

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY  
VIRGINIA-WEST VIRGINIA CHAPTER**

**Financial Statements  
and  
Independent Auditors' Report  
September 30, 2016 and 2015**

**EKS&H**  
AUDIT | TAX | CONSULTING

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY  
VIRGINIA-WEST VIRGINIA CHAPTER**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees  
The National Multiple Sclerosis Society Virginia-West Virginia Chapter  
Denver, Colorado

We have audited the accompanying financial statements of The National Multiple Sclerosis Society Virginia-West Virginia Chapter (the "Chapter"), which are comprised of the statements of financial position as of September 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; 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 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 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 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 The National Multiple Sclerosis Society Virginia-West Virginia Chapter as of September 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 United States of America.

## **EMPHASIS OF MATTER REGARDING SOCIETY REALIGNMENT**

As discussed in Note 14 to the financial statements, effective October 1, 2016, the Chapter combined with The National Multiple Sclerosis Society. Our opinion is not modified with respect to that matter.

## **PRIOR-PERIOD FINANCIAL STATEMENTS**

The financial statements of the Chapter as of September 30, 2015, were audited by other auditors whose report dated December 16, 2015, expressed an unmodified opinion on those statements. As discussed in Note 2, the Chapter has restated its 2015 financial statements during the year to record a cash balance and to reclassify net asset balances. The other auditors reported on the 2015 financial statements before the restatement. As part of our audit of the 2016 financial statements, we also audited adjustments described in Note 2 that were applied to restate 2015 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2015 financial statements of the Chapter other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements as a whole.

*EKS&H LLLP*  
EKS&H LLLP

December 7, 2016  
Denver, Colorado

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY  
VIRGINIA-WEST VIRGINIA CHAPTER**

**Statements of Financial Position**

	September 30,	
	2016	2015
		(Restated)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 679,017	\$ 666,735
Contributions receivable	65,800	16,500
Due from other chapters	8,667	19,518
Prepaid expenses	23,261	8,988
Total current assets	776,745	711,741
Non-current assets		
Security deposits	4,140	4,140
Property and equipment, net	10,415	20,220
Interest in The National Multiple Sclerosis Society's pooled investment fund	54,728	289,480
Beneficial interest in charitable lead annuity trust	4,763	55,374
Due from home office - charitable gift annuities	1,294	1,783
Total non-current assets	75,340	370,997
Total assets	\$ 852,085	\$ 1,082,738
<b>Liabilities and Net Assets</b>		
Current liabilities		
Due to home office	\$ -	\$ 1,499
Accounts payable and accrued expenses	184,378	263,504
Deferred revenue	271,490	96,050
Deferred rent liability	-	2,759
Total current liabilities	455,868	363,812
Long-term liabilities		
Deferred rent liability	2,438	-
Total long-term liabilities	2,438	-
Total liabilities	458,306	363,812
Commitments and contingencies		
Net assets		
Unrestricted	308,975	609,851
Temporarily restricted	47,678	71,949
Permanently restricted	37,126	37,126
Total net assets	393,779	718,926
Total liabilities and net assets	\$ 852,085	\$ 1,082,738

See notes to financial statements.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY  
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**Statements of Activities**

	For the Years Ended							
	September 30, 2016			September 30, 2015 (Restated)				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and revenue</b>								
Received directly								
Special events (includes in-kind donations of \$23,121 (2016) and \$103,233 (2015))	\$ 2,578,506	\$ -	\$ -	\$ 2,578,506	\$ 2,882,775	\$ -	\$ -	\$ 2,882,775
Less benefit-to-donor costs	(352,039)	-	-	(352,039)	(433,434)	-	-	(433,434)
Total received directly	2,226,467	-	-	2,226,467	2,449,341	-	-	2,449,341
Contributions	461,754	4,495	-	466,249	513,153	-	-	513,153
Legacies	6,111	-	-	6,111	177,472	-	-	177,472
Total public support	2,694,332	4,495	-	2,698,827	3,139,966	-	-	3,139,966
<b>Other revenue</b>								
Investment income (loss)	19,035	3,987	-	23,022	(13,315)	(3,256)	-	(16,571)
Service program fees	9,720	-	-	9,720	3,980	-	-	3,980
Miscellaneous income	250,000	-	-	250,000	689,001	-	-	689,001
Total other revenue	278,755	3,987	-	282,742	679,666	(3,256)	-	676,410
Net assets released from restrictions	32,753	(32,753)	-	-	97,642	(97,642)	-	-
Total support and revenue	3,005,840	(24,271)	-	2,981,569	3,917,274	(100,898)	-	3,816,376
<b>Expenses</b>								
Program services								
Research	838,378	-	-	838,378	833,954	-	-	833,954
Client programs	424,475	-	-	424,475	463,520	-	-	463,520
Community programs	323,891	-	-	323,891	389,125	-	-	389,125
Professional education and training	110,907	-	-	110,907	66,862	-	-	66,862
Public education	1,126,990	-	-	1,126,990	1,177,492	-	-	1,177,492
Total program services	2,824,641	-	-	2,824,641	2,930,953	-	-	2,930,953
Supporting services								
Fundraising	249,970	-	-	249,970	441,260	-	-	441,260
Management and general	232,105	-	-	232,105	321,811	-	-	321,811
Total supporting services	482,075	-	-	482,075	763,071	-	-	763,071
Other expenses								
Write-down of beneficial interest in charitable lead annuity trust	-	-	-	-	-	151,039	-	151,039
Total expenses	3,306,716	-	-	3,306,716	3,694,024	151,039	-	3,845,063
Change in net assets before realignment	(300,876)	(24,271)	-	(325,147)	223,250	(251,937)	-	(28,687)
Inherent contribution from realignment	-	-	-	-	(10,970)	64,029	-	53,059
Change in net assets	(300,876)	(24,271)	-	(325,147)	212,280	(187,908)	-	24,372
Net assets at beginning of year	609,851	71,949	37,126	718,926	397,571	259,857	37,126	694,554
Net assets at end of year	<u>\$ 308,975</u>	<u>\$ 47,678</u>	<u>\$ 37,126</u>	<u>\$ 393,779</u>	<u>\$ 609,851</u>	<u>\$ 71,949</u>	<u>\$ 37,126</u>	<u>\$ 718,926</u>

See notes to financial statements.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY  
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**Statement of Functional Expenses  
For the Year Ended September 30, 2016**

	Program Services					Supporting Services		Total Programs and Support	Benefit-to- Donor Costs	Grand Total	
	Research	Client Programs	Community Programs	Professional Education and Training	Public Education	Total	Fundraising				Management and General
Salaries and related expenses											
Salaries	\$ -	\$ 73,712	\$ 138,210	\$ 36,856	\$ 543,627	\$ 792,405	\$ 36,856	\$ 92,140	\$ 921,401	\$ -	\$ 921,401
Employee benefits	-	6,540	12,263	3,270	48,234	70,307	3,270	8,175	81,752	-	81,752
Payroll taxes	-	6,185	11,596	3,092	45,612	66,485	3,092	7,731	77,308	-	77,308
Total salaries and related expenses	-	86,437	162,069	43,218	637,473	929,197	43,218	108,046	1,080,461	-	1,080,461
Expenses											
Printing	-	510	1,024	233	12,558	14,325	21,201	1,583	37,109	-	37,109
Postage and shipping	-	2,352	1,629	384	6,379	10,744	2,864	961	14,569	-	14,569
Telephone	-	(484)	(908)	(242)	(3,572)	(5,206)	(242)	(606)	(6,054)	-	(6,054)
Supplies	-	3,846	1,733	340	6,216	12,135	3,273	890	16,298	23,061	39,359
Dues and memberships	-	4	263	2	26	295	212	4	511	-	511
Professional and other contract service fees	-	10,023	11,103	2,961	43,671	67,758	38,288	7,402	113,448	-	113,448
Travel	-	12,238	17,736	1,091	16,202	47,267	38,979	2,991	89,237	210,258	299,495
Meetings	-	46,965	2,868	257	3,847	53,937	16,040	732	70,709	11,771	82,480
Occupancy	-	14,598	27,371	7,299	107,659	156,927	8,064	18,247	183,238	35,613	218,851
Furniture and equipment	-	2,664	4,994	1,332	19,644	28,634	1,366	3,330	33,330	-	33,330
Direct financial assistance	-	83,476	-	-	-	83,476	-	-	83,476	-	83,476
Awards and prizes	-	283	281	75	1,107	1,746	2,009	3,174	6,929	56,430	63,359
Miscellaneous expense	-	642	644	173	2,631	4,090	43,779	430	48,299	14,906	63,205
Depreciation and amortization	-	867	1,625	433	6,392	9,317	433	1,083	10,833	-	10,833
Total expenses before Chapter support of Society initiatives	-	264,421	232,432	57,556	860,233	1,414,642	219,484	148,267	1,782,393	352,039	2,134,432
Chapter support of Society initiatives	838,378	160,054	91,459	53,351	266,757	1,409,999	30,486	83,838	1,524,323	-	1,524,323
Total expenses	<u>\$ 838,378</u>	<u>\$ 424,475</u>	<u>\$ 323,891</u>	<u>\$ 110,907</u>	<u>\$ 1,126,990</u>	<u>\$ 2,824,641</u>	<u>\$ 249,970</u>	<u>\$ 232,105</u>	<u>\$ 3,306,716</u>	<u>\$ 352,039</u>	3,658,755
Less direct benefit-to-donor costs											<u>(352,039)</u>
Total expenses as reported on the statement of activities											<u>\$ 3,306,716</u>

See notes to financial statements.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY  
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**Statement of Functional Expenses  
For the Year Ended September 30, 2015**

	Program Services					Supporting Services		Total Programs and Support	Benefit-to- Donor Costs	Grand Total	
	Research	Client Programs	Community Programs	Professional Education and Training	Public Education	Total	Fundraising				Management and General
Salaries and related expenses											
Salaries	\$ -	\$ 83,174	\$ 173,590	\$ 12,948	\$ 509,140	\$ 778,852	\$ 175,017	\$ 143,416	\$ 1,097,285	\$ -	\$ 1,097,285
Employee benefits	-	11,939	24,917	1,859	73,088	111,803	25,121	20,585	157,509	-	157,509
Payroll taxes	-	6,897	14,395	1,074	42,220	64,586	14,513	11,892	90,991	-	90,991
Total salaries and related expenses	-	102,010	212,902	15,881	624,448	955,241	214,651	175,893	1,345,785	-	1,345,785
Expenses											
Printing	-	544	1,372	60	7,391	9,367	17,182	669	27,218	-	27,218
Postage and shipping	-	2,208	1,718	124	5,442	9,492	6,725	1,396	17,613	-	17,613
Telephone	-	2,301	4,801	358	14,083	21,543	4,841	3,967	30,351	-	30,351
Supplies	-	6,629	3,112	211	9,192	19,144	9,893	2,351	31,388	19,261	50,649
Dues and memberships	-	222	431	30	1,176	1,859	556	331	2,746	-	2,746
Professional and other contract service fees	-	12,098	10,985	805	31,632	55,520	24,296	8,910	88,726	-	88,726
Travel	-	12,599	15,162	554	21,845	50,160	47,167	7,334	104,661	251,624	356,285
Meetings	-	52,310	15,745	557	21,982	90,594	14,665	6,267	111,530	8,463	119,993
Occupancy	-	13,064	27,266	2,034	79,971	122,335	27,515	22,526	172,376	40,610	212,986
Furniture and equipment	-	2,808	5,862	437	17,193	26,300	5,910	4,843	37,053	-	37,053
Direct financial assistance	-	104,444	-	-	-	104,444	-	-	104,444	-	104,444
Awards and prizes	-	2,661	477	35	1,376	4,549	3,096	402	8,047	88,334	96,381
Miscellaneous expense	-	7,181	12,814	950	38,000	58,945	40,390	10,791	110,126	25,142	135,268
Depreciation and amortization	-	967	2,018	150	5,920	9,055	2,035	1,667	12,757	-	12,757
Total expenses before Chapter support of Society initiatives	-	322,046	314,665	22,186	879,651	1,538,548	418,922	247,351	2,204,821	433,434	2,638,255
Chapter support of Society initiatives	833,954	141,474	74,460	44,676	297,841	1,392,405	22,338	74,460	1,489,203	-	1,489,203
Total expenses	\$ 833,954	\$ 463,520	\$ 389,125	\$ 66,862	\$ 1,177,492	\$ 2,930,953	\$ 441,260	\$ 321,811	\$ 3,694,024	\$ 433,434	4,127,458
Less direct benefit-to-donor costs											(433,434)
Total expenses as reported on the statement of activities											\$ 3,694,024

See notes to financial statements.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY  
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**Statements of Cash Flows**

	For the Years Ended September 30,	
	2016	2015 (Restated)
Cash flows from operating activities		
Change in net assets	\$ (325,147)	\$ 24,372
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Contribution from realignment	-	(53,059)
Depreciation and amortization	10,833	12,757
Amortization of lease credits, net	(321)	(7,403)
Due from home office - charitable gift annuities	489	831
Net unrealized and realized losses on pooled investment fund	(14,689)	15,579
Write-off of beneficial interest of charitable lead trust	-	151,039
Changes in operating assets and liabilities		
Contributions receivable	(49,300)	10,831
Contributions receivable from home office	-	90,069
Due from other chapters	10,851	28,258
Prepaid expenses	(14,273)	158
Due to home office	(1,499)	1,499
Accounts payable and accrued expenses	(79,126)	102,500
Deferred revenue	175,440	(186,590)
Net cash (used in) provided by operating activities	(286,742)	190,841
Cash flows from investing activities		
Purchases of property and equipment	(1,028)	(696)
Cash from realignment	-	72,129
Distribution from beneficial interest in charitable lead annuity trust	50,611	20,373
Net proceeds (purchases) of investments	249,441	(250,978)
Net cash provided by (used in) investing activities	299,024	(159,172)
Net increase in cash and cash equivalents	12,282	31,669
Cash and cash equivalents at beginning of year	666,735	635,066
Cash and cash equivalents at end of year	\$ 679,017	\$ 666,735

See notes to financial statements.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY  
VIRGINIA-WEST VIRGINIA CHAPTER**

**Notes to Financial Statements**

**Note 1 - Organization and Significant Accounting Policies**

Organization

The National Multiple Sclerosis Society (the “Society”) is a not-for-profit voluntary health and welfare agency that mobilizes people and resources so that everyone affected by multiple sclerosis (“MS”) can live their best lives as we stop MS in its tracks, restore what has been lost, and end MS forever. The Virginia-West Virginia Chapter (the “Chapter”) raises funds in the states of Virginia and West Virginia. The Society has offices across the country and is governed by a national board of directors and local boards of trustees. The Society’s mission is fulfilled through funding cutting-edge research, driving change through advocacy, facilitating professional education, collaborating with MS organizations around the world, and providing services designed to help people with MS and their families move their lives forward.

The Chapter qualifies as a charitable organization as defined by Internal Revenue Code (“IRC”) Section 501(c)(3) and, accordingly, is exempt from federal income taxes under IRC Section 501(a). Additionally, since the Chapter is publicly supported, contributions qualify for the maximum charitable contribution deduction under the IRC.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the amounts of revenues and expenses during the reporting period. The most significant include the fair values assigned to certain financial instruments; collectability of contributions receivable, donated public service announcements, and the useful lives assigned to property and equipment. Actual results could differ from those estimates.

Net Asset Classifications

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

*Unrestricted Net Assets:* Unrestricted net assets represent funds that are fully available, at the discretion of management and the Board of Trustees, for the Chapter to utilize in any of its program or supporting services.

*Temporarily Restricted Net Assets:* Temporarily restricted net assets comprise funds that are restricted by donors for specific purposes. The restrictions are satisfied either by the passage of time or by actions of the Chapter.

*Permanently Restricted Net Assets:* Permanently restricted net assets include resources with permanent donor-imposed restrictions, which require the assets to be maintained in perpetuity but permit the Chapter to expend all or part of the income derived from the donated assets.

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**Notes to Financial Statements**

**Note 1 - Organization and Significant Accounting Policies (continued)**

Net Asset Classifications (continued)

When both restricted and unrestricted resources are available for use, it is the Chapter's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents

The Chapter considers highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Concentration of Credit Risk

Deposits at the Chapter's financial institutions are insured by the FDIC up to \$250,000. The Chapter has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and investments.

Investments

The Chapter's investments in equity and debt securities are stated at their quoted market prices, and the net change in unrealized gains or losses is included on the statements of activities.

Contributions and Other Receivables

Contributions and other receivables consist of accruals of public support received after year-end that pertained to fundraising events held during fiscal years 2016 and 2015. Receivables are recorded at net realizable value, net of an allowance for uncollectible amounts. The Chapter believes that the pledges receivable are fully collectible. There are no identifiable concentrations of credit risk related to these receivables. Donated securities are liquidated upon receipt and recorded as contributions at their fair value.

Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization are provided on the straight-line basis over the estimated useful lives of the assets or the terms of the lease, as appropriate. Expenditures for maintenance and repairs are charged to operations as incurred. The Chapter capitalizes equipment purchases exceeding \$1,000 with useful lives in excess of one year.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY  
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**Notes to Financial Statements**

**Note 1 - Organization and Significant Accounting Policies (continued)**

Long-Lived Assets

The Chapter periodically evaluates the carrying value of long-lived assets for possible impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized during the years ended September 30, 2016 and 2015.

Revenue Recognition and Deferred Revenue

Contributions are recorded as revenue when received or promised (pledged) unconditionally at their fair value. The fair value of long-term contributions receivable is measured based on the present value of future cash flows, with consideration of expectation about possible variations in the amount and/or timing of the cash flows and other specific factors that would be considered by market participants. The fair value measurements also consider donors' credit risk. Unconditional bequests (donations received under terms of a will) are reported as revenues when notification of the bequest is received, the amount is reasonably determinable, and the probate court declares the will valid.

It is the Chapter's policy to record temporarily restricted contributions received and fulfilled in the same accounting period in the unrestricted net asset class. When a prior year's donor restriction expires, that is, when a time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified as unrestricted net assets and reported on the statements of activities as net assets released from restrictions. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met.

All revenue received in advance for special events that are held subsequent to year-end is deferred and recognized in the year of the event.

Donated Goods and Services

Donated goods and services, including public service announcements and donated advertising, used by the Chapter in programs, special events, and supporting services are reflected as in-kind contributions and expensed in the accompanying financial statements at their estimated fair value at the date of receipt.

	For the Years Ended September 30,	
	2016	2015
Donated goods	\$ 23,121	\$ 103,233

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**Notes to Financial Statements**

**Note 1 - Organization and Significant Accounting Policies (continued)**

Donated Goods and Services (continued)

In addition, a number of volunteers have donated significant amounts of their time to the Chapter's program services and supporting services. No amounts have been reflected in the accompanying financial statements for those donated services because they do not meet the criteria for revenue recognition in accordance with U.S. GAAP.

Chapter Support of Society Initiatives (National Programs Expense)

The National Programs Expense ("NPE") is an allocation to chapters that funds a large portion of the Society's budget in areas such as nationwide programs, services, centralized functions, and the Society's research investments as well as investments in the Society's unified plan. The Society's budget is determined through an inclusive budget-planning process. The Budget Development Advisory Committee provides consensus advice to the CEO and comprises members of the Senior Leadership Team, members of the national Board of Directors, and regional volunteer liaisons responsible for communicating with volunteer leadership in each region.

Revenue tiers with progressively higher percentages are used to determine the NPE allocation amounts. The remittance percentage is subject to adjustment each year to ensure that the Society meets its programmatic goals and that all donor restrictions are honored. In fiscal years 2016 and 2015, the Chapter's NPE was calculated to be \$1,524,323 and \$1,489,203, respectively. This amount is reflected as Chapter support of Society initiatives on the accompanying statements of functional expenses. As the Society implements a single audit in fiscal year 2017 (Note 12), NPE will no longer be calculated after September 30, 2016.

Multi-year contributions recognized prior to fiscal year 2016 that are restricted for research and other national initiatives are remitted to the home office when received and reflected as expense when the income is recorded at its present value and amortized over the respective periods.

Expense Allocations

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

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$12,166 and \$7,665 in fiscal years 2016 and 2015, respectively.

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY  
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**Notes to Financial Statements**

**Note 2 - Restatement of Prior-Period Financial Statements**

The Chapter has restated its 2015 financial statements to record a cash balance and to reclassify certain net asset balances from those presented in its previously issued financial statements. The following table reflects the impact of reclassifying those balances in the September 30, 2015 financial statements.

	<u>As Previously Reported</u>	<u>As Restated</u>	<u>Effect of Restatement</u>
Statement of financial position			
Cash	\$ 620,046	\$ 666,735	\$ 46,689
Unrestricted net assets	\$ 412,123	\$ 609,851	\$ 197,728
Temporarily restricted net assets	\$ 222,988	\$ 71,949	\$ (151,039)
Statement of activities			
Write-down of beneficial interest in charitable lead annuity trust - unrestricted	\$ 151,039	\$ -	\$ (151,039)
Write-down of beneficial interest in charitable lead annuity trust - temporarily restricted	\$ -	\$ 151,039	\$ 151,039
Change in net assets - unrestricted	\$ 61,241	\$ 212,280	\$ 151,039
Change in net assets - temporarily restricted	\$ (36,869)	\$ (187,908)	\$ (151,039)
Unrestricted net assets - beginning of year	\$ 350,882	\$ 397,571	\$ 46,689
Unrestricted net assets - end of year	\$ 563,162	\$ 609,851	\$ 46,689
Statement of cash flows			
Cash and cash equivalents at beginning of year	\$ 588,377	\$ 635,066	\$ 46,689
Cash and cash equivalents at end of year	\$ 620,046	\$ 666,735	\$ 46,689

**Note 3 - Income Taxes**

Guidance in the area of “Accounting for Uncertainty in Income Taxes” under the Financial Accounting Standards Board (the “FASB”) Accounting Standards Codification (“ASC”) clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This standard provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is “more likely than not” to be sustained if the position were to be challenged by a taxing authority. The standard also provides guidance on measurement, classification, interest and penalties, and disclosure. The Chapter has processes presently in place to ensure the maintenance of its tax-exempt status, to identify and report unrelated income, to determine its filing and tax obligations in jurisdictions for which it has nexus, and to identify and evaluate other matters that may be considered tax positions.

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**Note 4 - Fair Value Measurements**

The Chapter adopted the provisions of ASC Topic 820-10. ASC Topic 820-10 (formerly known as FASB Statement of Financial Accounting Standards No. 157), *Fair Value Measurement* (“*FAQS 157*”), effective October 1, 2008. FAS 157 establishes a fair value hierarchy for the inputs used to measure fair value based on the nature of the data input, which generally ranges from quoted prices for identical instruments in a principal trading market (Level 1) to estimates determined using related market data (Level 3). Multiple inputs may be used to measure fair value; however, the level of fair value of each financial asset or liability presented below is based on the lower significant input level within this fair value hierarchy.

- Level 1: Measurements that are most observable are based on quoted prices of identical instruments obtained from the principal markets in which they are traded. Closing prices are both readily available and representative of fair value. Market transactions occur with sufficient frequency and volume to ensure liquidity.
  
- Level 2: Measurements derived indirectly from observable inputs or from quoted prices from markets that are less liquid are considered Level 2. Measurements may consider inputs that other market participants would use in valuing a portfolio, quoted market prices for similar securities, interest rates, credit risks, and other factors.
  
- Level 3: Measurements that are least observable are estimated from related market data, determined from sources with little or no market activity for comparable contracts, or are positions with longer durations.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Chapter believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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**Notes to Financial Statements**

**Note 4 - Fair Value Measurements (continued)**

The following tables provide the fair value hierarchy of the Chapter's financial assets as of September 30, 2016 and 2015:

September 30, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest in the Society's pooled investment fund	\$ -	\$ -	\$ 54,728	\$ 54,728
Beneficial interest in charitable lead annuity trust	-	-	4,763	4,763
Charitable gift annuities	-	-	1,294	1,294
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,785</u>	<u>\$ 60,785</u>

September 30, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest in the Society's pooled investment fund	\$ -	\$ -	\$ 289,480	\$ 289,480
Beneficial interest in charitable lead annuity trust	-	-	55,374	55,374
Charitable gift annuities	-	-	1,783	1,783
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 346,637</u>	<u>\$ 346,637</u>

The following is a description of the valuation methodologies used for assets measured at fair value:

The Society's pooled investment portfolio was classified within the FASB fair value hierarchy as 100% Level 1. While principally all of the underlying funds' investments are readily marketable, based on quoted fair market values, since the Chapter's share of the Society's pooled investment fund cannot be priced on an active exchange, the interests in the trust are classified as Level 3.

*Charitable gift annuities and beneficial interest in charitable lead annuity trusts:* Valued using the present value of expected cash flows, which are unobservable inputs.

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**Notes to Financial Statements**

**Note 4 - Fair Value Measurements (continued)**

The table below sets forth a summary of the changes in the fair value of the Chapter's Level 3 financial assets:

	For the Years Ended September 30,	
	2016	2015
Fair value at beginning of year	\$ 346,637	\$ 282,615
Additions, withdrawals, and changes in present value	(307,509)	231,642
Interest and dividends	6,968	6,121
Realized and unrealized gain (loss)	14,689	(22,702)
Write-down of beneficial interest in charitable lead annuity	-	(151,039)
Fair value at end of year	\$ 60,785	\$ 346,637

**Note 5 - Interest in Pooled Investment Fund**

The Chapter holds a share of the overall portfolio of the Society's pooled investment fund rather than in the individual financial instruments and, therefore, has the same composition of investments as that of the Society's total pooled investment fund. The Chapter's share of the Society's pooled investment fund totaled \$54,728 and \$289,480, respectively, which represents less than 1% of the Society's total reserves investment portfolio as of September 30, 2016 and 2015.

Investment net gain totaled \$21,657 for the year ended September 30, 2016, which included interest and dividends of \$6,968 and net realized and unrealized gains of \$14,689. Investment net loss totaled \$15,579 for the year ended September 30, 2015, which included \$3,256 related to the endowment and \$12,323 related to the pooled investments.

**Note 6 - Property and Equipment**

Property and equipment consist of the following:

	September 30,	
	2016	2015
Computer hardware and purchased software	\$ 111,624	\$ 110,596
Furniture and fixtures	4,214	4,214
Equipment	46,892	46,892
	162,730	161,702
Less accumulated depreciation and amortization	(152,315)	(141,482)
Net property and equipment	\$ 10,415	\$ 20,220

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**Notes to Financial Statements**

**Note 7 - Beneficial Interest in Charitable Lead Annuity Trust**

The Chapter is a 50% beneficiary of a charitable lead annuity trust that is held and administered by a third party. Under the terms of the trust, the Chapter is to receive \$7,905 quarterly for its unrestricted use for a term of 20 years. At the end of the 20-year term, the trust is to terminate, and remaining trust assets are distributed to others. The fair value of the Chapter's interest in the trust was estimated to be \$4,763 and \$55,374 as of September 30, 2016 and 2015, respectively. During fiscal year 2015, the Chapter elected to write-down the beneficial interest by \$151,039 based on its expected net realizable value.

**Note 8 - Charitable Gift Annuities**

The Chapter is the beneficiary of a number of charitable gift annuities with donors, whereby the Society's home office 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).

The year-end value of the Chapter's charitable gift annuity for the years ended September 30, 2016 and 2015 was \$1,294 and \$1,783, respectively. Loss derived from changes in value of the agreements for the years ended September 30, 2016 and 2015 was \$489 and \$35, respectively.

**Note 9 - Commitments and Contingencies**

**Operating Leases**

The Chapter generally recognizes rent expense based on the straight lining of the minimum lease payments over the respective terms of the leases and has recorded deferred rent liability of \$2,438 and \$2,759 at September 30, 2016 and 2015, respectively.

Office rent expense for the years ended September 30, 2016 and 2015 was \$170,956 and \$151,700, respectively.

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**Notes to Financial Statements**

**Note 9 - Commitments and Contingencies (continued)**

Operating Leases (continued)

The future minimum annual rental commitments under non-cancelable lease agreements are as follows:

<u>Year Ending September 30,</u>	<u>Total</u>
2017	\$ 135,074
2018	93,282
2019	64,005
2020	65,925
Thereafter	<u>22,191</u>
Total	<u>\$ 380,477</u>

**Note 10 - Retirement Plan**

Effective January 1, 2016, the Chapter participates in the Society's Defined Contribution Retirement Plan, which covers substantially all of the Chapter's employees, based on defined eligibility for covered employees. Temporary employees and independent contractors are not eligible. Upon the first day of employment, covered employees receive a 100% matching employer contribution for the first 3% of eligible compensation contributed and then 50% on the next 2% of eligible compensation contributed for a maximum of a 4% employer contribution. All employer contributions are 100% vested for participants who complete at least one hour of service on or after January 1, 2016. All employees who have terminated employment prior to January 1, 2016 are subject to a five-year vesting schedule. Retirement expenses related to the plan are incurred by the Society rather than the Chapter.

Prior to January 1, 2016, the Chapter participated in the Society's non-contributory Defined Contribution Retirement Plan, which covered substantially all of the Chapter's employees, based on defined eligibility for covered employees. Temporary employees and independent contractors were not eligible. Employees became eligible on the first day of the first month after beginning employment, and all covered employees received an annual contribution (after September 30) if they worked 1,000 hours during the fiscal year and were employed on the last day of the fiscal year. The contribution rate for the three months ended December 31, 2015 and fiscal year 2015, as determined by the Society's President and CEO, was 3% of gross annual salary. Chapter contributions to employees were vested over five years. In accordance with the plan's provisions, contributions required in any given year were first offset by forfeitures of unvested Chapter contributions for terminated participants.

The Chapter's retirement expense for fiscal year 2015 was \$19,728, while the retirement expense for fiscal year 2016 was incurred by the Society rather than the Chapter.

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**Notes to Financial Statements**

**Note 11 - Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for specific client programs. Their use is limited by donor-imposed stipulations that either expire with the passage of time or the fulfillment of specific obligations. Temporarily restricted net assets are restricted for the following purposes:

	September 30,	
	2016	2015
Program		
Endowment accumulated earnings	\$ 17,686	\$ 13,699
Kids' camp	4,944	-
Gift annuity	1,294	1,783
Financial aid	-	1,486
Time	<u>23,754</u>	<u>54,981</u>
Total	<u>\$ 47,678</u>	<u>\$ 71,949</u>

Temporarily restricted net assets were released from restrictions as follows:

	For the Years Ended September 30,	
	2016	2015
Program		
Financial aid	\$ 1,486	\$ -
Time	<u>31,267</u>	<u>97,642</u>
Total	<u>\$ 32,753</u>	<u>\$ 97,642</u>

**Note 12 - Endowments**

The Chapter's endowment consist of funds established for a variety of purposes. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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**Notes to Financial Statements**

**Note 12 - Endowments (continued)**

Interpretation of Relevant Law

The Chapter has interpreted the Commonwealth of Virginia’s Uniform Management of Institutional Funds Act (“UMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Chapter classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is characterized as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard for expenditure prescribed by UMIFA. In accordance with UMIFA, the Chapter considers the following factors in making a determination to appropriate or calculate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The general purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the Chapter
7. The investment policies of the Chapter

The changes in endowment net assets for the year ended September 30, 2016 follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ -	\$ 13,699	\$ 37,126	\$ 50,825
Investment return				
Investment income	-	1,004	-	1,004
Net realized and unrealized gain	-	2,899	-	2,899
Endowment net assets at end of year	\$ -	\$ 17,602	\$ 37,126	\$ 54,728

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**Notes to Financial Statements**

**Note 12 - Endowments (continued)**

Interpretation of Relevant Law (continued)

The changes in endowment net assets for the year ended September 30, 2015 follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ -	\$ 16,955	\$ 37,126	\$ 54,081
Investment return				
Investment income	-	1,837	-	1,837
Net realized and unrealized gain	-	(5,093)	-	(5,093)
Endowment net assets at end of year	\$ -	\$ 13,699	\$ 37,126	\$ 50,825

Return Objectives and Risk Parameters

The Chapter's endowment fund consists of assets that must be held in perpetuity or for specified time periods stipulated by the donors. The Chapter maintains investment and spending policies for its endowment assets aimed at providing predictable and steady support for the Society's research and programmatic and administrative activities. Under this policy, the endowment assets are invested in a manner intended to preserve their value consistent with such donor stipulations, minimize the effect of high economic volatility and/or low investment return, and provide funding for the programs specified by the donors.

Endowment Investment Spending Policy

For all endowment funds that have a value greater than their original gift, the spending rate (stated as a percentage) will be reviewed by the Investment Committee of the Society's Board of Directors and established on an annual basis. The annual spending rate on endowed funds held by the Chapter may range from a minimum of 0% to a maximum of 7%. The Investment Committee will inform the Chief Financial Officers of the spending rate that will be incorporated into the budget review and approval process.

In establishing the spending rate, the Investment Committee shall rely on the three-year rolling average market value (12 quarters) of the endowment fund assets calculated as of six months prior to the fiscal year commencement date.

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**Notes to Financial Statements**

**Note 13 - Chapter Realignment**

On January 1, 2015, the Central and Eastern Virginia Chapter and the Blue Ridge Chapter realigned to form the Virginia-West Virginia Chapter of The National Multiple Sclerosis Society. No consideration was exchanged in the combination. The remaining assets of the Blue Ridge Chapter were recorded at fair market value as of the date of realignment, which were estimated to approximate book value recorded on the Blue Ridge Chapter's books. The following is a summary of the assets acquired, liabilities assumed, and the contribution recognized as a result of the realignment:

Cash	\$	72,129
Receivables	\$	3,546
Prepaid expenses	\$	244
Charitable gift annuity	\$	866
Due from other chapters	\$	846
Furniture and equipment	\$	6,281
Accounts payable	\$	(43)
Accrued expenses	\$	(30,145)
Deferred revenue	\$	(665)
Inherent contribution received	\$	53,059

**Note 14 - Society Realignment**

As the Society continues to become unified, the organization is transitioning to a single Society entity, which will perform one audit and file a single IRS Form 990 under one federal employer's identification number effective October 1, 2016. The transition will better align Society resources so the organization can maximize its impact. For accounting purposes, the transition will be treated as an acquisition of 100% of the assets and liabilities of the Chapter by the Society. No consideration was given in exchange for the interests.

The assets and liabilities of the Chapter were recorded at fair values as of October 1, 2016, which were estimated to approximate book value as recorded on the Chapter's books.

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**Notes to Financial Statements**

**Note 14 - Society Realignment (continued)**

Recognized amounts of identifiable assets and liabilities assumed by the Society on October 1, 2016:

Cash and cash equivalents	\$ 679,017
Contributions receivable	\$ 65,800
Due from other chapters	\$ 8,667
Investments	\$ 54,728
Prepaid expenses	\$ 23,261
Property and equipment, net	\$ 10,415
Beneficial interest in charitable lead annuity trust	\$ 4,763
Charitable gift annuity	\$ 1,294
Security deposits	\$ 4,140
Accounts payable and accrued expenses	\$ (184,378)
Deferred revenue	\$ (271,490)
Deferred rent liability	\$ (2,438)
Inherent contribution received	\$ 393,779

The excess fair value of assets received over liabilities assumed is reported as a contribution received in the acquisition of the Chapter on the statements of activities and changes in net assets of the realigned Society entity in fiscal year 2017.

**Note 15 - Subsequent Events**

The Chapter has evaluated subsequent events through the auditors' report date, which is the date the financial statements were available for issuance. There were no subsequent events that are required to be recognized or disclosed in the accompanying financial statements other than that described in Note 14.