

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

**Financial Statements  
and  
Independent Auditors' Report  
September 30, 2015 and 2014**

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

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY  
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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 statements of financial position as of September 30, 2015 and 2014, 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.

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, 2015 and 2014, 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.

*EKS&H LLLP*  
EKS&H LLLP

December 9, 2015  
Denver, Colorado

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY  
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**Statements of Financial Position**

		September 30,	
		2015	2014
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 1,131,324	\$ 1,663,008
Contributions receivable		472,009	296,923
Contributions receivable from home office		170	3,800
Due from other chapters		39,563	1,655
Prepaid expenses and other assets		49,752	70,487
Total current assets		1,692,818	2,035,873
<b>Non-current assets</b>			
Contributions receivable		4,670	14,900
Rent, equipment, and security deposits		4,550	8,032
Property and equipment, net		16,701	37,576
Interest in The National Multiple Sclerosis Society's pooled investment fund		2,010,338	2,121,359
Due from home office - charitable gift annuities		31,194	3,349
Total non-current assets		2,067,453	2,185,216
<b>Total assets</b>		<b>\$ 3,760,271</b>	<b>\$ 4,221,089</b>
<b>Liabilities and Net Assets</b>			
<b>Current liabilities</b>			
Due to home office			
Remittance due to home office		\$ 216,084	\$ 700,000
Other payables to home office		20,734	40,929
Due to other chapters		11,195	-
Accounts payable and accrued expenses		398,281	420,794
Deferred revenue		100,907	86,601
Deferred rent liability		-	14,967
Total current liabilities		747,201	1,263,291
<b>Long-term liabilities</b>			
Deferred rent liability		21,838	-
Total long-term liabilities		21,838	-
Total liabilities		769,039	1,263,291
<b>Commitments and contingencies</b>			
<b>Net assets</b>			
Unrestricted		2,935,368	2,952,451
Temporarily restricted		55,864	5,347
Total net assets		2,991,232	2,957,798
<b>Total liabilities and net assets</b>		<b>\$ 3,760,271</b>	<b>\$ 4,221,089</b>

See notes to financial statements.

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

	For the Years Ended					
	September 30, 2015			September 30, 2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Public support</b>						
Received directly						
Special events (includes in-kind donations of \$250,217 (2015) and \$128,220 (2014))	\$ 4,338,857	\$ -	\$ 4,338,857	\$ 4,144,774	\$ -	\$ 4,144,774
Less benefit-to-donor costs	<u>(747,004)</u>	<u>-</u>	<u>(747,004)</u>	<u>(543,758)</u>	<u>-</u>	<u>(543,758)</u>
	3,591,853	-	3,591,853	3,601,016	-	3,601,016
Contributions	618,148	24,670	642,818	1,539,266	1,998	1,541,264
Legacies	<u>1,174,902</u>	<u>-</u>	<u>1,174,902</u>	<u>3,254,632</u>	<u>-</u>	<u>3,254,632</u>
Total public support	<u>5,384,903</u>	<u>24,670</u>	<u>5,409,573</u>	<u>8,394,914</u>	<u>1,998</u>	<u>8,396,912</u>
<b>Other revenue (loss)</b>						
Investment (loss) income	(137,551)	27,845	(109,706)	70,067	(48,007)	22,060
Service program fees	3,278	-	3,278	3,567	-	3,567
Miscellaneous income	<u>35,618</u>	<u>-</u>	<u>35,618</u>	<u>42,224</u>	<u>-</u>	<u>42,224</u>
Total other revenue (loss)	<u>(98,655)</u>	<u>27,845</u>	<u>(70,810)</u>	<u>115,858</u>	<u>(48,007)</u>	<u>67,851</u>
<b>Net assets released from restrictions</b>	<u>1,998</u>	<u>(1,998)</u>	<u>-</u>	<u>40,124</u>	<u>(40,124)</u>	<u>-</u>
Total revenue	<u>5,288,246</u>	<u>50,517</u>	<u>5,338,763</u>	<u>8,550,896</u>	<u>(86,133)</u>	<u>8,464,763</u>
<b>Expenses</b>						
Program services						
Research	1,363,970	-	1,363,970	4,385,042	-	4,385,042
Society activities	-	-	-	1,009,856	-	1,009,856
Client programs	985,457	-	985,457	702,521	-	702,521
Community programs	583,537	-	583,537	447,396	-	447,396
Professional education and training	234,361	-	234,361	110,921	-	110,921
Public education	<u>972,813</u>	<u>-</u>	<u>972,813</u>	<u>497,825</u>	<u>-</u>	<u>497,825</u>
Total program services	<u>4,140,138</u>	<u>-</u>	<u>4,140,138</u>	<u>7,153,561</u>	<u>-</u>	<u>7,153,561</u>
Supporting services						
Fundraising	823,780	-	823,780	722,730	-	722,730
Management and general	<u>341,411</u>	<u>-</u>	<u>341,411</u>	<u>153,327</u>	<u>-</u>	<u>153,327</u>
Total supporting services	<u>1,165,191</u>	<u>-</u>	<u>1,165,191</u>	<u>876,057</u>	<u>-</u>	<u>876,057</u>
Total expenses	<u>5,305,329</u>	<u>-</u>	<u>5,305,329</u>	<u>8,029,618</u>	<u>-</u>	<u>8,029,618</u>
<b>Change in net assets</b>	(17,083)	50,517	33,434	521,278	(86,133)	435,145
<b>Net assets, beginning of year</b>	<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>
<b>Net assets, end of year</b>	<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>

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
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	\$ 1,363,970	\$ 985,457	\$ 583,537	\$ 234,361	\$ 972,813	\$ 4,140,138	\$ 823,780	\$ 341,411	\$ 5,305,329	\$ 747,004	6,052,333
Less direct benefit-to-donor costs											(747,004)
Total expenses as reported on the statement of activities											\$ 5,305,329

See notes to financial statements.

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**Statement of Functional Expenses  
For the Year Ended September 30, 2014**

	Program Services						Supporting Services		Total Programs and Support	Benefit-to- Donor Costs	Grand Total	
	Research	Society Activities	Client Programs	Community Programs	Professional Education and Training	Public Education	Total	Fundraising				Management and General
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 initiatives	3,211,920	-	-	-	-	-	3,211,920	-	-	3,211,920	-	3,211,920
Chapter support of Society research initiatives	1,173,122	-	-	-	-	-	1,173,122	-	-	1,173,122	-	1,173,122
Total expenses before chapter support of Society initiatives	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 initiatives	-	1,009,856	-	-	-	-	1,009,856	-	-	1,009,856	-	1,009,856
Total expenses	<u>\$ 4,385,042</u>	<u>\$ 1,009,856</u>	<u>\$ 702,521</u>	<u>\$ 447,396</u>	<u>\$ 110,921</u>	<u>\$ 497,825</u>	<u>\$ 7,153,561</u>	<u>\$ 722,730</u>	<u>\$ 153,327</u>	<u>\$ 8,029,618</u>	<u>\$ 543,758</u>	8,573,376
Less direct benefit-to-donor costs												<u>(543,758)</u>
Total expenses as reported on the statement of activities												<u>\$ 8,029,618</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,	
	2015	2014
Cash flows from operating activities		
Change in net assets	\$ 33,434	\$ 435,145
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	22,007	32,536
Net realized and unrealized loss (gain) on investments	156,771	(8,759)
Addition (amortization) of lease credit, net	6,871	(5,986)
Due from home office - charitable gift annuities	(27,845)	52,812
Changes in operating assets and liabilities		
Contributions receivable	(164,856)	(70,533)
Contributions receivable from home office	3,630	1,667
Due from other chapters	(37,908)	41,548
Prepaid expenses and other assets	24,217	20,086
Due to home office and other chapters	(492,916)	622,409
Accounts payable and accrued expenses	(22,513)	(45,916)
Deferred revenue	14,306	81,796
Net cash (used in) provided by operating activities	(484,802)	1,156,805
Cash flows used in investing activities		
Purchases of property and equipment	(1,132)	(21,266)
Purchases of investments	(672,792)	(3,012,600)
Proceeds from sales of investments	627,042	900,000
Net cash used in investing activities	(46,882)	(2,133,866)
Net decrease in cash and cash equivalents	(531,684)	(977,061)
Cash and cash equivalents, beginning of year	1,663,008	2,640,069
Cash and cash equivalents, end of year	\$ 1,131,324	\$ 1,663,008

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 mobilizes people and resources to drive research for a cure and to address the challenges of everyone affected by MS. 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 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 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.

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.

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.

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**Notes to Financial Statements**

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

Change in Estimate

During the 12 months ended September 30, 2015, the Society modified its approach for determining the estimated functional allocation of Chapter Support of Society Initiatives (also referred to as National Programs Expense), based on recent analysis of the current activities that the expense funds. As a result, the fiscal year 2015 amount of Chapter Support of Society Initiatives is allocated among all of the functional categories on the accompanying statement of functional expenses, including a 6.5% allocation to supporting services. In fiscal year 2014, the expense was allocated between the research and society activities columns as 100% program services.

Cash and Cash Equivalents

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

Concentration of Credit Risk

Deposits at the Chapter's financial institutions are insured by the FDIC up to \$250,000. The Chapter has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and investments. The Chapter had \$937,709 and \$1,452,627, respectively, in uninsured cash balances at September 30, 2015 and 2014.

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 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 2015 and 2014. 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. 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.

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

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

Long-Lived Assets

The Chapter periodically evaluates the carrying value of long-lived assets for possible impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized during the years ended September 30, 2015 and 2014.

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 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.

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**Notes to Financial Statements**

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

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,	
	2015	2014
Donated goods	\$ 135,617	\$ 88,220
Donated services	<u>114,600</u>	<u>40,000</u>
Total	<u>\$ 250,217</u>	<u>\$ 128,220</u>

Public service announcements and donated advertising received during the years ended September 30, 2015 and 2014 totaled \$114,600 and \$40,000, respectively, and are reflected above as donated services and fundraising expense 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 established by Accounting Standards Codification ("ASC") Topic 958-605.

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, 2015 and 2014, the Chapter's NPE was calculated to be \$2,181,225 and \$2,182,978, respectively.

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**Notes to Financial Statements**

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

Chapter Support of Society Initiatives (National Programs Expense) (continued)

In addition to the fixed amount of NPE for the years ended September 30, 2015 and 2014, the Chapter made an additional research contribution to the national organization in the amount of \$225,000 and \$3,211,920, respectively. These amounts are reflected in research expenses on the accompanying statement of activities.

Multi-year contributions recognized prior to fiscal year 2015 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 \$156,634 and \$78,760 for the years ended September 30, 2015 and 2014, respectively, and consisted of \$114,600 and \$40,000, respectively, in donated advertising and public service announcements.

**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, 2015 and 2014, 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.

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**Notes to Financial Statements**

**Note 3 - Contributions Receivable**

Contributions receivable are as follows:

	<u>September 30,</u>	
	<u>2015</u>	<u>2014</u>
Due in less than one year	\$ 472,009	\$ 296,923
Due in one to five years	<u>4,670</u>	<u>14,900</u>
	<u>\$ 476,679</u>	<u>\$ 311,823</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, 2015 and 2014, the Chapter received \$765,607 and \$724,831, respectively, from the foundation.

**Note 4 - Allocation of Joint Costs**

In fiscal years 2015 and 2014, the Chapter incurred joint costs of \$0 and \$20,493, respectively, for information materials and activities that included fundraising appeals. Such costs were allocated in accordance with the requirements of ASC Topic 958-720. Of these costs, \$0 and \$18,518, respectively, were allocated to fundraising and \$0 and \$1,975, respectively, to public education. For the years ended September 30, 2015 and 2014, 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 Topic 820-10. ASC Topic 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.

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**Notes to Financial Statements**

**Note 5 - Fair Value Measurements (continued)**

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.

The following tables provide the fair value hierarchy of the Chapter's financial assets as of September 30, 2015 and 2014:

September 30, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Interest in the Society's pooled investment fund	\$ -	\$ -	\$ 2,010,338	\$ 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>

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>



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**Notes to Financial Statements**

**Note 5 - Fair Value Measurements (continued)**

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, 2015 and 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.

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, 2015 and 2014:

	For the Years Ended September 30,	
	2015	2014
Fair value, beginning of year	\$ 2,124,708	\$ 56,161
Withdrawals	-	(903,313)
Additions	27,845	3,003,072
Interest and dividends	45,750	12,840
Realized and unrealized loss	(156,771)	(44,052)
Fair value, end of year	\$ 2,041,532	\$ 2,124,708

**Note 6 - Interest in Pooled Investment Fund**

The Chapter's trusts hold shares in the overall portfolio of the Society rather than individual financial instruments and, therefore, have the same composition of investments as that of the Society's total trust fund portfolio. At September 30, 2015 and 2014, the Chapter's trust fund totaled \$2,010,338 and \$2,121,359, respectively, which represents 2.75% and 7.00%, respectively, of the Society's total trust fund investment portfolio.

Investment (loss) income totaled \$(109,706) and \$22,060 for the years ended September 30, 2015 and 2014, respectively, which included interest and dividends of \$47,065 and \$13,301 and net realized and unrealized (losses) gains of \$(156,771) and \$8,759, respectively.

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**Notes to Financial Statements**

**Note 7 - Property and Equipment**

Property and equipment consist of the following:

	September 30,	
	2015	2014
Computer hardware and purchased software	\$ 129,391	\$ 133,014
Furniture and fixtures	90,836	90,836
Equipment	35,289	35,290
Leasehold improvements	15,000	15,000
	270,516	274,140
Less accumulated depreciation and amortization	(253,815)	(236,564)
Net property and equipment	\$ 16,701	\$ 37,576

**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 \$21,838 and \$14,967 at September 30, 2015 and 2014, respectively.

Office rent expense for the years ended September 30, 2015 and 2014 was \$265,577 and \$276,603, respectively.

The future minimum annual rental commitments under non-cancelable lease agreements at September 30, 2015 are as follows:

Year Ending September 30,

2016	\$ 180,435
2017	184,075
2018	189,716
2019	150,482
2020	128,953
Total	\$ 833,661

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**Notes to Financial Statements**

**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 \$22,771 and \$34,056 for the years ended September 30, 2015 and 2014, respectively. Unemployment expense for the years ended September 30, 2015 and 2014 was \$16,670 and \$11,467, respectively.

	For the Years Ended September 30,	
	2015	2014
Reserve, beginning of year	\$ 34,056	\$ 43,374
Payments made to fund future claims	5,385	2,149
Self-insurance income (expense) incurred	(16,670)	(11,467)
Reserve, end of year	\$ 22,771	\$ 34,056

**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 each of the years ended September 30, 2015 and 2014, 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, 2015 and 2014 was \$29,664 and \$28,340, respectively.

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**Notes to Financial Statements**

**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,	
	2015	2014
Program		
Everyday Matters	\$ -	\$ 1,998
Research	24,670	-
Time		
Charitable gift annuities	31,194	3,349
Total	<u>\$ 55,864</u>	<u>\$ 5,347</u>

Temporarily restricted net assets were released from restrictions as follows:

	For the Years Ended September 30,	
	2015	2014
Program		
Everyday matters	\$ 1,998	\$ 1,186
Program support	-	34,134
Time		
Charitable gift annuities	-	4,804
Total	<u>\$ 1,998</u>	<u>\$ 40,124</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, 2015 and 2014 were \$31,194 and \$3,349, respectively. Gain (loss) income derived from changes in value of the agreements for the years ended September 30, 2015 and 2014 was \$27,845 and \$(52,812), respectively.

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**Note 12 - Related Parties**

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

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

During the year ended September 30, 2015, the Chapter received a subsidy of \$101,692 from the Southern California and Pacific South Coast chapters to concentrate California advocacy efforts. As of September 30, 2015, the amount due from these two chapters totaled \$25,423.

**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 material subsequent events that are required to be recognized or disclosed in the accompanying financial statements.