

National Multiple Sclerosis Society

Pennsylvania Keystone Chapter

Financial Statements

Year Ended September 30, 2015
with Independent Auditor's Report

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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NATIONAL MULTIPLE SCLEROSIS SOCIETY

PENNSYLVANIA KEYSTONE CHAPTER

YEAR ENDED SEPTEMBER 30, 2015

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Independent Auditor's Report

Board of Trustees
National Multiple Sclerosis Society
Pennsylvania Keystone Chapter

We have audited the accompanying financial statements of the National Multiple Sclerosis Society, Pennsylvania Keystone Chapter (Chapter), which comprise the statement of financial position as of September 30, 2015, and the related statements of activities, cash flows, and functional expenses 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.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chapter as of September 30, 2015, 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.

Maher Duessel

Pittsburgh, Pennsylvania
December 23, 2015

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PENNSYLVANIA KEYSTONE CHAPTER
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2015

Assets		Liabilities and Net Assets	
<u>Current assets:</u>		<u>Current liabilities:</u>	
Cash and cash equivalents	\$ 439,971	Due to Home Office:	
Investments - at fair value plus accrued interest	-	Remittance due to Home Office	\$ 1,104,215
Contributions receivable - current	1,129,333	Other payables due to Home Office	-
Contributions receivable from Home Office	2,200	Due to other chapters	-
Prepaid expenses and other assets	51,183	Accounts payable and accrued expenses	369,905
Interest in Home Office's		Deferred revenue	53,658
pooled investments (if current)	586,369		
		Total current liabilities	1,527,778
Total current assets	2,209,056		
<u>Noncurrent assets:</u>		<u>Long-term liabilities:</u>	
Contributions receivable - long-term	-	Due to Home Office	-
Long-term investments	69,445	Other long-term liabilities	-
Furniture, fixtures, and equipment, at cost, net			
of accumulated depreciation and amortization	39,581	Total long-term liabilities	-
Equipment loan program	-		
Charitable lead trust	289,319	Total Liabilities	1,527,778
Interest in Home Office's			
pooled investments (if noncurrent)	470,274	<u>Net Assets:</u>	
Due from Home Office		Unrestricted	792,906
(Charitable remainder trusts)	17,487	Temporarily restricted	752,872
		Permanently restricted	21,606
Total noncurrent assets	886,106	Total Net Assets	1,567,384
Total Assets	\$ 3,095,162	Total Liabilities and Net Assets	\$ 3,095,162

See accompanying notes to financial statements.

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STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
<u>Public support:</u>				
Received directly:				
Special events (includes in-kind donations of \$151,950)	\$ 3,865,846	\$ -	\$ -	\$ 3,865,846
Less benefit to donor costs	580,671	-	-	580,671
	<u>3,285,175</u>	<u>-</u>	<u>-</u>	<u>3,285,175</u>
Contributions (includes in-kind donations of \$0 and donated services of \$0)	893,964	16,158	-	910,122
Legacies	1,183,767	-	-	1,183,767
Received at Home Office (other than legacies)	-	-	-	-
Total received directly	<u>5,362,906</u>	<u>16,158</u>	<u>-</u>	<u>5,379,064</u>
Received indirectly:				
Combined Federal Service Campaign	-	-	-	-
Federated Fund Raising Organizations	-	-	-	-
Total received indirectly	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total public support	<u>5,362,906</u>	<u>16,158</u>	<u>-</u>	<u>5,379,064</u>
Grants from governmental agencies				
	-	-	-	-
<u>Other revenues:</u>				
Investment income (loss), net of expenses	(39,622)	(30,449)	-	(70,071)
Service program fees	4,218	-	-	4,218
Miscellaneous income	235,817	-	-	235,817
Total other revenues	<u>200,413</u>	<u>(30,449)</u>	<u>-</u>	<u>169,964</u>
Net assets released from restrictions	209,383	(209,383)	-	-
Total revenues	<u>5,772,702</u>	<u>(223,674)</u>	<u>-</u>	<u>5,549,028</u>
Expenses:				
<u>Program services:</u>				
Research	2,167,430	-	-	2,167,430
Society activities	-	-	-	-
Client programs	1,481,304	-	-	1,481,304
Community programs	673,683	-	-	673,683
Professional education and training	168,756	-	-	168,756
Public education	696,121	-	-	696,121
Total program services	<u>5,187,294</u>	<u>-</u>	<u>-</u>	<u>5,187,294</u>
<u>Supporting services:</u>				
Fundraising	553,459	-	-	553,459
Management and general	231,379	-	-	231,379
Total supporting services	<u>784,838</u>	<u>-</u>	<u>-</u>	<u>784,838</u>
Total expenses	<u>5,972,132</u>	<u>-</u>	<u>-</u>	<u>5,972,132</u>
Change in Net Assets Before Effect of Realignment	<u>(199,430)</u>	<u>(223,674)</u>	<u>-</u>	<u>(423,104)</u>
Excess of assets acquired over liabilities assumed in realignment with Central Pennsylvania Chapter	738,454	13,219	21,606	773,279
Change in Net Assets After Effect of Realignment	<u>539,024</u>	<u>(210,455)</u>	<u>21,606</u>	<u>350,175</u>
Net Assets:				
Beginning of year	253,882	963,327	-	1,217,209
End of year	<u>\$ 792,906</u>	<u>\$ 752,872</u>	<u>\$ 21,606</u>	<u>\$ 1,567,384</u>

See accompanying notes to financial statements.

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STATEMENT OF CASH FLOWS

YEAR ENDED SEPTEMBER 30, 2015

Cash Flows From Operating Activities:	
Change in net assets	\$ 350,175
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation and amortization	17,733
Loss on disposal of fixed assets	1,242
Net realized and unrealized loss (gain) on investments	92,710
Assets net of liabilities acquired in realignment	(773,279)
Amortization of discount on charitable lead trust	(16,158)
Changes in operating assets and liabilities:	
Receivables	(1,090,118)
Prepaid expenses and other assets	5,487
Charitable lead trust	50,000
Due from Home office (charitable remainder trusts)	5,952
Accounts payable and accrued expenses	144,811
Deferred revenue	(36,587)
Due to Home Office	1,100,696
Due to other chapters	(4,047)
Other liabilities	(61,462)
Total adjustments	(563,020)
Net cash provided by (used in) operating activities	(212,845)
Cash Flows From Investing Activities:	
Cash acquired from realignment	664,613
Purchase of furniture, fixtures, and equipment	(10,210)
Purchase of investments	(1,289,804)
Proceeds from sale of investments	949,417
Net cash provided by (used in) investing activities	314,016
Cash Flows From Financing Activities:	
Proceeds from long-term debt	-
Payments on long-term debt	-
Permanently restricted contributions	-
Net cash provided by (used in) financing activities	-
Net Increase (Decrease) in Cash and Cash Equivalents	101,171
Cash and Cash Equivalents:	
Beginning of year	338,800
End of year	\$ 439,971

Noncash Investing Activities

During the fiscal year ended September 30, 2015, the Chapter acquired investments and net property and equipment totaling \$69,445 and \$16,617, respectively, from the realignment with the Central Pennsylvania Chapter.

See accompanying notes to financial statements.

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STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2015

	Program Services						Supporting Services			Total Programs and Support	Benefit to Donor Costs	Total
	Research	Society Activities	Client Programs	Community Programs	Professional Education and Training	Public Education	Total	Fundraising	Management and General			
Salaries	\$ -	\$ -	\$ 515,237	\$ 372,116	\$ 71,561	\$ 171,746	\$ 1,130,660	\$ 214,681	\$ 85,873	\$ 1,431,214	\$ -	\$ 1,431,214
Employee benefits	-	-	57,481	41,514	7,983	19,160	126,138	23,952	9,580	159,670	-	159,670
Payroll taxes	-	-	36,954	26,689	5,133	12,318	81,094	15,397	6,159	102,650	-	102,650
Total salaries and related expenses	-	-	609,672	440,319	84,677	203,224	1,337,892	254,030	101,612	1,693,534	-	1,693,534
Printing	-	-	3,182	610	117	15,021	18,930	37,586	141	56,657	-	56,657
Postage and shipping	-	-	15,653	3,171	610	11,329	30,763	21,155	724	52,642	-	52,642
Telephone	-	-	12,005	4,194	806	1,935	18,940	4,574	968	24,482	-	24,482
Supplies	-	-	15,892	6,763	1,273	3,055	26,983	3,856	1,527	32,366	67,423	99,789
Dues and memberships	-	-	1,381	781	150	360	2,672	662	180	3,514	-	3,514
Professional and other contract service fees	-	-	59,718	16,651	3,202	7,685	87,256	35,057	3,843	126,156	-	126,156
Donated PSAs and advertising	-	-	-	-	-	-	-	38,435	-	38,435	-	38,435
Travel	-	-	20,633	12,744	930	2,239	36,546	13,701	1,045	51,292	296,562	347,854
Meetings	-	-	46,281	7,291	1,580	3,446	58,598	4,759	1,660	65,017	12,929	77,946
Occupancy	-	-	64,193	46,361	8,916	21,398	140,868	26,746	10,699	178,313	85,041	263,354
Furniture and equipment	-	-	17,037	12,305	2,366	5,679	37,387	7,097	2,840	47,324	-	47,324
Funding of other organizations that support individuals with MS	-	-	-	10,000	-	-	10,000	-	-	10,000	-	10,000
Direct financial assistance	-	-	404,733	-	-	-	404,733	-	-	404,733	-	404,733
Prizes and promotional items	-	-	1,385	-	-	-	1,385	2,044	-	3,429	74,991	78,420
Miscellaneous expense	-	-	5,108	3,647	701	1,683	11,139	69,827	842	81,808	43,725	125,533
Depreciation and amortization	-	-	6,384	4,611	887	2,128	14,010	2,660	1,063	17,733	-	17,733
Restricted contributions to Society research initiatives	1,000,000	-	-	-	-	-	1,000,000	-	-	1,000,000	-	1,000,000
Total expenses before chapter support of Society initiatives	1,000,000	-	1,283,257	569,448	106,215	279,182	3,238,102	522,189	127,144	3,887,435	580,671	4,468,106
Chapter support of Society initiatives	1,167,430	-	198,047	104,235	62,541	416,939	1,949,192	31,270	104,235	2,084,697	-	2,084,697
Total expenses	\$ 2,167,430	\$ -	\$ 1,481,304	\$ 673,683	\$ 168,756	\$ 696,121	\$ 5,187,294	\$ 553,459	\$ 231,379	\$ 5,972,132	\$ 580,671	6,552,803
Less direct benefit to donor costs												(580,671)
Total expenses as reported on the statements of activities												\$ 5,972,132

See accompanying notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2015

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

The National Multiple Sclerosis Society (Society), Pennsylvania Keystone Chapter (the Chapter) is a not-for-profit voluntary health agency which raises funds in the State of Pennsylvania to provide and connect people with multiple sclerosis to services and resources, support multiple sclerosis research, and educate the public about the impact of multiple sclerosis. Services include, but are not necessarily limited to, supporting education, centers providing medical, recreational and other therapy and care for those living with multiple sclerosis, counseling and support, advocacy for local and national change, and information and resources through in-person and online programs.

As discussed in Note 11, the Western Pennsylvania Chapter realigned with the Central Pennsylvania Chapter on October 1, 2014 and changed its name to the Pennsylvania Keystone Chapter.

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 which 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 which are restricted by donors for specific purposes. The restrictions are satisfied either by the passage of time or by actions of the Chapter.

Permanently Restricted Net Assets: Permanently restricted net assets include resources with permanent donor-imposed restrictions, which require the assets to be maintained in perpetuity but permit the Chapter to expend all or part of the income derived from the donated assets.

When both restricted and unrestricted resources are available for use, it is the Chapter's policy to use restricted resources first, then unrestricted resources as they are needed.

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Revenue Recognition and Deferred Revenue

Contributions are recorded as revenue when received or promised (pledged) unconditionally, at their fair-value. Gifts received with donor stipulations that limit the use of the donated assets are reported as temporarily restricted support. The Chapter recognizes income from legacies and bequests when an unassailable right to the gift has been established by the court and proceeds are measurable in amount. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. It is the Chapter's policy to record temporarily restricted contributions received and expended in the same accounting period in the unrestricted net asset class.

All revenue received in advance for special events that are held subsequent to year-end is deferred.

Expense Allocations

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

Concentration of Credit Risk

Deposits at the Chapter's financial institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000 per financial institution. 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 equivalents. The Chapter had \$160,718 as an uninsured cash and equivalent balance at September 30, 2015.

Cash and Cash Equivalents

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

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Investments

The Chapter's investments in equity and debt securities are stated at their quoted market prices, with the net changes in unrealized gains or losses included in the statement of activities. Donated securities are recorded at their fair value on the date of the gift.

Contributions and Other Receivables

Contributions and other receivables consist of accruals of public support received after the year-end that pertained to fundraising events held during fiscal year 2015. Receivables are recorded at net realizable value. The Chapter believes that the pledges 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. Donated property and equipment are recorded at the fair market value at the date of donation. 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. It is the Chapter's policy to capitalize individual fixed assets with an original cost of \$1,000 or more and an expected useful life longer than one year.

Fixed assets are depreciated over the following useful lives:

Laptops and desktops	3 years
Telecommunications equipment	7 years
Furniture	8 years
Leasehold improvements	The shorter of the life of the leasehold improvement or the remaining term of the lease

Compensated Absences

The expense associated with compensated absences is recognized as it is accrued and is included in accounts payable and accrued expenses on the Statement of Financial Position. As of September 30, 2015, the Chapter has a liability of \$103,262 related to compensated absences.

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Donated Goods and Services

Donated goods and services, including public service announcements, 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.

Donated goods	\$ 151,950
Donated services	<u>-</u>
Total	<u>\$ 151,950</u>

Donated public service announcements received in fiscal year 2015 totaled approximately \$38,000 and are reflected above as donated goods and as fundraising expense in the accompanying statement of activities.

In addition, a number of volunteers have donated significant amounts of their time to the Chapter's program services and supporting services. No amounts have been reflected in the accompanying financial statements for those donated services because they do not meet the criteria for revenue recognition established by ASC Section 958-605 (formerly Statement of Financial Accounting Standards (SFAS) No. 116, "*Contributions Received and Contributions Made*").

Use of Estimates

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

Chapter Support of Society Initiatives (National Programs Expense)

The National Programs Expense (NPE) is an allocation to chapters that funds a large portion of the Society's budget in areas such as nationwide programs, services, centralized functions, and the Society's research investments, as well as investments in the Society's unified plan. The Society's budget is determined through an inclusive budget planning process. The Budget Development Advisory Committee provides consensus advice to the CEO and is

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comprised of members of the Senior Leadership Team, members of the National Board of Directors, and regional volunteer liaisons responsible for communicating with volunteer leadership in each region.

Revenue tiers with progressively higher percentages are used to determine the NPE allocation amounts. The remittance percentage is subject to adjustment each year to ensure that the Society meets its programmatic goals and that all donor restrictions are honored. The Chapter's NPE for fiscal year 2015 was calculated to be \$2,084,697. This amount is reflected as Chapter Support of Society Initiatives in the accompanying statement of functional expenses.

During 2015, the Chapter received a bequest in the amount of \$1,000,000. As a result, in addition to the allocated amount of NPE, the Chapter made an additional investment in the Society's research initiatives in the amount of \$1,000,000. This amount is reflected in the Research Expense total in the accompanying statement of activities.

Subsidies Received from National Multiple Sclerosis Society

With the realignment in fiscal 2015 with the Central Pennsylvania Chapter, forming the Pennsylvania Keystone Chapter, the Chapter incurred unanticipated expenses during fiscal 2015. As a result of a recommendation forwarded to the Chapter Relations Committee, the Chapter was granted a subsidy of \$232,600 from the home office. The subsidy has been reflected as miscellaneous income on the statement of activities.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was \$61,200 for the year ended September 30, 2015, consisting of \$38,435 in donated advertising and public service announcements.

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 and the Chapter annually files a Form 990. The Chapter is also exempt from the Commonwealth of Pennsylvania and City of Pittsburgh income tax.

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Management analyzed the tax positions taken by the Chapter and concluded that, as of September 30, 2015, there were no uncertain tax positions taken or are 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, 2011 under federal and Pennsylvania state tax jurisdictions.

Fair Value Measurement

The Chapter follows the provisions of ASC Section 820-10 (formerly known as SFAS No. 157, "*Fair Value Measurements*") for its financial instruments. This statement establishes a fair value hierarchy for the inputs used to measure fair value based on the nature of the data input, which generally range from quoted prices for identical instruments in a principal trading market (Level 1) to estimates determined using related market data (Level 3). Multiple inputs may be used to measure fair value; however, the level of fair value of each financial asset or liability presented below is based on the lower significant input level within this fair value hierarchy.

- *Level 1 inputs* - Measurements that are most observable are based on quoted prices of identical instruments obtained from the principal markets in which they are traded. Closing prices are both readily available and representative of fair value. Market transactions occur with sufficient frequency and volume to ensure liquidity.
- *Level 2 inputs* - Measurements derived indirectly from observable inputs or from quoted prices from markets that are less liquid are considered Level 2. Measurements may consider inputs that other market participants would use in valuing a portfolio, quoted market prices for similar securities, interest rates, credit risks, and others.
- *Level 3 inputs* - Measurements that are least observable are estimated from related market data, determined from sources with little or no market activity for comparable contracts, or are positions with longer durations.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Chapter believes its valuation methods are appropriate and consistent with other market participants,

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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.

Refer to Note 7 for detailed information on the Chapter's charitable lead trust.

The following table provides the fair value hierarchy of the Chapter's investments as of September 30, 2015:

Description	9/30/2015	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 145	\$ 145	\$ -	\$ -
Intermediate bond fund	55,508	55,508	-	-
U.S. treasury bonds	13,792	13,792	-	-
Interest in Society's pooled investment fund	1,056,643	-	-	1,056,643
Totals	<u>\$ 1,126,088</u>	<u>\$ 69,445</u>	<u>\$ -</u>	<u>\$ 1,056,643</u>

At September 30, 2015, 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.

The table below sets forth a summary of the changes in the fair value of the Chapter's Level 3 investments for the year ended September 30, 2015:

Balance, beginning of year	\$ -
Deposits	1,123,259
Withdrawals	-
Unrealized/realized gain (loss)	<u>(66,616)</u>
Total	<u>\$ 1,056,643</u>

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Subsequent Events

Subsequent events have been evaluated through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.

2. INVESTMENTS

A summary of the Chapter's investments at September 30 is as follows:

	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 145	\$ 145
Intermediate bond fund	45,323	55,508
U.S. treasury bonds	14,000	13,792
Interest in Society's pooled investment fund	<u>1,123,259</u>	<u>1,056,643</u>
Total	<u>\$ 1,182,727</u>	<u>\$ 1,126,088</u>

In November 2014, the Chapter's entire investment portfolio was liquidated and reinvested into the Society's pooled investment fund, in accordance with the Society's requirements.

Interest in Pooled Investment Fund

As required by the implementation of the Society's Reserves Policy, the Chapter transferred \$1,123,259 into the Society's pooled investment fund during fiscal 2015.

The Chapter holds a share of the overall portfolio of the Society's pooled investment fund rather than in the individual financial instruments and, therefore, has the same composition of investments as that of the Society's total pooled investment fund. The Chapter's share of the Society's pooled investment fund totaled \$1,056,643, which represents 0.90% of the Society's total pooled investment fund and 6.16% of the Society's total endowment investment portfolio as of September 30, 2015.

Interest in the pooled investment fund is valued at the net asset value of shares held by the Chapter at year-end. Underlying investments of the pooled investment fund consist of stocks and mutual funds that are actively traded and are easily redeemed without restrictions on

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sales. There are no unfunded commitments. The investment strategy of the pooled investment fund is to provide growth and income.

Investment net income (loss) totaled \$(66,616) for the year ended September 30, 2015, which included interest and dividends of \$22,310, net realized/unrealized gains (losses) of \$(84,230), and administration fees of \$4,696.

Investment Income

A summary of the Chapter's investment income (loss) at September 30, 2015 is as follows:

Interest and dividend income	\$ 22,639
Unrealized/realized gains (losses)	<u>(92,710)</u>
Total investment income (loss)	<u>\$ (70,071)</u>

Risks and Uncertainties

Financial instruments potentially expose the Chapter to various risks such as concentrations of credit risk, interest rate risk, and market risks. Concentration of credit risk for investments in marketable securities is mitigated by the overall diversification of managed investment portfolios. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in values of investments will occur in the near-term and that such change could materially affect the amount reported on the statement of financial position.

3. PROPERTY AND EQUIPMENT

At September 30, 2015, property and equipment consist of the following:

Furniture and fixtures	\$ 5,440
Equipment	195,389
Leasehold improvements	<u>10,778</u>
	211,607
Less: accumulated depreciation and amortization	<u>172,026</u>
Total	<u>\$ 39,581</u>

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4. LEASES

Rental expense of the Chapter's office space and equipment for the year ended September 30, 2015 was \$216,259.

Future minimum lease payments for the Chapter's noncancelable leases for the years ending September 30 are as follows:

2016	\$	191,258
2017		179,713
2018		182,239
2019		132,460
2020		69,550
		<u>69,550</u>
	\$	<u>755,220</u>

5. PENSION PLAN

The Chapter maintains a noncontributory defined contribution retirement plan (plan) covering all eligible employees of the Chapter. Employees are fully vested at the end of five years. The Chapter's contribution under the plan is discretionary and is determined each year. There were no such discretionary contributions made during 2015.

6. RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2015 consist of the following amounts:

- \$289,319 represents the balance of the Pellicci trust as disclosed in Note 7 below. The balance of the trust is considered to be temporarily restricted at September 30, 2015 as it will be available for future use by the Chapter upon receipt of funds.
 - \$450,334 represents the value of the Nadine trust. During fiscal year 2008, the Chapter received a transfer of certain assets from the Western New York/Northwest Pennsylvania Chapter as a result of the absorption of the Erie, Warren, and McKean Counties (effective October 1, 2006). Those assets include a legacy left by Nadine Fried. The Chapter agrees to use the legacy in accordance
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with the gift restrictions imposed by the donor. Those gift restrictions indicate the funds are to be used for the needs of patients affected by multiple sclerosis in Erie, Warren, and McKean Counties. As such, a portion of these funds has been used to offset any operating shortfalls experienced since the date of absorption for services provided to Erie, Warren, and McKean Counties.

- \$13,219 represents funds that are restricted for various other purposes.

Permanently restricted net assets of \$21,606 at September 30, 2015 consist of assets subject to donor-imposed stipulations that they be held in perpetuity, as discussed in Note 10.

7. CHARITABLE LEAD TRUST

During fiscal year 2007, the Chapter became a recipient of the Pellicci irrevocable charitable trust. The provisions of the trust agreement stipulate that \$50,000 is to be paid annually to the Chapter over fifteen years. The value of the trust was calculated using a present value of the expected cash flow from the trust, using a discount rate of 5% and number of future payments. The trust is recorded as a charitable lead trust on the statements of financial position.

In accordance with ASC Section 820-10, assets classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. As observable prices are not available for the trust, the Chapter uses the income approach as described in the preceding paragraph to value the trust. As such, the charitable lead trust is valued using Level 3 inputs.

The following table summarizes the changes in fair values associated with these Level 3 assets:

Balance as of October 1, 2014	\$ 323,161
Payment	(50,000)
Amortization of discount	<u>16,158</u>
Balance as of September 30, 2015	<u><u>\$ 289,319</u></u>

8. CONTRIBUTIONS RESTRICTED FOR LOCAL USE

During the fiscal year ended September 30, 2015, the Chapter received contributions of \$791,322, which were restricted by the donors to be used solely for local Chapter services

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and sponsorship for special events. Such restricted contributions were received and spent in their entirety during the 2015 fiscal year and are reported by the Chapter as unrestricted net assets.

9. CHARITABLE GIFT ANNUITIES

The Chapter is the beneficiary in a number of split-interest agreements with donors, whereby the Society's home office controls and invests the donated assets and shares with the donor or the donor's designee income generated from these assets until such time as stated in the agreement (usually upon the death of the donor or the donor's designee).

The year-end value of the Chapter split-interest agreements for the year ended September 30, 2015 was \$17,487 and is included as due from home office (charitable remainder trusts) on the Statement of Financial Position.

10. ENDOWMENT

Endowment investment funds totaled \$69,445 at September 30, 2015. The income from the endowment fund can be used to support the Chapter's operating activities. As such, investment income of \$3,555 on the endowment fund investments for the year ended September 30, 2015 is reported as a change in unrestricted net assets. No additional disclosure regarding these endowment funds has been made, since the amount of these funds is immaterial.

11. REALIGNMENT WITH CENTRAL PA CHAPTER

On October 1, 2014, the Central Pennsylvania Chapter of the National Multiple Sclerosis Society combined with the Western Pennsylvania Chapter (and changed its name to Pennsylvania Keystone Chapter). The realignment was conducted in part to unify the organization and to more effectively use resources. The transaction has been treated as an acquisition for accounting purposes. No consideration was exchanged in the combination.

The assets and liabilities of the Central Pennsylvania Chapter were recorded at fair value as of the date of the realignment, which were estimated to approximate book value as recorded on the Central Pennsylvania Chapter's books.

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Recognized amounts of identifiable assets and liabilities assumed on October 1, 2014:

Cash and cash equivalents	\$ 664,613
Contributions receivable	27,652
Prepaid expenses and other assets	41,315
Property and equipment, net	16,617
Investments	69,445
Accounts payable and accrued expenses	<u>(46,363)</u>
Inherent contribution received	<u><u>\$ 773,279</u></u>

The inherent contribution received is reported as excess fair value of assets acquired over liabilities assumed in realignment with Central Pennsylvania Chapter on the statement of activities.