

**National Multiple Sclerosis Society,
Kentucky - Southeast Indiana Chapter**

Report on Audits of Financial Statements

**For the Years Ended
September 30, 2016 and 2015**

National Multiple Sclerosis Society, Kentucky-Southeast Indiana Chapter

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September 30, 2016 and 2015

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Independent Auditor's Report

To the Board of Trustees
National Multiple Sclerosis Society, Kentucky-Southeast Indiana Chapter

Report on the Financial Statements

We have audited the accompanying financial statements of National Multiple Sclerosis Society, Kentucky-Southeast Indiana Chapter ("the Chapter") (a nonprofit organization), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities, cash flows and functional expenses for the years 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.

Auditor's Responsibility

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 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 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.

Kentucky
Indiana
Ohio

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Independent Auditor's Report (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Multiple Sclerosis Society, Kentucky-Southeast Indiana Chapter as of September 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years 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 L 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.

A handwritten signature in cursive script that reads "M. Chilton Muddly, LLP".

Jeffersonville, Indiana
December 20, 2016

National Multiple Sclerosis Society, Kentucky-Southeast Indiana Chapter
Statements of Financial Position
September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 118,647	\$ 167,223
Contributions receivable, net	118,560	414,817
Due from National Multiple Sclerosis Society	-	4,142
Prepaid expenses and other assets	<u>4,455</u>	<u>16,668</u>
Total Current Assets	241,662	602,850
Noncurrent Assets		
Contributions receivable, net	-	1,393
Rent and security deposits	1,800	1,800
Assets held by Community Foundation of Louisville	-	11,927
Furniture, fixtures and equipment, net	2,492	4,029
Interest in National Multiple Sclerosis Society's pooled investments	<u>159,245</u>	<u>507</u>
Total Noncurrent Assets	<u>163,537</u>	<u>19,656</u>
Total Assets	<u><u>\$ 405,199</u></u>	<u><u>\$ 622,506</u></u>
Liabilities and Net Assets		
Current Liabilities		
Due to National Multiple Sclerosis Society:		
Other payables to home office	\$ -	\$ 869
Due to other chapters	150	-
Accounts payable and accrued expenses	74,816	113,540
Deferred revenue	<u>4,582</u>	<u>14,900</u>
Total Current Liabilities	79,548	129,309
Net Assets		
Unrestricted	325,651	481,270
Temporarily restricted	-	5,927
Permanently restricted	<u>-</u>	<u>6,000</u>
Total Net Assets	<u>325,651</u>	<u>493,197</u>
Total Liabilities and Net Assets	<u><u>\$ 405,199</u></u>	<u><u>\$ 622,506</u></u>

See accompanying notes.

National Multiple Sclerosis Society, Kentucky-Southeast Indiana Chapter
Statements of Activities
For the Years Ended September 30, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support								
Received Directly								
Special events (includes in-kind donations of \$89,320 in 2016 and \$107,518 in 2015)	\$ 956,892	\$ -	\$ -	\$ 956,892	\$ 1,107,482	\$ -	\$ -	\$ 1,107,482
Benefit to donor expenses	(276,085)	-	-	(276,085)	(264,245)	-	-	(264,245)
	680,807	-	-	680,807	843,237	-	-	843,237
Contributions (includes in-kind donations of \$-0- in 2016 and \$15,211 in 2015)	103,650	-	-	103,650	389,092	-	-	389,092
Legacies	37,267	-	-	37,267	34,532	-	-	34,532
Total Revenue from the Public	821,724	-	-	821,724	1,266,861	-	-	1,266,861
Investment Income (Loss), Net	27,367	-	-	27,367	(10,207)	(160)	-	(10,367)
Service Program Fees	440	-	-	440	-	-	-	-
Miscellaneous Income	-	-	-	-	97	-	-	97
Net Assets Released from Restriction	11,927	(5,927)	(6,000)	-	-	-	-	-
Total Revenues	861,458	(5,927)	(6,000)	849,531	1,256,751	(160)	-	1,256,591
Expenses								
Program Services:								
Research	238,373	-	-	238,373	421,607	-	-	421,607
Client programs	148,599	-	-	148,599	175,216	-	-	175,216
Community programs	62,564	-	-	62,564	76,022	-	-	76,022
Professional education and training	38,569	-	-	38,569	45,777	-	-	45,777
Public education	119,625	-	-	119,625	161,572	-	-	161,572
Total Program Services	607,730	-	-	607,730	880,194	-	-	880,194
Supporting Services:								
Fund-raising	268,587	-	-	268,587	299,520	-	-	299,520
Management and general	140,760	-	-	140,760	143,754	-	-	143,754
Total Supporting Services	409,347	-	-	409,347	443,274	-	-	443,274
Total Expenses	1,017,077	-	-	1,017,077	1,323,468	-	-	1,323,468
Change in Net Assets	(155,619)	(5,927)	(6,000)	(167,546)	(66,717)	(160)	-	(66,877)
Net Assets at Beginning of Year	481,270	5,927	6,000	493,197	547,987	6,087	6,000	560,074
Net Assets at End of Year	\$ 325,651	\$ -	\$ -	\$ 325,651	\$ 481,270	\$ 5,927	\$ 6,000	\$ 493,197

See accompanying notes.

National Multiple Sclerosis Society, Kentucky-Southeast Indiana Chapter
Statements of Cash Flows
For the Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ (167,546)	\$ (66,877)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Bad debt expense	21,102	2,435
Depreciation	2,866	2,478
(Gain) loss on investments, net	(23,301)	16,942
Interest and dividends on investments	(4,066)	(6,735)
Community Foundation of Louisville account writeoff *	11,927	-
Changes in operating assets and liabilities:		
Contributions receivable	276,548	(36,566)
Due from National Multiple Sclerosis Society	4,142	(319)
Prepaid expenses and other assets	12,214	(9,080)
Due to National Multiple Sclerosis Society	(869)	(250,844)
Due to other chapters	150	-
Accounts payable and accrued expenses	(38,723)	49,835
Deferred revenue	<u>(10,318)</u>	<u>(1,850)</u>
Net Cash Provided (Used) by Operating Activities	84,126	(300,581)
Cash Flows from Investing Activities		
Purchase of investments	(250,000)	-
Proceeds from sale of investments	118,629	216,939
Purchases of furniture, fixtures, and equipment	<u>(1,331)</u>	<u>(1,998)</u>
Net Cash (Used) Provided by Investing Activities	(132,702)	214,941
Cash Flows from Financing Activities		
Net change to restricted investments	<u>-</u>	<u>160</u>
Net Cash Provided by Financing Activities	<u>-</u>	<u>160</u>
Net Decrease in Cash	(48,576)	(85,480)
Cash and Cash Equivalents at Beginning of Year	<u>167,223</u>	<u>252,703</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 118,647</u></u>	<u><u>\$ 167,223</u></u>

* Refer to Note D in the accompanying notes.

See accompanying notes.

National Multiple Sclerosis Society, Kentucky-Southeast Indiana Chapter
Statement of Functional Expenses
For the Year Ended September 30, 2016

	Program Services						Supporting Services		Total Programs & Support	Benefit To Donor Costs	Grand Total
	Research	Client Programs	Community Programs	Professional Education and Training	Public Education	Total	Fund-raising	Management and General			
Salaries	\$ -	\$ 30,196	\$ 15,495	\$ 15,098	\$ 23,069	\$ 83,858	\$ 89,024	\$ 75,441	\$ 248,323	\$ -	\$ 248,323
Employee benefits	-	3,084	1,583	1,542	2,356	8,565	9,093	7,706	25,364	-	25,364
Payroll taxes	-	3,021	1,550	1,511	2,308	8,390	8,907	7,548	24,845	-	24,845
Total Salaries and Related Expenses	-	36,301	18,628	18,151	27,733	100,813	107,024	90,695	298,532	-	298,532
Printing	-	2,078	402	392	8,588	11,460	16,589	1,957	30,006	-	30,006
Postage and shipping	-	470	126	123	201	920	3,215	615	4,750	-	4,750
Telephone	-	492	253	246	376	1,367	1,457	1,230	4,054	-	4,054
Supplies	-	446	191	186	284	1,107	1,503	929	3,539	7,618	11,157
Dues and memberships	-	259	84	82	125	550	1,629	409	2,588	-	2,588
Professional and other contract service fees	-	2,260	714	696	1,063	4,733	63,737	3,477	71,947	-	71,947
Travel	-	3,035	4,168	341	545	8,089	16,087	1,704	25,880	134,520	160,400
Meetings	-	29,609	124	74	114	29,921	2,126	372	32,419	26,009	58,428
Occupancy	-	2,975	1,527	1,488	2,273	8,263	9,720	7,433	25,416	36,925	62,341
Furniture and equipment	-	463	237	231	353	1,284	1,364	1,156	3,804	-	3,804
Direct Financial Assistance	-	21,706	-	-	-	21,706	-	-	21,706	-	21,706
Awards and prizes	-	135	40	39	59	273	445	193	911	35,502	36,413
Miscellaneous expense	-	1,914	901	877	1,341	5,033	16,055	4,385	25,473	35,511	60,984
Bad debt expense	-	599	307	300	458	1,664	17,941	1,497	21,102	-	21,102
Depreciation	-	349	179	174	266	968	1,027	871	2,866	-	2,866
NPE Additional Allocation Society Activities	-	-	8,679	-	-	8,679	-	-	8,679	-	8,679
Total Expenses Before Chapter Support of Society Initiatives	-	103,091	36,560	23,400	43,779	206,830	259,919	116,923	583,672	276,085	859,757
Chapter Support of Society Initiatives	238,373	45,508	26,004	15,169	75,846	400,900	8,668	23,837	433,405	-	433,405
Total Expenses	\$ 238,373	\$ 148,599	\$ 62,564	\$ 38,569	\$ 119,625	\$ 607,730	\$ 268,587	\$ 140,760	\$ 1,017,077	\$ 276,085	\$ 1,293,162
Less Direct Benefit to Donor Costs											(276,085)
Total Expenses as Reported on the Statements of Activities											\$ 1,017,077

See accompanying notes.

National Multiple Sclerosis Society, Kentucky-Southeast Indiana Chapter
Statement of Functional Expenses
For the Year Ended September 30, 2015

	Program Services						Supporting Services		Total Programs & Support	Benefit To Donor Costs	Grand Total
	Research	Client Programs	Community Programs	Professional Education and Training	Public Education	Total	Fund-raising	Management and General			
Salaries	\$ -	\$ 41,284	\$ 33,937	\$ 22,391	\$ 46,882	\$ 144,494	\$ 122,104	\$ 83,268	\$ 349,866	\$ -	\$ 349,866
Employee benefits	-	4,419	3,633	2,397	5,018	15,467	13,070	8,913	37,450	-	37,450
Payroll taxes	-	3,980	3,272	2,159	4,519	13,930	11,771	8,027	33,728	-	33,728
Total Salaries and Related Expenses	-	49,683	40,842	26,947	56,419	173,891	146,945	100,208	421,044	-	421,044
Printing	-	1,738	531	351	6,704	9,324	14,937	1,304	25,565	-	25,565
Postage and shipping	-	732	449	296	674	2,151	3,754	1,102	7,007	-	7,007
Telephone	-	1,155	1,005	627	1,312	4,099	3,417	2,330	9,846	-	9,846
Supplies	-	1,309	735	469	983	3,496	2,787	1,746	8,029	21,746	29,775
Dues and memberships	-	530	554	201	420	1,705	1,234	746	3,685	-	3,685
Professional and other contract service fees	-	9,529	2,196	1,449	3,709	16,883	64,225	5,389	86,497	-	86,497
Donated advertising	-	-	-	-	-	-	13,000	-	13,000	-	13,000
Travel	-	2,837	4,807	375	812	8,831	9,449	1,393	19,673	105,179	124,852
Meetings	-	32,335	449	213	445	33,442	5,709	791	39,942	10,826	50,768
Occupancy	-	2,755	2,264	1,494	3,128	9,641	12,361	5,556	27,558	49,987	77,545
Furniture and equipment	-	364	299	197	413	1,273	1,075	733	3,081	-	3,081
Direct Financial Assistance	-	30,429	-	-	-	30,429	-	-	30,429	-	30,429
Awards and prizes	-	504	17	11	24	556	321	43	920	33,083	34,003
Miscellaneous expense	-	166	130	86	180	562	10,555	319	11,436	43,424	54,860
Bad debt expense	-	-	-	-	-	-	2,435	-	2,435	-	2,435
Depreciation	-	292	240	159	332	1,023	865	590	2,478	-	2,478
Restricted contributions to Society Research Initiatives	180,761	-	-	-	-	180,761	-	-	180,761	-	180,761
Total Expenses Before Chapter Support of Society Initiatives	180,761	134,358	54,518	32,875	75,555	478,067	293,069	122,250	893,386	264,245	1,157,631
Chapter Support of Society Initiatives	240,846	40,858	21,504	12,902	86,017	402,127	6,451	21,504	430,082	-	430,082
Total Expenses	\$ 421,607	\$ 175,216	\$ 76,022	\$ 45,777	\$ 161,572	\$ 880,194	\$ 299,520	\$ 143,754	\$ 1,323,468	\$ 264,245	\$ 1,587,713
Less Direct Benefit to Donor Costs											(264,245)
Total Expenses as Reported on the Statements of Activities											\$ 1,323,468

See accompanying notes.

National Multiple Sclerosis Society, Kentucky-Southeast Indiana Chapter
Notes to Financial Statements
September 30, 2016 and 2015

Note A - Nature of 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 can live their best lives as we stop MS in its tracks, restore what has been lost and end MS forever. The Kentucky-Southeast Indiana Chapter ("the Chapter") raises funds in Kentucky and Southeast Indiana. 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 Society and 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 Society is publicly supported, contributions qualify for the maximum charitable contribution deduction under the IRC.

Note B - Summary of Significant Accounting Policies

1. Basis of Accounting: The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Accounting Standards Codification ("ASC") as produced by the Financial Accounting Standards Board ("FASB") is the sole source of authoritative GAAP.
2. Use of Estimates: The preparation of financial statements in conformity with 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. The most significant of which 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.

Functional expenses that are not specifically attributable to program services or supporting services are allocated by management based on various allocation factors.
3. Cash and Cash Equivalents: The Chapter considers highly liquid investments with maturities of three months or less when purchased to be cash equivalents.
4. Contributions Receivable: Contributions receivable consist of accruals of public support received after year end that pertained to fundraising events held during the fiscal years ended September 30, 2016 and 2015 as well as multi-year pledges for a campaign to raise funds for research. Receivables are recorded at net realizable value, net of an allowance for uncollectible amounts. The Chapter has established an allowance for uncollectible amounts of \$7,000 and \$-0-, respectively, for the years ended September 30, 2016 and 2015. 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.
5. Conditional Promises to Give: Conditional promises to give are not recognized in the financial statements until the conditions attached to the contributions have been substantially met. The Chapter evaluates the conditions for each contribution on an annual basis, in accordance with U.S. generally accepted accounting principles, to determine if the conditions have been substantially met. There are no conditional promises to give that have not been recognized in the financial statements as of September 30, 2016 and 2015. See Note C for additional information on recognized conditional promises to give.

National Multiple Sclerosis Society, Kentucky-Southeast Indiana Chapter
Notes to Financial Statements (Continued)
September 30, 2016 and 2015

Note B - Summary of Significant Accounting Policies (Continued)

6. Investments: The Chapter's investments in equity and debt securities are stated at their quoted market prices, with the net change in unrealized gains or losses included in the statement of activities. See Notes D and E for additional information.
7. Furniture, Fixtures and Equipment: Furniture, fixtures and equipment are recorded at cost. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets. 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 estimated useful lives of furniture, fixtures and equipment are 3 to 10 years.
8. 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 purposes as follows:
 - *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 programs 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.
 - *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.

9. Donated Goods and Services: Donated goods and services, including public services 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.

	2016	2015
Donated goods	\$ 61,930	\$ 85,718
Donated services	27,390	37,011
Total	\$ 89,320	\$ 122,729

Donated advertising received in fiscal year 2016 and 2015 totaled approximately \$0- and \$13,000, respectively, and is reflected above as donated services and as fundraising expense in the accompanying statement of activities.

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 established by ASC Section 958-605 (formerly Statement of Financial Accounting Standards No. 116, *Contributions Received and Contributions Made*).

National Multiple Sclerosis Society, Kentucky-Southeast Indiana Chapter
Notes to Financial Statements (Continued)
September 30, 2016 and 2015

Note B - Summary of Significant Accounting Policies (Continued)

10. 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 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 in the statement 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.

11. Advertising: Advertising costs are expensed as incurred. Advertising expense was \$106 and \$18,171 for the years ended September 30, 2016 and 2015 respectively, consisting of \$-0- and \$13,000 in donated services, respectively.
12. 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 is comprised of 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 year 2016 and 2015, the Chapter's NPE was calculated to be \$433,405 and \$430,082, respectively. These amounts are reflected as Chapter Support of Society Initiatives in the accompanying statements of functional expenses. As the Society implements a single audit in fiscal 2017 (see Note L), NPE will no longer be calculated after September 30, 2016.

In addition to the fixed amount of National Programs Expense, the Chapter made an additional contribution to the national organization in the amount of \$-0- and \$180,761 for the years ended September 30, 2016 and 2015, respectively. The contributions were earmarked for research. This amount is reflected as a "Research" expense in the accompanying statements of activities.

National Multiple Sclerosis Society, Kentucky-Southeast Indiana Chapter
Notes to Financial Statements (Continued)
September 30, 2016 and 2015

Note B - Summary of Significant Accounting Policies (Continued)

13. Society Reserves Policy and Deployment of Excess Reserves: As required by the Society's Reserves Policy, the Chapter deployed \$-0- and \$180,761 of its excess reserves in fiscal year 2016 and 2015, respectively, to fund initiatives in support of the Society's Strategic Goals. The deployment of reserves contributed to the fiscal year 2015 negative change in net assets.

The Reserves Policy ensures financial stability and operating liquidity while optimizing the return on financial assets. The Society's Investment Committee provides oversight to the fund. The Society identifies expendable net assets in excess of 35% of its adjusted expenses as excess reserves available for deployment in support of Society initiatives.

14. Concentration of Credit Risk: Deposits at the Chapter's financial institutions are insured by the Federal Deposit Insurance Corporation 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 \$-0- and \$76,400 of uninsured cash balances as of September 30, 2016 and 2015, respectively.
15. Subsequent Events: Subsequent events for the Chapter have been evaluated through the date of the Independent Auditor's Report, which represents the date that the financial statements were available to be issued. With the exception of those matters discussed in Note L, there were no material subsequent events that required recognition or additional disclosure in these financial statements.

Note C - Contributions Receivable

Contributions receivable consist of accruals of public support for fundraising events held during the years ended September 30, 2016 and 2015. During the year ended September 30, 2015, the Chapter received notification that the criteria for a conditional promise to give had been met from an organization totaling \$250,000. This contribution is recorded in "Contributions receivable" in the statements of financial position and "Contributions" in the statements of activities for the year ended December 31, 2015. In addition, during the year ended September 30, 2013, the Chapter held a campaign to raise funds for research which consisted of multi-year pledges, some of which are still outstanding as of September 30, 2016.

Contributions receivable are due according to the following schedule:

	2016	2015
Contributions receivable in less than one year	\$ 125,560	\$ 414,817
Contributions receivable in one to four years	-	1,500
Gross Contributions Receivable	125,560	416,317
Less: allowance for doubtful accounts	(7,000)	-
Less: discount for present value	-	(107)
Net Contributions Receivable	118,560	416,210
Less: current portion	(118,560)	(414,817)
Net Contributions Receivable, Noncurrent Portion	\$ -	\$ 1,393

Contributions receivable in future years have been discounted at 2.5%.

National Multiple Sclerosis Society, Kentucky-Southeast Indiana Chapter
Notes to Financial Statements (Continued)
September 30, 2016 and 2015

Note D - Assets Held by Community Foundation of Louisville

In a prior year, funds were transferred to the Community Foundation of Louisville (the "Foundation") to create an endowment within the Foundation. The Chapter originally believed it was the beneficiary and the transfer did not meet the conditions of an equity transaction. The funds were considered a refundable advance and were reported as an asset of the Chapter on the statement of financial position as of September 30, 2015. However, during fiscal year 2016, it was discovered that funds did not originate from the Chapter and the Chapter does not have the ability to designate a beneficiary. Therefore, the corresponding asset was removed from the statement of financial position and recognized in miscellaneous expense on the statement of functional expenses for the year ended September 30, 2016. There is a corresponding non-cash disclosure in the statement of cash flows for the year ended September 30, 2016.

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Assets held by Community Foundation of Louisville	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,000</u>	<u>\$ 11,927</u>

The Chapter reported net investment loss/income of \$-0- and \$(160) for the years ended September 30, 2016 and 2015, respectively, as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ -	\$ 291
Realized gain	-	404
Unrealized (loss) gain	<u>-</u>	<u>(855)</u>
	-	(160)
Less: fees	<u>-</u>	<u>-</u>
Total	<u>\$ -</u>	<u>\$ (160)</u>

National Multiple Sclerosis Society, Kentucky-Southeast Indiana Chapter
Notes to Financial Statements (Continued)
September 30, 2016 and 2015

Note E - Fair Value Measurements

The Chapter adopted the provisions of ASC Section 820-10 (formerly known as FASB Statement of Financial Accounting Standards No. 157), *Fair Value Measurements ("FAQS 157") effective October 1, 2008*. Accounting standards for fair value measurements (ASC820-10) 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 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.

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.

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.

Following is a description of the valuation methodologies used for the assets and liabilities measured at fair value. There have been no changes in the methodologies used to determine fair value at September 30, 2016 and 2015.

Assets held by the Community Foundation of Louisville: These investments were valued using the Net Asset Value ("NAV") provided by the Foundation. The NAV is based on the value of the underlying investment assets. See Note D for additional disclosure.

Interest in National Multiple Sclerosis Society's pooled investments: 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 interest in the pooled investments cannot be priced on an active exchange, the interests in the trust are classified as Level 3.

National Multiple Sclerosis Society, Kentucky-Southeast Indiana Chapter
Notes to Financial Statements (Continued)
September 30, 2016 and 2015

Note E - Fair Value Measurements (Continued)

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

September 30, 2016

	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents*	\$ 99,847	\$ 99,847	\$ -	\$ -
Interest in National Multiple Sclerosis Society's pooled Investment fund	159,245	-	-	159,245
	<u>\$ 259,092</u>	<u>\$ 99,847</u>	<u>\$ -</u>	<u>\$ 159,245</u>

September 30, 2015

	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents*	\$ 145,195	\$ 145,195	\$ -	\$ -
Assets held by Community Foundation of Louisville	11,927	-	11,927	-
Interest in National Multiple Sclerosis Society's pooled Investment fund	507	-	-	507
	<u>\$ 157,629</u>	<u>\$ 145,195</u>	<u>\$ 11,927</u>	<u>\$ 507</u>

*Represents cash and cash equivalents that are interest-bearing and are included in cash and cash equivalents in the accompanying statements of financial position.

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 and 2015:

	2016	2015
Fair value, beginning of year	\$ 507	\$ 227,653
Purchases	250,000	-
Sales	(118,629)	(216,939)
Unrealized gain (loss)	23,301	(16,942)
Interest and dividends	4,066	6,735
Fair Value, End of Year	<u>\$ 159,245</u>	<u>\$ 507</u>

National Multiple Sclerosis Society, Kentucky-Southeast Indiana Chapter
Notes to Financial Statements (Continued)
September 30, 2016 and 2015

Note F - 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 for the years ended September 30, 2016 and 2015 totaled \$159,245 and \$507, which represents 0.32% and -0-%, respectively, of the Society's total pooled investment fund as of September 30, 2016 and 2015.

Investment net income (loss) totaled \$27,367 and \$(10,207) for the years ended September 30, 2016 and 2015, respectively, which included interest and dividends of \$4,066 and \$6,735, net realized/unrealized gains (losses) of \$23,301 and \$(16,942), respectively, and administration fees of \$-0- for both years ended September 30, 2016 and 2015.

Note G - Furniture, Fixtures and Equipment

Furniture, fixtures and equipment at September 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Computer hardware and purchased software	\$ 4,364	3,035
Furniture and fixtures	5,675	5,675
Equipment	9,891	9,891
Less: accumulated depreciation	<u>(17,438)</u>	<u>(14,572)</u>
Furniture, Fixtures and Equipment, Net	<u>\$ 2,492</u>	<u>\$ 4,029</u>

National Multiple Sclerosis Society, Kentucky-Southeast Indiana Chapter
Notes to Financial Statements (Continued)
September 30, 2016 and 2015

Note H - 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 noncontributory 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 month after beginning employment and all covered employees received an annual contribution (after September 30) if they worked 1000 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 Chief Executive Officer was 3% of gross annual salary. Chapter contributions to employees were vested after 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 \$5,536 while the retirement expense for fiscal 2016 was incurred by the Society rather than the Chapter.

Note I - Commitments and Contingencies

The Chapter leases its administrative offices. The lease expires December 31, 2017. The Chapter generally recognizes rent expense based on the straight-lining of the minimum lease payments over the respective terms of the lease. Monthly lease payments are \$1,975 effective January 1, 2015. The rental expense of Chapter office space was \$23,700 and \$23,274 for the years ended September 30, 2016 and 2015, respectively.

The Chapter leases its copier. The lease expires in August 2018. Under the agreement, monthly base lease payments are approximately \$307 with an additional predetermined per image charge. The copy expense of the Chapter was \$3,471 and \$1,987 for the years ended September 30, 2016 and 2015, respectively.

Minimum rental payments are as follows for the years ended September 30:

2017	\$ 27,378
2018	<u>9,297</u>
Total	<u>\$ 36,675</u>

Note J - Concentration of Risk

Approximately 56% and 51% of the Chapter's revenue for the years ended September 30, 2016 and 2015, respectively, came from three major fundraising events. In addition, during the years ended September 30, 2015, the Chapter received a contribution from one organization which represented 20% of the Chapter's revenue.

National Multiple Sclerosis Society, Kentucky-Southeast Indiana Chapter
Notes to Financial Statements (Continued)
September 30, 2016 and 2015

Note K - Income Tax Status

Guidance in the area of "Accounting for Uncertainty in Income Taxes" under the Financial Accounting Standards Board (the "FASB") Accounting Standards Codification, 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 were to be challenged by a taxing authority. The standard also provides guidance on measurement, classification, interest and penalties, and disclosure. The fiscal years ended 2013, 2014, 2015, and 2016 remain open to audit for both federal and state purposes. 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.

Note L - 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 (EIN) effective October 1, 2016. The transition will better align Society resources so that the organization can maximize its impact. For accounting purposes, the transaction 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.

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

Cash and Cash Equivalents	\$	118,647
Contributions Receivable, net		118,560
Investments		159,245
Prepaid Expenses and Other Assets		4,455
Rent and Security Deposits		1,800
Furniture, Fixtures, and Equipment, net		2,492
Accounts Payable and Accrued Expenses		(74,816)
Deferred Revenue		(4,582)
Due to Other Chapters		(150)
Inherent Contribution Received		(325,651)

The excess fair value of assets received over liabilities assumed, totaling \$325,651, is reported as a contribution received in the acquisition of the Chapter on the statement of activities and changes in net assets of the realigned Society entity in fiscal 2017.