

**Spondylitis Association of America**

Financial Statements

June 30, 2016



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## INDEPENDENT AUDITOR'S 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 (a California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of June 30, 2016, 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 (the "U.S."); 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 U.S. 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, 2016, 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 U.S.

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

Armanino<sup>LLP</sup>  
Los Angeles, California

October 5, 2016

Spondylitis Association of America  
Statement of Financial Position  
June 30, 2016

ASSETS

Current assets		
Cash and cash equivalents	\$	325,610
Investments		1,930,142
Pledges receivable		27,000
Prepaid and other current assets		<u>7,985</u>
Total current assets		2,290,737
Property and equipment, net		13,281
Deposits		<u>5,441</u>
Total assets	\$	<u><u>2,309,459</u></u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$	64,191
Accrued vacation		<u>28,317</u>
Total current liabilities		<u>92,508</u>
Commitment (Note 7)		
Net assets		
Unrestricted		
General		1,531,439
Board-designated fund		<u>164,206</u>
Total unrestricted		1,695,645
Temporarily restricted		<u>521,306</u>
Total net assets		<u>2,216,951</u>
Total liabilities and net assets	\$	<u><u>2,309,459</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, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, gains and other support			
Corporate and foundation contributions	\$ 641,875	\$ 252,550	\$ 894,425
Individual contributions	440,207	-	440,207
Program revenue	8,551	-	8,551
Interest income	24,573	-	24,573
Unrealized gains on investments	3,989	-	3,989
Net assets released from restriction	<u>360,233</u>	<u>(360,233)</u>	<u>-</u>
Total revenues, gains and other support	<u>1,479,428</u>	<u>(107,683)</u>	<u>1,371,745</u>
Functional expenses			
Program services			
Early Investigator's Award	79,356	-	79,356
Physicians Education (MRI, Rheumatology)	230,773	-	230,773
Patient Conferences, Education & Support	<u>766,233</u>	<u>-</u>	<u>766,233</u>
Total program services	<u>1,076,362</u>	<u>-</u>	<u>1,076,362</u>
Support services			
Management and general	200,714	-	200,714
Fundraising	<u>79,008</u>	<u>-</u>	<u>79,008</u>
Total support services	<u>279,722</u>	<u>-</u>	<u>279,722</u>
Total functional expenses	<u>1,356,084</u>	<u>-</u>	<u>1,356,084</u>
Change in net assets	123,344	(107,683)	15,661
Net assets, beginning of year	<u>1,572,301</u>	<u>628,989</u>	<u>2,201,290</u>
Net assets, end of year	<u>\$ 1,695,645</u>	<u>\$ 521,306</u>	<u>\$ 2,216,951</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, 2016

	Early Investigator's Award	Physicians Education (MRI, Rheumatology)	Patient Conferences, Education & Support	Total program services	Management and general	Fundraising	Total support services	Total
Personnel expenses								
Salaries	\$ 14,500	\$ 42,500	\$ 360,937	\$ 417,937	\$ 85,275	\$ 60,750	\$ 146,025	\$ 563,962
Payroll taxes	1,131	3,315	28,345	32,791	6,651	4,739	11,390	44,181
Employee benefits	<u>225</u>	<u>4,285</u>	<u>25,746</u>	<u>30,256</u>	<u>5,750</u>	<u>3,215</u>	<u>8,965</u>	<u>39,221</u>
Total personnel expenses	15,856	50,100	415,028	480,984	97,676	68,704	166,380	647,364
Medical research grants	60,000	-	-	60,000	-	-	-	60,000
Administrative	-	-	25,025	25,025	23,484	730	24,214	49,239
Communication and website	-	-	151,679	151,679	540	456	996	152,675
Depreciation	-	-	3,879	3,879	1,293	-	1,293	5,172
Design and printing	-	-	32,475	32,475	4,225	988	5,213	37,688
Legal and accounting	-	-	-	-	57,875	-	57,875	57,875
Medical and scientific conferences	-	151,166	39,997	191,163	-	-	-	191,163
Postage	-	312	26,950	27,262	9,621	896	10,517	37,779
Rent	3,500	8,500	50,529	62,529	6,000	6,000	12,000	74,529
State licensing	-	-	12,342	12,342	-	-	-	12,342
Travel	<u>-</u>	<u>20,695</u>	<u>8,329</u>	<u>29,024</u>	<u>-</u>	<u>1,234</u>	<u>1,234</u>	<u>30,258</u>
	<u>\$ 79,356</u>	<u>\$ 230,773</u>	<u>\$ 766,233</u>	<u>\$ 1,076,362</u>	<u>\$ 200,714</u>	<u>\$ 79,008</u>	<u>\$ 279,722</u>	<u>\$ 1,356,084</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, 2016

Cash flows from operating activities	
Change in net assets	\$ 15,661
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Depreciation	5,172
Unrealized gains on investments	(3,989)
Changes in operating assets and liabilities	
Contributions receivable	(27,000)
Prepaid expenses	1,994
Accounts payable	59,780
Accrued vacation	(168)
Net cash provided by operating activities	<u>51,450</u>
Cash flows from investing activities	
Proceeds from sales of investments	620,000
Purchase of investments	(831,937)
Purchases of property and equipment	(3,051)
Net cash used in investing activities	<u>(214,988)</u>
Net decrease in cash and cash equivalents	(163,538)
Cash and cash equivalents, beginning of year	<u>489,148</u>
Cash and cash equivalents, end of year	<u>\$ 325,610</u>

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

Spondylitis Association of America  
Notes to Financial Statements  
June 30, 2016

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, 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 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, 2016.

Spondylitis Association of America  
Notes to Financial Statements  
June 30, 2016

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 one major funding source that comprises approximately 15% of its contribution revenue during the year. No receivables were outstanding from this source at June 30, 2016. 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, 2016, all investments were considered to be Level 1 (see Note 3).

Spondylitis Association of America  
Notes to Financial Statements  
June 30, 2016

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
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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, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

The Organization has evaluated events subsequent to June 30, 2016, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through October 5, 2016, the date the consolidated 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	\$ 1,804,936
Equity mutual funds	<u>125,206</u>
	<u>\$ 1,930,142</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ 1,804,936	\$ -	\$ -	\$ 1,804,936
Equity mutual funds	<u>125,206</u>	<u>-</u>	<u>-</u>	<u>125,206</u>
	<u>\$ 1,930,142</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,930,142</u>

Activity in the investments during the year was as follows:

Balance, beginning of year	\$ 1,714,216
Purchases of investments	831,937
Proceeds from sales of investments	(620,000)
Unrealized gains on investments	<u>3,989</u>
Balance, end of year	<u>\$ 1,930,142</u>

Spondylitis Association of America  
Notes to Financial Statements  
June 30, 2016

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Furniture and equipment	\$ 52,926
Accumulated depreciation	<u>(39,645)</u>
	<u><u>\$ 13,281</u></u>

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets during the year are as follows:

	<u>Released from Restrictions</u>	<u>Balance, June 30, 2016</u>
Patient education and seminars	\$ (62,213)	\$ 19,326
Patient registry	-	11,041
Unmet needs conference	(25,000)	18,550
Patient survey	(10,134)	-
Early detection training	(127,620)	70,768
Research	(40,000)	343,984
Webinars	(604)	2,299
Website development	<u>(94,662)</u>	<u>55,338</u>
	<u><u>\$ (360,233)</u></u>	<u><u>\$ 521,306</u></u>

6. 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, 2016

7. 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, 2016 totaled \$74,529.

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

<u>Year ending June 30,</u>	
2017	\$ 72,521
2018	74,697
2019	76,938
2020	79,246
2021	<u>13,604</u>
	<u>\$ 317,006</u>