

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
NORTHERN CALIFORNIA CHAPTER**

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

EKS&H
AUDIT | TAX | CONSULTING

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
NORTHERN CALIFORNIA CHAPTER**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
The National Multiple Sclerosis Society Northern California Chapter
San Francisco, California

We have audited the accompanying financial statements of The National Multiple Sclerosis Society Northern California Chapter (the "Chapter"), which are comprised of the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows 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.

AUDITORS' 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 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.

To the Board of Trustees
The National Multiple Sclerosis Society Northern California Chapter
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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 Northern California 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 12 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.

EKS+H LLLP
EKS&H LLLP

December 19, 2016
Denver, Colorado

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
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Statements of Financial Position

	September 30,	
	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 1,138,607	\$ 1,131,324
Contributions receivable	230,331	472,009
Contributions receivable from home office	9,920	170
Due from other chapters	10,752	39,563
Prepaid expenses	51,383	49,752
Total current assets	1,440,993	1,692,818
Non-current assets		
Contributions receivable	-	4,670
Security deposits	5,750	4,550
Property and equipment, net	8,973	16,701
Interest in The National Multiple Sclerosis Society's pooled investment fund	1,568,424	2,010,338
Due from home office - charitable gift annuities	3,503	31,194
Total non-current assets	1,586,650	2,067,453
Total assets	\$ 3,027,643	\$ 3,760,271
Liabilities and Net Assets		
Current liabilities		
Due to home office		
Remittance due to home office	\$ -	\$ 216,084
Other payables to home office	-	20,734
Due to other chapters	2,931	11,195
Accounts payable and accrued expenses	338,888	398,281
Deferred revenue	156,855	100,907
Deferred rent liability	12,531	-
Total current liabilities	511,205	747,201
Long-term liabilities		
Deferred rent liability, net of current portion	54,054	21,838
Total long-term liabilities	54,054	21,838
Total liabilities	565,259	769,039
Commitments and contingencies		
Net assets		
Unrestricted	2,453,947	2,935,368
Temporarily restricted	8,437	55,864
Total net assets	2,462,384	2,991,232
Total liabilities and net assets	\$ 3,027,643	\$ 3,760,271

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		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue						
Public support						
Special events (includes in-kind donations of \$155,806 (2016) and \$250,217 (2015))	\$ 4,069,818	\$ -	\$ 4,069,818	\$ 4,338,857	\$ -	\$ 4,338,857
Less benefit-to-donor costs	(640,788)	-	(640,788)	(747,004)	-	(747,004)
Total received directly	3,429,030	-	3,429,030	3,591,853	-	3,591,853
Contributions	1,833,061	-	1,833,061	618,148	24,670	642,818
Legacies	1,232,998	-	1,232,998	1,174,902	-	1,174,902
Total public support	<u>6,495,089</u>	<u>-</u>	<u>6,495,089</u>	<u>5,384,903</u>	<u>24,670</u>	<u>5,409,573</u>
Other revenue (loss)						
Investment income (loss)	124,599	-	124,599	(137,551)	27,845	(109,706)
Service program fees	10,245	-	10,245	3,278	-	3,278
Subsidies	-	-	-	27,869	-	27,869
Miscellaneous income	-	-	-	7,749	-	7,749
Total other revenue (loss)	<u>134,844</u>	<u>-</u>	<u>134,844</u>	<u>(98,655)</u>	<u>27,845</u>	<u>(70,810)</u>
Net assets released from restrictions	47,427	(47,427)	-	1,998	(1,998)	-
Total support and revenue	<u>6,677,360</u>	<u>(47,427)</u>	<u>6,629,933</u>	<u>5,288,246</u>	<u>50,517</u>	<u>5,338,763</u>
Expenses						
Program services						
Research	2,900,786	-	2,900,786	1,363,970	-	1,363,970
Client programs	1,091,311	-	1,091,311	985,457	-	985,457
Community programs	635,829	-	635,829	583,537	-	583,537
Professional education and training	205,921	-	205,921	234,361	-	234,361
Public education	1,089,703	-	1,089,703	972,813	-	972,813
Total program services	<u>5,923,550</u>	<u>-</u>	<u>5,923,550</u>	<u>4,140,138</u>	<u>-</u>	<u>4,140,138</u>
Supporting services						
Fundraising	964,824	-	964,824	823,780	-	823,780
Management and general	270,407	-	270,407	341,411	-	341,411
Total supporting services	<u>1,235,231</u>	<u>-</u>	<u>1,235,231</u>	<u>1,165,191</u>	<u>-</u>	<u>1,165,191</u>
Total expenses	<u>7,158,781</u>	<u>-</u>	<u>7,158,781</u>	<u>5,305,329</u>	<u>-</u>	<u>5,305,329</u>
Change in net assets	(481,421)	(47,427)	(528,848)	(17,083)	50,517	33,434
Net assets at beginning of year	<u>2,935,368</u>	<u>55,864</u>	<u>2,991,232</u>	<u>2,952,451</u>	<u>5,347</u>	<u>2,957,798</u>
Net assets at end of year	<u>\$ 2,453,947</u>	<u>\$ 8,437</u>	<u>\$ 2,462,384</u>	<u>\$ 2,935,368</u>	<u>\$ 55,864</u>	<u>\$ 2,991,232</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	\$ -	\$ 297,271	\$ 290,358	\$ 82,959	\$ 400,970	\$ 1,071,558	\$ 255,791	\$ 55,306	\$ 1,382,655	\$ -	\$ 1,382,655
Employee benefits	-	21,325	20,829	5,951	28,764	76,869	18,349	3,967	99,185	-	99,185
Payroll taxes	-	26,491	25,875	7,393	35,733	95,492	22,795	4,929	123,216	-	123,216
Total salaries and related expenses	-	345,087	337,062	96,303	465,467	1,243,919	296,935	64,202	1,605,056	-	1,605,056
Expenses											
Printing	-	1,125	555	149	25,809	27,638	18,805	100	46,543	-	46,543
Postage and shipping	-	1,513	557	159	9,552	11,781	7,250	106	19,137	-	19,137
Telephone	-	1,946	2,010	454	4,104	8,514	1,465	303	10,282	-	10,282
Supplies	-	4,677	1,621	360	2,829	9,487	5,964	240	15,691	35,628	51,319
Dues and memberships	-	70	1,128	20	189	1,407	153	13	1,573	-	1,573
Professional and other contract service fees	-	71,996	31,987	2,220	23,455	129,658	251,198	1,491	382,347	-	382,347
Donated public service announcements and advertising	-	-	-	-	-	-	87,000	-	87,000	-	87,000
Travel	-	36,017	30,256	538	2,609	69,420	46,115	359	115,894	229,760	345,654
Meetings	-	30,939	13,287	377	32,236	76,839	7,077	364	84,280	5,937	90,217
Occupancy	-	64,635	63,132	18,038	87,182	232,987	55,616	12,025	300,628	163,529	464,157
Furniture and equipment	-	3,250	3,175	907	4,384	11,716	2,797	605	15,118	-	15,118
Direct financial assistance	-	269,611	-	-	-	269,611	-	-	269,611	-	269,611
Awards and prizes	-	184	256	5	51	496	1,259	3	1,758	82,207	83,965
Miscellaneous expense	-	3,697	3,412	975	4,845	12,929	133,027	652	146,608	123,727	270,335
Depreciation and amortization	-	1,932	1,887	539	2,605	6,963	1,662	359	8,984	-	8,984
Restricted contributions to Society research initiatives	1,567,000	-	-	-	-	1,567,000	-	-	1,567,000	-	1,567,000
NPE additional allocation Society activities	-	-	-	-	-	-	-	56,206	56,206	-	56,206
Total expenses before Chapter support of Society initiatives	1,567,000	836,679	490,325	121,044	665,317	3,680,365	916,323	137,028	4,733,716	640,788	5,374,504
Chapter support of Society initiatives	1,333,786	254,632	145,504	84,877	424,386	2,243,185	48,501	133,379	2,425,065	-	2,425,065
Total expenses	\$ 2,900,786	\$ 1,091,311	\$ 635,829	\$ 205,921	\$ 1,089,703	\$ 5,923,550	\$ 964,824	\$ 270,407	\$ 7,158,781	\$ 640,788	7,799,569
Less direct benefit-to-donor costs											(640,788)
Total expenses as reported on the statements of activities											<u>\$ 7,158,781</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	\$ -	\$ 362,725	\$ 273,796	\$ 91,914	\$ 322,220	\$ 1,050,655	\$ 192,657	\$ 54,915	\$ 1,298,227	\$ -	\$ 1,298,227
Employee benefits	-	39,908	30,123	10,113	35,451	115,595	21,196	6,042	142,833	-	142,833
Payroll taxes	-	37,717	28,470	9,558	33,505	109,250	20,033	5,710	134,993	-	134,993
Total salaries and related expenses	-	440,350	332,389	111,585	391,176	1,275,500	233,886	66,667	1,576,053	-	1,576,053
Expenses											
Printing	-	1,546	1,290	52	25,306	28,194	17,989	31	46,214	-	46,214
Postage and shipping	-	1,881	385	127	16,350	18,743	14,538	105	33,386	-	33,386
Telephone	-	5,568	4,303	1,289	5,122	16,282	2,701	770	19,753	-	19,753
Supplies	-	8,463	2,206	698	3,487	14,854	8,303	417	23,574	81,531	105,105
Dues and memberships	-	151	1,681	38	769	2,639	2,163	53	4,855	-	4,855
Professional and other contract service fees	-	73,693	29,332	3,621	16,124	122,770	193,473	9,592	325,835	-	325,835
Donated public service announcements and advertising	-	-	-	-	-	-	114,600	-	114,600	-	114,600
Travel	-	28,354	13,018	5,017	2,294	48,683	27,994	364	77,041	271,004	348,045
Meetings	-	10,115	7,719	27,790	23,767	69,391	4,466	549	74,406	5,921	80,327
Occupancy	-	78,145	58,986	19,802	69,419	226,352	41,506	11,831	279,689	79,487	359,176
Furniture and equipment	-	5,983	24,645	1,447	5,073	37,148	3,033	865	41,046	-	41,046
Direct financial assistance	-	130,454	-	-	-	130,454	-	-	130,454	-	130,454
Awards and prizes	-	242	403	37	640	1,322	(464)	22	880	250,381	251,261
Miscellaneous expense	-	1,145	845	284	1,049	3,323	125,818	170	129,311	58,680	187,991
Depreciation and amortization	-	6,149	4,641	1,558	5,462	17,810	3,266	931	22,007	-	22,007
Restricted contributions to Society research initiatives	225,000	-	-	-	-	225,000	-	-	225,000	-	225,000
Chapter support of Society research initiatives	-	-	-	-	-	-	-	147,350	147,350	-	147,350
Total expenses before Chapter support of Society initiatives	225,000	792,239	481,843	173,345	566,038	2,238,465	793,272	239,717	3,271,454	747,004	4,018,458
Chapter support of Society initiatives	1,138,970	193,218	101,694	61,016	406,775	1,901,673	30,508	101,694	2,033,875	-	2,033,875
Total expenses	<u>\$ 1,363,970</u>	<u>\$ 985,457</u>	<u>\$ 583,537</u>	<u>\$ 234,361</u>	<u>\$ 972,813</u>	<u>\$ 4,140,138</u>	<u>\$ 823,780</u>	<u>\$ 341,411</u>	<u>\$ 5,305,329</u>	<u>\$ 747,004</u>	6,052,333
Less direct benefit-to-donor costs											<u>(747,004)</u>
Total expenses as reported on the statements of activities											<u>\$ 5,305,329</u>

See notes to financial statements.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
NORTHERN CALIFORNIA CHAPTER**

Statements of Cash Flows

	For the Years Ended	
	September 30,	
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ (528,848)	\$ 33,434
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	8,984	22,007
Loss on disposal of property and equipment	3,500	-
Addition of lease credits	44,747	6,871
Due from home office - charitable gift annuities	27,691	(27,845)
Net unrealized and realized (gains) losses on investments	(81,628)	156,771
Changes in operating assets and liabilities		
Contributions receivable	246,348	(164,856)
Contributions receivable from home office	(9,750)	3,630
Due from other chapters	28,811	(37,908)
Prepaid expenses	(1,631)	24,217
Security deposits	(1,200)	-
Due to home office	(236,818)	(504,111)
Due to other chapters	(8,264)	11,195
Accounts payable and accrued expenses	(59,393)	(22,513)
Deferred revenue	55,948	14,306
Net cash used in operating activities	<u>(511,503)</u>	<u>(484,802)</u>
Cash flows from investing activities		
Purchases of property and equipment	(4,756)	(1,132)
Net proceeds (purchases) of investments	523,542	(45,750)
Net cash provided by (used in) investing activities	<u>518,786</u>	<u>(46,882)</u>
Net increase (decrease) in cash and cash equivalents	7,283	(531,684)
Cash and cash equivalents at beginning of year	<u>1,131,324</u>	<u>1,663,008</u>
Cash and cash equivalents at end of year	<u>\$ 1,138,607</u>	<u>\$ 1,131,324</u>

See notes to financial statements.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
NORTHERN CALIFORNIA CHAPTER**

Notes to Financial Statements

Note 1 - Organization and Summary of 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 Northern California Chapter (the "Chapter") raises funds in a 40-county territory reaching from Monterey Bay in the south to the Oregon border in the north and from the Pacific coast to Nevada, with the exclusion of Lassen and Pluma counties. 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, collectibility 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 programs 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.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
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Notes to Financial Statements

Note 1 - Organization and Summary of 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 needed.

Cash and Cash Equivalents

The Chapter considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, unless otherwise encumbered.

Concentrations 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, respectively. 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 all equipment purchases exceeding \$1,000 with useful lives in excess of one year.

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.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
NORTHERN CALIFORNIA CHAPTER**

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

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 the 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,	
	<u>2016</u>	<u>2015</u>
Donated goods	\$ 87,000	\$ 250,217
Donated services	<u>68,806</u>	<u>-</u>
Total	<u>\$ 155,806</u>	<u>\$ 250,217</u>

Public service announcements and donated advertising received in fiscal years 2016 and 2015 totaled \$87,000 and \$114,600, respectively, and are reflected above as donated goods and fundraising expenses on the accompanying statements 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 in accordance with U.S. GAAP.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
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Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

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. For the years ended September 30, 2016 and 2015, the Chapter's NPE was calculated to be \$2,481,271 and \$2,181,225, respectively. These amounts are 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.

In addition to the fixed NPE for the years ended September 30, 2016 and 2015, the Chapter made additional research contributions to the national organization in the amount of \$1,567,000 and \$225,000, respectively. These amounts are reflected in research expenses on the accompanying statements of activities.

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.

Subsidy Received from The National Multiple Sclerosis Society

During the year ended September 30, 2015, the Chapter was granted a subsidy of \$27,869 from the Society to support operations.

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 \$192,402 and \$156,634 in fiscal years 2016 and 2015, respectively, and consisted of \$87,000 and \$114,600, respectively, in donated advertising and public service announcements.

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Note 2 - 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.

Note 3 - Contributions Receivable

Contributions receivables are as follows:

	<u>September 30,</u>	
	<u>2016</u>	<u>2015</u>
Due in less than one year	\$ 230,331	\$ 472,009
Due in one to five years	<u>-</u>	<u>4,670</u>
	<u>\$ 230,331</u>	<u>\$ 476,679</u>

In December 2007, the Chapter was named as an income beneficiary of a foundation. The foundation is currently making monthly distributions to five organizations from the income earned in the foundation. The foundation has variance power over the distributions. The Chapter is recognizing income as received due to this variance power. During the years ended September 30, 2016 and 2015, the Chapter received \$771,849 and \$765,607, respectively, from the foundation.

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Note 4 - Fair Value Measurement

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 ("FAS 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.

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	\$ -	\$ -	\$ 1,568,424	\$ 1,568,424
Charitable gift annuities	-	-	3,503	3,503
Total	\$ -	\$ -	\$ 1,571,927	\$ 1,571,927

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Notes to Financial Statements

Note 4 - Fair Value Measurement (continued)

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	\$ -	\$ -	\$ 2,010,338	\$ 2,010,338
Charitable gift annuities	<u>-</u>	<u>-</u>	<u>31,194</u>	<u>31,194</u>
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,041,532</u>	<u>\$ 2,041,532</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: Valued using the present value of expected cash flows, which are unobservable inputs.

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

	<u>For the Years Ended September 30.</u>	
	<u>2016</u>	<u>2015</u>
Fair value at beginning of year	\$ 2,041,532	\$ 2,124,708
Withdrawals	(567,000)	-
Additions	-	27,845
Interest and dividends	43,458	45,750
Realized and unrealized gains (losses)	<u>53,937</u>	<u>(156,771)</u>
Fair value at end of year	<u>\$ 1,571,927</u>	<u>\$ 2,041,532</u>

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Note 5 - Interest in Pooled Investment Fund

As required by the Society's Reserves Policy, the Chapter transferred \$0 and \$27,845 into the Society's pooled investment fund during fiscal years 2016 and 2015, respectively.

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 \$1,568,424 and \$2,010,338, respectively, which represents 3% of the Society's total investment portfolio as of September 30, 2016 and 2015.

Investment income totaled \$125,086 for the year ended September 30, 2016, which included interest and dividends of \$43,458 and net realized and unrealized gains of \$81,628. Investment (loss) income totaled \$(111,021) for the year ended September 30, 2015, which included interest and dividends of \$45,750 and net realized and unrealized losses of \$(156,771).

Note 6 - Charitable Gift Annuities

The Chapter is the beneficiary of a number of split-interest agreements 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 values of the Chapter's split-interest agreements for 2016 and 2015 were \$3,503 and \$31,194, respectively. (Loss) gain derived from changes in value of the agreements for the years ended September 30, 2016 and 2015 was \$(27,691) and \$27,845, respectively.

Note 7 - Property and Equipment

Property and equipment consist of the following:

	<u>September 30,</u>	
	<u>2016</u>	<u>2015</u>
Computer hardware and purchased software	\$ 113,489	\$ 129,391
Furniture and fixtures	87,336	90,836
Equipment	38,724	35,289
Leasehold improvements	<u>15,000</u>	<u>15,000</u>
	254,549	270,516
Less accumulated depreciation	<u>(245,576)</u>	<u>(253,815)</u>
	<u>\$ 8,973</u>	<u>\$ 16,701</u>

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Notes to Financial Statements

Note 8 - Commitments and Contingencies

Operating Leases

The Chapter leases office facilities under various operating lease agreements. The Chapter generally recognizes rent expense based on straight lining of the minimum lease payments over the respective terms of the leases and has recorded a deferred rent liability of \$66,585 and \$21,838 at September 30, 2016 and 2015, respectively.

Office rent expense for the years ended September 30, 2016 and 2015 was \$287,474 and \$265,577, respectively. Equipment lease expense for the years ended September 30, 2016 and 2015 was \$12,026 and \$13,590, respectively.

The future minimum annual rental commitments under non-cancelable lease agreements at September 30, 2016 are as follows:

<u>For the Year Ended September 30,</u>	<u>Total</u>
2017	\$ 197,575
2018	203,216
2019	157,717
2020	131,713
2021	<u>1,150</u>
Total	<u>\$ 691,371</u>

Reserve for Unemployment

The Chapter has elected to be self-insured for the purpose of employees' unemployment claims. The unemployment liability is paid in advance for the next fiscal year's expected costs. The prepaid unemployment reserve was \$15,213 and \$22,771 for the years ended September 30, 2016 and 2015, respectively. Unemployment income (expense) for the years ended September 30, 2016 and 2015 was \$11,366 and \$(16,670), respectively.

	<u>For the Years Ended September 30,</u>	
	<u>2016</u>	<u>2015</u>
Reserve at beginning of year	\$ 22,771	\$ 34,056
Payments made to fund future claims	(18,924)	5,385
Self-insurance income (expense) incurred	<u>11,366</u>	<u>(16,670)</u>
Reserve at end of year	<u>\$ 15,213</u>	<u>\$ 22,771</u>

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Note 9 - 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 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 \$29,664, while the retirement expense for fiscal year 2016 was incurred by the Society rather than the Chapter.

Note 10 - Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets comprise the following:

	<u>September 30,</u>	
	<u>2016</u>	<u>2015</u>
Program		
Research	\$ 4,934	\$ 24,670
Time		
Charitable gift annuities	<u>3,503</u>	<u>31,194</u>
Total	<u>\$ 8,437</u>	<u>\$ 55,864</u>

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Notes to Financial Statements

Note 10 - Net Assets (continued)

Temporarily Restricted Net Assets (continued)

Temporarily restricted net assets were released from restrictions as follows:

	For the Years Ended September 30,	
	2016	2015
Program		
Research	\$ 19,736	\$ -
Everyday matters	-	1,998
Time		
Charitable gift annuities	27,691	-
Total	\$ 47,427	\$ 1,998

Note 11 - Related Parties

The Chapter participates in centralized solutions to support advocacy, corporate relations, marketing, and finance functions. During the years ended September 30, 2016 and 2015, the Chapter paid the Southern California and Nevada Chapter a total of \$0 and \$32,420, respectively, for wages related to costs to further chapter marketing efforts.

During the years ended September 30, 2016 and 2015, the Chapter received a subsidy of \$0 and \$21,099, respectively, from the Maryland Chapter to concentrate on corporate outreach efforts. As of September 30, 2016 and 2015, the amount due from this chapter totaled \$0 and \$10,533, respectively.

During the years ended September 30, 2016 and 2015, the Chapter received a subsidy of \$0 and \$101,692, respectively, from the Southern California and Pacific South Coast chapters to concentrate California advocacy efforts. As of September 30, 2016 and 2015, the amount due from this chapter totaled \$0 and \$25,423.

Note 12 - 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.

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Note 12 - Society Realignment (continued)

The assets and liabilities of the Chapter were recorded at fair value 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	\$ 1,138,607
Contributions receivable	\$ 230,331
Contributions receivable from home office	\$ 9,920
Due from other chapters	\$ 10,752
Prepaid expenses	\$ 51,383
Interest in Society pooled investment fund	\$ 1,568,424
Property and equipment, net	\$ 8,973
Charitable gift annuities	\$ 3,503
Security deposits	\$ 5,750
Accounts payable and accrued expenses	\$ (338,888)
Due to other chapters	\$ (2,931)
Deferred revenue	\$ (156,855)
Deferred rent liability	\$ (66,585)
Inherent contribution received	\$ 2,462,384

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 13 - 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 described in Note 12.