

National Multiple Sclerosis Society

Western Pennsylvania Chapter

Financial Statements

Years Ended September 30, 2012 and 2011 with
Independent Auditor's Report

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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NATIONAL MULTIPLE SCLEROSIS SOCIETY

WESTERN PENNSYLVANIA CHAPTER

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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Independent Auditor's Report

Board of Trustees
National Multiple Sclerosis Society
Western Pennsylvania Chapter

We have audited the accompanying statements of financial position of the National Multiple Sclerosis Society, Western Pennsylvania Chapter (Chapter) as of September 30, 2012 and 2011, and the related statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Chapter's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Maher Duessel

Pittsburgh, Pennsylvania
December 13, 2012

NATIONAL MULTIPLE SCLEROSIS SOCIETY
WESTERN PENNSYLVANIA CHAPTER

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2012 AND 2011

	2012	2011		2012	2011
Assets			Liabilities and Net Assets		
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 476,394	\$ 457,184	Due National Multiple Sclerosis Society:		
Investments - at market plus accrued interest	882,369	958,411	Remittance due to National	\$ 25,000	\$ 97,618
Contributions receivable	12,316	49,507	Other payables to National	11,760	21,580
Contributions receivable from National	-	-	Due to other chapters	-	-
Prepaid expenses and other assets	28,686	22,166	Accounts payable and accrued expenses	171,467	103,952
Interest in National Multiple Sclerosis Society's pooled investments (if current)	-	-	Deferred revenue	29,741	40,550
Total current assets	1,399,765	1,487,268	Total current liabilities	237,968	263,700
Noncurrent assets:			Long-term liabilities:		
Contributions receivable - long-term	12,935	7,183	Due to National Multiple Sclerosis Society	-	-
Long-term investments	-	-	Other long-term liabilities	247,388	303,076
Furniture, fixtures, and equipment, at cost, net of accumulated depreciation and amortization	52,826	37,162	Total long-term liabilities	247,388	303,076
Equipment loan program	-	-	Total Liabilities	485,356	566,776
Charitable lead trust	386,087	415,321	Net Assets:		
Interest in National Multiple Sclerosis Society's pooled investments (if noncurrent)	-	-	Unrestricted	364,135	353,244
Due from National Multiple Sclerosis Society (Charitable remainder trusts)	-	-	Temporarily restricted	1,002,122	1,026,914
	-	-	Permanently restricted	-	-
Total noncurrent assets	451,848	459,666	Total Net Assets	1,366,257	1,380,158
Total Assets	\$ 1,851,613	\$ 1,946,934	Total Liabilities and Net Assets	\$ 1,851,613	\$ 1,946,934

See accompanying notes to financial statements.

NATIONAL MULTIPLE SCLEROSIS SOCIETY

WESTERN PENNSYLVANIA CHAPTER

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2012

(With Comparative Totals for Year Ended September 30, 2011)

	2012			Total	2011 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues:					
Public support:					
Received directly:					
Special events (includes in-kind donations of \$67,226)	\$ 3,050,845	\$ -	\$ -	\$ 3,050,845	\$ 3,001,488
Less benefit to donor costs	431,026	-	-	431,026	443,900
	<u>2,619,819</u>	<u>-</u>	<u>-</u>	<u>2,619,819</u>	<u>2,557,588</u>
Membership and contributions (includes in-kind donations of \$0 and donated services of \$0)	320,618	-	-	320,618	329,737
Legacies	38,173	20,766	-	58,939	8,034
Received at National (other than legacies)	62,527	-	-	62,527	70,423
Total received directly	<u>3,041,137</u>	<u>20,766</u>	<u>-</u>	<u>3,061,903</u>	<u>2,965,782</u>
Received indirectly:					
Combined Federal Service Campaign	-	-	-	-	-
Federated Fund Raising Organizations	-	-	-	-	-
Total received indirectly	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total public support	<u>3,041,137</u>	<u>20,766</u>	<u>-</u>	<u>3,061,903</u>	<u>2,965,782</u>
Grants from governmental agencies	-	-	-	-	-
Other revenues:					
Investment income (loss)	(1,073)	94,442	-	93,369	(47,954)
Service program fees	-	-	-	-	-
Miscellaneous income	-	-	-	-	-
Total other revenues	<u>(1,073)</u>	<u>94,442</u>	<u>-</u>	<u>93,369</u>	<u>(47,954)</u>
Net assets released from restrictions	140,000	(140,000)	-	-	-
Total revenues	<u>3,180,064</u>	<u>(24,792)</u>	<u>-</u>	<u>3,155,272</u>	<u>2,917,828</u>
Expenses:					
Program services:					
Research	605,147	-	-	605,147	498,301
Public support to National	455,830	-	-	455,830	441,890
Client programs	996,903	-	-	996,903	1,097,555
Community programs	409,210	-	-	409,210	491,781
Profession education and training	74,990	-	-	74,990	92,323
Public education	182,788	-	-	182,788	261,904
Total program services	<u>2,724,868</u>	<u>-</u>	<u>-</u>	<u>2,724,868</u>	<u>2,883,754</u>
Supporting services:					
Fundraising	340,842	-	-	340,842	413,880
Management and general	103,463	-	-	103,463	147,166
Total supporting services	<u>444,305</u>	<u>-</u>	<u>-</u>	<u>444,305</u>	<u>561,046</u>
Total expenses	<u>3,169,173</u>	<u>-</u>	<u>-</u>	<u>3,169,173</u>	<u>3,444,800</u>
Change in Net Assets	<u>10,891</u>	<u>(24,792)</u>	<u>-</u>	<u>(13,901)</u>	<u>(526,972)</u>
Net Assets:					
Beginning of year	353,244	1,026,914	-	1,380,158	1,907,130
End of year	<u>\$ 364,135</u>	<u>\$ 1,002,122</u>	<u>\$ -</u>	<u>\$ 1,366,257</u>	<u>\$ 1,380,158</u>

See accompanying notes to financial statements.

NATIONAL MULTIPLE SCLEROSIS SOCIETY

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STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2011

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues:				
Public support:				
Received directly:				
Special events (includes in-kind donations of \$76,871)	\$ 3,001,488	\$ -	\$ -	\$ 3,001,488
Less benefit to donor costs	443,900	-	-	443,900
	<u>2,557,588</u>	<u>-</u>	<u>-</u>	<u>2,557,588</u>
Membership and contributions (includes in-kind donations of \$0 and donated services of \$0)	309,737	20,000	-	329,737
Legacies	(14,124)	22,158	-	8,034
Received at National (other than legacies)	70,423	-	-	70,423
Total received directly	<u>2,923,624</u>	<u>42,158</u>	<u>-</u>	<u>2,965,782</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>2,923,624</u>	<u>42,158</u>	<u>-</u>	<u>2,965,782</u>
Grants from governmental agencies	-	-	-	-
Other revenues:				
Investment income (loss)	250	(48,204)	-	(47,954)
Service program fees	-	-	-	-
Miscellaneous income	-	-	-	-
Total other revenues	<u>250</u>	<u>(48,204)</u>	<u>-</u>	<u>(47,954)</u>
Net assets released from restrictions	109,000	(109,000)	-	-
Total revenues	<u>3,032,874</u>	<u>(115,046)</u>	<u>-</u>	<u>2,917,828</u>
Expenses:				
Program services:				
Research	498,301	-	-	498,301
Public support to National	441,890	-	-	441,890
Client programs	1,097,555	-	-	1,097,555
Community programs	491,781	-	-	491,781
Profession education and training	92,323	-	-	92,323
Public education	261,904	-	-	261,904
Total program services	<u>2,883,754</u>	<u>-</u>	<u>-</u>	<u>2,883,754</u>
Supporting services:				
Fundraising	413,880	-	-	413,880
Management and general	147,166	-	-	147,166
Total supporting services	<u>561,046</u>	<u>-</u>	<u>-</u>	<u>561,046</u>
Total expenses	<u>3,444,800</u>	<u>-</u>	<u>-</u>	<u>3,444,800</u>
Change in Net Assets	(411,926)	(115,046)	-	(526,972)
Net Assets:				
Beginning of year	765,170	1,141,960	-	1,907,130
End of year	<u>\$ 353,244</u>	<u>\$ 1,026,914</u>	<u>\$ -</u>	<u>\$ 1,380,158</u>

See accompanying notes to financial statements.

NATIONAL MULTIPLE SCLEROSIS SOCIETY
WESTERN PENNSYLVANIA CHAPTER
STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (13,901)	\$ (526,972)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	20,971	13,185
Loss on disposal of fixed assets	2,319	-
Realized gain or loss on investments	21,519	7,062
Unrealized gain or loss on investments	(93,302)	59,438
Amortization of discount on charitable lead trust	(20,766)	(22,158)
Changes in operating assets and liabilities:		
Receivables	31,439	468
Prepaid expenses and other assets	(6,520)	(5,001)
Charitable lead trust	50,000	50,000
Accounts payable and accrued expenses	67,515	(9,564)
Deferred income	(10,809)	(1,268)
Due to National	(82,438)	33,377
Due to other chapters	-	(34,910)
Other liabilities	(55,688)	303,076
Total adjustments	(75,760)	393,705
Net cash provided by (used in) operating activities	(89,661)	(133,267)
<u>Cash Flows From Investing Activities:</u>		
Purchase of furniture, fixtures, and equipment	(38,954)	(4,602)
Purchase of investments	(346,708)	(1,146,550)
Proceeds from sale of investments	494,533	1,331,642
Net cash provided by (used in) investing activities	108,871	180,490
<u>Cash Flows From Financing Activities:</u>		
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	19,210	47,223
<u>Cash and Cash Equivalents:</u>		
Beginning of year	457,184	409,961
End of year	\$ 476,394	\$ 457,184

See accompanying notes to financial statements.

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WESTERN PENNSYLVANIA CHAPTER
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2012

	Program Services				Supporting Services			Total Programs and Support	Benefit to Donor Costs	Total
	National Activities	Client Programs	Community Programs	Professional Education and Training	Public Education	Total	Fundraising			
Research	-	-	-	-	-	-	-	-	-	-
\$	\$ -	\$ 311,127	\$ 201,812	\$ 42,044	\$ 100,906	\$ 655,889	\$ 126,132	\$ 58,862	\$ -	\$ 840,883
Salaries	-	86,793	56,298	11,729	28,149	182,969	35,187	16,420	-	234,576
Employee benefits	-	23,480	15,230	3,173	7,615	49,498	9,519	4,442	-	63,459
Payroll taxes	-	421,400	273,340	56,946	136,670	888,356	170,838	79,724	-	1,138,918
Total salaries and related expenses	-	8,884	1,025	189	4,732	14,830	27,687	265	-	42,782
Printing	-	6,822	1,876	451	1,931	11,080	20,969	547	-	32,596
Postage and shipping	-	14,499	4,639	966	2,319	22,423	6,106	1,353	-	29,882
Telephone	-	8,995	3,974	828	1,987	15,784	2,854	1,159	-	19,797
Supplies	-	1,190	868	161	386	2,605	3,059	225	-	5,889
Dues and memberships	-	92,662	12,079	2,517	6,040	113,298	32,412	3,523	-	149,233
Professional and other contract service fees	-	11,345	5,511	1,082	1,600	19,538	14,184	923	-	34,645
Travel	-	20,718	6,461	1,549	2,405	31,133	3,846	1,324	-	36,303
Meetings	-	39,028	25,315	5,274	12,658	82,275	15,822	7,384	-	105,481
Occupancy	-	16,351	10,606	2,210	5,303	34,470	6,629	3,094	-	44,193
Furniture and equipment	-	5,860	3,801	792	1,900	12,353	2,376	1,109	-	15,838
Insurance (property and casualty)	-	-	-	-	-	-	-	-	-	-
Awards and grants to other	-	-	50,000	-	-	50,000	-	-	-	50,000
MS-related organizations	-	334,001	-	-	-	334,001	-	-	-	334,001
Direct financial assistance	-	139	90	19	45	293	1,323	26	-	1,642
Prizes and promotional items	-	7,230	4,592	957	2,296	15,095	29,591	1,339	-	46,025
Miscellaneous expense	-	7,759	5,033	1,049	2,516	16,357	3,146	1,468	-	20,971
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-
Restricted contributions to National	-	-	-	-	-	-	-	-	-	-
for research and other activities	25,000	-	-	-	-	25,000	-	-	-	25,000
Functionalized National program	580,147	-	-	-	-	580,147	-	-	-	580,147
Total expenses before public support to National	605,147	996,903	409,210	74,990	182,788	2,269,038	340,842	103,463	431,026	3,144,369
Public support to National	-	-	-	-	-	-	-	-	-	-
\$	\$ 605,147	\$ 996,903	\$ 409,210	\$ 74,990	\$ 182,788	\$ 2,724,868	\$ 340,842	\$ 103,463	\$ 431,026	\$ 3,600,199
Total expenses										
Less direct benefit to donor costs										(431,026)
Total expenses as reported on the statements of activities										\$ 3,169,173

See accompanying notes to financial statements.

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 STATEMENT OF FUNCTIONAL EXPENSES
 YEAR ENDED SEPTEMBER 30, 2011

	Program Services					Supporting Services			Total Programs and Support	Benefit to Donor Costs	Total
	National Activities	Client Programs	Community Programs	Professional Education and Training	Public Education	Total	Fundraising	Management and General			
Research	-	-	-	-	-	906,164	\$ 190,771	\$ 95,387	\$ 1,192,322	-	\$ 1,192,322
Salaries	\$ -	\$ 393,466	\$ 286,157	\$ 59,616	\$ 166,925	\$ 906,164	\$ 190,771	\$ 95,387	\$ 1,192,322	\$ -	\$ 1,192,322
Employee benefits	-	83,255	60,549	12,614	35,320	191,738	40,366	20,184	252,288	-	252,288
Payroll taxes	-	29,094	21,159	4,408	12,343	67,004	14,106	7,055	88,165	-	88,165
Total salaries and related expenses	-	505,815	367,865	76,638	214,588	1,164,906	245,243	122,626	1,532,775	-	1,532,775
Printing	-	4,804	1,523	317	4,154	10,798	31,399	508	42,705	-	42,705
Postage and shipping	-	7,365	1,573	317	1,823	11,078	26,362	508	37,948	-	37,948
Telephone	-	15,802	5,602	1,115	3,121	25,640	7,002	1,783	34,425	-	34,425
Supplies	-	3,359	2,311	481	1,348	7,499	1,570	770	9,839	80,397	90,236
Dues and memberships	-	2,483	2,000	331	976	5,790	2,539	529	8,858	-	8,858
Professional and other contract service fees	-	81,333	15,541	2,933	7,513	107,320	34,092	4,293	145,705	-	145,705
Travel	-	8,844	4,258	463	1,142	14,707	15,132	592	30,431	175,096	205,527
Meetings	-	20,721	5,833	295	827	27,676	2,053	466	30,195	4,714	34,909
Occupancy	-	32,326	23,510	4,898	13,714	74,448	15,673	7,837	97,958	50,190	148,148
Furniture and equipment	-	16,341	11,884	2,476	6,933	37,634	7,923	3,961	49,518	-	49,518
Insurance (property and casualty)	-	7,681	5,586	1,164	3,259	17,690	3,724	1,861	23,275	-	23,275
Awards and grants to other	-	-	40,000	-	-	40,000	-	-	40,000	-	40,000
MS-related organizations	-	384,718	-	-	-	384,718	-	-	384,718	-	384,718
Direct financial assistance	-	330	240	50	140	760	4,049	80	4,889	100,265	105,154
Prizes and promotional items	-	1,282	891	186	520	2,879	15,009	297	18,185	33,238	51,423
Miscellaneous expense	-	4,351	3,164	659	1,846	10,020	2,110	1,055	13,185	-	13,185
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-
Restricted contributions to National for research and other activities	-	-	-	-	-	-	-	-	-	-	-
Functionalized National program expense	498,301	-	-	-	-	498,301	-	-	498,301	-	498,301
Total expenses before public support to National	498,301	1,097,555	491,781	92,323	261,904	2,441,864	413,880	147,166	3,002,910	443,900	3,446,810
Public support to National	-	-	-	-	-	441,890	-	-	441,890	-	441,890
Total expenses	\$ 498,301	\$ 1,097,555	\$ 491,781	\$ 92,323	\$ 261,904	\$ 2,883,754	\$ 413,880	\$ 147,166	\$ 3,444,800	\$ 443,900	\$ 3,888,700
Less direct benefit to donor costs	-	-	-	-	-	-	-	-	-	-	(443,900)
Total expenses as reported on the statements of activities	-	-	-	-	-	-	-	-	-	-	\$ 3,444,800

See accompanying notes to financial statements.

NATIONAL MULTIPLE SCLEROSIS SOCIETY

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

The National Multiple Sclerosis Society, Western Pennsylvania Chapter (the Chapter) is a not-for-profit voluntary health agency which raises funds in the State of Pennsylvania to provide services to people with multiple sclerosis, support multiple sclerosis research through its national organization, and educate the public about the impact of multiple sclerosis. Services include supporting medical care centers, counseling, crisis services, education, transportation, recreation, and physical therapy for individuals who have multiple sclerosis.

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. The Chapter had no permanently restricted net assets at September 30, 2012 or 2011.

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

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. 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

The Chapter maintains a portion of its cash and investments in deposit and fund accounts that at times may exceed federally insured limits. The Chapter has not experienced any losses in such accounts. The Chapter believes it is not exposed to any significant credit risk on its cash and equivalents.

Cash and Cash Equivalents

The Chapter considers highly liquid investments with maturities of three months or less when purchased to be cash equivalents. At September 30, 2012 and 2011, the Chapter's cash was held by three banks. Cash and cash equivalents maintained at these banks may exceed federally insured amounts at times.

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

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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 years 2012 and 2011. The Chapter believes that these pledges are fully collectible.

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. It is the Chapter's policy to capitalize individual fixed assets with an original cost of \$500 or more and an expected useful life longer than one year.

Fixed assets are depreciated over the following useful lives:

Furniture, fixtures, and equipment	5-10 years
Office equipment	3-5 years
Leasehold improvements	Term of the original lease

Donated Goods and Services

The Chapter records revenue and a corresponding expense for donated administrative services, donated advertising services, and donated goods. The Chapter records donated goods as a contribution and a corresponding expense. The revenues and expenses for the years ended September 30, 2012 and 2011 are reflected at fair value and are recorded in special events revenue and fundraising expenses on the statements of activities. These contributions were valued at approximately \$67,000 and \$67,000 for the years ended September 30, 2012 and 2011, respectively.

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*").

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

Other Long-Term Liabilities

Other long-term liabilities represent an amount that the Chapter is obligated to pay under a severance agreement with a long-term employee that has retired. The payment obligation will terminate on the earlier of the death of the employee or August 19, 2016.

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.

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 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs. Refer to Notes 2 and 8 for detailed information on how this statement impacts the Chapter.

Research and National Activities Expense

In January 2010, the National Multiple Sclerosis Society's (National Headquarters) National Board of Directors approved a change in the policy for calculating each chapter's national program expense, effective fiscal year 2011. This change was approved to simplify the formula, to reduce redundancies, internal reconciliations, and billings, and to improve budgeting and planning. Under the new policy, National Headquarters calculates the National Program Expense for each chapter in advance of the fiscal year after a complete review by the Budget Review Committee and National Board. The chapter's national program expense will be calculated using the average of the previous two year's audited

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results as the revenue base. The remittance percentage is subject to adjustment each year to ensure that National Headquarters meets its programmatic goals and that all donor restrictions are honored. In fiscal year 2012, the Chapter's National Program Expense under the new policy was calculated to be \$1,035,977. By setting the Chapter's national program expense in advance, the chapters and National Headquarters are in a better position to control resources through their respective budgeting and planning processes.

The Chapter participates in National Headquarters' direct marketing program. Unrestricted public support received under the program by National Headquarters that is attributable to Chapter sources is credited to and recorded by the Chapter at 50% of the net revenue from the program. These amounts are recorded as public support received at National in the accompanying statements of activities.

The Chapter does not have any multi-year contributions that are restricted for research and other National Headquarters' initiatives.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was \$19,354 and \$15,465 for the years ended September 30, 2012 and 2011, respectively.

Allocation of Joint Costs

In fiscal years 2012 and 2011, the Chapter incurred joint costs of approximately \$2,175 and \$1,300, respectively, for information materials and activities that included fundraising appeals. Such costs were allocated in accordance with the requirements of ASC Section 958-720 (formerly the American Institute of Certified Public Accountants' Statement of Position 98-2, "*Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Government Entities That Include Fund-Raising*"). Of these costs, approximately \$2,045 and \$1,200 were allocated to fundraising and approximately \$130 and \$100 were allocated to public education during fiscal years 2012 and 2011, respectively.

Income Taxes

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

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Pennsylvania and City of Pittsburgh income tax. Further, the Chapter annually files a Form 990. The forms filed are subject to examination by the Internal Revenue Service generally for three years after they are filed.

The Financial Accounting Standards Board (FASB) issued ASC Section 740-10 (formerly known as FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes---an Interpretation of FASB No. 109*"). This interpretation clarifies the accounting for income taxes by prescribing the minimum standard a tax position is required to meet before being recognized in the financial statements. ASC Section 740-10 is effective for fiscal years beginning after December 15, 2007. The Chapter has not taken any uncertain tax position that should be accounted for under ASC Section 740-10.

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:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Certificates of deposit	\$ 1,764	\$ 1,764	\$ 1,711	\$ 1,711
Fixed income funds	510,967	524,181	658,613	642,344
Corporate bonds	54,586	56,402	58,746	57,070
Bond index fund	62,594	61,686	61,588	51,957
Stock index fund	222,120	238,336	237,038	205,329
Total	<u>\$ 852,031</u>	<u>\$ 882,369</u>	<u>\$ 1,017,696</u>	<u>\$ 958,411</u>

Investment Income

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

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	2012	2011
Interest income	\$ 21,586	\$ 18,546
Realized gains (losses)	(21,519)	(7,062)
Unrealized gains (losses)	93,302	(59,438)
Total investment income (loss)	<u>\$ 93,369</u>	<u>\$ (47,954)</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 statements of financial position.

Fair Value Measurements

The Chapter's investments use level 1 inputs to estimate market value. Level 1 inputs are defined as quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

3. PROPERTY AND EQUIPMENT

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

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	<u>2012</u>	<u>2011</u>
Furniture, fixtures, and equipment	\$ 5,119	\$ 5,119
Equipment loan program	30,252	30,252
Office equipment	20,392	24,779
Telephone equipment	21,549	-
Leasehold improvements	<u>10,777</u>	<u>10,777</u>
	88,089	70,927
Less: accumulated depreciation and amortization	<u>35,263</u>	<u>33,765</u>
Total	<u>\$ 52,826</u>	<u>\$ 37,162</u>

4. CONTRIBUTIONS

Public support includes the following contributions, legacies, and bequests received at National Headquarters from the Chapter sources for the years ended September 30:

	<u>2012</u>	<u>2011</u>
General contributions	\$ 62,137	\$ 69,658
Research contributions	<u>390</u>	<u>765</u>
	<u>\$ 62,527</u>	<u>\$ 70,423</u>

5. LEASES

Rental expense of the Chapter office space and equipment for the years ended September 30, 2012 and 2011 was \$146,792 and \$143,661, respectively. Lease agreements having an original term of more than one year expire on various dates through 2014.

The future minimum annual rental commitments under noncancelable lease agreements at September 30, 2012 are as follows:

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2013	\$ 120,641
2014	<u>51,645</u>
	<u>\$ 172,286</u>

6. 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. Contributions for the years ended September 30, 2012 and 2011 were 5% of gross annual salary. Pension expense related to this plan for the years ended September 30, 2012 and 2011 was \$41,385 and \$42,970, respectively.

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2012 and 2011 consist of the following amounts:

- \$0 and \$20,000, respectively, have been restricted by the donor for local use.
 - \$386,087 and \$415,321, respectively, represent the balance of the Pellicci trust as disclosed in Note 8 below.
 - \$616,035 and \$591,593, respectively, represent 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 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, during 2012 and 2011, a portion of these funds has been used to offset the operating shortfall experienced since the date of absorption for services provided to Erie, Warren, and McKean Counties.
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8. 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 above 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:

	2012	2011
Balance as of October 1	\$ 415,321	\$ 443,163
Payment	(50,000)	(50,000)
Amortization of discount	20,766	22,158
Balance as of September 30	<u>\$ 386,087</u>	<u>\$ 415,321</u>

9. CONTRIBUTIONS RESTRICTED FOR LOCAL USE

During the fiscal years ended September 30, 2012 and 2011, the Chapter received contributions of \$339,565 and \$239,930, respectively, which were restricted by the donors to be used solely for local Chapter services and sponsorship for special events.

10. CHARITABLE GIFT ANNUITIES

The Society is the beneficiary in a number of split-interest agreements with donors, whereby National Headquarters 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). In prior years through the year ended September 30, 2011, the residual assets under these agreements were

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shared between the chapter designated by the donor and National Headquarters, generally at 60% for the chapter and 40% for National Headquarters, unless otherwise designated by the donor.

Effective fiscal year 2012, the Chapter Relations Committee (CRC) of the Board of Directors of the Society adopted a new policy which allocates 100% of the residual assets to the chapter in a split-interest agreement where a chapter is designated as a beneficiary by the donor. The CRC also applied the policy to all such agreements entered into as of September 30, 2011, resulting in the reallocation, during fiscal year 2012, to the chapters of the portion of contributions previously credited to National Headquarters as of that date. National Headquarters continues to hold, manage, invest and control the donated assets.

The contributions allocated to the Chapter under split-interest agreements for the years ended September 30, 2012 and September 30, 2011 were \$12,935 and \$7,183, respectively.