

SPONDYLITIS ASSOCIATION OF AMERICA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015



TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
NOTES TO FINANCIAL STATEMENTS	6 - 11

INDEPENDENT AUDITORS' REPORT

To the Audit Committee of
SPONDYLITIS ASSOCIATION OF AMERICA
Van Nuys, California

We have audited the accompanying financial statements of Spondylitis Association of America (the "Organization"), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to 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 ("U.S. GAAP"); 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.

Auditors' 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 U.S. ("U.S. GAAS"). 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 auditors' 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 auditors consider internal control relevant to the Organization'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 Organization'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, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. GAAP.

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

Armanino ^{LLP}
Los Angeles, California

September 9, 2015

SPONDYLITIS ASSOCIATION OF AMERICA

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015

ASSETS

Current Assets	
Cash and cash equivalents	\$ 489,148
Investments	1,714,216
Prepaid expenses	<u>9,979</u>
	2,213,343
Property and Equipment, net	15,402
Deposits	<u>5,441</u>
	<u>\$ 2,234,186</u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 4,411
Accrued vacation	<u>28,485</u>
Total Liabilities	<u>32,896</u>
Commitments (Note 9)	
Net Assets	
Unrestricted	
General	1,388,669
Board-designated fund	<u>183,632</u>
	1,572,301
Temporarily restricted	<u>628,989</u>
Total Net Assets	<u>2,201,290</u>
	<u>\$ 2,234,186</u>

See accompanying notes to financial statements.

SPONDYLITIS ASSOCIATION OF AMERICA

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support			
Corporate and foundation contributions	\$ 680,283	\$ 237,720	\$ 918,003
Individual contributions	477,461	-	477,461
Bequest	-	381,348	381,348
Program revenue	17,201	-	17,201
Interest income	15,420	-	15,420
Unrealized gains on investments	2,390	-	2,390
Realized gains on investments	2,270	-	2,270
Net Assets Released from Restrictions	<u>212,022</u>	<u>(212,022)</u>	<u>-</u>
 Total Revenues and Support	 <u>1,407,047</u>	 <u>407,046</u>	 <u>1,814,093</u>
Functional Expenses			
Program services	1,021,792	-	1,021,792
Management and general	191,407	-	191,407
Fundraising	<u>93,715</u>	<u>-</u>	<u>93,715</u>
 Total Functional Expenses	 <u>1,306,914</u>	 <u>-</u>	 <u>1,306,914</u>
 Changes in Net Assets	 100,133	 407,046	 507,179
 Net Assets, beginning of year	 <u>1,472,168</u>	 <u>221,943</u>	 <u>1,694,111</u>
 Net Assets, end of year	 <u>\$ 1,572,301</u>	 <u>\$ 628,989</u>	 <u>\$ 2,201,290</u>

See accompanying notes to financial statements.

SPONDYLITIS ASSOCIATION OF AMERICA

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Microbione Research</u>	<u>IRAP1 Genetic Research</u>	<u>Scientific Study</u>	<u>Physicians Education</u>	<u>Patient Conferences, Education and Support</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel Expenses									
Salaries	\$ -	\$ -	\$ 41,737	\$ 62,606	\$ 313,029	\$ 417,372	\$ 83,475	\$ 55,650	\$ 556,497
Payroll taxes	-	-	3,275	4,912	24,561	32,748	6,549	4,366	43,663
Employee benefits	-	-	<u>3,463</u>	<u>5,195</u>	<u>25,975</u>	<u>34,633</u>	<u>6,927</u>	<u>4,618</u>	<u>46,178</u>
	-	-	48,475	72,713	363,565	484,753	96,951	64,634	646,338
Other Expenses									
Medical research grants	25,000	100,000	10,000	-	-	135,000	-	-	135,000
Administrative	-	-	2,427	3,641	18,203	24,271	18,877	10,786	53,934
Communication and website	-	-	-	-	44,092	44,092	-	-	44,092
Depreciation	-	-	-	-	5,194	5,194	1,734	-	6,928
Design and printing	-	-	3,259	9,977	33,585	46,821	3,260	2,480	52,561
Legal and accounting	-	-	-	-	-	-	57,288	-	57,288
Medical and scientific conferences	-	-	-	118,379	32,134	150,513	-	-	150,513
Postage	-	-	7,272	426	27,582	35,280	5,893	3,578	44,751
Rent	-	-	8,885	11,846	38,500	59,231	7,404	7,404	74,039
State licensing	-	-	-	-	11,941	11,941	-	-	11,941
Travel	-	-	-	<u>6,548</u>	<u>18,148</u>	<u>24,696</u>	-	<u>4,833</u>	<u>29,529</u>
	<u>\$ 25,000</u>	<u>\$ 100,000</u>	<u>\$ 80,318</u>	<u>\$ 223,530</u>	<u>\$ 592,944</u>	<u>\$ 1,021,792</u>	<u>\$ 191,407</u>	<u>\$ 93,715</u>	<u>\$ 1,306,914</u>

See accompanying notes to financial statements.

SPONDYLITIS ASSOCIATION OF AMERICA

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2015

Cash Flows from Operating Activities	
Changes in net assets	\$ 507,179
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Depreciation	6,928
Unrealized gains on investments	(2,390)
Realized gains on investments	(2,270)
(Increase) decrease in operating assets	
Contributions receivable	3,000
Prepaid expenses	2,895
Increase (decrease) in operating liabilities	
Grants payable	(100,000)
Accounts payable	(1,744)
Accrued vacation	1,443
Funds held on behalf of SPARTAN	<u>(141,079)</u>
Net Cash Provided by Operating Activities	<u>273,962</u>
Cash Flows from Investing Activities	
Proceeds from sales of investments	2,270
Purchase of investments	(204,743)
Purchases of property and equipment	<u>(2,066)</u>
Net Cash Used in Investing Activities	<u>(204,539)</u>
Net Increase in Cash and Cash Equivalents	69,423
Cash and Cash Equivalents, beginning of year	<u>419,725</u>
Cash and Cash Equivalents, end of year	<u>\$ 489,148</u>

See accompanying notes to financial statements.

SPONDYLITIS ASSOCIATION OF AMERICA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 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.

NOTE 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, 2012 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, 2011 and subsequent.

Basis of Presentation

The financial statements of the Organization have been prepared using the accrual basis of accounting in accordance with U.S. GAAP. Accordingly, income is recognized as earned and expenses are recognized as incurred, regardless of timing of payments.

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.

SPONDYLITIS ASSOCIATION OF AMERICA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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, 2015.

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 comprise approximately 21% and 12% of its contribution revenue during the year, respectively. No receivables were outstanding from these sources at June 30, 2015. 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 levels.

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 Board of Directors' investment oversight 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.

SPONDYLITIS ASSOCIATION OF AMERICA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

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, 2015, all investments were considered to be Level 1 (see Note 3).

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:

Furniture and equipment	5 - 7 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.

SPONDYLITIS ASSOCIATION OF AMERICA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Subsequent Events

The Organization has evaluated events subsequent to June 30, 2015, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through September 9, 2015, 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.

NOTE 3 - INVESTMENTS

Investments consist of the following:

Certificates of deposit	\$ 1,594,584
Equity mutual funds	<u>119,632</u>
	<u>\$ 1,714,216</u>

Activity in the investments during the year was as follows:

Balance, beginning of year	\$ 1,507,083
Purchases of investments	204,743
Proceeds from sales of investments	(2,270)
Realized gains on investments	2,270
Unrealized gains on investments	<u>2,390</u>
Balance, end of year	<u>\$ 1,714,216</u>

SPONDYLITIS ASSOCIATION OF AMERICA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Furniture and equipment	\$	57,466
Accumulated depreciation		<u>(42,064)</u>
		<u>\$ 15,402</u>

NOTE 5 - DUE TO AFFILIATE

During the current year the Organization ended its relationship with the Spondyloarthritis Research and Treatment Network ("SPARTAN"), a sponsored organization. The Organization distributed all funds due to SPARTAN during the current year.

NOTE 6 - BEQUEST

The Organization received a restricted research bequest from a non-related donor in the current year. All grant funds have been distributed to the Organization during the current year. The Organization has classified the bequest as part of temporarily restricted net assets.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are as follows:

	Net Assets Released from <u>Restrictions</u>	Balance, <u>June 30, 2015</u>
Patient education and seminars	\$ (73,004)	\$ 22,539
Patient registry	-	11,041
Ankylosing spondylitis self management app	(1,000)	-
Patient surveys	(4,309)	10,134
Early detection training for radiologists	(130,612)	198,388
Research	-	383,984
Webinars	<u>(3,097)</u>	<u>2,903</u>
	<u>\$ (212,022)</u>	<u>\$ 628,989</u>

SPONDYLITIS ASSOCIATION OF AMERICA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 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.

NOTE 9 - COMMITMENTS

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, 2015 totaled \$74,039.

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

Year Ending June 30.

2016	\$	58,674
2017		72,521
2018		74,697
2019		76,938
2020		79,246
Thereafter		<u>6,802</u>
	\$	<u>368,878</u>