

Consolidated Financial Statements and Supplementary
Information Together with
Report of Independent Certified Public Accountants

**NATIONAL MULTIPLE SCLEROSIS SOCIETY
(NATIONAL HEADQUARTERS) AND AFFILIATE**

September 30, 2016 and 2015

NATIONAL MULTIPLE SCLEROSIS SOCIETY (NATIONAL HEADQUARTERS) AND AFFILIATE

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors

National Multiple Sclerosis Society (National Headquarters):

We have audited the accompanying consolidated financial statements of National Multiple Sclerosis Society (National Headquarters) and Affiliate (collectively, "National Headquarters"), which comprise the consolidated statements of financial position as of September 30, 2016 and 2015, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 our audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to National Headquarters' preparation and fair presentation of the consolidated 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 National Headquarters' 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Multiple Sclerosis Society (National Headquarters) and Affiliate as of September 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purposes of forming an opinion on the consolidated financial statements of National Headquarters as of and for the years ended September 30, 2016 and 2015, taken as a whole. The supplementary information included on pages 28 and 29 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

New York, New York
April 4, 2017

**NATIONAL MULTIPLE SCLEROSIS SOCIETY
(NATIONAL HEADQUARTERS) AND AFFILIATE**
Consolidated Statements of Financial Position
As of September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 33,965,991	\$ 27,948,722
Contributions receivable, net	210,251	310,251
Contributions receivable due from chapters, net of allowance of approximately \$100,000 in 2016 and 2015	2,767,192	4,863,806
Deferred rent receivable	488,786	525,598
Prepaid expenses	2,301,283	2,181,418
Other assets	1,559,124	1,937,610
Investments	32,639,197	44,365,649
Investments held in custody for chapters	27,474,202	29,414,926
Investments related to charitable gift annuities	2,702,392	3,108,308
Beneficial interest in trust	91,116	91,349
Property and equipment, net	<u>6,114,646</u>	<u>6,065,569</u>
Total assets	<u>\$ 110,314,180</u>	<u>\$ 120,813,206</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 5,316,975	\$ 8,488,426
Grants payable	45,255,779	50,372,928
Funds held for Progressive MS Alliance (Note 2)	2,676,470	658,139
Deferred revenue	215,000	412,578
Deferred rent	1,827,545	1,950,165
Amounts held in custody for chapters	27,474,202	29,414,926
Due to chapters	1,425,474	1,196,147
Liability to annuitants	<u>2,093,996</u>	<u>1,916,382</u>
Total liabilities	<u>86,285,441</u>	<u>94,409,691</u>
NET ASSETS		
Unrestricted	17,008,510	20,103,473
Temporarily Restricted	5,128,244	4,408,057
Permanently Restricted	<u>1,891,985</u>	<u>1,891,985</u>
Total net assets	<u>24,028,739</u>	<u>26,403,515</u>
Total liabilities and net assets	<u>\$ 110,314,180</u>	<u>\$ 120,813,206</u>

The accompanying notes are an integral part of these consolidated financial statements.

**NATIONAL MULTIPLE SCLEROSIS SOCIETY
(NATIONAL HEADQUARTERS) AND AFFILIATE**
Consolidated Statement of Activities
For the year ended September 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND OTHER REVENUE				
PUBLIC SUPPORT				
Contributions from chapters	\$ 83,771,719	\$ 5,126,846	\$ -	\$ 88,898,565
Contributions from individuals and foundations (includes donated public service announcements of approximately \$12,219,000)	<u>26,965,938</u>	<u>3,191,439</u>	<u>-</u>	<u>30,157,377</u>
Total public support	<u>110,737,657</u>	<u>8,318,285</u>	<u>-</u>	<u>119,055,942</u>
OTHER REVENUE				
Advertising, program fees, and other revenue	5,112,338	-	-	5,112,338
Investment return, net	<u>3,346,198</u>	<u>62,402</u>	<u>-</u>	<u>3,408,600</u>
Total other revenue	<u>8,458,536</u>	<u>62,402</u>	<u>-</u>	<u>8,520,938</u>
Net assets released from restrictions	<u>7,660,500</u>	<u>(7,660,500)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>126,856,693</u>	<u>720,187</u>	<u>-</u>	<u>127,576,880</u>
EXPENSES				
PROGRAM SERVICES				
Research and research fellowships	50,949,068	-	-	50,949,068
Client and community services	10,990,572	-	-	10,990,572
Professional education and training	2,874,314	-	-	2,874,314
Public education (includes donated public service announcements of approximately \$12,219,000)	19,578,223	-	-	19,578,223
Services to chapters	<u>27,149,840</u>	<u>-</u>	<u>-</u>	<u>27,149,840</u>
Total program services	<u>111,542,017</u>	<u>-</u>	<u>-</u>	<u>111,542,017</u>
SUPPORTING SERVICES				
Fundraising	7,355,203	-	-	7,355,203
Management and general	<u>11,054,436</u>	<u>-</u>	<u>-</u>	<u>11,054,436</u>
Total supporting services	<u>18,409,639</u>	<u>-</u>	<u>-</u>	<u>18,409,639</u>
Total expenses	<u>129,951,656</u>	<u>-</u>	<u>-</u>	<u>129,951,656</u>
Changes in net assets	<u>(3,094,963)</u>	<u>720,187</u>	<u>-</u>	<u>(2,374,776)</u>
Net assets, beginning of year	<u>20,103,473</u>	<u>4,408,057</u>	<u>1,891,985</u>	<u>26,403,515</u>
Net assets, end of year	<u>\$ 17,008,510</u>	<u>\$ 5,128,244</u>	<u>\$ 1,891,985</u>	<u>\$ 24,028,739</u>

The accompanying notes are an integral part of this consolidated financial statement.

**NATIONAL MULTIPLE SCLEROSIS SOCIETY
(NATIONAL HEADQUARTERS) AND AFFILIATE**
Consolidated Statement of Activities
For the year ended September 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND OTHER REVENUE				
PUBLIC SUPPORT				
Contributions from chapters	\$ 76,395,592	\$ 14,766,397	\$ -	\$ 91,161,989
Contributions from individuals and foundations (includes donated public service announcements of approximately \$5,976,000)	<u>22,200,261</u>	<u>3,218,522</u>	<u>-</u>	<u>25,418,783</u>
Total public support	<u>98,595,853</u>	<u>17,984,919</u>	<u>-</u>	<u>116,580,772</u>
OTHER REVENUE				
Advertising, program fees, and other revenue	3,228,200	-	-	3,228,200
Investment loss, net	<u>(2,606,261)</u>	<u>(181,821)</u>	<u>-</u>	<u>(2,788,082)</u>
Total other revenue (loss)	<u>621,939</u>	<u>(181,821)</u>	<u>-</u>	<u>440,118</u>
Net assets released from restrictions	<u>16,722,669</u>	<u>(16,722,669)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>115,940,461</u>	<u>1,080,429</u>	<u>-</u>	<u>117,020,890</u>
EXPENSES				
PROGRAM SERVICES				
Research and research fellowships	56,081,336	-	-	56,081,336
Client and community services	10,431,273	-	-	10,431,273
Professional education and training	2,320,073	-	-	2,320,073
Public education (includes donated public service announcements of approximately \$5,976,000)	11,418,437	-	-	11,418,437
Services to chapters	<u>25,678,490</u>	<u>-</u>	<u>-</u>	<u>25,678,490</u>
Total program services	<u>105,929,609</u>	<u>-</u>	<u>-</u>	<u>105,929,609</u>
SUPPORTING SERVICES				
Fundraising	7,304,843	-	-	7,304,843
Management and general	<u>9,797,598</u>	<u>-</u>	<u>-</u>	<u>9,797,598</u>
Total supporting services	<u>17,102,441</u>	<u>-</u>	<u>-</u>	<u>17,102,441</u>
Total expenses	<u>123,032,050</u>	<u>-</u>	<u>-</u>	<u>123,032,050</u>
Changes in net assets	<u>(7,091,589)</u>	<u>1,080,429</u>	<u>-</u>	<u>(6,011,160)</u>
Net assets, beginning of year	<u>27,195,062</u>	<u>3,327,628</u>	<u>1,891,985</u>	<u>32,414,675</u>
Net assets, end of year	<u>\$ 20,103,473</u>	<u>\$ 4,408,057</u>	<u>\$ 1,891,985</u>	<u>\$ 26,403,515</u>

The accompanying notes are an integral part of this consolidated financial statement.

**NATIONAL MULTIPLE SCLEROSIS SOCIETY
(NATIONAL HEADQUARTERS) AND AFFILIATE**
Consolidated Statements of Cash Flows
For the years ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (2,374,776)	\$ (6,011,160)
Adjustments to reconcile changes in net assets to net cash provided by operations		
Provision for doubtful accounts	-	-
Net realized and unrealized (gains) losses on investments	(2,539,267)	3,589,630
Depreciation and amortization	1,862,949	1,654,684
Change in value of beneficial interest in trust	233	78,325
Deferred rent	(85,808)	(160,874)
Changes in		
Contributions receivable	100,000	100,000
Contributions receivable due from chapters	2,096,614	(2,414,638)
Prepaid expenses	(119,865)	109,132
Other assets	378,486	696,846
Accounts payable and accrued expenses	(3,171,451)	626,238
Grants payable	(5,117,149)	6,677,402
Funds held for Progressive MS Alliance	2,018,331	(719,989)
Deferred revenue	(197,578)	(274,179)
Amounts held in custody for chapters	(1,940,724)	16,540,199
Due to chapters	229,327	(129,018)
Liability to annuitants	<u>177,614</u>	<u>(141,129)</u>
Net cash (used in) provided by operating activities	<u>(8,683,064)</u>	<u>20,221,469</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture and equipment	(1,912,026)	(2,775,734)
Purchase of investments	(31,937,625)	(60,436,637)
Proceeds from sales of investments	<u>48,549,984</u>	<u>34,485,877</u>
Net cash provided by (used in) investing activities	<u>14,700,333</u>	<u>(28,726,494)</u>
Net increase (decrease) in cash and cash equivalents	6,017,269	(8,505,025)
Cash and cash equivalents, beginning of year	<u>27,948,722</u>	<u>36,453,747</u>
Cash and cash equivalents, end of year	<u>\$ 33,965,991</u>	<u>\$ 27,948,722</u>

The accompanying notes are an integral part of these consolidated financial statements.

**NATIONAL MULTIPLE SCLEROSIS SOCIETY
(NATIONAL HEADQUARTERS) AND AFFILIATE**
Consolidated Statement of Functional Expenses
For the year ended September 30, 2016

	Program Activities					Supporting Services			Grand Total	
	Research and Research Fellowships	Client and Community Services	Professional Education and Training	Public Education	Services to Chapters	Total	Fund-Raising	Management and General		Total
Research and Fellowship Grants	\$ 44,676,350	\$ -	\$ 1,664,818	\$ -	\$ -	\$ 46,341,168	\$ -	\$ -	\$ -	\$ 46,341,168
EXPENSES										
Salaries	2,855,819	4,937,291	503,049	2,282,834	10,878,374	21,457,367	1,487,405	4,076,031	5,563,436	27,020,803
Retirement and Health Insurance Benefits	571,817	1,467,850	135,554	629,448	2,693,347	5,498,016	385,706	1,032,117	1,417,823	6,915,839
Payroll Taxes	155,668	388,560	36,833	156,083	721,774	1,458,918	103,462	274,807	378,269	1,837,187
Total salaries and related expenses	3,583,304	6,793,701	675,436	3,068,365	14,293,495	28,414,301	1,976,573	5,382,955	7,359,528	35,773,829
Travel	451,619	247,343	30,823	252,170	814,770	1,796,725	116,354	283,121	399,475	2,196,200
Professional Fees and Contract Services Payments	1,149,805	506,925	249,335	1,737,691	7,937,333	11,581,089	2,743,430	2,918,635	5,662,065	17,243,154
Donated Public Service Announcements (Note 2)	-	-	-	12,219,441	-	12,219,441	-	-	-	12,219,441
Printing and Stationary	115,707	305,715	48,508	623,322	289,978	1,383,230	940,932	514,669	1,455,601	2,838,831
Dues, Subscriptions and Reprints	71,137	10,683	6,359	94,578	287,673	470,430	85,879	158,827	244,706	715,136
Office Supplies	16,067	117,062	5,194	28,193	179,967	346,483	14,400	54,159	68,559	415,042
Rent and Electricity	280,404	678,303	52,681	422,094	1,136,821	2,570,303	160,029	425,835	585,864	3,156,167
Insurance	116,240	227,098	20,251	93,252	546,950	1,003,791	61,441	206,393	267,834	1,271,625
Postage, Trucking and Delivery	69,252	143,600	39,402	555,033	170,920	978,207	915,802	489,319	1,405,121	2,383,328
Telephone	11,206	145,807	960	6,042	53,636	217,651	3,161	15,436	18,597	236,248
Conferences and Meetings	162,140	149,977	25,384	200,221	326,260	863,982	75,519	130,237	205,756	1,069,738
Specific Assistance to Individuals and Clinics	-	1,134,317	-	-	-	1,134,317	-	-	-	1,134,317
Awards and Prizes	24,226	4,995	3,564	15,199	86,102	134,086	28,227	22,215	50,442	184,528
Depreciation and amortization	174,414	420,402	32,690	165,529	706,113	1,499,148	99,356	264,445	363,801	1,862,949
Sundry	47,197	104,644	18,909	97,093	319,822	587,665	134,100	188,190	322,290	909,955
Total expenses	2,689,414	4,196,871	534,060	16,509,858	12,856,345	36,786,548	5,378,630	5,671,481	11,050,111	47,836,659
Total grants and expenses	\$ 50,949,068	\$ 10,990,572	\$ 2,874,314	\$ 19,578,223	\$ 27,149,840	\$ 111,542,017	\$ 7,355,203	\$ 11,054,436	\$ 18,409,639	\$ 129,951,656

The accompanying notes are an integral part of this consolidated financial statement.

**NATIONAL MULTIPLE SCLEROSIS SOCIETY
(NATIONAL HEADQUARTERS) AND AFFILIATE**
Consolidated Statement of Functional Expenses
For the year ended September 30, 2015

	Program Activities					Supporting Services			Grand Total	
	Research and Research Fellowships	Client and Community Services	Professional Education and Training	Public Education	Services to Chapters	Total	Fund-Raising	Management and General		Total
Research and Fellowship Grants	\$ 50,794,825	\$ -	\$ 1,628,192	\$ -	\$ -	\$ 52,423,017	\$ -	\$ -	\$ -	\$ 52,423,017
EXPENSES										
Salaries	2,201,236	4,719,735	247,961	1,975,024	9,799,235	18,943,191	925,414	3,207,918	4,133,332	23,076,523
Retirement and Health Insurance Benefits	401,874	861,669	45,270	360,575	1,789,018	3,458,406	168,949	585,658	754,607	4,213,013
Payroll Taxes	152,428	326,826	17,170	136,763	678,565	1,311,752	64,081	222,139	286,220	1,597,972
Total salaries and related expenses	2,755,538	5,908,230	310,401	2,472,362	12,266,818	23,713,349	1,158,444	4,015,715	5,174,159	28,887,508
Travel	468,676	278,357	22,901	256,025	1,068,584	2,094,543	133,171	353,447	486,618	2,581,161
Professional Fees and Contract Services Payments	1,024,944	641,177	178,280	1,030,048	7,809,442	10,683,891	2,282,398	2,496,558	4,778,956	15,462,847
Donated Public Service Announcements (Note 2)	-	-	-	5,975,651	-	5,975,651	-	-	-	5,975,651
Printing and Stationary	99,258	419,560	43,106	502,222	469,473	1,533,619	1,928,587	964,481	2,893,068	4,426,687
Dues, Subscriptions and Reprints	69,477	17,629	5,581	58,671	311,275	462,633	69,100	150,541	219,641	682,274
Office Supplies	12,233	182,154	3,310	27,116	175,064	399,877	11,642	41,230	52,872	452,749
Rent and Electricity	296,838	636,377	33,457	266,312	1,322,988	2,555,972	124,845	432,875	557,720	3,113,692
Insurance	127,547	273,479	14,367	114,440	567,805	1,097,638	53,622	185,881	239,503	1,337,141
Postage, Trucking and Delivery	68,929	186,722	37,147	334,135	255,491	882,424	1,206,664	602,985	1,809,649	2,692,073
Telephone	8,757	76,308	1,158	16,647	93,060	195,930	4,044	23,748	27,792	223,722
Conferences and Meetings	145,717	106,477	19,618	170,468	434,276	876,556	84,440	167,453	251,893	1,128,449
Specific Assistance to Individuals and Clinics	-	1,303,906	-	-	-	1,303,906	-	-	-	1,303,906
Awards and Prizes	28,384	4,129	1,563	8,575	32,914	75,565	7,665	7,988	15,653	91,218
Depreciation and amortization	157,838	338,426	17,780	141,618	702,650	1,358,312	66,357	230,015	296,372	1,654,684
Sundry	22,375	58,342	3,212	44,147	168,650	296,726	173,864	124,681	298,545	595,271
Total expenses	2,530,973	4,523,043	381,480	8,946,075	13,411,672	29,793,243	6,146,399	5,781,883	11,928,282	41,721,525
Total grants and expenses	\$ 56,081,336	\$ 10,431,273	\$ 2,320,073	\$ 11,418,437	\$ 25,678,490	\$ 105,929,609	\$ 7,304,843	\$ 9,797,598	\$ 17,102,441	\$ 123,032,050

The accompanying notes are an integral part of this consolidated financial statement.

NATIONAL MULTIPLE SCLEROSIS SOCIETY (NATIONAL HEADQUARTERS) AND AFFILIATE

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

1. ORGANIZATION

National Multiple Sclerosis Society (the “Society”), a national not-for-profit health agency, mobilizes people and resources to drive research for a cure and to address the challenges of everyone affected by multiple sclerosis (“MS”). The Society is comprised of national and local (chapter) 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 grants and training programs, driving change through advocacy, collaborating with MS organizations worldwide, and connecting people affected by MS to information, resources and people to live their best lives now. To move us ever closer to a world free of MS, the Society, in fiscal 2016 alone, invested over \$51 million to support more than 380 new and ongoing research projects around the world while providing information and services to over one million people.

The Society 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 Society is publicly supported, contributions qualify for the maximum charitable contribution deduction under the IRC. Fast Forward, its consolidated not-for-profit affiliate (collectively “National Headquarters”), derives its tax exemption from the Society and is treated as a “disregarded entity” for tax purposes.

Effective October 1, 2016, the Society consolidated the 36 chapters and the national headquarters into a single entity under one federal employer’s identification number. The unified entity will issue one set of audited statements and file a single IRS Form 990. This transition will better align the Society’s resources so that the organization can maximize its impact to drive research for a cure and to address the challenges of everyone affected by MS. For accounting purposes, the transition will be treated as an acquisition of 100% of the assets and liabilities of the 36 Chapters by the Society. No consideration was given in exchange for these interests.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements consist of the accounts of the Society and Fast Forward, a not-for-profit limited liability company of which the Society is the sole member. The accounts of the chapters, which National Headquarters does not control, either by majority ownership or a majority voting interest in the respective Boards of Trustees, are not included in the accompanying consolidated financial statements.

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 of which include the fair values assigned to certain financial instruments; collectability of contributions receivable; donated public service announcements; and, the useful lives assigned to property and equipment. Actual results could differ from those estimates.

**NATIONAL MULTIPLE SCLEROSIS SOCIETY
(NATIONAL HEADQUARTERS) AND AFFILIATE**
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

Basis of Accounting

The accompanying consolidated financial statements have been prepared using the accrual basis of accounting in accordance with U.S. GAAP. Accordingly, all significant intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Accordingly, the net assets of the Society and Fast Forward and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets available at the discretion of management and the Board of Directors (the "Board"). These net assets may be used by National Headquarters in support of any of its program or supporting services.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met either by actions of National Headquarters and/or passage of time.

Permanently restricted net assets - Net assets which contain certain donor-imposed restrictions that stipulate that such resources be maintained permanently by National Headquarters. Generally, the donors of these assets permit National Headquarters to use all or part of the income earned on related investments for general or specific purposes (See also Note 10).

Revenue Recognition

Contributions (including unconditional promises to give) are recorded at fair value when received. Contributions received with donor stipulations that limit the use of the donated assets are reported as either temporarily restricted or permanently restricted support. Unconditional promises to give, with payments due in future years, are reported as either temporarily restricted or permanently restricted support, discounted to present value using credit adjusted discount rates which articulate with the collection period of the respective pledge. Such discount rates are not subsequently revised. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the consolidated statements of activities as net assets released from restrictions.

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.

Revenue generated from advertisers in the Society's Momentum Magazine is recorded on an accrual basis. Revenue from program fees and other sources is recorded at fair value when earned.

Fast Forward receives contributions under separate collaboration agreements with a pharmaceutical company to fund certain Sponsored Research Agreements ("SRAs") entered into with certain organizations for the purpose of conducting specified research and development and therapeutic strategies for progressive multiple sclerosis (R&D) activities. Amounts received, which are refundable to a company if not spent for the specified activities, are recorded as support when the activities have been performed or expenditures have been incurred by the recipient organizations (see Note 8).

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Allowance for Doubtful Accounts

National Headquarters maintains an allowance for doubtful accounts for estimated losses that may result from the inability of chapters, donors or advertisers to make payments. Such allowances are based on several factors, including but not limited to, historical collection experience, and the financial condition of its chapters, donors or advertisers. Accounts are written-off when deemed to be uncollectible.

Functional Allocation of Expenses

The costs of providing National Headquarters programs and supporting services have been summarized on a functional basis on the consolidated statements of activities and functional expenses.

The following is a description of National Headquarters' programs:

Research and Research Fellowships - National Headquarters supports research projects around the world aimed at stopping multiple sclerosis in its tracks, restoring function, and ending the disease forever.

Client and Community Services - Programs, services and resources provided for people living with multiple sclerosis and affected by multiple sclerosis which facilitate education, recreation, physical and emotional wellness, provide financial resources and a connection for people living with multiple sclerosis. Also includes costs associated with collaborating with other community organizations, focusing on access to healthcare, rehabilitation, treatments and therapies; long-term care; disability rights issues; vocational training and rehabilitation, wellness and fitness; and, outreach and education to rural and underserved populations.

Professional Education and Training - Activities or programs designed to improve the knowledge, skills and critical judgment of physicians and other healthcare professionals engaged (directly or indirectly) in providing client services by keeping them abreast of new diagnostic techniques and therapies.

Public Education - Costs associated with educating the public about multiple sclerosis including National Headquarters' annual multiple sclerosis awareness campaign, public service announcements, Momentum, which is National Headquarters' flagship magazine distributed quarterly to people with multiple sclerosis, healthcare providers, supporters of National Headquarters and more.

Services to Chapters - Include costs incurred by National Headquarters to support the activities of its chapters. These costs include but are not limited to the centralized functions carried out by each of the Society's departments.

Supporting services represent costs for administrative and general support activities not directly related to program services. Fundraising includes salaries and related expenses of employees involved in fundraising activities.

Research Grants

Research grants are recognized in accordance with defined payment schedules, and as the related conditions on which they depend are met. Research grants, which are generally for three years, are subject to revocation rights by National Headquarters and the continued qualification of grantees, among other

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criteria, which is evaluated annually. National Headquarters policy regarding the recognition of grants payable is to include only those amounts for which a specific grantee is identified and the respective grant has been approved by the Society's President and CEO.

Payments made under Sponsored Research Agreements (see Note 8) are recognized as an expense, as services or R&D activities performed by the funded entities in accordance with the terms of the respective SRA. Funding commitments by Fast Forward, for which future payments are conditioned upon achieving certain milestones, as set forth in the respective SRA, are not recognized in the financial statements.

Joint Costs

National Headquarters accounts for costs of activities that include a fundraising appeal (joint costs) in accordance with standards incorporated in the Accounting Standards Codification ("ASC") of the Financial Accounting Standards Board ("FASB"). In fiscal year 2016 and 2015, National Headquarters incurred joint costs of approximately \$7,458,000 and \$7,781,000 respectively, for information materials and activities that included fundraising appeals.

These costs have been allocated as follows as of September 30:

	<u>2016</u>	<u>2015</u>
Fundraising	\$ 3,698,949	\$ 4,864,625
Management and General	1,722,690	2,214,443
Public Education	<u>2,035,914</u>	<u>701,839</u>
Total	<u>\$ 7,457,553</u>	<u>\$ 7,780,907</u>

Concentration of Credit Risk

Cash, cash equivalents and investments are exposed to various risks, such as interest rate, market and credit risks. To minimize such risks, National Headquarters has a diversified investment portfolio in a variety of asset classes managed by an independent investment manager. National Headquarters' cash, cash equivalents and investments are placed with high credit quality financial institutions. National Headquarters regularly evaluates its investments, including performance thereof. Due to inherent risks and potential volatility in investment valuations, the amounts reported on the accompanying consolidated financial statements can vary substantially from year to year. National Headquarters maintains its cash in various bank deposit accounts that, at times, may exceed federally insured limits; however, National Headquarters does not anticipate nonperformance by these financial institutions.

Cash and Cash Equivalents

National Headquarters considers highly liquid investments with original maturities of three months or less from the date purchased, other than those held in the investment portfolio, to be cash equivalents. At September 30, 2016 and 2015, substantially all of National Headquarters' cash and cash equivalents were on deposit with one financial institution.

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Contributions Receivable

At September 30, 2016 and 2015, National Headquarters contributions receivable, net, consist of the following:

	<u>2016</u>	<u>2015</u>
Amounts expected to be collected:		
In less than one year	\$ 125,000	\$ 225,000
One to two years	<u>100,000</u>	<u>100,000</u>
	225,000	325,000
Less: Discount to present value	<u>(14,749)</u>	<u>(14,749)</u>
	<u>\$ 210,251</u>	<u>\$ 310,251</u>

Due from Chapters and Contributions from Chapters

The Society calculates each chapter's annual contribution for the fiscal year by applying a range of percentages to the average of the annual public support and revenue (revenue base) for the two years immediately prior to the preceding fiscal year. To determine the revenue base, in-kind contributions, subsidies from the Society, and investment results are excluded from the calculation. The percentages are subject to annual adjustment to ensure that the Society meets its programmatic goals and that all donor restrictions are honored. Total contribution revenue from chapters for the years ended September 30, 2016 and 2015 approximated \$88,899,000 and \$91,162,000, respectively.

Investments and Investment Return

Investments in mutual funds and equity securities are reported at fair value, based on published unit values or quoted market prices in active markets as of the reporting date. Investments in debt securities are carried at fair value, based on measurement inputs derived directly from quoted market prices or observable inputs, such as quoted market prices for similar securities, interest rates, credit risks, and other factors. Investments in certificates of deposit are carried at cost, which approximates fair value. Donated securities are recorded at their quoted fair values on the date received. Warrants received in connection with the funding of SRAs are stated at their estimated fair value. Income earned from investments, including realized and unrealized gains and losses and interest and dividends, is recorded in the net asset class owning the assets, except for permanently restricted net assets where the income is recorded as temporarily restricted and then reclassified to unrestricted upon appropriation for expenditure by the Board in accordance with National Headquarters' spending rate policy.

Split-Interest Agreements and Beneficial Interest in Trust

The Society and its chapters are the beneficiaries of a number of split-interest agreements established with donors, whereby National Headquarters controls and invests the donated assets and shares with the donors or the donor's designee(s) income generated from these assets until such time as stated in the agreement (usually upon death of the donor or the donor's designee(s)). At that time, the residual assets are either distributed to the chapter or held by National Headquarters as stipulated by the donor. It is National Headquarters' policy to allocate 100% of the residual assets, excluding amounts restricted for research, to the chapter stipulated by the donor as the beneficiary.

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National Headquarters records a liability for amounts payable to annuitants and for the chapter's share, using an actuarial calculation performed at the time of gift. The liability to the annuitant is accredited to the amount payable to annuitants over their life expectancies and adjustments are made annually for changes in mortality, if any, and results from the investment of donated assets. National Headquarters' liability to annuitants at September 30, 2016 and 2015 totaled approximately \$2,094,000 and \$1,916,000, respectively, based on a discount rate of 6% per annum. State-mandated reserves related to these arrangements are maintained at required levels. National Headquarters recorded amounts due to chapters associated with split-interest agreements of approximately \$917,000 and \$952,000, at September 30, 2016 and 2015, respectively, which is included within due to chapters on the accompanying consolidated statements of financial position.

In situations where the assets are controlled and invested by an independent third-party, National Headquarters records a beneficial interest in trust and contribution revenue for its share of the assets at fair value based on the present value of the estimated future distributions to be received by National Headquarters over the expected term of the respective agreements. National Headquarters' beneficial interest in trust at September 30, 2016 and 2015 totaled approximately \$91,000 for each year.

Property and Equipment

Property and equipment are carried at cost, if purchased or if donated, at fair value at the date of gift, less accumulated depreciation and amortization. Depreciation is computed on the straight-line basis over the lesser of the estimated useful lives of the assets, which range from 3 to 10 years, or the terms of the lease, as appropriate. National Headquarters capitalizes assets acquired for greater than \$1,000 and with useful lives in excess of one year.

Due to *Progressive MS Alliance*

The Society is a managing member, along with Associazione Italiana Sclerosi Multipla (Italy), MS Research Australia, Multiple Sclerosis International Federation, MS Society (United Kingdom), and the Multiple Sclerosis Society of Canada, of the *Progressive MS Alliance* (the "*Alliance*"). The *Alliance* is open to MS organizations from around the world and is continually seeking new member organizations from the global MS community. The *Alliance* made a joint commitment to speed up the development of treatment for progressive MS by removing scientific and technology barriers. The *Alliance* has four strategic objectives which include: raise profile and accelerate progress, secure resources and globalize research funding, inspire, galvanize and engage among priority stakeholders and deliver operational excellence by aligning resources.

As a managing member, the Society committed to providing funds of approximately \$9,305,000 over the following three years which is conditional on various factors, with \$1,428,000 paid to the *Alliance* over three years as well as professional and scientific staff to support the *Alliance*. In addition, the Society maintains custody of the pooled funds contributed from other *Alliance* members within its region. The disbursement of funds for various progressive MS research initiatives are approved by voting *Alliance* members. The Society received a total of \$2,882,000 and \$2,338,000 during the years ending September 30, 2016 and 2015, respectively from *Alliance* members, which will be held until such time the funds are approved for expenditure. As of September 30, 2016 and 2015, the Society recorded unspent donated funds, consisting of both Society and other *Alliance* members' monies, of approximately \$2,676,000 and \$658,000, respectively.

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Amounts Held in Custody for Chapters

Amounts held in custody for chapters include chapter ownership interests in pooled investment funds, which amounted to approximately \$27,474,000 and \$29,415,000 as of September 30, 2016 and 2015, respectively.

In-Kind Donated Services

National Headquarters' received donated print, radio and television public service announcements of approximately \$12,219,000 and \$5,976,000 for the years ended September 30, 2016 and 2015, respectively. Such amounts, which are based upon information provided by third-party media services, are recorded at their estimated fair value determined on the date of contribution and are reported as contributions from individuals and foundations and public education program expense on the accompanying consolidated statements of activities and functional expenses.

Highly qualified volunteers serving on peer review research committees have donated their time and efforts to National Headquarters. These contributed services, which meet the recognition criteria under U.S. GAAP, approximated \$512,000 and \$502,000 for the years ended September 30, 2016 and 2015, respectively. Such amounts are recorded at their estimated fair value at the date of contribution and are reported as contributions from individuals and foundation and expenses on the accompanying consolidated statements of activities and functional expenses.

A number of volunteers, including members of the Board, have made significant contributions of their time in furtherance of National Headquarters' program and support functions. The value of this contributed time does not meet the criteria for recognition as contributed services in accordance with U.S. GAAP and, accordingly, is not reflected in the accompanying consolidated financial statements.

Deferred Rent

Rent expense is recorded on a straight-line basis over the term of the respective lease. The difference between rental payments/receipts made under the lease and rent expense/income calculated on a straight-line basis is recorded as deferred rent receivable or deferred rent liability on the consolidated statements of financial position.

Accounting for Uncertainty in Income Taxes

Guidance in the area of "Accounting for Uncertainty in Income Taxes" under the FASB 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 fiscal years ended 2013, 2014, 2015 and 2016 remain open to audit for both federal and state purposes. National Headquarters' 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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Subsequent Events

National Headquarters has evaluated subsequent events through April 4, 2017, the date the consolidated financial statements were available for issuance. Except as discussed in Notes 1 and 7, no additional subsequent events are required to be recognized or disclosed in these consolidated financial statements

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017. The Society has not determined the impact of ASU 2014-09 at this time.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires that most leased assets be recognized on the balance sheet as assets and liabilities for the rights and obligations created by these leases. An entity is required to apply the amendments in ASU 2016-02 under the modified retrospective transition approach. This approach includes a number of optional practice expedients. Under these practical expedients, an organization will continue to account for leases that commence before the effective date in accordance with current U.S. GAAP, unless the lease is modified. However, lessees are required to recognize on the balance sheet leased assets and liabilities for operating leases at each reporting date. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. The Society has not determined the impact of ASU 2016-02 at this time.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*, which makes targeted changes to the not-for-profit financial reporting model. The new ASU marks the completion of the first phase of a larger project aimed at improving not-for-profit financial reporting. Under the new standard, net asset reporting will be streamlined and clarified. The existing three-category classification of net assets will be replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called “net assets with donor restrictions.” The guidance for classifying deficiencies in endowment funds and on accounting for the lapsing of restrictions on gifts to acquire property, plant, and equipment have also been simplified and clarified. New disclosures will highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. Not-for-profits will continue to have flexibility to decide whether to report an operating subtotal and if so, to self-define what is included or excluded. However, if the operating subtotal includes internal transfers made by the governing board, transparent disclosures must be provided. The standard also imposes several new requirements related to reporting expenses, including providing information about expenses by their natural classification. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. The Society has not determined the impact of ASU 2016-14 at this time.

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3. FAIR VALUE MEASUREMENTS

National Headquarters' follows guidance for fair value measurements that defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. As required by U.S. GAAP for fair value measurements, National Headquarters uses a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available.

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 as follows:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2 - Pricing inputs other than quoted prices in an active market, which are either directly or indirectly observable as of the measurement date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.
- Level 3 - Securities that have little to no pricing observability as of the measurement date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by an entity. National Headquarters considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to National Headquarters' perceived risk of that instrument.

The carrying amounts of cash and cash equivalents, contributions receivable, prepaid expenses and other assets, accounts payable and accrued expenses, deferred revenue and other liabilities approximate fair value due to the short maturity of these financial instruments.

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The fair values assigned to investments and split-interest arrangements are based on the quoted fair values of the underlying securities as of the measurement date.

The following table provides the fair value hierarchy of National Headquarters' financial instruments as of September 30, 2016 and 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
September 30, 2016				
Cash equivalents*	\$ 437,894	\$ -	\$ -	\$ 437,894
Investments and investments related to charitable gift annuities				
Cash and cash equivalents	742,328	-	-	742,328
Equities	34,322,888	-	-	34,322,888
Mutual funds	27,590,584	-	-	27,590,584
Other investments	-	-	4,000	4,000
Warrants	-	-	155,991	155,991
Total investments	<u>62,655,800</u>	<u>-</u>	<u>159,991</u>	<u>62,815,791</u>
Beneficial interest in trust	<u>-</u>	<u>-</u>	<u>91,116</u>	<u>91,116</u>
Total	<u>\$ 62,655,800</u>	<u>\$ -</u>	<u>\$ 251,107</u>	<u>\$ 62,906,907</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
September 30, 2015				
Cash equivalents*	\$ 143,158	\$ -	\$ -	\$ 143,158
Investments and investments related to charitable gift annuities				
Cash and cash equivalents	240,751	-	-	240,751
Equities	42,505,552	-	-	42,505,552
Mutual funds	33,766,085	-	-	33,766,085
Agency bonds	-	220,787	-	220,787
Other investments	-	-	4,000	4,000
Warrants	-	-	151,708	151,708
Total investments	<u>76,512,388</u>	<u>220,787</u>	<u>155,708</u>	<u>76,888,883</u>
Beneficial interest in trust	<u>-</u>	<u>-</u>	<u>91,349</u>	<u>91,349</u>
Total	<u>\$ 76,655,546</u>	<u>\$ 220,787</u>	<u>\$ 247,057</u>	<u>\$ 77,123,390</u>

* Represents cash equivalents that are interest-bearing and included in cash and cash equivalents on the accompanying consolidated statements of financial position.

Beneficial interest in trust is stated at fair value based on the trust's reporting of the underlying assets as of the reporting date.

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Warrants are valued using Level 3 inputs, based primarily on the estimation and allocation of enterprise value among the equity classes of each of the companies that issued the warrants using acceptable valuation approaches for privately held, early-stage companies, which the Society considers to be reasonable.

Changes in fair value of investments measured with Level 3 inputs are as follows:

	Warrants	Beneficial Interest in Trust	Other	Total
Balance September 30, 2014	\$ 426,625	\$ 169,674	\$ 4,000	\$ 600,299
Change in fair values	<u>(274,917)</u>	<u>(78,325)</u>	<u>-</u>	<u>(353,242)</u>
Balance September 30, 2015	151,708	91,349	4,000	247,057
Change in fair values	<u>4,283</u>	<u>(233)</u>	<u>-</u>	<u>4,050</u>
Balance September 30, 2016	<u>\$ 155,991</u>	<u>\$ 91,116</u>	<u>\$ 4,000</u>	<u>\$ 251,107</u>

4. INVESTMENTS

National Headquarters' investments at September 30, 2016 and 2015 consist of the following:

	2016 Fair Value	2015 Fair Value
Cash and cash equivalents	\$ 742,328	\$ 240,751
Equities	34,322,888	42,505,552
Mutual funds	27,590,584	33,766,085
Agency bonds	-	220,787
Other investments	4,000	4,000
Warrants	<u>155,991</u>	<u>151,708</u>
Total	<u>\$ 62,815,791</u>	<u>\$ 76,888,883</u>

The Society pooled investment funds include ownership interests for National Headquarters and all chapters with reserve balances in excess of working capital requirements. The chapters' ownership in the pooled investment funds amounted to \$27,474,000 and \$29,415,000 as of September 30, 2016 and 2015, respectively. The chapters' ownership interests are reflected as amounts held in custody for chapters on the accompanying consolidated statements of financial position.

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The components of National Headquarters' net investment (losses) gains in the accompanying consolidated statements of activities are as follows for the years ended September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 1,020,380	\$ 970,404
Net realized and unrealized (losses) gains on investments	<u>2,539,267</u>	<u>(3,589,630)</u>
	3,559,647	(2,619,226)
Less: Investment advisory fees	<u>(151,047)</u>	<u>(168,856)</u>
Total	<u>\$ 3,408,600</u>	<u>\$ (2,788,082)</u>

5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consist of the following at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Furniture and fixtures	\$ 627,319	\$ 627,319
Computers	4,367,419	4,085,498
Software	4,768,657	1,580,970
Telephone systems	827,571	827,571
Leasehold improvements	<u>3,254,819</u>	<u>3,254,819</u>
	13,845,785	10,376,177
Less: Accumulated depreciation and amortization	<u>(7,731,139)</u>	<u>(5,868,190)</u>
Software development costs in progress	<u>-</u>	<u>1,557,582</u>
Total	<u>\$ 6,114,646</u>	<u>\$ 6,065,569</u>

6. PENSION PLANS

Prior to January 1, 2016, the Society sponsored both a non-contributory 401(a) and a contributory 403(b) plan in which the National Headquarters staff and certain chapter employees participated in. On January 1, 2016, the Society transitioned from these plans to a 401(k) Safe Harbor Plan for all eligible employees of the Society to which the National Headquarters matches voluntary contributions up to a maximum of 4%. Former chapter 401(k) plans were merged into the new plan and former chapter and National Headquarters 403(b) plans were terminated, giving participants the option of transferring their assets into the new plan. For the fiscal years ended September 30, 2016 and 2015, pension expense was approximately \$2,279,000 and \$579,000, respectively, after application of forfeitures.

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7. LEASES

National Headquarters currently leases offices in New York City, Denver and Washington D.C. under operating leases which expire on December 31, 2021, January 31, 2023, and February 28, 2022, respectively. The terms of the leases include provisions for certain lease concessions and rent escalations at periodic intervals over the terms of the leases.

National Headquarters sublets a portion of its premises in New York City to the New York City – Southern New York Chapter and a portion of its premises in Denver to the Colorado – Wyoming Chapter under non-cancellable sublease agreements. The subleases are co-terminus with the respective leases. As a result of our corporate structure change, effective October 1, 2016 (see Note 1), these subleases were terminated on that date.

Rent expense computed on the straight-line basis, totaled approximately \$2,047,000 for the years ended September 30, 2016 and 2015. Sublease income of approximately \$821,000 and \$782,000 for the years ended September 30, 2016 and 2015, respectively, is included in advertising, program fees, and other revenue in the consolidated statements of activities. National Headquarters recorded a deferred rent liability at September 30, 2016 and 2015 of approximately \$1,827,000 and \$1,950,000, respectively, and a deferred rent receivable at September 30, 2016 and 2015 of approximately \$489,000 and \$526,000, respectively.

Approximate future minimum lease commitments due under property and equipment operating leases and related minimum sublease income are as follows:

<u>Year Ending September 30,</u>	<u>Lease Payments</u>	<u>Sublease Income</u>
2017	\$ 2,244,000	\$ 377,000
2018	2,297,000	377,000
2019	2,321,000	392,000
2020	2,345,000	396,000
2021	2,369,000	396,000
Thereafter	<u>1,515,000</u>	<u>99,078</u>
Total	<u>\$ 13,091,000</u>	<u>\$ 2,037,078</u>

8. RESEARCH AND DEVELOPMENT ACTIVITIES

Research and Fellowship Grants

The Society's program services include funding for research and fellowship projects to be conducted in the future, generally over three to five year periods. These projects are funded by unrestricted net assets and revenue to be generated by National Headquarters and its chapters. Commitments for research and fellowship projects are subject to, among other things, revocation rights by National Headquarters, the continued qualifications of grantees, and the grantees satisfying prior conditions before payment.

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Outstanding future commitments for research and fellowship projects, which are not recorded within grants payable on the accompanying 2016 consolidated statement of financial position, due to their conditional nature, are as follows:

<u>Year Ending September 30,</u>	<u>Research and Fellowships</u>
2017	\$ 22,747,000
2018	10,489,000
2019	2,915,000
2020	<u>1,221,000</u>
Total	<u>\$ 37,372,000</u>

Collaboration Agreement with Merck KGaA

Fast Forward entered into an agreement with Merck KGaA, for the purpose of collaborating on the process of soliciting, evaluating, funding, and managing multiple sclerosis research proposals, leading to an SRA between the selected company (the “Funded Entity”) and Fast Forward, with Merck KGaA as a third-party beneficiary under the SRA, as well as the execution of a third-party agreement between Merck KGaA and the Funded Entity. The agreement had an initial two-year term, which automatically renewed for three successive 12-month periods, unless terminated earlier in accordance therewith.

Under the collaboration agreement, Fast Forward receives an annual management fee of which any unspent amount will be credited against the management fee for the subsequent year or refunded to Merck KGaA should the collaboration terminate under the conditions set forth therein. The agreement expired on December 31, 2015. Approximately \$17,000 and \$347,000 was earned and expended during 2016 and 2015, respectively. These amounts have been recorded as contributions from individuals and foundations, and research and research fellowships program expense in the accompanying consolidated statements of activities and functional expenses

The collaboration agreement further provides that Merck KGaA, subject to certain limitations, funds the research activities established under an SRA executed with the Funded Entity. In addition, Fast Forward provides a matching amount up to 10% of Merck KGaA’s funding, subject to availability of funds.

Collaboration Agreement with Other Not-for-Profit Organizations

Fast Forward entered into a collaboration agreement with two not-for-profit organizations, whereby the organizations agreed to fund Fast Forward’s programs to aid early-stage pharmaceutical and biotechnology companies engaged in the development of innovative therapeutic and/or diagnostic strategies for multiple sclerosis, and programs to facilitate the translation of academic multiple sclerosis research discoveries into commercial development. The agreement allowed Fast Forward to choose the companies or institutions to be funded from funds provided by the organizations.

The agreement expired , but the collaboration will continue until the project is complete or funding is fully spent. Fast Forward expensed funding of \$0 and \$325,000 during fiscal years 2016 and 2015, respectively.

**NATIONAL MULTIPLE SCLEROSIS SOCIETY
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Sponsored Research Agreements

Fast Forward enters into SRAs with selected companies (each a Research and Development company) (“R&D”), and academic institutions engaged in R&D projects aimed at identifying and developing drugs for the treatment of multiple sclerosis. Under the SRAs, Fast Forward agrees to provide funding for specified R&D activities, payable as defined milestones are achieved. Fast Forward funds SRA’s from the public support it receives from donors or through the chapters and National Headquarters, and from other funding entities under collaboration agreements as discussed above. In certain SRAs, Fast Forward received warrants or options to purchase ordinary shares, preferred stock, or common stock, of the respective R&D companies. In addition, certain SRAs entitle Fast Forward to royalties upon the achievement of specified milestones.

There were no warrants received during fiscal 2016 or 2015, and none of the milestones that would require payment of royalties to Fast Forward were achieved.

SRA Fully Funded from Public Support and Collaboration Agreement with Other Not-for-Profit Organizations

As of September 30, 2016, Fast Forward entered into twenty-five SRAs funded by public support and collaboration agreements with other not-for-profit organizations. Total funds available for expenditure to the R&D companies under these SRAs totaled approximately \$1,312,000 and \$2,153,000 in fiscal 2016 and 2015, respectively. Approximately \$1,110,000 and \$1,905,000 was charged to R&D grants expense in 2016 and 2015, respectively, and approximately \$202,000 and \$247,000 was recorded as prepaid expense as of September 30, 2016 and 2015, respectively. Outstanding funding commitments under these SRAs at September 30, 2016 and 2015 totaled approximately \$118,000 and \$1,508,000, respectively, and are expected to be satisfied by fiscal 2017.

SRA Funded Under the Collaboration Agreement with Merck KGaA

As of September 30, 2016, Fast Forward entered into thirteen SRAs pursuant to the terms of the collaboration agreement with Merck KGaA. Total funds available for expenditure to the R&D companies under these SRAs totaled approximately \$155,000 and \$480,000 during fiscal years 2016 and 2015, respectively. Approximately \$155,000 and \$401,000 was charged to R&D grants expense during fiscal years 2016 and 2015, respectively, and approximately \$0 and \$80,000 was recorded as prepaid expense as of September 30, 2016 and 2015, respectively. Outstanding funding commitments under these SRAs at September 30, 2016 and 2015 totaled approximately \$4,000 and \$177,000, respectively, and are expected to be satisfied by fiscal 2017.

**NATIONAL MULTIPLE SCLEROSIS SOCIETY
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9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for research, educational, and other purposes at September 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Research		
Contributions from Others for Research	\$ 1,185,281	\$ 310,251
Ralph I. Strauss Fund	706,391	706,391
Dystel Nursing Fund	827,131	197,478
Research Exploration Fund	27,872	690,651
Alan Buegeleisen Fund	197,478	127,872
FFD - Hilton Funds	817,179	1,100,000
Educational and other		
Charitable Gift Annuities	-	330,986
Corporate Sponsorships	793,939	433,856
Unappropriated investment income of permanently restricted net assets	<u>572,973</u>	<u>510,572</u>
Total	<u>\$ 5,128,244</u>	<u>\$ 4,408,057</u>

During fiscal year 2016 and 2015, net assets were released following satisfaction of donor restrictions as follows:

	<u>2016</u>	<u>2015</u>
Research	\$ 5,043,369	\$ 14,075,426
Education and other	<u>2,617,131</u>	<u>2,647,243</u>
Total	<u>\$ 7,660,500</u>	<u>\$ 16,722,669</u>

10. PERMANENTLY RESTRICTED NET ASSETS

National Headquarters permanently restricted net assets or endowments consist of funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions, if any.

Interpretation of Relevant Law

The State of New York passed the New York Prudent Management of Institutional Funds Act (“NYPMIFA”), its version of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”). All not-for-profit organizations formed in New York must apply this law.

**NATIONAL MULTIPLE SCLEROSIS SOCIETY
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National Headquarters classifies as permanently restricted net assets: (a) the original value of gifts donated to its permanent endowment, (b) the original value of subsequent gifts to its permanent endowment, and (c) accumulations to its 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 classified as temporarily restricted net assets until such amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by NYPMIFA. In the event prudent Board appropriations or investment losses on the endowment fund reduce the assets of the endowment funds below the permanently restricted net asset amount required to be maintained by law or donor stipulation, such declines are charged to the unrestricted fund and subsequent future investment income or gains that restore the fair value of the assets of the endowment fund to the required level are classified as increases in unrestricted net assets.

In accordance with NYPMIFA, National Headquarters considers the following factors in making a determination to appropriate for expenditure or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the endowment fund
- (2) General purposes of the organization and its donor-restricted endowment fund
- (3) General economic conditions
- (4) Possible effect of inflation and deflation
- (5) Expected total return from income and appreciation of endowment investments
- (6) Other resources of the organization
- (7) The investment policy of the organization, and
- (8) Where appropriate, alternatives to spending from donor-restricted endowment funds and the possible effects on National Headquarters

National Headquarters endowment consists of the following donor-restricted endowment funds as of September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Unrestricted Operating Purposes		
Alexander Endowment Fund	\$ 20,000	\$ 20,000
Breed Endowment Fund	351,921	351,921
Restricted for Research, Educational and Other		
Donor Student Scholarship Endowment Fund	15,500	15,500
Fasutino Endowment Fund	204,564	204,564
Stepping Stone Endowment Fund	1,000,000	1,000,000
Dystel Nursing Fund	<u>300,000</u>	<u>300,000</u>
Total	<u>\$ 1,891,985</u>	<u>\$ 1,891,985</u>

**NATIONAL MULTIPLE SCLEROSIS SOCIETY
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Notes to Consolidated Financial Statements
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Return Objectives and Risk Parameters

The Society's endowment fund consists of assets that must be held in perpetuity or for specified time periods stipulated by the donors. National Headquarters maintains investment and spending policies for its endowment assets aimed at providing predictable and steady support for the Society's research, 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.

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 Society may range from a minimum of 0% to a maximum of 7%. The Investment Committee will approve the annual spending rate which 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. For the fiscal years ended September 30, 2016 and 2015, the Investment Committee did not appropriate any amounts for spending.

The following summarizes the activity of the endowment fund assets for the fiscal years ended September 30, 2016 and 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Year ended September 30, 2014	\$ -	\$ 692,393	\$ 1,891,985	\$ 2,584,378
Investment loss	-	(181,821)	-	(181,821)
Year ended September 30, 2015	-	510,572	1,891,985	2,402,557
Investment gain	-	62,402	-	62,402
Year ended September 30, 2016	<u>\$ -</u>	<u>\$ 572,974</u>	<u>\$ 1,891,985</u>	<u>\$ 2,464,959</u>

SUPPLEMENTARY INFORMATION

**NATIONAL MULTIPLE SCLEROSIS SOCIETY
(NATIONAL HEADQUARTERS) AND AFFILIATE**
Consolidating Schedule of Financial Position
As of September 30, 2016

	National Headquarters	Fast Forward LLC	Eliminations	Consolidated
ASSETS				
Cash and cash equivalents	\$ 33,965,991	\$ -	\$ -	\$ 33,965,991
Contributions receivable, net	210,251	-	-	210,251
Contributions receivable due from chapters, net	2,767,192	-	-	2,767,192
Contributions receivable due from Fast Forward	4,072,214	-	(4,072,214)	-
Deferred rent receivable	488,786	-	-	488,786
Prepaid expenses	2,099,368	201,915	-	2,301,283
Other assets	1,559,124	-	-	1,559,124
Investments	31,146,028	1,493,169	-	32,639,197
Investments held in custody for chapters	27,474,202	-	-	27,474,202
Investments related to charitable gift annuities	2,702,392	-	-	2,702,392
Beneficial interest in trust	91,116	-	-	91,116
Property and equipment, net	<u>6,114,646</u>	<u>-</u>	<u>-</u>	<u>6,114,646</u>
Total assets	<u>\$ 112,691,310</u>	<u>\$ 1,695,084</u>	<u>\$ (4,072,214)</u>	<u>\$ 110,314,180</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable and accrued expenses	\$ 5,316,975	\$ -	\$ -	\$ 5,316,975
Grants payable	45,255,779	-	-	45,255,779
Funds held for <i>Progressive MS Alliance</i>	2,676,470	-	-	2,676,470
Deferred revenue	215,000	-	-	215,000
Deferred rent	1,827,545	-	-	1,827,545
Amounts held in custody for chapters	27,474,202	-	-	27,474,202
Due to chapters	1,425,474	-	-	1,425,474
Due to National Multiple Sclerosis Society	-	4,072,214	(4,072,214)	-
Liability to annuitants	<u>2,093,996</u>	<u>-</u>	<u>-</u>	<u>2,093,996</u>
Total liabilities	<u>86,285,441</u>	<u>4,072,214</u>	<u>(4,072,214)</u>	<u>86,285,441</u>
NET ASSETS				
Unrestricted	20,202,819	(3,194,309)	-	17,008,510
Temporarily restricted	4,311,065	817,179	-	5,128,244
Permanently restricted	<u>1,891,985</u>	<u>-</u>	<u>-</u>	<u>1,891,985</u>
Total net assets	<u>26,405,869</u>	<u>(2,377,130)</u>	<u>-</u>	<u>24,028,739</u>
Total liabilities and net assets	<u>\$ 112,691,310</u>	<u>\$ 1,695,084</u>	<u>\$ (4,072,214)</u>	<u>\$ 110,314,180</u>

This schedule should be read in conjunction with the accompanying report of independent certified public accountants and the consolidated financial statements and notes thereto.

**NATIONAL MULTIPLE SCLEROSIS SOCIETY
(NATIONAL HEADQUARTERS) AND AFFILIATE**
Consolidating Schedule of Activities
For the year ended September 30, 2016

	<u>National Headquarters</u>	<u>Fast Forward LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>
PUBLIC SUPPORT AND OTHER REVENUE				
PUBLIC SUPPORT				
Contributions from chapters	\$ 88,898,565	\$ -	\$ -	\$ 88,898,565
Contributions from individuals and foundations	<u>29,853,206</u>	<u>304,171</u>	<u>-</u>	<u>30,157,377</u>
Total public support	<u>118,751,771</u>	<u>304,171</u>	<u>-</u>	<u>119,055,942</u>
OTHER REVENUE				
Advertising, program fees, and other revenue	5,112,338	-	-	5,112,338
Investment return, net	<u>2,514,572</u>	<u>894,028</u>	<u>-</u>	<u>3,408,600</u>
Total other revenue	<u>7,626,910</u>	<u>894,028</u>	<u>-</u>	<u>8,520,938</u>
Total revenue	<u>126,378,681</u>	<u>1,198,199</u>	<u>-</u>	<u>127,576,880</u>
EXPENSES				
PROGRAM SERVICES				
Research and research fellowships	49,394,953	1,554,115	-	50,949,068
Client and community services	10,990,572	-	-	10,990,572
Professional education and training	2,874,314	-	-	2,874,314
Public education	19,578,223	-	-	19,578,223
Services to chapters	<u>27,149,840</u>	<u>-</u>	<u>-</u>	<u>27,149,840</u>
Total program services	<u>109,987,902</u>	<u>1,554,115</u>	<u>-</u>	<u>111,542,017</u>
SUPPORTING SERVICES				
Fundraising	7,355,203	-	-	7,355,203
Management and general	<u>11,054,436</u>	<u>-</u>	<u>-</u>	<u>11,054,436</u>
Total supporting services	<u>18,409,639</u>	<u>-</u>	<u>-</u>	<u>18,409,639</u>
Total expenses	<u>128,397,541</u>	<u>1,554,115</u>	<u>-</u>	<u>129,951,656</u>
Changes in net assets	<u>(2,018,860)</u>	<u>(355,916)</u>	<u>-</u>	<u>(2,374,776)</u>
Net assets, beginning of year	<u>28,424,729</u>	<u>(2,021,214)</u>	<u>-</u>	<u>26,403,515</u>
Net assets, end of year	<u>\$ 26,405,869</u>	<u>\$ (2,377,130)</u>	<u>\$ -</u>	<u>\$ 24,028,739</u>

This schedule should be read in conjunction with the accompanying report of independent certified public accountants and the consolidated financial statements and notes thereto.