FINANCIAL STATEMENTS

National Multiple Sclerosis Society
(National Headquarters)
Years Ended September 30, 2007 and 2006
With Report of Independent Auditors

National Multiple Sclerosis Society
(National Headquarters)

Financial Statements

Years Ended September 30, 2007 and 2006

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Report of Independent Auditors

Board of Directors
National Multiple Sclerosis Society
(National Headquarters)

We have audited the accompanying statements of financial position of the National Multiple Sclerosis Society (National Headquarters) (the National Headquarters) as of September 30, 2007 and 2006, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the National Headquarters' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the National Headquarters' internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the National Headquarters' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide 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 the National Multiple Sclerosis Society (National Headquarters) at September 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

April 22, 2008

National Multiple Sclerosis Society
(National Headquarters)

Statements of Financial Position

	September 30 2007	September 30 2006
Assets		
Current assets:		
Cash and cash equivalents	**$ 12,843,232**	$ 15,604,347
Contributions receivable from Chapters and others	**915,500**	1,000,507
Due from Chapters for national activities, campaign materials and advances, less allowances of approximately $939,000 and $1,135,000 at September 30, 2007 and 2006, respectively	**15,645,980**	16,688,179
Prepaid expenses, other assets and other receivables, less allowance of approximately $37,000 and $301,000 at September 30, 2007 and 2006, respectively	**2,513,202**	2,305,635
Total current assets	**31,917,914**	35,598,668
Noncurrent assets:		
Contributions receivable from Chapters and others – long-term portion	**1,981,477**	785,143
Fixed assets, at cost, net of accumulated depreciation and amortization	**8,589,692**	8,344,477
Beneficial interests in trusts	**720,338**	621,518
Investments, at fair value	**32,534,472**	28,369,982
Total noncurrent assets	**43,825,979**	38,121,120
Total assets	**$ 75,743,893**	$ 73,719,788

	September 30	
	2007	**2006**
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 5,880,025**	$ 5,436,026
Grants payable	**37,902,153**	35,006,135
Due to Chapters	**1,449,937**	818,055
Deferred income	**903,164**	837,518
Total current liabilities	**46,135,279**	42,097,734
Noncurrent liabilities:		
Long-term supplemental retirement benefit payable	**134,913**	149,399
Deferred rent	**1,624,101**	971,663
Due to Chapters – long-term portion	**3,911,460**	1,228,070
Liability to annuitants	**2,179,196**	2,034,023
Total noncurrent liabilities	**7,849,670**	4,383,155
Total liabilities	**53,984,949**	46,480,889
Commitments		
Net assets:		
Unrestricted	**9,151,235**	14,797,070
Temporarily restricted	**8,972,876**	8,826,363
Permanently restricted	**3,634,833**	3,615,466
Total net assets	**21,758,944**	27,238,899
Total liabilities and net assets	**$ 75,743,893**	$ 73,719,788

See accompanying notes.

National Multiple Sclerosis Society
(National Headquarters)

Statement of Activities

Year Ended September 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenue and reclassifications				
Support:				
Contributions from Chapters	$ 59,757,810	$ 13,331,050	$ 19,367	$ 73,108,227
Contributions for research and development	–	1,412,302	–	1,412,302
Dues and contributions from members and others	25,584,864	2,177,909	–	27,762,773
Federal grant	382,625	–	–	382,625
Federal Services Campaign for National Health Agencies	30,396	–	–	30,396
Revenue:				
Investment return and other	5,241,586	471,238	–	5,712,824
Total support and revenue	90,997,281	17,392,499	19,367	108,409,147
Net assets released from restrictions	17,245,986	(17,245,986)	–	–
Total support, revenue and reclassifications	108,243,267	146,513	19,367	108,409,147
Expenses				
Program services:				
Research and research fellowships	50,940,905	–	–	50,940,905
Client and community services	12,945,597	–	–	12,945,597
Professional education and training	2,222,937	–	–	2,222,937
Public education	6,328,753	–	–	6,328,753
Services to Chapters	16,063,099	–	–	16,063,099
Total program services	88,501,291	–	–	88,501,291
Supporting services:				
Fund-raising	8,840,237	–	–	8,840,237
Management and general	6,037,697	–	–	6,037,697
Total supporting services	14,877,934	–	–	14,877,934
Payments to Chapters	10,509,877	–	–	10,509,877
Total expenses	113,889,102	–	–	113,889,102
Change in net assets	(5,645,835)	146,513	19,367	(5,479,955)
Net assets at beginning of year	14,797,070	8,826,363	3,615,466	27,238,899
Net assets at end of year	$ 9,151,235	$ 8,972,876	$ 3,634,833	$ 21,758,944

See accompanying notes.

National Multiple Sclerosis Society
(National Headquarters)

Statement of Activities

Year Ended September 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenue and reclassifications				
Support:				
Contributions from Chapters	$ 53,110,255	$ 14,525,025	$ –	$ 67,635,280
Contributions for research and development	–	621,424	–	621,424
Dues and contributions from members and others	24,801,763	1,099,846	980,633	26,882,242
Federal Services Campaign for National Health Agencies	28,775	–	–	28,775
Revenue:				
Investment return and other	4,872,229	322,006	–	5,194,235
Total support and revenue	82,813,022	16,568,301	980,633	100,361,956
Net assets released from restrictions	17,743,626	(17,743,626)	–	–
Total support, revenue and reclassifications	100,556,648	(1,175,325)	980,633	100,361,956
Expenses				
Program services:				
Research and research fellowships	46,324,438	–	–	46,324,438
Client and community services	7,163,244	–	–	7,163,244
Professional education and training	2,892,245	–	–	2,892,245
Public education	7,865,954	–	–	7,865,954
Services to Chapters	15,484,332	–	–	15,484,332
Total program services	79,730,213	–	–	79,730,213
Supporting services:				
Fund-raising	8,071,466	–	–	8,071,466
Management and general	4,014,216	–	–	4,014,216
Total supporting services	12,085,682	–	–	12,085,682
Payments to Chapters	8,103,397	–	–	8,103,397
Total expenses	99,919,292	–	–	99,919,292
Change in net assets	637,356	(1,175,325)	980,633	442,664
Net assets at beginning of year	14,159,714	10,001,688	2,634,833	26,796,235
Net assets at end of year	$ 14,797,070	$ 8,826,363	$ 3,615,466	$ 27,238,899

See accompanying notes.

National Multiple Sclerosis Society
(National Headquarters)

Statements of Cash Flows

	Year Ended September 30 2007	2006
Cash flows from operating activities		
Change in net assets	**$ (5,479,955)**	$ 442,664
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	**2,243,104**	1,647,591
Net realized and unrealized gain on investments	**(2,570,300)**	(1,332,032)
Beneficial interests in trusts	**(98,820)**	(32,234)
Deferred rent	**652,438**	482,090
Changes in operating assets and liabilities:		
Contributions receivable	**(1,111,327)**	(514,066)
Due from Chapters	**1,042,199**	(3,072,934)
Prepaid expenses, other assets and other receivables, net	**(207,567)**	118,566
Accounts payable and accrued expenses	**443,999**	(1,518,026)
Grants payable	**2,896,018**	1,928,604
Chapters' interest in pooled investments	**(2,497,948)**	(44,752)
Due to Chapters	**3,315,272**	35,479
Deferred income	**65,646**	442,351
Long-term supplemental retirement benefit payable	**(14,486)**	(13,443)
Liability to annuitants	**145,173**	86,043
Net cash used in operating activities	**(1,176,554)**	(1,344,099)
Cash flows from investing activities		
Purchases of fixed assets	**(2,488,319)**	(5,023,143)
Purchases of investments	**(8,186,904)**	(21,092,644)
Proceeds from sales of investments	**9,090,662**	17,700,201
Net cash used in investing activities	**(1,584,561)**	(8,415,586)
Net decrease in cash and cash equivalents	**(2,761,115)**	(9,759,685)
Cash and cash equivalents at beginning of year	**15,604,347**	25,364,032
Cash and cash equivalents at end of year	**$ 12,843,232**	$ 15,604,347

See accompanying notes.

National Multiple Sclerosis Society
(National Headquarters)

Statement of Functional Expenses

Year Ended September 30, 2007

	Program Services						Supporting Services				
	Research and Research Fellowships	Client and Community Services	Professional Education and Training	Public Education	Services to Chapters	Total	Fund-raising	Management and General	Total	Payments to Chapters	Total Expenses
Research and research fellowship grants	$ 44,219,728	$ –	$ –	$ –	$ –	$ 44,219,728	$ –	$ –	$ –	$ –	$ 44,219,728
Payments to Chapters	–	–	–	–	–	–	–	–	–	10,509,877	10,509,877
Expenses:											
Salaries	2,037,069	3,702,803	741,698	1,569,157	5,089,715	13,140,442	535,840	917,028	1,452,868	–	14,593,310
Retirement and health insurance benefits for employees	289,393	544,642	105,855	207,231	732,331	1,882,764	72,766	122,728	195,494	–	2,078,258
Payroll taxes	149,211	246,358	57,633	147,337	384,064	984,603	41,248	77,492	118,740	–	1,103,343
Total salaries and related expenses	2,475,673	4,493,803	905,186	1,923,725	6,206,110	16,004,497	649,854	1,117,248	1,767,102	–	17,771,599
Travel	343,640	692,512	97,918	261,605	914,238	2,309,913	71,994	154,781	226,775	–	2,536,688
Professional fees and contract service payments	2,539,952	2,339,958	501,038	1,303,894	5,109,445	11,794,287	2,414,058	1,575,196	3,989,254	–	15,783,541
Printing and stationery	79,138	1,248,304	91,555	948,595	352,847	2,720,439	3,010,619	1,480,631	4,491,250	–	7,211,689
Dues, subscriptions, and reprints	25,958	129,543	10,890	130,413	68,369	365,173	254,068	133,560	387,628	–	752,801
Office supplies	24,314	71,575	10,598	30,243	67,808	204,538	5,769	14,481	20,250	–	224,788
Rent and electricity	410,210	618,204	116,302	349,277	961,318	2,455,311	105,896	172,990	278,886	–	2,734,197
Insurance	64,653	160,159	29,109	46,504	163,111	463,536	15,343	26,009	41,352	–	504,888
Postage, trucking and express	27,111	416,009	20,783	630,662	85,933	1,180,498	2,065,940	962,035	3,027,975	–	4,208,473
Telephone	92,543	223,339	38,299	62,683	270,320	687,184	23,150	40,374	63,524	–	750,708
Conferences and meetings	130,350	520,116	59,932	393,020	565,785	1,669,203	57,425	123,633	181,058	–	1,850,261
Specific assistance to individuals and clinics	41,546	670,997	97,426	15,193	23,777	848,939	1,888	7,554	9,442	–	858,381
Awards and other grants	64,337	625,689	91,239	19,693	63,742	864,700	3,847	10,990	14,837	–	879,537
Sundry	84,886	117,825	36,296	58,309	383,822	681,138	82,527	85,177	167,704	–	848,842
Total expenses before depreciation and amortization	6,404,311	12,328,033	2,106,571	6,173,816	15,236,625	42,249,356	8,762,378	5,904,659	14,667,037	–	56,916,393
											–
Depreciation and amortization	316,866	617,564	116,366	154,937	826,474	2,032,207	77,859	133,038	210,897	–	2,243,104
Total expenses	6,721,177	12,945,597	2,222,937	6,328,753	16,063,099	44,281,563	8,840,237	6,037,697	14,877,934	–	59,159,497
Total expenses, grants and payments to Chapters	$ 50,940,905	$ 12,945,597	$ 2,222,937	$ 6,328,753	$ 16,063,099	$ 88,501,291	$ 8,840,237	$ 6,037,697	$ 14,877,934	$ 10,509,877	$ 113,889,102

See accompanying notes.

National Multiple Sclerosis Society
(National Headquarters)

Statement of Functional Expenses

Year Ended September 30, 2006

	Program Services						Supporting Services				
	Research and Research Fellowships	Client and Community Services	Professional Education and Training	Public Education	Services to Chapters	Total	Fund-raising	Management and General	Total	Payments to Chapters	Total Expenses
Research and research fellowship grants	$ 39,984,502	$ –	$ –	$ –	$ –	$ 39,984,502	$ –	$ –	$ –	$ –	$ 39,984,502
Payments to Chapters	–	–	–	–	–	–	–	–	–	8,103,397	8,103,397
Expenses:											
Salaries	1,781,328	1,726,015	1,029,184	1,882,504	5,027,387	11,446,418	556,198	803,793	1,359,991	–	12,806,409
Retirement and health insurance benefits for employees	281,190	268,261	153,933	262,859	789,370	1,755,613	92,342	120,282	212,624	–	1,968,237
Payroll taxes	124,191	137,184	78,869	130,191	372,462	842,897	39,944	56,752	96,696	–	939,593
Total salaries and related expenses	2,186,709	2,131,460	1,261,986	2,275,554	6,189,219	14,044,928	688,484	980,827	1,669,311	–	15,714,239
Travel	335,454	263,186	144,954	220,125	898,258	1,861,977	78,385	106,074	184,459	–	2,046,436
Professional fees and contract service payments	2,443,457	2,013,114	519,208	2,038,804	4,586,045	11,600,628	2,435,074	1,153,107	3,588,181	–	15,188,809
Printing and stationery	105,114	849,679	168,751	1,015,434	241,252	2,380,230	1,655,967	516,047	2,172,014	–	4,552,244
Dues, subscriptions and reprints	8,986	134,942	16,645	263,123	77,125	500,821	359,105	111,962	471,067	–	971,888
Office supplies	31,494	51,626	14,708	49,735	91,080	238,643	8,278	16,656	24,934	–	263,577
Rent and electricity	254,248	225,199	115,299	244,493	631,902	1,471,141	71,851	108,029	179,880	–	1,651,021
Insurance	74,730	68,716	36,258	69,954	220,684	470,342	25,188	32,424	57,612	–	527,954
Postage, trucking and express	28,847	310,576	27,453	890,010	78,256	1,335,142	2,482,043	621,053	3,103,096	–	4,438,238
Telephone	95,635	97,746	55,433	86,854	321,648	657,316	33,608	41,614	75,222	–	732,538
Conferences and meetings	91,282	452,014	86,359	392,004	632,817	1,654,476	51,959	131,078	183,037	–	1,837,513
Specific assistance to individuals and clinics	83,417	178,797	178,418	22,307	59,940	522,879	3,735	14,725	18,460	–	541,339
Awards and other grants	78,916	112,560	112,711	20,180	63,323	387,690	4,394	10,858	15,252	–	402,942
Sundry	288,438	59,186	40,913	59,071	704,090	1,151,698	94,790	68,576	163,366	–	1,315,064
Total expenses before depreciation and amortization	6,106,727	6,948,801	2,779,096	7,647,648	14,795,639	38,277,911	7,992,861	3,913,030	11,905,891	–	50,183,802
Depreciation and amortization	233,209	214,443	113,149	218,306	688,693	1,467,800	78,605	101,186	179,791	–	1,647,591
Total expenses	6,339,936	7,163,244	2,892,245	7,865,954	15,484,332	39,745,711	8,071,466	4,014,216	12,085,682	–	51,831,393
Total expenses, grants and payments to Chapters	$ 46,324,438	$ 7,163,244	$ 2,892,245	$ 7,865,954	$ 15,484,332	$ 79,730,213	$ 8,071,466	$ 4,014,216	$ 12,085,682	$ 8,103,397	$ 99,919,292

See accompanying notes.

National Multiple Sclerosis Society
(National Headquarters)

Notes to Financial Statements

September 30, 2007

1. Organization and Significant Accounting Policies

Organization

The National Multiple Sclerosis Society (the Society) is a national not-for-profit health agency dedicated to ending the devastating effects of multiple sclerosis. The Society consists of its National Headquarters (the National Headquarters) and 56 chartered Chapters throughout the country, each with a separate Board of Trustees. The accompanying financial statements consist of the accounts of the National Headquarters. The National Headquarters' principal programs include the research and training program, which annually awards research grants, dissemination of information, and coordination of programs and services to its Chapters. Services to Chapters include providing support for Chapter development, campaign development, fund-raising, materials and supplies and other services as provided under the related arrangements. Services provided by the Chapters include information and referral, counseling, education, advocacy and equipment assistance.

Significant Accounting Policies

Net Asset Classifications

Resources for various purposes are classified for accounting and financial reporting purposes into net asset classes established according to their nature and purpose as follows:

Unrestricted Net Assets: Unrestricted net assets consist of resources available for the support of the National Headquarters' operations. The unrestricted net assets may be used at the discretion of the National Headquarters' management and the Board of Directors.

Temporarily Restricted Net Assets: Temporarily restricted net assets represent amounts restricted by donors and grantors for specific activities of the National Headquarters or to be used at some future date.

Permanently Restricted Net Assets: Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources are to be maintained permanently. Income earned on permanently restricted net assets is available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

1. Organization and Significant Accounting Policies (continued)

Revenue Recognition

All unconditional contributions are recorded as revenue when received. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. All contributions are considered available for unrestricted use unless specifically restricted by the donor. The National Headquarters records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

Legacies and bequests are recognized when an unassailable right to the gift has been established by the court and the proceeds are measurable.

Allowance for Doubtful Accounts

National Headquarters maintains an allowance for doubtful accounts for estimated losses that may result from the inability of Chapters or advertisers to make payment. Such allowances are based upon several factors, including, but not limited to, historical experience and the financial condition of the Chapters or advertisers.

Expense Allocations

Functional expenses which are not specifically attributable to program services or supporting services are allocated by management based on various allocation factors.

Research Grants

Research grants are recognized in accordance with defined payment schedules and as the related conditions are met. Research grants, which are generally three years in length, are subject on an annual basis to revocation rights by the National Headquarters and the continued qualification of grantees, among other things. The National Headquarters' policy regarding the recognition of grants payable is to include only those amounts where a specific grantee is identified.

1. Organization and Significant Accounting Policies (continued)

Cash and Cash Equivalents

The National Headquarters considers highly liquid investments with maturities of three months or less when purchased, other than those held in the investment portfolio, to be cash equivalents.

At September 30, 2007 and 2006, approximately 84% and 73%, respectively, of cash and cash equivalents was held by one major financial institution.

Investments and Investment Income

Investments in mutual funds, equity and debt securities are carried at their fair values, which are based on quoted market prices. Investments in annuity contracts are carried at contract value, which approximates fair value and represents investments made under the contracts plus interest at rates established by the financial institutions party to such contracts. Investments in certificates of deposit are carried at cost, which approximates fair value. Donated securities are recorded at their quoted market value on the date received. Income earned from investments, including realized and unrealized gains and losses, is recorded in the net asset class owning the assets with the exception of permanently restricted net assets. Income earned from permanently restricted investments, including realized and unrealized gains and losses, is recorded as unrestricted or temporarily restricted based upon stipulations by the donor.

Split-Interest Agreements

The Society is the beneficiary in a number of split-interest agreements with donors, whereby the National Headquarters controls and invests the donated assets and shares with the donor or the donor's designee income generated from these assets until such time as stated in the agreement (usually upon the death of the donor or the donor's designee). At that time, the remaining assets are shared between the Chapter designated by the donor and the National Headquarters. The Chapter receives 60% of the amount distributed and the remaining 40% is received by the National Headquarters, unless otherwise designated by the donor. The National Headquarters records contribution income for its share and a liability for amounts payable to annuitants and for the Chapter's share using an actuarial calculation at the time of the gift. Adjustments to the actuarial calculation for changes in assumptions are made annually.

1. Organization and Significant Accounting Policies (continued)

In other situations where assets are controlled and invested by an independent third party, the National Headquarters records a receivable and contribution income for its share of the assets, based on the present value of the estimated future distributions expected to be received by the National Headquarters over the expected term of the agreement. At September 30, 2007 and 2006, the Society's beneficial interests in such trusts were approximately $720,000 and $622,000, respectively.

Fixed Assets

Fixed assets are carried at cost or, if donated, at fair value on the date received. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, ranging from three to five years. Amortization of leasehold improvements is recorded over the term of the related lease or the estimated useful life of the asset, whichever is shorter.

Donated Services

Highly qualified volunteers serving on peer review research committees have donated their time and efforts to the Society. These contributed services were valued at approximately $421,000 and $314,000 for the years ended September 30, 2007 and 2006, respectively, and have been recognized as revenue and expense. Other volunteers have also donated significant time to the Society's program services and fund-raising campaigns. These services were not reflected in the accompanying statements of activities because they do not meet the necessary criteria for recognition under U.S. generally accepted accounting principles.

Advertising Costs

The National Headquarters expenses the costs of advertising as incurred. Advertising expenses were approximately $5,000 and $253,000 for the years ended September 30, 2007 and 2006, respectively. Fiscal 2006 included advertising for the MS Challenge Walk which was not purchased in fiscal 2007.

1. Organization and Significant Accounting Policies (continued)

Due from Chapters and Contributions from Chapters

The National Headquarters and its Chapters have agreements under which a portion of contributions received by Chapters is shared with the National Headquarters. Such amounts of approximately $73,108,000 and $67,635,000 for the years ended September 30, 2007 and 2006, respectively, are net of agreed upon fund-raising allowance of 20% where appropriate. Amounts not remitted by Chapters are recorded by the National Headquarters as due from Chapters for national activities. The Chapters' share of contributions received directly by the National Headquarters is offset against the respective Chapter's receivable. The Chapters, in turn, reflect their share of the contribution as revenue and a reduction to their liability to the National Headquarters. Multi-year contributions from Chapter activities that are restricted to the National Headquarters are reflected as an expense by the Chapter and a contribution by the National Headquarters in the year that the multi-year contribution is made.

Inventories

Inventories, which consist of educational publications in print and on CD-ROM and promotional materials, are stated at the lower of cost or market determined by the first-in, first out method. At September 30, 2007 and 2006, inventories of approximately $250,000 and $225,000, respectively, are reflected in prepaid expenses and other assets in the accompanying statements of financial position.

New Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which for not-for-profit organizations is effective for fiscal years beginning after December 15, 2007. FIN 48 clarifies the accounting for income taxes recognized in the financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. This interpretation prescribes a comprehensive model for how an entity should recognize, measure, present and disclose in its financial statements uncertain tax positions that the entity has taken or expects to take on a tax return. The National Headquarters does not believe that the effect of adoption of FIN 48 in fiscal 2009 will have a material impact on its financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (Statement 157). Statement 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Statement 157 applies to financial statements issued for fiscal years beginning after November 15, 2007. The impact for the National Headquarters, if any, of the adoption of Statement 157, is under evaluation.

1. Organization and Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

Reclassifications

Certain amounts in the 2006 financial statements have been reclassified to conform to the 2007 presentation.

2. Tax-Exempt Status

The National Headquarters qualifies as a charitable organization as defined by Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from federal income taxes under Internal Revenue Code Section 501(a). Additionally, since the National Headquarters is publicly supported, contributions to the National Headquarters qualify for the maximum charitable contribution deduction under the Internal Revenue Code. The National Headquarters is also exempt from state and local income taxes.

3. Contributions Receivable from Chapters and Others

Contributions receivable from Chapters and others as of September 30 were due to be collected as follows:

	2007 Total	**2006 Total**
Less than one year	**$ 915,500**	$ 1,000,507
One to five years	**1,981,477**	785,143
Total	**$ 2,896,977**	$ 1,785,650

Those receivables that are due in more than one year have been discounted to their present value using discount rates ranging from 4.0% to 5.1%. The related discounts amounted to $187,867 and $26,451 at September 30, 2007 and 2006, respectively.

4. Investments

A summary of National Headquarters' investments at September 30 is as follows:

	Fair Value	
	2007	**2006**
Cash and cash equivalents	**$ 1,601,719**	$ 1,011,792
Commercial paper	**–**	103,145
Certificates of deposit	**250,000**	250,000
Equities	**17,060,236**	14,137,942
Mutual funds	**63,137**	2,573,922
Government securities	**6,598,441**	3,766,172
Annuity contracts	**3,025,904**	2,968,404
Investments related to charitable gift annuities (1):		
California	**1,002,436**	642,200
Maryland	**148,411**	74,072
New York	**406,946**	352,666
All other states	**2,370,242**	2,481,521
Other	**7,000**	8,146
	$ 32,534,472	$ 28,369,982

(1) Underlying investments of charitable gift annuities are comprised of United States government and agencies fixed income securities and mutual funds (carried at fair value based on quoted market price).

The components of the National Headquarters' investment return, included in investment return and other in the accompanying statement of activities, are as follows:

	Year Ended September 30	
	2007	**2006**
Interest and dividend income	**$ 429,382**	$ 664,459
Net realized and unrealized gain on investments	**2,570,300**	1,332,032
	$ 2,999,682	$ 1,996,491

The change in unrealized gain on investments relating to charitable gift annuities was a decrease of $96,513 and $6,361 for fiscal 2007 and 2006, respectively.

4. Investments (continued)

At September 30, 2007 and 2006, the total assets invested in charitable gift annuities were $3,928,035 and $3,550,459, respectively, at fair value. A 6.0% discount rate was utilized to calculate the liability to annuitants. State mandated insurance reserves related to these arrangements are maintained at the required levels.

Chapters' ownership interest in the Society's pooled investments amounted to approximately $2,650,000 and $152,000 as of September 30, 2007 and 2006, respectively. The Chapters' ownership interest is included as investments and as due to Chapters – long-term portion in the accompanying statements of financial position.

5. Fixed Assets

At September 30, 2007 and 2006, fixed assets consist of the following:

	2007	**2006**
Furniture and fixtures	**$ 975,160**	$ 1,052,874
Computer hardware and purchased software	**25,111,231**	22,633,299
Equipment	**741,824**	740,107
Leasehold improvements	**2,313,677**	2,227,293
	29,141,892	26,653,573
Less accumulated depreciation and amortization	**20,552,200**	18,309,096
Net fixed assets	**$ 8,589,692**	$ 8,344,477

6. Pensions

The National Headquarters maintains a noncontributory defined contribution retirement plan which covers all eligible employees of the National Headquarters and participating Chapters. Contributions for the years ended September 30, 2007 and 2006, as determined by the President and Chief Executive Officer of the Society, were 7.0% of gross annual salary, as defined. Pension expense related to this plan for the years ended September 30, 2007 and 2006 was approximately $839,000 and $667,000, respectively.

6. Pensions (continued)

The National Headquarters also has a supplemental pension agreement for its President Emeritus. The accrual for retirement benefits related to this agreement of approximately $135,000 and $149,000 at September 30, 2007 and 2006, respectively, has been determined actuarially.

7. Leases

The National Headquarters currently occupies premises in New York under an operating lease, which expires on December 31, 2021. In addition, the National Headquarters leases premises in Washington, D.C. and the Denver-based Training and Resource Center under long-term operating leases expiring at various dates. The terms of the leases include provisions for certain lease concessions and rent escalations at periodic intervals over the lives of the leases. However, for financial statement purposes, rent expense is recorded on the straight-line basis over the term of the leases. The difference between rental payments made under the leases and rent expense calculated on the straight-line basis is recorded as deferred rent. At September 30, 2007 and 2006, deferred rent of approximately $1,624,000 and $972,000, respectively, is reflected in the accompanying statements of financial position. The National Headquarters has sublet part of the space at the Denver office under an operating lease expiring in 2013. The National Headquarters signed a 16 year noncancelable sublease agreement with the NYC Chapter for a portion of available space at National Headquarters' premises in New York City. The NYC Chapter's sublease payment obligations commenced in April 2007.

Rent and electricity expense and related sublease income for the years ended September 30, 2007 and 2006 was approximately $2,734,000 and $277,000 and $1,651,000 and $118,000, respectively.

On November 5, 2007, the Society signed a ten year lease commencing February 1, 2008 to be occupied by the National Headquarters with a portion sub-leased to the Colorado Chapter. The lease replaces an existing lease which was early terminated. The related termination penalty of approximately $451,000 is reflected in accounts payable and accrued expenses in the accompanying statements of financial position. The monthly base rent starts at approximately $50,000. The terms of the lease include provisions for certain lease concessions and rent escalations at periodic intervals over the life of the leases. The approximate future minimum lease commitment is $6,617,000.

7. Leases (continued)

Approximate future minimum lease commitments and related sublease income, excluding the lease which was terminated, are as follows:

	Lease Commitments	Sublease Income
Fiscal year ending September 30:		
2008	$ 1,481,000	$ 310,000
2009	1,268,000	271,000
2010	1,225,000	271,000
2011	1,225,000	271,000
2012	1,312,000	271,000
Thereafter	12,982,000	2,877,000
Total	$ 19,493,000	$ 4,271,000

8. Commitments for Research and Fellowship Grants

The Society's program services include funding for research and fellowship projects to be conducted in the future, generally over a period of three years. Commitments for research and fellowship projects approved for funding in fiscal 2007 have been recorded as of September 30, 2007 and are included in the accompanying statement of financial position. The outstanding commitments for research and fellowship projects beyond fiscal 2008 total approximately $45,564,000 and are scheduled for funding approximately as follows: 2009 – $26,250,000; 2010 – $14,673,000; 2011 – $3,641,000; and 2012 – $1,000,000. These projects will be funded by unrestricted net assets and support and revenue to be generated by the National Headquarters and its Chapters.

Commitments for research and fellowship projects are subject, among other things, to revocation rights by the National Headquarters, the continued qualifications of grantees and the satisfaction by the grantees of prior conditions before payment.

9. Payments and Services to Chapters

During fiscal 2007 and 2006, the National Headquarters made direct payments to its Chapters of approximately $10,510,000 and $8,103,000, respectively, and incurred costs of approximately $16,063,000 and $15,484,000, respectively, in providing services to Chapters, resulting in total benefits to Chapters provided by the National Headquarters during fiscal 2007 and 2006 of approximately $26,573,000 and $23,587,000, respectively. The direct payments during fiscal 2007 and 2006 were made under certain agreements regarding the National Headquarters' direct mail program (approximately $8,938,000 and $6,895,000, respectively), and contributions and corporate sponsorships (approximately $1,572,000 and $1,208,000, respectively).

10. Temporarily Restricted Net Assets

Temporarily restricted net assets for research and educational purposes at September 30, 2007 and 2006 are as follows:

	2007	**2006**
Due from Chapters and contributions receivable for research	**$ 2,896,977**	$ 1,587,460
Promise 2010	**–**	1,848,330
Annuities for various restricted purposes	**1,268,326**	1,102,289
Ralph I. Straus Fund	**610,322**	534,789
Chairman's Fund	**87,081**	90,381
John Dystel Fund for Multiple Sclerosis Research	**300,000**	300,000
John Dystel Nursing Fellowship Fund	**722,094**	824,040
Research Exploration Fund	**469,583**	39,583
Fast Forward	**350,000**	–
Alan Buegeleisen Research Fund	**181,285**	168,283
Sylvia Lawry Physician's Fellowship Fund	**182,282**	207,282
Corporate sponsorships	**1,904,926**	2,123,926
	$ 8,972,876	$ 8,826,363

10. Temporarily Restricted Net Assets (continued)

During fiscal 2007 and 2006, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors, as follows:

	2007	2006
Research grants	**$ 14,816,924**	$ 17,133,354
Publications and other	**2,429,062**	610,272
Total	**$ 17,245,986**	$ 17,743,626

11. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity. The income is available to support the following at September 30, 2007 and 2006 as follows:

	2007	2006
Unrestricted operating purposes:		
John A. Alexander and Elyza C. Alexander Fund	**$ 20,000**	$ 20,000
J. MCV. Breed Endowment Fund	**351,921**	351,921
Restricted for research and education purposes:		
Wilfred B. Doner Multiple Sclerosis Student Scholarship Fund	**15,500**	15,500
Andrea Leeds Fund	**1,000,000**	1,000,000
Faustino Fund	**204,564**	204,564
James and Vanita Oelschlager Fund	**1,042,848**	1,042,848
Stepping Stone Fund	**1,000,000**	980,633
	$ 3,634,833	$ 3,615,466

12. Allocation of Joint Costs

In fiscal 2007 and 2006, the National Headquarters incurred joint costs of approximately $11,714,000 and $10,012,000, respectively, for information materials and activities that included fund-raising appeals. Such costs were allocated in accordance with the requirements of the AICPA's Statement of Position 98-2, *Accounting for the Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising*.

12. Allocation of Joint Costs (continued)

The Society allocated approximately $7,438,000 and $6,683,000 to fund-raising expense, approximately $984,000 and $1,796,000 to public education and approximately $3,292,000 and $1,533,000 to management and general in fiscal 2007 and 2006, respectively.

13. Subsequent Event

On October 1, 2007, the Society established Fast Forward, a single member LLC which derives its tax exemption from the Society and is treated as a "disregarded entity" for tax purposes. Its purpose is to help accelerate the discovery and development of new treatments for multiple sclerosis by connecting university-based multiple sclerosis research with private-sector drug development and by funding biotechnology/pharmaceutical companies to develop innovative new multiple sclerosis and repurpose FDA-approved drugs as new treatments for multiple sclerosis.

14. Chapter Summarized Financial Information (Unaudited)

Summarized financial information for the Society's Chapters, as reported in Chapters' financial statements that have been audited primarily by other auditors, at September 30, 2007 and 2006 and for the years then ended is approximately as follows:

	2007	**2006**
Total assets	**$ 122,632,000**	$ 115,285,000
Total liabilities	**$ 37,873,000**	$ 38,525,000
Net assets	**84,759,000**	76,760,000
	$ 122,632,000	$ 115,285,000
Total support, revenue and reclassifications	**$ 215,472,000**	$ 192,195,000
Total expenses	**207,473,000**	191,293,000
Change in net assets	**$ 7,999,000**	$ 902,000