

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY  
PENNSYLVANIA KEYSTONE CHAPTER**

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

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

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY  
PENNSYLVANIA KEYSTONE CHAPTER**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees  
The National Multiple Sclerosis Society Pennsylvania Keystone Chapter  
Pittsburgh, Pennsylvania

We have audited the accompanying financial statements of The National Multiple Sclerosis Society Pennsylvania Keystone Chapter (the "Chapter"), which are comprised of the statement of financial position as of September 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **AUDITORS' RESPONSIBILITY**

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

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

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 Pennsylvania Keystone Chapter as of September 30, 2016, 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.

**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.

**PRIOR-PERIOD FINANCIAL STATEMENTS**

The financial statements of the Chapter as of September 30, 2015, were audited by other auditors whose report dated December 23, 2015, expressed an unmodified opinion on those statements.

*EKS+H LLLP*  
EKS&H LLLP

December 20, 2016  
Denver, Colorado

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

	September 30,	
Assets	2016	2015
Current assets		
Cash and cash equivalents	\$ 395,717	\$ 439,971
Contributions receivable	60,645	1,129,333
Contributions receivable from home office	-	2,200
Prepaid expenses	39,472	51,183
Total current assets	495,834	1,622,687
Non-current assets		
Beneficial interest in trust managed by third party	253,785	289,319
Interest in The National Multiple Sclerosis Society's pooled investment fund	691,852	1,056,643
Due from home office - charitable gift annuities	43,962	17,487
Investments	-	69,445
Property and equipment, net	28,173	39,581
Total non-current assets	1,017,772	1,472,475
Total assets	\$ 1,513,606	\$ 3,095,162
<b>Liabilities and Net Assets</b>		
Current liabilities		
Due to home office	\$ 560,278	\$ 1,104,215
Accounts payable and accrued expenses	169,937	369,905
Deferred revenue	61,101	53,658
Total liabilities	791,316	1,527,778
Commitments and contingencies		
Net assets		
Unrestricted	45,521	792,906
Temporarily restricted	655,163	752,872
Permanently restricted	21,606	21,606
Total net assets	722,290	1,567,384
Total liabilities and net assets	\$ 1,513,606	\$ 3,095,162

See notes to financial statements.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY  
PENNSYLVANIA KEYSTONE 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 \$181,690 (2016) and \$151,950 (2015))	\$ 3,836,502	\$ -	\$ -	\$ 3,836,502	\$ 3,865,846	\$ -	\$ -	\$ 3,865,846
Less benefit-to-donor costs	(515,103)	-	-	(515,103)	(580,671)	-	-	(580,671)
Total received directly	3,321,399	-	-	3,321,399	3,285,175	-	-	3,285,175
Contributions	773,128	45,209	-	818,337	893,964	16,158	-	910,122
Legacies	100,787	-	-	100,787	1,183,767	-	-	1,183,767
Total public support	4,195,314	45,209	-	4,240,523	5,362,906	16,158	-	5,379,064
Other revenue								
Investment income (loss)	32,656	28,668	-	61,324	(39,622)	(30,449)	-	(70,071)
Service program fees	19,589	-	-	19,589	4,218	-	-	4,218
Subsidies	108,836	-	-	108,836	235,817	-	-	235,817
Total other revenue	161,081	28,668	-	189,749	200,413	(30,449)	-	169,964
Net assets released from restrictions	171,586	(171,586)	-	-	209,383	(209,383)	-	-
Total support and revenue	4,527,981	(97,709)	-	4,430,272	5,772,702	(223,674)	-	5,549,028
Expenses								
Program services								
Research	1,232,612	-	-	1,232,612	2,167,430	-	-	2,167,430
Client programs	1,087,739	-	-	1,087,739	1,481,304	-	-	1,481,304
Community programs	558,578	-	-	558,578	673,683	-	-	673,683
Professional education and training	161,017	-	-	161,017	168,756	-	-	168,756
Public education	776,422	-	-	776,422	696,121	-	-	696,121
Total program services	3,816,368	-	-	3,816,368	5,187,294	-	-	5,187,294
Supporting services								
Fundraising	877,298	-	-	877,298	553,459	-	-	553,459
Management and general	581,700	-	-	581,700	231,379	-	-	231,379
Total supporting services	1,458,998	-	-	1,458,998	784,838	-	-	784,838
Total expenses	5,275,366	-	-	5,275,366	5,972,132	-	-	5,972,132
Change in net assets before effect of realignment	(747,385)	(97,709)	-	(845,094)	(199,430)	(223,674)	-	(423,104)
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	(747,385)	(97,709)	-	(845,094)	539,024	(210,455)	21,606	350,175
Net assets at beginning of year	792,906	752,872	21,606	1,567,384	253,882	963,327	-	1,217,209
Net assets at end of year	\$ 45,521	\$ 655,163	\$ 21,606	\$ 722,290	\$ 792,906	\$ 752,872	\$ 21,606	\$ 1,567,384

See notes to financial statements.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY  
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**Statement of Functional Expenses  
For the Year Ended September 30, 2016**

	Program Services					Supporting Services		Total Programs and Support	Benefit-to- Donor Costs	Grand Total	
	Research	Client Programs	Community Programs	Professional Education and Training	Public Education	Total	Fundraising				Management and General
Salaries and related expenses											
Salaries	\$ -	\$ 220,427	\$ 278,505	\$ 55,370	\$ 249,918	\$ 804,220	\$ 393,007	\$ 307,394	\$ 1,504,621	\$ -	\$ 1,504,621
Employee benefits	-	29,537	37,320	7,420	33,489	107,766	52,663	41,191	201,620	-	201,620
Payroll taxes	-	16,004	20,221	4,020	18,145	58,390	28,534	22,318	109,242	-	109,242
Total salaries and related expenses	-	265,968	336,046	66,810	301,552	970,376	474,204	370,903	1,815,483	-	1,815,483
Expenses											
Printing	-	6,606	499	99	5,713	12,917	31,045	551	44,513	-	44,513
Postage and shipping	-	12,297	6,691	1,330	11,735	32,053	22,943	7,383	62,379	-	62,379
Telephone	-	3,277	1,366	272	1,226	6,141	3,406	1,508	11,055	-	11,055
Supplies	-	5,035	3,438	683	3,135	12,291	5,025	3,794	21,110	82,445	103,555
Dues and memberships	-	498	514	102	461	1,575	361	568	2,504	-	2,504
Professional and other contract service fees	-	49,011	10,116	2,011	9,077	70,215	33,407	11,165	114,787	-	114,787
Donated public service announcements and advertising	-	-	-	-	-	-	100,200	-	100,200	-	100,200
Travel	-	15,720	10,412	666	3,435	30,233	16,318	3,700	50,251	248,345	298,596
Meetings	-	57,626	4,738	607	2,742	65,713	5,328	3,367	74,408	4,900	79,308
Occupancy	-	26,853	33,910	6,741	30,426	97,930	47,846	37,423	183,199	86,628	269,827
Furniture and equipment	-	7,170	9,059	1,801	8,129	26,159	12,783	9,998	48,940	-	48,940
Direct financial assistance	-	396,291	-	-	-	396,291	-	-	396,291	-	396,291
Awards and prizes	-	-	-	-	-	-	(155)	-	(155)	45,013	44,858
Miscellaneous expense	-	3,240	3,746	745	3,387	11,118	74,719	4,132	89,969	47,772	137,741
Depreciation and amortization	-	2,830	3,576	711	3,209	10,326	5,046	3,947	19,319	-	19,319
Total expenses before Chapter support of Society initiatives	-	852,422	424,111	82,578	384,227	1,743,338	832,476	458,439	3,034,253	515,103	3,549,356
Chapter support of Society initiatives	1,232,612	235,317	134,467	78,439	392,195	2,073,030	44,822	123,261	2,241,113	-	2,241,113
Total expenses	<u>\$ 1,232,612</u>	<u>\$ 1,087,739</u>	<u>\$ 558,578</u>	<u>\$ 161,017</u>	<u>\$ 776,422</u>	<u>\$ 3,816,368</u>	<u>\$ 877,298</u>	<u>\$ 581,700</u>	<u>\$ 5,275,366</u>	<u>\$ 515,103</u>	5,790,469
Less direct benefit-to-donor costs											<u>(515,103)</u>
Total expenses as reported on the statements of activities											<u>\$ 5,275,366</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	\$ -	\$ 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
Expenses											
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 public service announcements 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
Awards and prizes	-	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	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
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	<u>1,167,430</u>	<u>198,047</u>	<u>104,235</u>	<u>62,541</u>	<u>416,939</u>	<u>1,949,192</u>	<u>31,270</u>	<u>104,235</u>	<u>2,084,697</u>	<u>-</u>	<u>2,084,697</u>
Total expenses	<u>\$ 2,167,430</u>	<u>\$ 1,481,304</u>	<u>\$ 673,683</u>	<u>\$ 168,756</u>	<u>\$ 696,121</u>	<u>\$ 5,187,294</u>	<u>\$ 553,459</u>	<u>\$ 231,379</u>	<u>\$ 5,972,132</u>	<u>\$ 580,671</u>	6,552,803
Less direct benefit-to-donor costs											<u>(580,671)</u>
Total expenses as reported on the statements of activities											<u>\$ 5,972,132</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,	
	2016	2015
Cash flows from operating activities		
Change in net assets	\$ (845,094)	\$ 350,175
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	19,319	17,733
Due from home office - charitable gift annuities	(26,475)	8,480
Loss on disposal of property and equipment	-	1,242
Net unrealized and realized (gains) losses on pooled investment fund	(37,675)	84,230
Contribution from realignment	-	(773,279)
Amortization of discount on beneficial interest in trust managed by third party	(14,466)	(16,158)
Changes in operating assets and liabilities		
Contributions receivable	1,068,688	(1,090,118)
Contributions receivable from home office	2,200	5,952
Due to other chapters	-	(4,047)
Prepaid expenses	11,711	5,487
Due to home office	(543,937)	1,100,696
Accounts payable and accrued expenses	(199,968)	144,811
Deferred revenue	7,443	(36,587)
Other liabilities	-	(61,462)
Net cash used in operating activities	(558,254)	(262,845)
Cash flows from investing activities		
Distribution received from beneficial interest in trust managed by third party	50,000	50,000
Purchases of property and equipment	(7,911)	(10,210)
Cash received from realignment	-	664,613
Net purchases of investments	(23,463)	(1,289,804)
Proceeds from sale of investments	495,374	949,417
Net cash provided by investing activities	514,000	364,016
Net (decrease) increase in cash and cash equivalents	(44,254)	101,171
Cash and cash equivalents at beginning of year	439,971	338,800
Cash and cash equivalents at end of year	\$ 395,717	\$ 439,971

Supplemental disclosure of non-cash activity:

The Central Pennsylvania Chapter combined with the Western Pennsylvania Chapter during 2015. Note 12 discloses the assets and liabilities assumed and the contribution received in the acquisition.

See notes to financial statements.

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY  
PENNSYLVANIA KEYSTONE 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 Pennsylvania Keystone Chapter (the "Chapter") raises funds in the state of Pennsylvania. The Society has offices across the country and is governed by a national board of directors and local boards of trustees. The Society's mission is fulfilled through funding cutting-edge research, driving change through advocacy, facilitating professional education, collaborating with MS organizations around the world, and providing services designed to help people with MS and their families move their lives forward.

The Chapter qualifies as a charitable organization as defined by Internal Revenue Code ("IRC") Section 501(c)(3) and, accordingly, is exempt from federal income taxes under IRC Section 501(a). Additionally, since the Chapter is publicly supported, contributions qualify for the maximum charitable contribution deduction under the IRC.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the amounts of revenues and expenses during the reporting period. The most significant include the fair values assigned to certain financial instruments, collectibility of contributions receivable, donated public service announcements, and the useful lives assigned to property and equipment. Actual results could differ from those estimates.

Net Asset Classifications

Resources for various 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.

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

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

Net Asset Classifications (continued)

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

Cash and Cash Equivalents

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

Concentrations of Credit Risk

Deposits at the Chapter's financial institutions are insured by the FDIC up to \$250,000. The Chapter has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and investments.

Investments

The Chapter's investments in equity and debt securities are stated at their quoted market prices, and the net change in unrealized gains or losses is included on the statements of activities.

Contributions and Other Receivables

Contributions and other receivables consist of accruals of public support received after year-end that pertained to fundraising events held during fiscal years 2016 and 2015. Receivables are recorded at net realizable value, net of an allowance for uncollectible amounts. The Chapter believes that the pledges receivable are fully collectible. All contributions receivable are expected to be collected within one year. Donated securities are liquidated upon receipt and recorded as contributions at their fair value.

At September 30, 2016, 63% of the Chapter's contributions receivable were from three donors. There was no identifiable concentration of credit risk related to contributions receivable at September 30, 2015.

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 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	\$ 173,690	\$ 151,950
Donated services	<u>8,000</u>	<u>-</u>
Total	<u>\$ 181,690</u>	<u>\$ 151,950</u>

**THE NATIONAL MULTIPLE SCLEROSIS SOCIETY  
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**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 \$100,200 and \$38,435, respectively, and are reflected above as donated goods 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 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 \$2,241,113 and \$2,084,697, 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 allocated amount of NPE for fiscal year 2015, 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 on the accompanying statements of activities.

Multi-year contributions recognized prior to fiscal year 2016 that are restricted for research and other Society initiatives are remitted to the home office when received and reflected as expense when the income is recorded at its present value and amortized over the respective periods.

Subsidy Received from The National Multiple Sclerosis Society

During the years ended September 30, 2016 and 2015, the Chapter was granted subsidies of \$108,836 and \$235,817, respectively, from the Society to support operations.

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**Notes to Financial Statements**

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

Expense Allocations

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

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$122,067 and \$61,200 in fiscal years 2016 and 2015, respectively, consisting of \$100,200 and \$38,435 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.

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**Notes to Financial Statements**

**Note 3 - 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 range from quoted prices for identical instruments in a principal trading market (Level 1) to estimates determined using related market data (Level 3). Multiple inputs may be used to measure fair value; however, the level of fair value of each financial asset or liability presented below is based on the lower significant input level within this fair value hierarchy.

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

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Chapter believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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>
Beneficial interest in trust managed by third party	\$ -	\$ -	\$ 253,785	\$ 253,785
Interest in the Society's pooled investment fund	-	-	691,852	691,852
Charitable gift annuities	-	-	43,962	43,962
<b>Total</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 989,599</u></b>	<b><u>\$ 989,599</u></b>

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**Notes to Financial Statements**

**Note 3 - Fair Value Measurement (continued)**

September 30, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in trust managed by third party	\$ -	\$ -	\$ 289,319	\$ 289,319
Interest in the Society's pooled investment fund	-	-	1,056,643	1,056,643
Charitable gift annuities	-	-	17,487	17,487
Bond funds	<u>69,445</u>	-	-	<u>69,445</u>
Total	<u>\$ 69,445</u>	<u>\$ -</u>	<u>\$ 1,363,449</u>	<u>\$ 1,432,894</u>

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

*Beneficial interest in trust managed by third party:* All of the underlying investments within the trust are readily marketable, based on quoted fair values. Since the Chapter's interest in the trust cannot be priced on an active exchange, the interest in the trust is classified as Level 3.

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 fund are classified as Level 3.

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

*Bond funds:* Valued at the closing price reported on the active market on which the individual securities are traded.

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	\$ 1,363,449	\$ 336,380
Additions and withdrawals	(443,525)	1,073,259
Amortization of discount	14,466	16,158
Interest and dividends	17,534	22,324
Realized and unrealized gain (loss)	<u>37,675</u>	<u>(84,672)</u>
Fair value at end of year	<u>\$ 989,599</u>	<u>\$ 1,363,449</u>



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**Notes to Financial Statements**

**Note 4 - Interest in Pooled Investment Fund**

As required by the Society's Reserves Policy, the Chapter transferred \$1,123,259 into the Society's pooled investment fund during fiscal year 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 \$691,852 and \$1,056,643, respectively, which represents 1% of the Society's total investment portfolio as of September 30, 2016 and 2015.

Investment income totaled \$55,209 for the year ended September 30, 2016, which included interest and dividends of \$17,534 and net realized and unrealized gain of \$37,675. Investment income (loss) totaled \$(66,616) for the year ended September 30, 2015, which included interest and dividends of \$22,310 and net realized and unrealized losses of \$(88,926).

**Note 5 - Property and Equipment**

Property and equipment consist of the following as of:

	<u>September 30,</u>	
	<u>2016</u>	<u>2015</u>
Furniture and fixtures	\$ 5,440	\$ 5,440
Equipment	203,300	195,389
Leasehold improvements	<u>10,778</u>	<u>10,778</u>
	219,518	211,607
Less accumulated depreciation	<u>(191,345)</u>	<u>(172,026)</u>
Property and equipment, net	<u>\$ 28,173</u>	<u>\$ 39,581</u>

**Note 6 - Beneficial Interest in Trust Managed by Third Party**

In 2007, the Chapter became a recipient of the Pellicci irrevocable charitable trust (the "Trust"). The provisions of the Trust agreement stipulate that \$50,000 is to be paid annually to the Chapter over 15 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.

	<u>For the Years Ended</u>	
	<u>September 30</u>	
	<u>2016</u>	<u>2015</u>
Fair value at beginning of year	\$ 289,319	\$ 323,161
Payments received	(50,000)	(50,000)
Amortization of discount	<u>14,466</u>	<u>16,158</u>
Value of charitable lead trust	<u>\$ 253,785</u>	<u>\$ 289,319</u>

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**Notes to Financial Statements**

**Note 7 - Charitable Gift Annuities**

The Chapter is the beneficiary of a number of charitable gift annuities 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 charitable gift annuities for fiscal years 2016 and 2015 were \$43,962 and \$17,487, respectively. Income derived from changes in value of the agreements for the years ended September 30, 2016 and 2015 was \$26,475 and \$4,268, respectively.

**Note 8 - Commitments and Contingencies**

**Operating Leases**

The Chapter generally recognized rent expense based on straight lining of the minimum lease payments over the respective terms of the leases.

Rent expense for the years ended September 30, 2016 and 2015 was \$229,214 and \$224,435, 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	\$ 154,403
2018	142,618
2019	45,279
2020	54,700
2021	<u>9,154</u>
Total	<u>\$ 406,154</u>

**Note 9 - Retirement Plan**

Effective January 1, 2016, the Chapter participates in the Society's Defined Contribution Retirement Plan, which covers substantially all of the Chapter's employees, based on defined eligibility for covered employees. Temporary employees and independent contractors are not eligible. Upon the first day of employment, covered employees receive a 100% matching employer contribution for the first 3% of eligible compensation contributed and then 50% on the next 2% of eligible compensation contributed for a maximum of a 4% employer contribution. All employer contributions are 100% vested for participants who complete at least one hour of service on or after January 1, 2016. All employees who have terminated employment prior to January 1, 2016 are subject to a five-year vesting schedule. Retirement expenses related to the plan are incurred by the Society rather than the Chapter.

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**Notes to Financial Statements**

**Note 9 - Retirement Plan (continued)**

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 \$0, while the retirement expense for fiscal year 2016 was incurred by the Society rather than the Chapter.

**Note 10 - Net Assets**

**Temporarily Restricted Net Assets**

Temporarily restricted net assets comprise the following:

	<u>September 30,</u>	
	<u>2016</u>	<u>2015</u>
Program		
Time	\$ 253,785	\$ 289,319
Purpose	357,416	450,334
Charitable gift annuities	<u>43,962</u>	<u>13,219</u>
Total	<u>\$ 655,163</u>	<u>\$ 752,872</u>

Temporarily restricted net assets were released from restrictions as follows:

	<u>For the Years Ended</u> <u>September 30,</u>	
	<u>2016</u>	<u>2015</u>
Program		
Time	\$ 50,000	\$ 50,000
Purpose	<u>121,586</u>	<u>159,383</u>
Total	<u>\$ 171,586</u>	<u>\$ 209,383</u>

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**Notes to Financial Statements**

**Note 10 - Net Assets (continued)**

Permanently Restricted Net Assets

Permanently restricted net assets comprise the following as of:

	<u>September 30,</u>	
	<u>2016</u>	<u>2015</u>
Endowment	\$ 21,606	\$ 21,606

**Note 11 - Endowments**

The Chapter's endowment consists 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 Pennsylvania Uniform Prudent Management of Institutional Funds Act ("UPMIFA") 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 Chapter in a manner consistent with the standard for expenditure prescribed by UPMIFA. In accordance with UPMIFA, 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

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**Notes to Financial Statements**

**Note 11 - 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	\$ -	\$ -	\$ 21,606	\$ 21,606
Investment income	-	1,586	-	1,586
Appropriation of endowment assets for expenditure	-	(1,586)	-	(1,586)
Endowment net assets at end of year	\$ -	\$ -	\$ 21,606	\$ 21,606

	September 30, 2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets at beginning of year	\$ -	\$ -	\$ 21,606	\$ 21,606
Investment income	-	3,555	-	3,555
Appropriation of endowment assets for expenditure	-	(3,555)	-	(3,555)
Endowment net assets at end of year	\$ -	\$ -	\$ 21,606	\$ 21,606

**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.

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**Notes to Financial Statements**

**Note 11 - 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 12 - Chapter Realignment**

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.

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>\$ 773,279</u>

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

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**Notes to Financial Statements**

**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 values 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	\$	395,717
Contributions receivable	\$	60,645
Interest in Society's pooled investment fund	\$	691,852
Beneficial interest in trust managed by third party	\$	253,785
Prepaid expenses	\$	39,472
Property and equipment, net	\$	28,173
Due from home office - charitable gift annuities	\$	43,962
Due to home office	\$	(560,278)
Accounts payable and accrued expenses	\$	(169,937)
Deferred revenue	\$	(61,101)
Inherent contribution received	\$	722,290

The excess fair value of assets received over liabilities assumed is reported as a contribution received in the acquisition of the Chapter on the statement 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.