

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

**Financial Statements
and
Independent Auditors' Report
September 30, 2014 and 2013**

EKS&H
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**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, which are comprised of 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 of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees
The National Multiple Sclerosis Society Northern California Chapter
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The National Multiple Sclerosis Society Northern California 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 of America.

PRIOR PERIOD FINANCIAL STATEMENTS

The financial statements of The National Multiple Sclerosis Society Northern California Chapter as of September 30, 2013, were audited by other auditors whose report dated December 12, 2013, expressed an unmodified opinion on those statements.

EKS+H LLLP
EKS&H LLLP

December 10, 2014
Denver, Colorado

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
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Statements of Financial Position

	September 30,	
	2014	2013
Assets		
Current assets		
Cash and cash equivalents	\$ 1,663,008	\$ 2,640,069
Contributions receivable	296,923	217,156
Contributions receivable from home office	3,800	5,467
Due from other chapters	1,655	43,203
Prepaid expenses and other assets	70,487	95,755
Total current assets	2,035,873	3,001,650
Non-current assets		
Contributions receivable	14,900	24,134
Rent, equipment, and security deposits	8,032	2,850
Property and equipment, net	37,576	48,846
Interest in The National Multiple Sclerosis Society's pooled investment fund	2,121,359	-
Due from home office - charitable gift annuities	3,349	56,161
Total non-current assets	2,185,216	131,991
Total assets	\$ 4,221,089	\$ 3,133,641
Liabilities and Net Assets		
Current liabilities		
Due to home office		
Remittance due to home office	\$ 700,000	\$ 102,884
Other payables to home office	40,929	14,289
Due to other chapters	-	1,347
Accounts payable and accrued expenses	420,794	466,710
Deferred revenue	86,601	4,805
Deferred rent liability	14,967	9,071
Total current liabilities	1,263,291	599,106
Long-term liabilities		
Deferred rent liability	-	11,882
Total long-term liabilities	-	11,882
Total liabilities	1,263,291	610,988
Commitments and contingencies		
Net assets		
Unrestricted	2,952,451	2,431,173
Temporarily restricted	5,347	91,480
Total net assets	2,957,798	2,522,653
Total liabilities and net assets	\$ 4,221,089	\$ 3,133,641

See notes to financial statements.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
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Statements of Activities

	For the Years Ended					
	September 30, 2014			September 30, 2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public support						
Received directly						
Special events (includes in-kind donations of \$128,220 (2014) and \$155,067 (2013))	\$ 4,144,774	\$ -	\$ 4,144,774	\$ 4,153,934	\$ -	\$ 4,153,934
Less benefit-to-donor costs	<u>(543,758)</u>	<u>-</u>	<u>(543,758)</u>	<u>(462,836)</u>	<u>-</u>	<u>(462,836)</u>
	3,601,016	-	3,601,016	3,691,098	-	3,691,098
Contributions (includes in-kind donations of \$0 (2014) and \$177,600 (2013))	1,539,266	1,998	1,541,264	789,330	2,363	791,693
Legacies	<u>3,254,632</u>	<u>-</u>	<u>3,254,632</u>	<u>736,747</u>	<u>-</u>	<u>736,747</u>
Total received directly	<u>8,394,914</u>	<u>1,998</u>	<u>8,396,912</u>	<u>5,217,175</u>	<u>2,363</u>	<u>5,219,538</u>
Received indirectly						
Federated fundraising organizations	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,122</u>	<u>-</u>	<u>11,122</u>
Total received indirectly	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,122</u>	<u>-</u>	<u>11,122</u>
Total public support	<u>8,394,914</u>	<u>1,998</u>	<u>8,396,912</u>	<u>5,228,297</u>	<u>2,363</u>	<u>5,230,660</u>
Other revenue						
Investment income	70,067	(48,007)	22,060	140	-	140
Service program fees	3,567	-	3,567	5,364	-	5,364
Miscellaneous income	<u>42,224</u>	<u>-</u>	<u>42,224</u>	<u>86,502</u>	<u>-</u>	<u>86,502</u>
Total other revenue	115,858	(48,007)	67,851	92,006	-	92,006
Net assets released from restrictions	<u>40,124</u>	<u>(40,124)</u>	<u>-</u>	<u>12,299</u>	<u>(12,299)</u>	<u>-</u>
Total revenue	<u>8,550,896</u>	<u>(86,133)</u>	<u>8,464,763</u>	<u>5,332,602</u>	<u>(9,936)</u>	<u>5,322,666</u>
Expenses						
Program services						
Research	4,385,042	-	4,385,042	1,127,523	-	1,127,523
Society activities	1,009,856	-	1,009,856	810,223	-	810,223
Client programs	702,521	-	702,521	816,435	-	816,435
Community programs	447,396	-	447,396	547,196	-	547,196
Professional education and training	110,921	-	110,921	147,386	-	147,386
Public education	<u>497,825</u>	<u>-</u>	<u>497,825</u>	<u>769,617</u>	<u>-</u>	<u>769,617</u>
Total program services	<u>7,153,561</u>	<u>-</u>	<u>7,153,561</u>	<u>4,218,380</u>	<u>-</u>	<u>4,218,380</u>
Supporting services						
Fundraising	722,730	-	722,730	867,634	-	867,634
Management and general	<u>153,327</u>	<u>-</u>	<u>153,327</u>	<u>179,272</u>	<u>-</u>	<u>179,272</u>
Total supporting services	<u>876,057</u>	<u>-</u>	<u>876,057</u>	<u>1,046,906</u>	<u>-</u>	<u>1,046,906</u>
Total expenses	<u>8,029,618</u>	<u>-</u>	<u>8,029,618</u>	<u>5,265,286</u>	<u>-</u>	<u>5,265,286</u>
Change in net assets	521,278	(86,133)	435,145	67,316	(9,936)	57,380
Net assets, beginning of year	<u>2,431,173</u>	<u>91,480</u>	<u>2,522,653</u>	<u>2,363,857</u>	<u>101,416</u>	<u>2,465,273</u>
Net assets, end of year	<u>\$ 2,952,451</u>	<u>\$ 5,347</u>	<u>\$ 2,957,798</u>	<u>\$ 2,431,173</u>	<u>\$ 91,480</u>	<u>\$ 2,522,653</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, 2014**

	Program Services						Supporting Services			Benefit-to-Donor Costs	Grand Total	
	Research	Society Activities	Client Programs	Community Programs	Professional Education and Training	Public Education	Total	Fundraising	Management and General			Total Programs and Support
Salaries and related expenses												
Salaries	\$ -	\$ -	\$ 280,920	\$ 252,107	\$ 69,176	\$ 274,460	\$ 876,663	\$ 193,724	\$ 91,448	\$ 1,161,835	\$ -	\$ 1,161,835
Employee benefits	-	-	30,176	27,081	7,431	29,482	94,170	20,809	9,823	124,802	-	124,802
Payroll taxes	-	-	24,206	21,723	5,961	23,649	75,539	16,692	7,880	100,111	-	100,111
Total salaries and related expenses	-	-	335,302	300,911	82,568	327,591	1,046,372	231,225	109,151	1,386,748	-	1,386,748
Printing	-	-	5,772	2,198	179	42,349	50,498	16,455	236	67,189	-	67,189
Postage and shipping	-	-	2,607	1,401	415	15,543	19,966	12,198	499	32,663	-	32,663
Telephone	-	-	6,139	4,157	1,048	4,160	15,504	2,965	1,386	19,855	-	19,855
Supplies	-	-	5,745	1,950	297	1,333	9,325	5,141	393	14,859	31,592	46,451
Dues and memberships	-	-	713	584	23	2,610	3,930	248	31	4,209	-	4,209
Professional and other contract service fees	-	-	79,057	35,502	3,403	13,502	131,464	186,022	11,837	329,323	-	329,323
Donated public service announcements and advertising	-	-	-	-	-	-	-	40,000	-	40,000	-	40,000
Travel	-	-	21,595	15,043	816	2,194	39,648	53,033	561	93,242	227,912	321,154
Meetings	-	-	23,738	5,868	280	1,686	31,572	2,074	240	33,886	4,680	38,566
Occupancy	-	-	73,528	65,986	18,106	71,837	229,457	50,705	23,936	304,098	108,668	412,766
Furniture and equipment	-	-	5,436	4,878	1,339	5,311	16,964	3,749	1,770	22,483	-	22,483
Direct financial assistance	-	-	132,636	-	-	-	132,636	-	-	132,636	-	132,636
Awards and prizes	-	-	158	87	24	95	364	1,073	84	1,521	126,760	128,281
Miscellaneous expense	-	-	2,228	1,771	486	1,928	6,413	112,417	642	119,472	44,146	163,618
Depreciation and amortization	-	-	7,867	7,060	1,937	7,686	24,550	5,425	2,561	32,536	-	32,536
Restricted contributions to Society research investment	3,211,920	-	-	-	-	-	3,211,920	-	-	3,211,920	-	3,211,920
Chapter support of Society research investment	1,173,122	-	-	-	-	-	1,173,122	-	-	1,173,122	-	1,173,122
Total expenses before chapter support of Society activities	4,385,042	-	702,521	447,396	110,921	497,825	6,143,705	722,730	153,327	7,019,762	543,758	7,563,520
Chapter support of Society activities	-	1,009,856	-	-	-	-	1,009,856	-	-	1,009,856	-	1,009,856
Total expenses	\$ 4,385,042	\$ 1,009,856	\$ 702,521	\$ 447,396	\$ 110,921	\$ 497,825	\$ 7,153,561	\$ 722,730	\$ 153,327	\$ 8,029,618	\$ 543,758	8,573,376
Less direct benefit-to-donor costs												(543,758)
Total expenses as reported on the statement of activities												\$ 8,029,618

See notes to financial statements.

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**Statement of Functional Expenses
For the Year Ended September 30, 2013**

	Program Services						Supporting Services			Benefit-to-Donor Costs	Grand Total	
	Research	Society Activities	Client Programs	Community Programs	Professional Education and Training	Public Education	Total	Fundraising	Management and General			Total Programs and Support
Salaries and related expenses												
Salaries	\$ -	\$ -	\$ 332,154	\$ 308,708	\$ 86,528	\$ 323,781	\$ 1,051,171	\$ 238,649	\$ 105,787	\$ 1,395,607	\$ -	\$ 1,395,607
Employee benefits	-	-	39,111	36,351	10,189	38,125	123,776	28,101	12,457	164,334	-	164,334
Payroll taxes	-	-	26,709	24,824	6,958	26,036	84,527	19,190	8,506	112,223	-	112,223
Total salaries and related expenses	-	-	397,974	369,883	103,675	387,942	1,259,474	285,940	126,750	1,672,164	-	1,672,164
Printing	-	-	11,093	912	182	39,824	52,011	33,513	222	85,746	-	85,746
Postage and shipping	-	-	2,321	993	359	15,048	18,721	15,480	335	34,536	-	34,536
Telephone	-	-	6,524	4,259	1,100	4,044	15,927	3,186	1,321	20,434	-	20,434
Supplies	-	-	5,609	933	259	2,945	9,746	4,043	408	14,197	72,352	86,549
Dues and memberships	-	-	234	918	61	799	2,012	528	75	2,615	-	2,615
Professional and other contract service fees	-	-	108,466	43,892	5,814	25,559	183,731	196,721	12,910	393,362	-	393,362
Donated public service announcements and advertising	-	-	-	-	-	177,600	177,600	105,450	-	283,050	-	283,050
Travel	-	-	29,370	17,403	2,156	4,098	53,027	47,102	1,116	101,245	210,595	311,840
Meetings	-	-	32,924	3,959	4,618	2,629	44,130	4,564	127	48,821	5,955	54,776
Occupancy	-	-	95,306	88,579	24,828	92,904	301,617	68,476	30,354	400,447	35,186	435,633
Furniture and equipment	-	-	4,320	4,015	1,125	4,211	13,671	3,104	1,376	18,151	-	18,151
Direct financial assistance	-	-	107,167	-	-	-	107,167	-	-	107,167	-	107,167
Awards and prizes	-	-	1,003	67	19	75	1,164	2,231	377	3,772	96,990	100,762
Miscellaneous expense	-	-	5,029	2,930	821	3,073	11,853	90,761	1,005	103,619	41,758	145,377
Depreciation and amortization	-	-	9,095	8,453	2,369	8,866	28,783	6,535	2,896	38,214	-	38,214
Restricted contributions to Society research investment	100,000	-	-	-	-	-	100,000	-	-	100,000	-	100,000
Chapter support of Society research investment	<u>1,027,523</u>	-	-	-	-	-	<u>1,027,523</u>	-	-	<u>1,027,523</u>	-	<u>1,027,523</u>
Total expenses before chapter support of Society activities	1,127,523	-	816,435	547,196	147,386	769,617	3,408,157	867,634	179,272	4,455,063	462,836	4,917,899
Chapter support of Society activities	-	<u>810,223</u>	-	-	-	-	<u>810,223</u>	-	-	<u>810,223</u>	-	<u>810,223</u>
Total expenses	<u>\$ 1,127,523</u>	<u>\$ 810,223</u>	<u>\$ 816,435</u>	<u>\$ 547,196</u>	<u>\$ 147,386</u>	<u>\$ 769,617</u>	<u>\$ 4,218,380</u>	<u>\$ 867,634</u>	<u>\$ 179,272</u>	<u>\$ 5,265,286</u>	<u>\$ 462,836</u>	5,728,122
Less direct benefit-to-donor costs												<u>(462,836)</u>
Total expenses as reported on the statement of activities												<u>\$ 5,265,286</u>

See notes to financial statements.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
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Statements of Cash Flows

	For the Years Ended September 30,	
	2014	2013
Cash flow from operating activities		
Change in net assets	\$ 435,145	\$ 57,380
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	32,536	38,214
Net realized and unrealized gain on investments	(8,759)	-
Change in discount of long-term contribution receivable	-	(1,123)
Due from home office - charitable gift annuities	52,812	-
Changes in operating assets and liabilities		
Contributions receivable	(70,533)	(13,881)
Contributions receivable from home office	1,667	(5,467)
Due from home office	-	(2,364)
Due from other chapters	41,548	(40,848)
Prepaid expenses and other assets	20,086	10,611
Due to home office and other chapters	622,409	92,581
Accounts payable and accrued expenses	(45,916)	(10,395)
Deferred revenue	81,796	4,805
Deferred rent liability	(5,986)	(1,014)
Net cash provided by operating activities	1,156,805	128,499
Cash flows from investing activities		
Purchases of property and equipment	(21,266)	(517)
Purchases of investments	(3,012,600)	-
Proceeds from sales of investments	900,000	-
Net cash used in investing activities	(2,133,866)	(517)
Net (decrease) increase in cash and cash equivalents	(977,061)	127,982
Cash and cash equivalents, beginning of year	2,640,069	2,512,087
Cash and cash equivalents, end of year	\$ 1,663,008	\$ 2,640,069

See notes to financial statements.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
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Notes to Financial Statements

Note 1 - Organization and Significant Accounting Policies

Organization

The National Multiple Sclerosis Society (the “Society”) is a not-for-profit voluntary health and welfare agency that helps each person address the challenges of living with MS through a 50-state network of chapters. The Northern California Chapter (the “Chapter”) raises funds in a forty 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 Plumas counties, to fund cutting-edge research, drive change through advocacy, facilitate professional education, and provide programs and services that help people with MS and their families move their lives forward.

Net Asset Classifications

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

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

Temporarily Restricted Net Assets: Temporarily restricted net assets are comprised of 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.

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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

The Chapter considers highly liquid investments with maturities of three months or less when purchased to be cash equivalents. At September 30, 2014 and 2013, the Chapter’s cash was held by one bank.

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Notes to Financial Statements

Note 1 - Organization and Significant Accounting Policies (continued)

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 \$1,452,627 and \$2,389,780, respectively, in uninsured cash balances at September 30, 2014 and 2013.

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 statements of activities. Donated securities are recorded as contributions at their fair value at the date of the gift.

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 2014 and 2013, respectively. Receivables are recorded at net realizable value, net of an allowance for uncollectible amounts. The Chapter believes that the contributions receivable are fully collectible. There are no identifiable concentrations of credit risk related to these receivables.

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, 2014 and 2013.

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Notes to Financial Statements

Note 1 - Organization and 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 is measured based on the present value of future cash flows with consideration of expectation about possible variations in the amount and/or timing of the cash flows and other specific factors that would be considered by market participants. The fair value measurements also consider donors' credit risk. 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 reclassified as unrestricted net assets and reported in 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>2014</u>	<u>2013</u>
Donated goods	\$ 88,220	\$ 49,617
Donated services	<u>40,000</u>	<u>283,050</u>
Total	<u>\$ 128,220</u>	<u>\$ 332,667</u>

Public service announcements and donated advertising received during the years ended September 30, 2014 and 2013 totaled \$40,000 and \$283,050, respectively, and are reflected above as donated services and as fundraising expense in the accompanying statements of activities.

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Notes to Financial Statements

Note 1 - Organization and Significant Accounting Policies (continued)

Donated Goods and Services (continued)

In addition, a number of volunteers have donated significant amounts of their time to the Chapter's program services and supporting services. No amounts have been reflected in the accompanying financial statements for those donated services because they do not meet the criteria for revenue recognition established by Accounting Standards Codification ("ASC") Section 958-605.

Research and Society Activities Expense

The Society calculates the National Programs Expense, which funds research and other Society activities, 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 Programs 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. For the years ended September 30, 2014 and 2013, the Chapter's National Programs Expense was calculated to be \$2,182,978 and \$1,837,746, respectively. 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 the fixed amount of National Programs Expense for the years ended September 30, 2014 and 2013, the Chapter made an additional research contribution to the national organization in the amount of \$3,211,920 and \$100,000, respectively. These amounts are reflected as a research expense in the accompanying statement of activities.

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

Expense Allocations

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was \$78,760 and \$321,756 in 2014 and 2013, respectively, and consisted of \$40,000 and \$283,050 in donated advertising and public service announcements, respectively.

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Note 2 - Income Taxes

The Chapter qualifies as a charitable organization as defined by Internal Revenue Code 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 California state franchise and San Francisco city income taxes.

Management analyzed the tax positions taken by the Chapter and concluded that, as of September 30, 2014 and 2013, there were no uncertain tax positions taken or 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 and California state tax jurisdictions.

Note 3 - Contributions Receivable

Contributions receivables are as follows:

	September 30,	
	2014	2013
Due in less than one year	\$ 296,923	\$ 217,156
Due in one to five years	-	25,000
	<u>296,923</u>	<u>242,156</u>
Less present value discount	-	(866)
	<u>\$ 296,923</u>	<u>\$ 241,290</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, 2014 and 2013, the Chapter received \$724,831 and \$664,434, respectively, from the foundation.

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Note 4 - Allocation of Joint Costs

In fiscal years 2014 and 2013, the Chapter incurred joint costs of \$20,493 and \$2,121, respectively, for information materials and activities that included fundraising appeals. Such costs were allocated in accordance with the requirements of ASC Section 958-720. Of these costs, \$18,518 and \$2,036, respectively, were allocated to fundraising and \$1,975 and \$85, respectively, to public education. For the year ended September 30, 2013, the public education joint costs were considered to be insignificant as they were less than \$1,000 and were included in fundraising expenses on the accompanying statements of functional expenses.

Note 5 - Fair Value Measurements

The Chapter adopted the provisions of ASC Section 820-10. ASC Section 820-10 establishes a fair value hierarchy for the inputs used to measure fair value based on the nature of the data inputs, 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.

- 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. There were no changes in the Chapter's valuation techniques during the year.

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Note 5 - Fair Value Measurements (continued)

The following tables provide the fair value hierarchy of the Chapter's financial assets as of September 30, 2014 and 2013:

September 30, 2014

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Interest in the Society's pooled investment fund	\$ -	\$ -	\$ 2,121,359	\$ 2,121,359
Charitable gift annuities	<u>-</u>	<u>-</u>	<u>3,349</u>	<u>3,349</u>
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,124,708</u>	<u>\$ 2,124,708</u>

September 30, 2013

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Charitable gift annuities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56,161</u>	<u>\$ 56,161</u>

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

Interest in the Society's pooled investment fund: At September 30, 2014, the Society's pooled investment portfolio was classified within the 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.

Charitable gift annuities: Valued using the present value of expected cash flows, which are unobservable inputs.

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Note 5 - Fair Value Measurements (continued)

The table below sets forth a summary of the changes in the fair value of the Chapter's Level 3 financial assets for the years ended September 30, 2014 and 2013:

	For the Years Ended September 30,	
	2014	2013
Fair value, beginning of year	\$ 56,161	\$ 53,797
Withdrawals -net	(903,313)	-
Additions	3,003,072	-
Investment return	12,840	-
Realized and unrealized (loss) gain	(44,052)	2,364
Fair value, end of year	<u>\$ 2,124,708</u>	<u>\$ 56,161</u>

Note 6 - 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. At September 30, 2014 and 2013, the Chapter's trust fund totaled \$2,121,359 and \$0, respectively, which represents 7% and 0%, respectively, of the Society's total trust fund investment portfolio.

Investment income totaled \$22,060 and \$140 for the years ended September 30, 2014 and 2013, respectively, which included interest and dividends of \$13,301 and \$140 and net realized/unrealized gains of \$8,759 and \$0, respectively.

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Note 7 - Property and Equipment

Property and equipment consist of the following:

	September 30,	
	2014	2013
Computer hardware and purchased software	\$ 133,014	\$ 112,937
Furniture and fixtures	90,836	89,646
Equipment	35,290	35,290
Leasehold improvements	15,000	15,000
	274,140	252,873
Less accumulated depreciation and amortization	(236,564)	(204,027)
Net property and equipment	\$ 37,576	\$ 48,846

Note 8 - Commitments and Contingencies

Operating Leases

The Chapter generally recognizes rent expense based on the straight lining of the minimum lease payments over the respective terms of the leases and has recorded a deferred rent liability of \$14,967 and \$20,953 at September 30, 2014 and 2013, respectively.

Office rent expense for the years ended September 30, 2014 and 2013 was \$276,603 and \$358,060, respectively.

The future minimum annual rental commitments under non-cancellable lease agreements at September 30, 2014 are as follows:

Year Ending September 30,

2015	\$ 138,897
2016	124,139
2017	127,243
2018	130,424
2019	133,130
Thereafter	110,941
Total	\$ 764,774

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Note 8 - Commitments and Contingencies (continued)

Reserve for Unemployment

The Chapter has elected to be self-insured for the purposes of employees' unemployment claims. The unemployment liability is paid in advance for the next fiscal year's expected costs. The prepaid unemployment reserve was \$34,056 and \$43,374 for the years ended September 30, 2014 and 2013, respectively. Unemployment expense for the years ended September 30, 2014 and 2013 was \$11,467 and \$3,645, respectively.

	For the Years Ended September 30,	
	2014	2013
Reserve, beginning of year	\$ 43,374	\$ 43,377
Payments made to fund future claims	2,149	3,642
Self-insurance income/(expense) incurred	(11,467)	(3,645)
Reserve end of year	\$ 34,056	\$ 43,374

Note 9 - Pension Plan

The Chapter participates in the Society's non-contributory Defined Contribution Retirement Plan (the "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 both the years ended September 30, 2014 and 2013, as determined by the Society's President and Chief Executive Officer, was 3% of gross annual salary. In accordance with the Plan's provisions, contributions required in any given year are first offset by forfeitures of unvested Chapter contributions for terminated participants. The pension expense related to the Plan for the years ended September 30, 2014 and 2013 was \$28,340 and \$40,942, respectively.

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Note 10 - Temporarily Restricted Net Assets

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

	September 30,	
	2014	2013
Program		
Rent subsidy	\$ -	\$ 1,186
Everyday Matters	1,998	-
Program support	-	34,134
Time		
Charitable gift annuities	<u>3,349</u>	<u>56,160</u>
Total	<u>\$ 5,347</u>	<u>\$ 91,480</u>

Temporarily restricted net assets were released from restrictions as follows:

	For the Years Ended September 30,	
	2014	2013
Program		
Rent subsidy	\$ 1,186	\$ 41,825
Program support	34,134	(27,163)
Time		
Charitable gift annuities	<u>4,804</u>	<u>(2,363)</u>
Total	<u>\$ 40,124</u>	<u>\$ 12,299</u>

Note 11 - Gift Annuities

The Chapter is the beneficiary of a number of split-interest agreements with donors, whereby the Society 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 as of September 30, 2014 and 2013 were \$3,349 and \$56,161, respectively. (Loss) income derived from changes in value of the agreements for 2014 and 2013 was \$(52,812) and \$2,363, respectively.

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Note 12 - Related Parties

The Chapter participates in more centralized solutions to support advocacy, donor relations, and finance functions. During fiscal year 2013, the Chapter shared finance related costs with the Oregon and Utah-Southern Idaho chapters. The Chapter received a subsidy of \$102,600 for wages paid in support of the shared function. As of September 30, 2013, the outstanding shared finance cost receivable from Oregon and Utah-Southern Idaho were \$1,924 and \$13,024, respectively.

During the year ended September 30, 2013, the Chapter paid the Colorado chapter a total of \$19,039 for wages related to costs to further donor relations.

During the year ended September 30, 2013, the Chapter received a subsidy of \$76,947 from the Southern California and Pacific South Coast chapters to concentrate California advocacy efforts. As of September 30, 2013, the amount due from these two chapters totaled \$14,889.

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.