

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
PACIFIC SOUTH COAST CHAPTER**

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

EKS&H
AUDIT | TAX | CONSULTING

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
PACIFIC SOUTH COAST CHAPTER**

Table of Contents

	<u>Page</u>
Independent Auditors' Report.....	1
Financial Statements	
Statements of Financial Position.....	3
Statements of Activities.....	4
Statements of Functional Expenses.....	5
Statements of Cash Flows.....	7
Notes to Financial Statements.....	8

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
The National Multiple Sclerosis Society Pacific South Coast Chapter
San Diego, California

We have audited the accompanying financial statements of The National Multiple Sclerosis Society Pacific South Coast 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.

To the Board of Trustees
The National Multiple Sclerosis Society Pacific South Coast Chapter
Page Two

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 Pacific South Coast 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 13 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 5, 2016
Denver, Colorado

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
PACIFIC SOUTH COAST CHAPTER**

Statements of Financial Position

	September 30,	
	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 243,280	\$ 1,218,701
Contributions receivable	116,049	58,974
Due from other chapters	10,326	-
Prepaid expenses and other assets	192,859	164,623
Total current assets	562,514	1,442,298
Non-current assets		
Contributions receivable	113,077	-
Security deposits	19,121	17,121
Property and equipment, net	24,032	56,132
Interest in The National Multiple Sclerosis Society's pooled investment fund	534,884	730,214
Due from home office - charitable gift annuities	15,999	17,767
Endowment fund at San Diego Foundation	27,701	29,118
Long-term investments	250,000	250,000
Total non-current assets	984,814	1,100,352
Total assets	\$ 1,547,328	\$ 2,542,650
Liabilities and Net Assets		
Current liabilities		
Due to home office	\$ -	\$ 143,596
Due to other chapters	10,752	107,271
Accounts payable and accrued expenses	168,090	448,364
Deferred revenue	1,677,912	1,249,684
Deferred rent liability	5,395	3,228
Total current liabilities	1,862,149	1,952,143
Long-term liabilities		
Deferred rent liability	14,499	17,642
Total liabilities	1,876,648	1,969,785
Commitments and contingencies		
Net assets		
Unrestricted	(654,720)	265,215
Temporarily restricted	47,699	28,532
Permanently restricted	277,701	279,118
Total net assets	(329,320)	572,865
Total liabilities and net assets	\$ 1,547,328	\$ 2,542,650

See notes to financial statements.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
PACIFIC SOUTH COAST CHAPTER**

Statements of Activities

	For the Years Ended							
	September 30, 2016			September 30, 2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue								
Public support								
Special events (includes in-kind donations of \$228,554 (2016) and \$212,480 (2015))	\$ 4,855,743	\$ -	\$ -	\$ 4,855,743	\$ 5,517,585	\$ -	\$ -	\$ 5,517,585
Less benefit-to-donor costs	<u>(982,756)</u>	<u>-</u>	<u>-</u>	<u>(982,756)</u>	<u>(1,033,642)</u>	<u>-</u>	<u>-</u>	<u>(1,033,642)</u>
	3,872,987	-	-	3,872,987	4,483,943	-	-	4,483,943
Contributions (includes in-kind donations of \$25,025 (2016) and \$88,150 (2015))	893,114	31,700	-	924,814	929,737	10,765	-	940,502
Legacies	<u>7,627</u>	<u>-</u>	<u>-</u>	<u>7,627</u>	<u>327,215</u>	<u>-</u>	<u>-</u>	<u>327,215</u>
Total public support	<u>4,773,728</u>	<u>31,700</u>	<u>-</u>	<u>4,805,428</u>	<u>5,740,895</u>	<u>10,765</u>	<u>-</u>	<u>5,751,660</u>
Other revenue								
Investment income (loss)	58,155	-	-	58,155	(40,250)	5,222	-	(35,028)
Service program fees	-	-	-	-	400	-	-	400
Miscellaneous income	<u>11,250</u>	<u>-</u>	<u>-</u>	<u>11,250</u>	<u>31,704</u>	<u>-</u>	<u>-</u>	<u>31,704</u>
Total other revenue	<u>69,405</u>	<u>-</u>	<u>-</u>	<u>69,405</u>	<u>(8,146)</u>	<u>5,222</u>	<u>-</u>	<u>(2,924)</u>
Net assets reclassification	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,607</u>	<u>(7,607)</u>	<u>-</u>
Net assets released from restriction	<u>13,950</u>	<u>(12,533)</u>	<u>(1,417)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Reclassification of net assets due to donor requests	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,511</u>	<u>(11,511)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>4,857,083</u>	<u>19,167</u>	<u>(1,417)</u>	<u>4,874,833</u>	<u>5,744,260</u>	<u>12,083</u>	<u>(7,607)</u>	<u>5,748,736</u>
Expenses								
Program services								
Research	1,481,384	-	-	1,481,384	1,576,794	-	-	1,576,794
Client programs	1,114,259	-	-	1,114,259	1,202,404	-	-	1,202,404
Community programs	591,049	-	-	591,049	614,119	-	-	614,119
Professional education and training	243,449	-	-	243,449	250,916	-	-	250,916
Public education	<u>1,131,411</u>	<u>-</u>	<u>-</u>	<u>1,131,411</u>	<u>1,316,110</u>	<u>-</u>	<u>-</u>	<u>1,316,110</u>
Total program services	<u>4,561,552</u>	<u>-</u>	<u>-</u>	<u>4,561,552</u>	<u>4,960,343</u>	<u>-</u>	<u>-</u>	<u>4,960,343</u>
Supporting services								
Fundraising	874,566	-	-	874,566	986,504	-	-	986,504
Management and general	<u>340,900</u>	<u>-</u>	<u>-</u>	<u>340,900</u>	<u>458,652</u>	<u>-</u>	<u>-</u>	<u>458,652</u>
Total supporting services	<u>1,215,466</u>	<u>-</u>	<u>-</u>	<u>1,215,466</u>	<u>1,445,156</u>	<u>-</u>	<u>-</u>	<u>1,445,156</u>
Total expenses	<u>5,777,018</u>	<u>-</u>	<u>-</u>	<u>5,777,018</u>	<u>6,405,499</u>	<u>-</u>	<u>-</u>	<u>6,405,499</u>
Change in net assets	(919,935)	19,167	(1,417)	(902,185)	(661,239)	12,083	(7,607)	(656,763)
Net assets at beginning of year	<u>265,215</u>	<u>28,532</u>	<u>279,118</u>	<u>572,865</u>	<u>926,454</u>	<u>16,449</u>	<u>286,725</u>	<u>1,229,628</u>
Net assets at end of year	<u>\$ (654,720)</u>	<u>\$ 47,699</u>	<u>\$ 277,701</u>	<u>\$ (329,320)</u>	<u>\$ 265,215</u>	<u>\$ 28,532</u>	<u>\$ 279,118</u>	<u>\$ 572,865</u>

See notes to financial statements.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
PACIFIC SOUTH COAST CHAPTER**

**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	\$ -	\$ 335,474	\$ 284,424	\$ 102,101	\$ 437,575	\$ 1,159,574	\$ 218,787	\$ 80,222	\$ 1,458,583	\$ -	\$ 1,458,583
Employee benefits	-	30,518	25,874	9,288	39,806	105,486	19,903	7,298	132,687	-	132,687
Payroll taxes	-	25,726	21,811	7,830	33,556	88,923	16,778	6,152	111,853	-	111,853
Total salaries and related expenses	-	391,718	332,109	119,219	510,937	1,353,983	255,468	93,672	1,703,123	-	1,703,123
Expenses											
Printing	-	10,125	3,424	1,663	17,794	33,006	46,894	974	80,874	-	80,874
Postage and shipping	-	11,791	1,898	681	16,755	31,125	40,498	535	72,158	-	72,158
Telephone	-	1,624	1,377	494	2,118	5,613	1,059	388	7,060	-	7,060
Supplies	-	9,966	2,424	666	2,856	15,912	4,141	2,666	22,719	105,131	127,850
Dues and memberships	-	486	412	148	634	1,680	517	1,076	3,273	-	3,273
Professional and other contract service fees	-	64,352	9,808	3,721	15,089	92,970	213,347	3,203	309,520	-	309,520
Donated public service announcements and advertising	-	-	-	-	-	-	7,595	-	7,595	-	7,595
Travel	-	20,186	26,858	3,636	15,228	65,908	28,097	2,792	96,797	453,409	550,206
Meetings	-	85,587	2,290	1,417	3,477	92,771	47,851	1,243	141,865	17,343	159,208
Occupancy	-	43,111	36,550	13,121	56,231	149,013	28,116	10,309	187,438	112,214	299,652
Furniture and equipment	-	5,783	4,903	1,760	7,543	19,989	4,306	1,383	25,678	-	25,678
Direct financial assistance	-	177,201	-	-	-	177,201	-	-	177,201	-	177,201
Awards and prizes	-	1,046	200	72	308	1,626	2,109	2,111	5,846	211,437	217,283
Miscellaneous expense	-	1,090	930	335	1,461	3,816	135,884	1,363	141,063	83,222	224,285
Depreciation and amortization	-	7,383	6,260	2,246	9,630	25,519	4,815	1,766	32,100	-	32,100
NPE additional allocation of Society initiatives	-	-	-	-	-	-	-	69,281	69,281	-	69,281
Total expenses before Chapter support of Society initiatives	-	831,449	429,443	149,179	660,061	2,070,132	820,697	192,762	3,083,591	982,756	4,066,347
Chapter support of Society initiatives	1,481,384	282,810	161,606	94,270	471,350	2,491,420	53,869	148,138	2,693,427	-	2,693,427
Total expenses	<u>\$ 1,481,384</u>	<u>\$ 1,114,259</u>	<u>\$ 591,049</u>	<u>\$ 243,449</u>	<u>\$ 1,131,411</u>	<u>\$ 4,561,552</u>	<u>\$ 874,566</u>	<u>\$ 340,900</u>	<u>\$ 5,777,018</u>	<u>\$ 982,756</u>	6,759,774
Less direct benefit-to-donor costs											<u>(982,756)</u>
Total expenses as reported on the statements of activities											<u>\$ 5,777,018</u>

See notes to financial statements.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
PACIFIC SOUTH COAST CHAPTER**

**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	Fund Raising	Management and General			
Salaries and related expenses											
Salaries	\$ -	\$ 362,062	\$ 317,186	\$ 108,731	\$ 496,689	\$ 1,284,668	\$ 227,435	\$ 96,346	\$ 1,608,449	\$ -	\$ 1,608,449
Employee benefits	-	41,171	36,068	12,364	56,480	146,083	25,862	10,956	182,901	-	182,901
Payroll taxes	-	29,470	25,817	8,850	40,427	104,564	18,512	7,842	130,918	-	130,918
Total salaries and related expenses	-	432,703	379,071	129,945	593,596	1,535,315	271,809	115,144	1,922,268	-	1,922,268
Expenses											
Printing	-	8,022	1,664	570	34,155	44,411	47,815	505	92,731	-	92,731
Postage and shipping	-	12,315	2,801	960	21,295	37,371	63,908	851	102,130	-	102,130
Telephone	-	5,288	4,633	1,588	7,255	18,764	3,322	1,407	23,493	-	23,493
Supplies	-	13,643	3,369	1,155	5,275	23,442	7,850	1,057	32,349	79,765	112,114
Dues and memberships	-	1,494	797	273	1,248	3,812	2,435	242	6,489	-	6,489
Professional and other contract service fees	-	62,761	9,008	3,088	14,107	88,964	282,143	3,465	374,572	-	374,572
Travel	-	24,674	12,087	3,607	14,341	54,709	51,836	2,730	109,275	493,787	603,062
Meetings	-	125,131	2,792	9,126	3,919	140,968	24,441	1,397	166,806	20,492	187,298
Occupancy	-	51,397	45,026	15,435	70,508	182,366	36,286	13,677	232,329	139,680	372,009
Furniture and equipment	-	15,188	13,306	4,561	20,836	53,891	9,541	4,042	67,474	-	67,474
Direct financial assistance	-	192,154	-	-	-	192,154	-	-	192,154	-	192,154
Awards and prizes	-	1,597	96	33	150	1,876	4,591	2,468	8,935	238,253	247,188
Miscellaneous expense	-	3,029	2,473	848	4,817	11,167	135,423	1,062	147,652	61,665	209,317
Depreciation and amortization	-	10,963	9,604	3,292	15,039	38,898	6,886	2,918	48,702	-	48,702
Restricted contributions to Society research initiatives	150,000	-	-	-	-	150,000	-	-	150,000	-	150,000
NPE additional allocation of Society initiatives	-	-	-	-	-	-	-	180,295	180,295	-	180,295
Total expenses before Chapter support of Society Initiatives	150,000	960,359	486,727	174,481	806,541	2,578,108	948,286	331,260	3,857,654	1,033,642	4,891,296
Chapter support of Society initiatives	1,426,794	242,045	127,392	76,435	509,569	2,382,235	38,218	127,392	2,547,845	-	2,547,845
Total expenses	<u>\$ 1,576,794</u>	<u>\$ 1,202,404</u>	<u>\$ 614,119</u>	<u>\$ 250,916</u>	<u>\$ 1,316,110</u>	<u>\$ 4,960,343</u>	<u>\$ 986,504</u>	<u>\$ 458,652</u>	<u>\$ 6,405,499</u>	<u>\$ 1,033,642</u>	7,439,141
Less direct benefit-to-donor costs											<u>(1,033,642)</u>
Total expenses as reported on the statements of activities											<u>\$ 6,405,499</u>

See notes to financial statements.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
PACIFIC SOUTH COAST 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	\$ (902,185)	\$ (656,763)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	32,100	48,702
Net unrealized and realized (gains) losses on investments	(37,520)	53,910
Due from home office - charitable gift annuity	1,768	(4,703)
Change in value of endowment fund at San Diego Foundation	1,417	10,992
Addition and amortization of lease credits	(976)	20,870
Changes in operating assets and liabilities		
Contributions receivable	(170,152)	235,472
Contributions receivable from home office	-	1,490
Due from other chapters	(10,326)	135
Prepaid expenses and other assets	(30,236)	(15,959)
Due to home office	(143,596)	3,316
Due to other chapters	(96,519)	(42,567)
Accounts payable and accrued expenses	(280,274)	38,730
Deferred revenue	<u>428,228</u>	<u>50,704</u>
Net cash used in operating activities	<u>(1,208,271)</u>	<u>(255,671)</u>
Cash flows from investing activities		
Purchase of investments	(17,150)	(779,105)
Proceeds from sales of investments	<u>250,000</u>	<u>640,700</u>
Net cash provided by (used in) investing activities	<u>232,850</u>	<u>(138,405)</u>
Net decrease in cash and cash equivalents	(975,421)	(394,076)
Cash and cash equivalents at beginning of year	<u>1,218,701</u>	<u>1,612,777</u>
Cash and cash equivalents at end of year	<u>\$ 243,280</u>	<u>\$ 1,218,701</u>

See notes to financial statements.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
PACIFIC SOUTH COAST 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 Pacific South Coast Chapter (the "Chapter") raises funds in the states of California and Hawaii. 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

The Chapter reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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
PACIFIC SOUTH COAST CHAPTER**

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.

Investments in certificates of deposit are reported at amortized cost.

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. Receivables are recorded at net realizable value, net of an allowance for uncollectible amounts. The Chapter believes that the pledges receivable are fully collectible. Donated securities are liquidated upon receipt and recorded as contributions at their fair value.

At September 30, 2016, 74% of the Chapter's contributions receivable were from one donor. At September 30, 2015, there were no concentrations of credit risk related to 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.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
PACIFIC SOUTH COAST CHAPTER**

Notes to Financial Statements

Note 1 - Organization and Summary of 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, 2016 and 2015.

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. Unconditional bequests (donations received under terms of a will) are reported as revenues when notification of the bequest is received, the amount is reasonably determinable, and the probate court declares the will valid.

It is the Chapter's policy to record temporarily restricted contributions received and fulfilled in the same accounting period in the unrestricted net asset class. When a prior year's donor restriction expires, that is, when a time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified as unrestricted net assets and reported 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	\$ 228,554	\$ 227,230
Donated services	<u>25,025</u>	<u>73,400</u>
Total	<u>\$ 253,579</u>	<u>\$ 300,630</u>

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
PACIFIC SOUTH COAST CHAPTER**

Notes to Financial Statements

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

Donated Goods and Services (continued)

Public service announcements and donated advertising received in fiscal years 2016 and 2015 totaled approximately \$7,595 and \$0, 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.

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 \$2,762,708 and \$2,728,140, 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 13), NPE will no longer be calculated after September 30, 2016.

In addition to the fixed amount of NPE for the year ended September 30, 2015, the Chapter made an additional research contribution to the Society in the amount of \$150,000. This amount is reflected in research expense on the accompanying statement 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.

Expense Allocations

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

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
PACIFIC SOUTH COAST CHAPTER**

Notes to Financial Statements

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

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$104,403 and \$152,337 in fiscal years 2016 and 2015, respectively, consisting of \$7,595 and \$0 in donated advertising and public service announcements.

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

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 receivable are as follows:

	<u>September 30,</u>	
	<u>2016</u>	<u>2015</u>
Due in less than one year	\$ 116,049	\$ 58,974
Due in one to five years	<u>114,000</u>	<u>-</u>
	230,049	58,974
Less present value discount	<u>(923)</u>	<u>-</u>
	<u>\$ 229,126</u>	<u>\$ 58,974</u>

For contributions receivable expected to be collected in periods greater than one year, the Chapter applied a discount of .81% on balances receivable as of September 30, 2016.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
PACIFIC SOUTH COAST CHAPTER**

Notes to Financial Statements

Note 4 - Long-Term Investments

A summary of the Chapter's investments are as follows:

	September 30,	
	<u>2016</u>	<u>2015</u>
Unrestricted investments		
Interest in The National Multiple Sclerosis Society's pooled investment fund	\$ <u>534,884</u>	\$ <u>730,214</u>
Total unrestricted investments	<u>\$ 534,884</u>	<u>\$ 730,214</u>
Temporarily restricted investments		
Charitable gift annuities	\$ <u>15,999</u>	\$ <u>17,767</u>
Total temporarily restricted investment	<u>\$ 15,999</u>	<u>\$ 17,767</u>
Permanently restricted investments		
Endowment fund at San Diego Foundation	\$ 27,701	\$ 29,118
Long-term investments - certificates of deposit	<u>250,000</u>	<u>250,000</u>
Total permanently restricted investments	<u>\$ 277,701</u>	<u>\$ 279,118</u>

These investments were held by the Chapter's investment custodian.

Investment returns are as follows:

	For the Years Ended September 30,	
	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 20,635	\$ 18,882
Realized and unrealized gains (losses)	<u>37,520</u>	<u>(53,910)</u>
Total investment return	<u>\$ 58,155</u>	<u>\$ (35,028)</u>

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
PACIFIC SOUTH COAST CHAPTER**

Notes to Financial Statements

Note 5 - 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	\$ -	\$ -	\$ 534,884	\$ 534,884
Endowments	-	-	27,701	27,701
Charitable gift annuities	-	-	<u>15,999</u>	<u>15,999</u>
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 578,584</u>	<u>\$ 578,584</u>

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
PACIFIC SOUTH COAST CHAPTER**

Notes to Financial Statements

Note 5 - 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	\$ -	\$ -	\$ 730,214	\$ 730,214
Endowments	-	-	29,118	29,118
Charitable gift annuities	-	-	<u>17,767</u>	<u>17,767</u>
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 777,099</u>	<u>\$ 777,099</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.

Endowments: These investments are valued using the valuation provided by the foundation holding the investments. The Chapter's beneficial interest in the pooled investment is 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	\$ 777,099	\$ 698,893
Additions, withdrawals, and changes in present value	(250,000)	114,012
Interest and dividends	17,150	18,104
Realized and unrealized gain (loss)	<u>34,335</u>	<u>(53,910)</u>
Fair value at end of year	<u>\$ 578,584</u>	<u>\$ 777,099</u>

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
PACIFIC SOUTH COAST CHAPTER**

Notes to Financial Statements

Note 6 - Interest in Pooled Investment Fund

The Chapter holds a share of the overall portfolio of the Society's pooled investment fund rather than in the individual financial instruments and, therefore, has the same composition of investments as that of the Society's total pooled investment fund. The Chapter's share of the Society's pooled investment fund totaled \$534,884 and \$730,214, respectively, which represents 1% and 1% of the Society's total reserves investment portfolio as of September 30, 2016 and 2015.

Investment net gain totaled \$54,670 for the year ended September 30, 2016, which included interest and dividends of \$17,150 and net realized and unrealized gains of \$37,250. Investment net loss totaled \$(35,453) for the year ended September 30, 2015, which included interest and dividends of \$18,104 and net realized and unrealized losses of \$(53,557).

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	\$ 119,569	\$ 119,569
Furniture and fixtures	124,593	124,593
Equipment	3,576	3,576
Leasehold improvements	<u>12,482</u>	<u>12,482</u>
	260,220	260,220
Less accumulated depreciation	<u>(236,188)</u>	<u>(204,088)</u>
	<u>\$ 24,032</u>	<u>\$ 56,132</u>

Note 8 - Charitable Gift Annuities

The Chapter is the beneficiary of a number of charitable gift annuities or 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 \$15,999 and \$17,767, respectively. (Loss) income derived from changes in value of the agreements for the years ended September 30, 2016 and 2015 was \$(1,768) and \$4,703, respectively.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
PACIFIC SOUTH COAST CHAPTER**

Notes to Financial Statements

Note 9 - 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 \$19,894 and \$20,870 at September 30, 2016 and 2015, respectively.

Office rent expense for the years ended September 30, 2016 and 2015 was \$174,077 and \$210,842, respectively.

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

<u>Year Ending September 30,</u>	<u>Total</u>
2017	\$ 187,607
2018	193,132
2019	198,656
2020	165,812
2021	<u>76,864</u>
Total	<u>\$ 822,071</u>

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 \$39,168 and \$43,708 as of September 30, 2016 and 2015, respectively. Unemployment expense for the years ended September 30, 2016 and 2015 was \$19,260 and \$19,566, respectively.

	<u>For the Years Ended September 30,</u>	
	<u>2016</u>	<u>2015</u>
Reserve at beginning of year	\$ 43,708	\$ 55,906
Payments made to fund future claims	12,774	7,132
Self-insurance expense/claims paid	(19,260)	(19,566)
Self-insurance unrealized gains	<u>1,946</u>	<u>236</u>
Reserve at end of year	<u>\$ 39,168</u>	<u>\$ 43,708</u>

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
PACIFIC SOUTH COAST CHAPTER**

Notes to Financial Statements

Note 10 - 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 non-contributory 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 \$29,324, while the retirement expense for fiscal year 2016 was incurred by the Society rather than the Chapter.

Note 11 - Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets comprise the following:

	September 30,	
	2016	2015
Program		
Scholarship fund	\$ 20,680	\$ 10,765
Purpose restricted	11,020	-
Time		
Charitable gift annuities	15,999	17,767
	\$ 47,699	\$ 28,532

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
PACIFIC SOUTH COAST CHAPTER**

Notes to Financial Statements

Note 11 - Net Assets (continued)

Temporarily Restricted Net Assets (continued)

Temporarily restricted net assets were released from restrictions as follows:

	<u>September 30,</u>	
	<u>2016</u>	<u>2015</u>
Program		
San Diego Foundation	\$ 12,533	\$ 11,511

Note 12 - Endowments

The Chapter's endowments consist of funds established for a variety of purposes. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Chapter has interpreted the California and Hawaii Uniform Management of Institutional Funds Acts ("UMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Chapter classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is characterized as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard for expenditure prescribed by UMIFA. In accordance with UMIFA, the Chapter considers the following factors in making a determination to appropriate or calculate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The general purposes of the Chapter and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the Chapter
7. The investment policies of the Chapter

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
PACIFIC SOUTH COAST CHAPTER**

Notes to Financial Statements

Note 12 - Endowments (continued)

Interpretation of Relevant Law (continued)

The changes in endowment net assets for the years ended September 30, 2016 and 2015 are as follows:

	September 30, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets at beginning of year	\$ -	\$ -	\$ 279,118	\$ 279,118
Investment return	-	2,750	-	2,750
Change in value	-	1,417	(1,417)	-
Appropriation of endowment assets for expenditure	-	(4,167)	-	(4,167)
Endowment net assets at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 277,701</u>	<u>\$ 277,701</u>

	September 30, 2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets at beginning of year	\$ -	\$ 3,385	\$ 286,725	\$ 290,110
Investment return	-	519	-	519
Reclassification	-	7,607	(7,607)	-
Appropriation of endowment assets for expenditure	-	(11,511)	-	(11,511)
Endowment net assets at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 279,118</u>	<u>\$ 279,118</u>

Return Objectives and Risk Parameters

The Chapter's endowment fund consists of assets that must be held in perpetuity or for specified time periods stipulated by the donors. The Chapter maintains investment and spending policies for its endowment assets aimed at providing predictable and steady support for the Society's research and programmatic and administrative activities. Under this policy, the endowment assets are invested in a manner intended to preserve their value consistent with such donor stipulations, minimize the effect of high economic volatility and/or low investment return, and provide funding for the programs specified by the donors.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
PACIFIC SOUTH COAST CHAPTER**

Notes to Financial Statements

Note 12 - Endowments (continued)

Endowment Investment Spending Policy

For all endowment funds that have a value greater than their original gift, the spending rate (stated as a percentage) will be reviewed by the Investment Committee of the Society's Board of Directors and established on an annual basis. The annual spending rate on endowed funds held by the Chapter may range from a minimum of 0% to a maximum of 7%. The Investment Committee will inform the Chief Financial Officers of the spending rate that will be incorporated into the budget review and approval process.

In establishing the spending rate, the Investment Committee shall rely on the three-year rolling average market value (12 quarters) of the endowment fund assets calculated as of six months prior to the fiscal year commencement date.

Note 13 - 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.

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	\$ 243,280
Contributions receivable	\$ 229,126
Due from other chapters	\$ 10,326
Investments	\$ 784,884
Prepaid expenses	\$ 192,859
Property and equipment, net	\$ 24,032
Charitable gift annuity	\$ 15,999
Security deposits	\$ 19,121
Endowment fund at San Diego	\$ 27,701
Accounts payable and accrued expenses	\$ (168,090)
Deferred revenue	\$ (1,677,912)
Deferred rent	\$ (19,894)
Due to other chapters	\$ (10,752)
Excess of liabilities assumed over the fair value of assets received	\$ (329,320)

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY
PACIFIC SOUTH COAST CHAPTER**

Notes to Financial Statements

Note 13 - Society Realignment (continued)

The excess liabilities assumed over fair value of assets received is reported in contributions 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 14 - 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 that described in Note 13.