferences presented	104,099
Travel	22,324
Postage	41,983
Printing	31,871
Outreach	21,709
Depreciation	<u>5,312</u>

Total expenses 1,261,054

**Increase in unrestricted net assets** 1,229

Changes in temporarily restricted net assets:

Corporate and foundation grants	365,191
Net assets released from restrictions	<u>(267,002)</u>

**Increase in temporarily restricted net assets** 98,189

**Total increase in net assets** 99,418

Net assets, beginning of year 1,686,862

**Net assets, end of year** \$ 1,786,280

See accompanying notes to financial statements.

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

**Statement of Cash Flows**

**Year ended June 30, 2013**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Change in net assets	\$ 99,418
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	5,312
Net realized and unrealized gain on investments	(12,462)
Decrease (Increase) in operating assets:	
Grant receivable	15,000
Donations receivable	(6,450)
Prepaid expenses	669
Increase (Decrease) in operating liabilities:	
Accounts payable	(20,134)
Accrued expenses	<u>5,186</u>
Net cash provided by operating activities	<u>86,539</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchase of furniture and equipment	(5,263)
Sale of investments	1,110,000
Purchase of investments	<u>(1,002,529)</u>
Net cash provided by investing activities	<u>102,208</u>

Net increase in cash	188,747
Cash, beginning	<u>588,553</u>
<b>Cash, ending</b>	<b>\$ <u>777,300</u></b>

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**  
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**Notes to Financial Statements**

**June 30, 2013**

(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**  
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**Notes to Financial Statements, Continued**

**June 30, 2013**

(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, 2013.

Business and Credit Concentrations

SAA derived approximately 38% of its revenue from general public contributions, and 59% from corporation and foundation grants for the year ended June 30, 2013. 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, 2013, 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, 2013:

Income taxes:     None

**SPONDYLITIS ASSOCIATION OF AMERICA**  
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**Notes to Financial Statements, Continued**

**June 30, 2013**

(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, 2013:

<u>Investments:</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificates of Deposit	\$ 901,441	\$ 901,441	\$ -	\$ -
Equity Mutual Funds	<u>106,853</u>	<u>106,853</u>	<u>-</u>	<u>-</u>
Total	\$ <u>1,008,294</u>	\$ <u>1,008,294</u>	\$ <u>-</u>	\$ <u>-</u>

Subsequent Events

SAA has evaluated subsequent events that have occurred from June 30, 2013 through October 29, 2013, 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**  
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**Notes to Financial Statements, Continued**

**June 30, 2013**

**(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, 2013, the fair market values of investments, classified by type, are as follows:

Certificates of Deposit	\$ 901,441
Equity Mutual Fund	<u>106,853</u>
Total	\$ <u>1,008,294</u>

Certificates of Deposit have maturity dates ranging between October, 2013 through February, 2028, subject to call provisions; with interest rates ranging from 0.25% to 2.3%.

The components of interest and investment income for the year ended June 30, 2013 are as follows:

Interest and dividend income	\$ 9,564
Net unrealized investment gain	11,555
Net realized investment gain	<u>907</u>
Total	\$ <u>22,026</u>

**(4) 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.

**(5) Restrictions on Net Assets**

Temporarily restricted net assets at June 30, 2013, are available for the following purposes:

Patient education and seminars	\$ 9,193
Patient registry	26,041
Ankylosing spondylitis self-management app	3,500
Patient surveys	35,000
Early detection training for radiologists	90,000
Spartan physicians medical conference	<u>230,998</u>
Total	\$ <u>394,732</u>

**SPONDYLITIS ASSOCIATION OF AMERICA**  
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**Notes to Financial Statements, Continued**

**June 30, 2013**

(6) Functional Expenses

Functional expenses for the year ended June 30, 2013 are allocated as follows:

Program Services	\$ 1,023,112
Management and General	179,502
Fundraising	<u>58,440</u>
Total	\$ <u>1,261,054</u>

(7) 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.

(8) 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, 2013 approximated \$61,000.

**SPONDYLITIS ASSOCIATION OF AMERICA  
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**Statement of Functional Expenses**

**Year ended June 30, 2013**

	<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	\$ 67,525	180,066	182,767	19,807	450,166	107,274	29,694	\$ 587,134
Employee benefits	5,907	14,887	15,786	1,042	37,622	8,965	2,482	49,069
Payroll taxes	<u>5,013</u>	<u>16,092</u>	<u>14,254</u>	<u>966</u>	<u>36,324</u>	<u>8,656</u>	<u>2,396</u>	<u>47,376</u>
Total salaries and related expense	78,445	211,045	212,807	21,815	524,112	124,895	34,572	683,579
Office and administration	6,844	27,170	9,754	6,031	49,798	21,291	297	71,386
Medical research consulting	17,070	-	-	-	17,070	-	-	17,070
Physician education	-	58,973	-	-	58,973	-	-	58,973
Patient education	-	11,365	73,135	-	84,500	-	-	84,500
Legal and accounting	-	21,753	20,470	-	42,223	14,577	-	56,800
Rent	9,623	20,436	16,813	-	46,872	13,338	1,238	61,448
Medical conferences presented	-	-	8,068	96,031	104,099	-	-	104,099
Travel	4,268	-	6,668	1,156	12,092	-	10,232	22,324
Postage	-	22,042	1,765	1,902	25,709	4,173	12,101	41,983
Printing	-	30,493	-	1,378	31,871	-	-	31,871
Outreach	-	8,516	11,366	1,827	21,709	-	-	21,709
Depreciation	<u>-</u>	<u>1,425</u>	<u>502</u>	<u>2,156</u>	<u>4,084</u>	<u>1,228</u>	<u>-</u>	<u>5,312</u>
Total expenses	\$ <u>116,249</u>	<u>413,218</u>	<u>361,349</u>	<u>132,296</u>	<u>1,023,112</u>	<u>179,502</u>	<u>58,440</u>	\$ <u>1,261,054</u>

See accompanying notes to financial statements.