

NATIONAL MULTIPLE SCLEROSIS SOCIETY; CENTRAL AND EASTERN VIRGINIA CHAPTER

Financial Statements

September 30, 2014

**NATIONAL MULTIPLE SCLEROSIS SOCIETY;
CENTRAL AND EASTERN VIRGINIA CHAPTER**

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Trustees
National Multiple Sclerosis Society;
Central and Eastern Virginia Chapter
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of National Multiple Sclerosis Society; Central and Eastern Virginia Chapter, which comprise the statement of financial position as of September 30, 2014 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 National Multiple Sclerosis Society; Central and Eastern Virginia Chapter as of September 30, 2014, 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.

Other Matter

Effective October 1, 2013, the Central Virginia Chapter and the Hampton Roads Chapter realigned to form the Central and Eastern Virginia Chapter of the National Multiple Sclerosis Society. See additional disclosure surrounding this realignment within Note 13 to the accompanying financial statements.

A handwritten signature in black ink, appearing to read "Keita", with a long, sweeping horizontal stroke extending to the right.

December 18, 2014
Glen Allen, Virginia

**NATIONAL MULTIPLE SCLEROSIS SOCIETY;
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Statement of Financial Position
September 30, 2014

Assets

Current assets:

Cash and cash equivalents	\$ 588,377
Special events receivable	23,785
Due from home office	90,069
Due from affiliates	46,930
Prepaid expenses	<u>8,902</u>

Total current assets	<u>758,063</u>
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Investment	54,081
Beneficial interest in charitable lead annuity trust	226,786
Deposit	4,140
Due from home office - gift annuity	1,748
Furniture and equipment - net	<u>26,000</u>

Total assets	<u>\$ 1,070,818</u>
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Liabilities and Net Assets

Current liabilities:

Accounts payable	\$ 22,188
Accrued expenses	108,628
Deferred rent	6,738
Deferred revenue	<u>282,640</u>

Total current liabilities	420,194
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Long-term liabilities:

Deferred rent - long term	<u>2,759</u>
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Total liabilities	<u>422,953</u>
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Net Assets:

Unrestricted	350,882
Temporarily restricted	259,857
Permanently restricted	<u>37,126</u>

Total net assets	<u>647,865</u>
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Total net assets and liabilities	<u>\$ 1,070,818</u>
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See accompanying notes to financial statements.

**NATIONAL MULTIPLE SCLEROSIS SOCIETY;
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Statement of Activities
Year Ended September 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support:				
Public revenue:				
Received directly:				
Special events (includes in-kind donations of \$15,954 in 2014)	\$ 1,794,518	\$ -	\$ -	\$ 1,794,518
Less - benefit to donor costs	(241,853)	-	-	(241,853)
	1,552,665	-	-	1,552,665
Membership and contributions	255,945	5,334	-	261,279
Legacies - received from Chapter	33,075	-	-	33,075
Change in beneficial interest in charitable lead annuity trust	12,259	-	-	12,259
Total received directly	1,853,944	5,334	-	1,859,278
Received indirectly:				
Workplace giving	59,985	-	-	59,985
Total public revenue	1,913,929	5,334	-	1,919,263
Other revenue:				
Investment income, net	135	5,829	-	5,964
Service program fees	2,770	-	-	2,770
Miscellaneous income, net	98,193	-	-	98,193
Total other revenue	101,098	5,829	-	106,927
Net assets released from restrictions	24,474	(24,474)	-	-
Total revenue	\$ 2,039,501	\$ (13,311)	\$ -	\$ 2,026,190

See accompanying notes to financial statements.

**NATIONAL MULTIPLE SCLEROSIS SOCIETY;
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Statement of Activities, Continued
Year Ended September 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses:				
Program services:				
Research	\$ 441,857	\$ -	\$ -	\$ 441,857
Society activities	319,965	-	-	319,965
Client programs	366,268	-	-	366,268
Community programs	278,606	-	-	278,606
Professional education and training	15,404	-	-	15,404
Public education	223,408	-	-	223,408
Total program services	1,645,508	-	-	1,645,508
Supporting services:				
Fundraising	245,291	-	-	245,291
Management and general	183,440	-	-	183,440
Total supporting services	428,731	-	-	428,731
Total expenses	2,074,239	-	-	2,074,239
Change in net assets before realignment	(34,738)	(13,311)	-	(48,049)
Contribution from realignment (Note 13)	77,118	268,186	37,126	382,430
Change in net assets	42,380	254,875	37,126	334,381
Net assets - beginning of year	308,502	4,982	-	313,484
Net assets - end of year	\$ 350,882	\$ 259,857	\$ 37,126	\$ 647,865

See accompanying notes to financial statements.

**NATIONAL MULTIPLE SCLEROSIS SOCIETY;
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Statement of Functional Expenses
Year Ended September 30, 2014

	Program Services						Supporting Services					
	Research	Society Activities	Client Programs	Community Programs	Professional Education and Training	Public Education	Total	Fund-raising	Management and General	Total Programs and Support	Benefit to Donor Costs	Total
Expenses:												
Salaries	\$ -	\$ -	\$ 157,127	\$ 162,108	\$ 8,102	\$ 131,293	\$ 458,630	\$ 95,697	\$ 109,843	\$ 664,170	\$ -	\$ 664,170
Employee benefits	-	-	20,579	21,231	1,061	17,195	60,066	12,533	14,386	86,985	-	86,985
Payroll taxes	-	-	10,675	11,013	550	8,920	31,158	6,502	7,463	45,123	-	45,123
Total salaries and related expenses	-	-	188,381	194,352	9,713	157,408	549,854	114,732	131,692	796,278	-	796,278
Printing and artwork	-	-	935	703	34	1,438	3,110	10,363	463	13,936	-	13,936
Postage and shipping	-	-	2,780	927	46	1,660	5,413	4,259	618	10,290	-	10,290
Telephone	-	-	6,386	3,487	174	2,825	12,872	2,072	2,363	17,307	-	17,307
Office supplies and expense	-	-	4,091	2,480	104	3,003	9,678	4,623	1,404	15,705	11,395	27,100
Dues and memberships	-	-	636	657	33	532	1,858	398	445	2,701	-	2,701
Professional fees	-	-	19,736	20,382	1,018	16,491	57,627	35,992	13,829	107,448	-	107,448
Travel	-	-	11,190	14,877	465	6,720	33,252	21,147	5,549	59,948	139,434	199,382
Meetings	-	-	15,267	2,933	127	2,710	21,037	11,427	1,903	34,367	11,674	46,041
Occupancy	-	-	23,522	24,267	1,213	19,655	68,657	14,326	16,443	99,426	27,426	126,852
Furniture and equipment	-	-	4,225	4,359	218	3,530	12,332	2,573	2,954	17,859	-	17,859
Prizes and awards	-	-	465	262	1,813	212	2,752	875	207	3,834	36,272	40,106
Miscellaneous	-	-	5,307	5,443	272	4,408	15,430	20,451	3,214	39,095	15,652	54,747
Disbursements for individuals with MS	-	-	79,977	-	-	-	79,977	-	-	79,977	-	79,977
Depreciation	-	-	3,370	3,477	174	2,816	9,837	2,053	2,356	14,246	-	14,246
Chapter support of Society research investment	441,857	-	-	-	-	-	441,857	-	-	441,857	-	441,857
Total expense before public support to National	441,857	-	366,268	278,606	15,404	223,408	1,325,543	245,291	183,440	1,754,274	241,853	1,996,127
Chapter support of Society activities	-	319,965	-	-	-	-	319,965	-	-	319,965	-	319,965
Total expenses	\$ 441,857	\$ 319,965	\$ 366,268	\$ 278,606	\$ 15,404	\$ 223,408	\$ 1,645,508	\$ 245,291	\$ 183,440	\$ 2,074,239	\$ 241,853	2,316,092
Less- direct benefit to donor costs												(241,853)
Total expenses as reported on the statement of activities												<u>\$ 2,074,239</u>

See accompanying notes to financial statements.

**NATIONAL MULTIPLE SCLEROSIS SOCIETY;
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Statement of Cash Flows
Year Ended September 30, 2014

Cash flows from operating activities:	
Change in net assets	\$ 334,381
Adjustments to reconcile to net cash from operating activities:	
Contribution from realignment	(382,430)
Depreciation	14,246
Realized and unrealized gain on investments	(5,829)
Change in beneficial interest of charitable lead trust	19,361
Gift annuities held by National	30
Changes in operating assets and liabilities:	
Receivables	1,057
Due from National Multiple Sclerosis Society	47,077
Due from affiliates	4,788
Prepaid expenses	529
Due to National Multiple Sclerosis Society	(728)
Due to affiliates	(4,974)
Accounts payable	(15,804)
Accrued expenses	32,761
Deferred rent	(4,160)
Deferred revenue	<u>(20,117)</u>
Net cash provided by operating activities	<u>20,188</u>
Cash flows from investing activities:	
Purchase of property and equipment	(3,211)
Cash from realignment	<u>105,363</u>
Net cash provided by investing activities	<u>102,152</u>
Net change in cash and cash equivalents	122,340
Cash and cash equivalents, beginning of year	<u>466,037</u>
Cash and cash equivalents, end of year	<u>\$ 588,377</u>

See Note 1 for additional cash flow information.

See accompanying notes to financial statements.

**NATIONAL MULTIPLE SCLEROSIS SOCIETY;
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Notes to Financial Statements

1. Nature of Activities and Significant Accounting Policies:

Realignment: Effective October 1, 2013, the Central Virginia Chapter and the Hampton Roads Chapter realigned to form the Central and Eastern Virginia Chapter. The realignment was conducted in part to unify the Chapters and to more effectively deploy resources in the region. (See Note 13)

Nature of Activities: The National Multiple Sclerosis Society; Central and Eastern Virginia Chapter (the "Chapter") is a not-for-profit voluntary health agency that raises funds in Central and Eastern Virginia to provide and connect people with multiple sclerosis to services and resources, support multiple sclerosis research and educate the public about the impact of multiple sclerosis. Services include, but are not necessarily limited to, supporting education, centers providing medical, recreational and other therapy and care for those living with multiple sclerosis, counseling and support, advocacy for local and national change, and information and resources through in-person and online programs.

Financial Statement Presentation: The accompanying financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America and standards adopted by the National Health Council and National Assembly for Social Policy and Development.

Basis of Accounting: The Chapter is required to report information regarding its financial position and activities according to these three classes of net assets:

Unrestricted net assets: Unrestricted net assets represent funds which 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 are comprised of funds which are restricted by donors for specific purposes. The restrictions are satisfied either by the passage of time or by actions of the Chapter. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. It is the Chapter's policy to record temporarily restricted contributions received and expended in the same accounting period in the unrestricted net asset class.

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.

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.

**NATIONAL MULTIPLE SCLEROSIS SOCIETY;
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Notes to Financial Statements, Continued

1. Nature of Activities and Significant Accounting Policies, Continued:

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) 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.

Cash and Cash Equivalents: For purposes of the statement of cash flows, the Chapter considers all highly liquid instruments purchased with an original maturity of three months or less to be cash and cash equivalents. At September 30, 2014, the Chapter’s cash was held by two banks.

Supplemental Cash Flow Information: During 2014, the Chapter received a non-cash realignment credit of \$92,000 from the home office. As of September 30, 2014, \$89,699 of this credit was included in due from home office on the statement of financial position.

Furniture 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 which range from three to five years, or the terms of the lease, as appropriate. Expenditures for maintenance and repairs are charged to operations as incurred. The Chapter capitalizes all equipment purchases exceeding \$1,000 with useful lives in excess of one year.

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 are 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 the donor’s credit risk. The Chapter recognizes income from legacies and bequests when an unassailable right to the gift has been established by the court and the proceeds are measurable in amount. 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 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 revenue and recognized in the year of the event.

**NATIONAL MULTIPLE SCLEROSIS SOCIETY;
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Notes to Financial Statements, Continued

1. Nature of Activities and Significant Accounting Policies, Continued:

Recognition of Donor Restrictions: Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction.

Donated Goods and Services: Donated goods and services, including public service announcements, that are 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 upon receipt. Donated goods for the year ended September 30, 2014 amounted to \$15,954.

The Chapter did not receive any donated public service announcements during fiscal year 2014.

In addition, a number of volunteers have donated significant contributions of their time to the Chapter's program services and supporting services. The value of this contributed time is not reflected in these statements because they do not meet the criteria for revenue recognition established by ASC (Accounting Standards Codification) Section 958-605 (formerly Statement of Financial Accounting Standards No. 116, Contributions Received and Contributions Made).

Subsidies Received from the National Multiple Sclerosis Society: With the realignment in fiscal year 2014 with the Hampton Roads Chapter, formalizing the Central and Eastern Virginia Chapter, the Chapter incurred unanticipated expenses during fiscal year 2013. As a result of a recommendation forwarded to the Chapter Relations Committee, the Central Virginia Chapter was granted a subsidy of \$92,000 from the National Multiple Sclerosis Society. This amount is included in miscellaneous income in the Statement of Activities.

Leveraged Funds: The Chapter has committed to address the financial impact of MS on individuals and families. Enhancing the value of Society funds provided via the Society's financial assistance program by leveraging funds from other sources is one very effective way to address the financial needs of clients and also demonstrates the benefit of collaborations and partnerships in addressing those needs. During the course of fiscal year 2014 the Chapter was able to leverage \$16,945 on behalf of members.

**NATIONAL MULTIPLE SCLEROSIS SOCIETY;
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Notes to Financial Statements, Continued

1. Nature of Activities and Significant Accounting Policies, Continued:

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

Research and National Activities Expense: The Society calculates the national program expense for each chapter in advance of the fiscal year after a complete review by the Budget Review Committee and National Board. The chapter's national program expense is calculated using the average of the previous two year's audited results as the revenue base. 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 year 2014 the Chapter's National Program Expense under the new policy was calculated to be \$761,809. By setting the Chapter's National Programs Expense in advance, the Chapters and the national organization are in a better position to control resources through their respective budgeting and planning processes.

In addition to contributions remitted to National Headquarters, the Chapter also participates in the funding of National Headquarters' research campaign, certain specific research grants approved by National Headquarters and other National Headquarters activities. There were no additional contributions to National Headquarters for 2014.

In fiscal year 2015, as part of the combined Virginia – West Virginia Chapter (see Note 14, Subsequent Events), the chapter's national program expense will be determined in January 2015.

Income Taxes: The Chapter qualifies as a charitable organization as defined by the Internal Revenue Code Section 501(c)(3) and, accordingly, it is exempt from federal income taxes under Internal Revenue Code Section 501(a). Additionally, since the Chapter is publicly supported, contributions made to the Chapter qualify for the maximum charitable contributions deduction under the Internal Revenue Code. The Chapter is also exempt from taxes in the Commonwealth of Virginia.

Management analyzed the tax positions taken by the Chapter and concluded that, as of September 30, 2014, there were no uncertain tax positions taken or are expected to be taken. Accordingly, no interest or penalties related to uncertain tax positions have been accrued in the accompanying financial statements.

The Chapter is subject to audits by taxing jurisdictions; however no audit for any tax period is currently in progress. Management believes that the Chapter is no longer subject to such audits for years ended on or prior to September 30, 2010 under federal or Virginia State tax jurisdictions.

**NATIONAL MULTIPLE SCLEROSIS SOCIETY;
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Notes to Financial Statements, Continued

1. Nature of Activities and Significant Accounting Policies, Continued:

Concentration of Credit Risk: Deposits at the Chapter's financial institutions are insured by the Federal Deposit Insurance Corporation (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. The Chapter had approximately \$338,377 in uninsured cash and investment balances at September 30, 2014.

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 2014. 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.

Advertising: The Chapter expenses advertising costs as incurred. Advertising expense was \$48,523 in 2014.

2. Contributions:

During the year ended September 30, 2014, the Chapter received contributions of \$145,548, which was restricted by the donors to be used solely for local chapter services and sponsorship for special events.

3. Furniture and Equipment:

Below is a summary of property and equipment and accumulated depreciation at September 30, 2014:

Furniture, fixtures and equipment	\$ 1,496
Office equipment	<u>66,053</u>
	67,549
Less accumulated depreciation	<u>(41,549)</u>
	<u>\$ 26,000</u>

Depreciation expense amounted to \$14,246 for 2014.

**NATIONAL MULTIPLE SCLEROSIS SOCIETY;
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Notes to Financial Statements, Continued

4. Interest in Pooled Investment Fund:

The Chapter's trusts hold shares in the overall portfolio of the Society rather than the individual financial instruments and therefore have the same composition of investments as that of the Society's total trust fund portfolio. The Chapter's trust fund totaled \$54,081 which represents 0.78% of the Society's total trust fund investment portfolio and of the Society's total endowment investment portfolio as of September 30, 2014.

Investment net income totaled \$5,829 for the year ended September 30, 2014 which included interest and dividends of \$1,026, net realized/unrealized gains (losses) of \$5,058, and administration fees of \$255.

5. 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. Based on the number of remaining payments and a 1.28% discount rate, the fair value of the Chapter's interest in the trust was estimated to be \$226,786 at September 30, 2014. On an annual basis, the Chapter will revalue the contribution receivable based on current market conditions.

6. Fair Value Measurements:

The Chapter follows the provisions of ASC Section 820-10 (formerly known as FASB Statement of Financial Accounting Standards No. 157), *Fair Value Measurements* effective October 1, 2008. The standard establishes a fair value hierarchy for the inputs used to measure fair value based on the nature of the data input, which generally range 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.

Fair value measurements based on Level 1 inputs: Measurements that are most observable are based on quoted prices of identical instruments obtained from the principal markets where 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. The Chapter has no Level 1 financial assets.

**NATIONAL MULTIPLE SCLEROSIS SOCIETY;
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Notes to Financial Statements, Continued

6. Fair Value Measurements, Continued:

Fair value measurements based on Level 2 inputs: 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 others. The Chapter has no Level 2 financial assets.

Fair value measurements based on Level 3 inputs: 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.

Fair value for the beneficial interest in the charitable lead annuity trust is determined by the present value of its expected future cash flows. There have been no changes in the valuation techniques and related inputs. See Note 5 for further description of the inputs used in valuing this asset.

The Chapter's trusts hold shares in the overall portfolio of the Society rather than the individual financial instruments and therefore have the same composition of investments as that of the Society's total trust fund portfolio. As previously noted, the Chapter's trust fund represents 0.78% of the Society's total trust fund investment portfolio as of September 30, 2014. At September 30, 2014, the Society's pooled investment portfolio was classified within the FASB fair value hierarchy as 100% Level 1. While principally all of the underlying trusts' investments are readily marketable, based on quoted fair market values, since the Chapter's beneficial interest in the trust cannot be priced on an active exchange, the interests in the trust are classified as Level 3.

The following table provides the fair value hierarchy of the Chapter's financial assets as of September 30, 2014:

	Level 3	Total
Investment	\$ 54,081	\$ 54,081
Beneficial interest in charitable lead annuity trust	226,786	226,786
	\$ 280,867	\$ 280,867

**NATIONAL MULTIPLE SCLEROSIS SOCIETY;
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Notes to Financial Statements, Continued

6. 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 year ended September 30, 2014:

	<u>Investment</u>	<u>Beneficial Interest in Trust</u>
Balance at October 1, 2013	\$ 48,252	\$ 246,147
Distributions	-	(31,620)
Realized and unrealized gains on investments	5,829	-
Change in beneficial interest in charitable lead annuity	-	-
Balance at September 30, 2014	<u>\$ 54,081</u>	<u>\$ 214,527</u>

7. Restrictions and Limitations on 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 reasons:

Time restricted	\$ 226,786
Weekend retreat	7,894
Endowment accumulated earnings	16,955
Gift annuity	1,748
Lending library	564
Financial aid	5,386
Other	<u>524</u>
Total	<u>\$ 259,857</u>

Permanently restricted net assets totaled \$37,126 at September 30, 2014, and consisted of an endowment fund restricted for investment in perpetuity, the income from which is expendable to support the Chapter's programs.

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by the passage of time totaled \$24,246 during the year ended September 30, 2014.

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Notes to Financial Statements, Continued

8. Endowment:

The Chapter's endowment consists of funds established for a variety of purposes. As required by generally accepted accounting principles ("GAAP"), net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

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, 2014 follow:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 11,126	\$ 37,126	\$ 48,252
Net investment gain	<u>-</u>	<u>5,829</u>	<u>-</u>	<u>5,829</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 16,955</u>	<u>\$ 37,126</u>	<u>\$ 54,081</u>

**NATIONAL MULTIPLE SCLEROSIS SOCIETY;
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Notes to Financial Statements, Continued

8. Endowment, Continued:

Return Objectives and Risk Parameters

The Chapter has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Chapter must hold in perpetuity or for donor specified periods. Under this policy, as provided by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The endowments are to be thought of as a permanent fund. As such, the investment objectives require disciplined and consistent management philosophies that accommodate all those events which are relevant, reasonable, and probable. Therefore, periodic review of total rate of return and spending rate objectives is required. Extreme positions or variations in management style are not consistent with these objectives.

9. Lease Commitments:

The Chapter entered into a new lease for office space in Central Virginia, which contains a rent holiday, on September 1, 2010. Under this long-term agreement, the total amount of rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is credited to deferred revenue in the accompanying statement of financial position. The lease for the Central Virginia office expires in 2016 and the lease for the Virginia Beach office expires in 2015. Office rent expense for the year ended September 30, 2014 was \$92,682.

The Chapter also leases two copiers and a postage machine under lease agreements which expire on September 30, 2016, December 15, 2015 and January 31, 2015, respectively.

The future minimum lease payments under the lease agreements consist of the following at September 30, 2014:

2015	\$ 99,173
2016	<u>24,711</u>
	<u>\$ 123,884</u>

**NATIONAL MULTIPLE SCLEROSIS SOCIETY;
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Notes to Financial Statements, Continued

10. Pension Plan:

The Chapter participates in the Society's noncontributory 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. Employees become eligible on the first day of the first month after beginning employment and all covered employees receive a contribution on September 30 each year. Employees are fully vested at the end of five years. The contribution rate for the years ended September 30, 2014, as determined by the Society's President & Chief Executive Officer was 3% of gross annual salary. The pension expense incurred by the Chapter related to this plan for the year ended September 30, 2014 was \$16,784.

11. Related Parties:

From time to time, other chapters receive donated funds and share expenses for joint events with the Chapter. In addition, other chapters reimburse certain expenses to the Chapter. These expenses include salary and benefit expenses for certain shared employees and other operational expenses primarily related to advocacy activities. At September 30, 2014, the balance due from other chapters for joint events and operational expenses was \$46,930. During the years ended September 30, 2014, the Chapter incurred \$51,072, respectively in operational expenses which are reimbursed by other chapters.

12. Gift Annuity:

The Chapter is the beneficiary of a split-interest agreement with a donor, whereby the 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 split-interest agreement for 2014 was \$1,748. Loss derived from changes in value of the agreement for 2014 was \$30.

13. Realignment:

As discussed in Note 1, effective October 1, 2013 the Central Virginia Chapter and the Hampton Roads Chapter realigned to form the Central and Eastern Virginia Chapter of the National Multiple Sclerosis Society. No consideration was exchanged in the combination.

**NATIONAL MULTIPLE SCLEROSIS SOCIETY;
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Notes to Financial Statements, Continued

13. Realignment, Continued:

The remaining assets of the Hampton Roads Chapter were recorded at fair market value as of the date of realignment, which were estimated to approximate book value recorded on the Hampton Roads Chapter's books. The following is a summary of the assets acquired, liabilities assumed and the contribution recognized as a result of the realignment:

Assets:

Cash	\$ 105,363
Receivables	12,956
Prepaid expenses	4,838
Investment	48,252
Beneficial interest in trust	246,147
Furniture and equipment, net	<u>9,627</u>

Total assets acquired 427,183

Liabilities:

Due to related party	5,702
Accounts payable	15,515
Accrued expenses	12,539
Deferred rent	<u>10,997</u>

Total liabilities assumed 44,753

Excess of assets over liabilities contributed \$ 382,430

14. Subsequent Events:

The Board has approved that effective January 1, 2015, the Central and Eastern Virginia Chapter and the Blue Ridge Chapter will realign to form the Virginia – West Virginia Chapter of the National Multiple Sclerosis Society. The realignment will be conducted in part to unify the Chapters and to more effectively deploy resources in the region. The transaction will be treated as an acquisition for accounting purposes. No consideration will be exchanged in the combination.

The remaining assets of the Blue Ridge Chapter will be recorded at fair market value as of the date of realignment, which will be estimated to approximate book value recorded on the Blue Ridge Chapter's books.

Management has evaluated subsequent events through December 18, 2014, the date the financial statements were available to be issued, and has determined there are no other subsequent events to be reported in the accompanying financial statements.