

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

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

September 30, 2013 and 2012

National Multiple Sclerosis Society (National Headquarters) and Affiliate

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees

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 statement of financial position as of September 30, 2013, and the related consolidated statements of activities, cash flows and functional expenses for the year 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 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform 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 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 aspects, the consolidated financial position of National Multiple Sclerosis Society (National Headquarters) and Affiliate as of September 30, 2013, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of National Multiple Sclerosis Society (National Headquarters) and Affiliate as of and for the year ended September 30, 2012 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2012 consolidated financial statements in their report dated April 15, 2013.

Supplementary Information

Our audit was conducted for the purposes of forming an opinion on the basic 2013 consolidated financial statements of National Headquarters as of and for the year ended September 30, 2013, taken as a whole. The supplementary information included on pages 29 and 30 is presented for purposes of additional analysis and is not a required part of the 2013 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 2013 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2013 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 2013 consolidated financial statements or to the 2013 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 2013 consolidated financial statements as a whole.



New York, New York
June 23, 2014

**National Multiple Sclerosis Society
(National Headquarters) and Affiliate
Consolidated Statements of Financial Position
As of September 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and cash equivalents	\$ 29,943,135	\$ 30,915,308
Contributions receivable, net	711,721	133,416
Contributions receivable due from chapters, net of allowance of approximately \$1,909,000 and \$2,048,000 for 2013 and 2012, respectively	4,941,106	6,509,528
Deferred rent receivable	450,295	390,000
Prepaid expenses and other assets	7,971,747	3,000,391
Investments	38,464,402	32,523,212
Beneficial interest in trust	114,612	116,832
Property and equipment, net	<u>4,454,106</u>	<u>4,831,720</u>
Total assets	<u>\$ 87,051,124</u>	<u>\$ 78,420,407</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 8,444,803	\$ 7,798,841
Grants payable	39,460,258	36,251,123
Deferred revenue	955,887	566,011
Deferred rent	2,096,410	1,891,306
Due to chapters	6,485,895	4,414,772
Liability to annuitants	<u>2,332,850</u>	<u>2,358,096</u>
Total liabilities	<u>59,776,103</u>	<u>53,280,149</u>
NET ASSETS		
Unrestricted	22,080,213	15,360,468
Temporarily Restricted	3,052,823	6,134,957
Permanently Restricted	<u>2,141,985</u>	<u>3,644,833</u>
Total net assets	<u>27,275,021</u>	<u>25,140,258</u>
Total liabilities and net assets	<u>\$ 87,051,124</u>	<u>\$ 78,420,407</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, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND OTHER REVENUE				
PUBLIC SUPPORT				
Contributions from chapters	\$ 69,545,759	\$ 5,415,629	\$ -	\$ 74,961,388
Contributions for research and development	-	2,789,210	-	2,789,210
Contributions from individuals and foundations (includes donated public service announcements of approximately \$30,634,000)	49,868,725	2,972,768	-	52,841,493
Federal Service Campaign for National Health Agencies	5,845	-	-	5,845
Total public support	<u>119,420,329</u>	<u>11,177,607</u>	<u>-</u>	<u>130,597,936</u>
OTHER REVENUE				
Advertising, program fees, and other revenue	2,270,175	28,480	-	2,298,655
Investment return	<u>4,091,028</u>	<u>506,589</u>	<u>-</u>	<u>4,597,617</u>
Total other revenue	<u>6,361,203</u>	<u>535,069</u>	<u>-</u>	<u>6,896,272</u>
Net assets released from restrictions and reclassifications	14,681,477	(14,981,477)	300,000	-
Re-designation of net assets by donor	<u>1,616,181</u>	<u>186,667</u>	<u>(1,802,848)</u>	<u>-</u>
Total revenue	<u>142,079,190</u>	<u>(3,082,134)</u>	<u>(1,502,848)</u>	<u>137,494,208</u>
EXPENSES				
PROGRAM SERVICES				
Research and research fellowships	48,453,715	-	-	48,453,715
Client and community services	11,187,609	-	-	11,187,609
Professional education and training	773,357	-	-	773,357
Public education (includes donated public service announcements of approximately \$30,634,000)	36,544,891	-	-	36,544,891
Services to chapters	<u>22,057,435</u>	<u>-</u>	<u>-</u>	<u>22,057,435</u>
Total program services	<u>119,017,007</u>	<u>-</u>	<u>-</u>	<u>119,017,007</u>
SUPPORTING SERVICES				
Fundraising	6,454,769	-	-	6,454,769
Management and general	<u>9,820,162</u>	<u>-</u>	<u>-</u>	<u>9,820,162</u>
Total supporting services	<u>16,274,931</u>	<u>-</u>	<u>-</u>	<u>16,274,931</u>
Payments to chapters	<u>67,507</u>	<u>-</u>	<u>-</u>	<u>67,507</u>
Total expenses	<u>135,359,445</u>	<u>-</u>	<u>-</u>	<u>135,359,445</u>
Changes in net assets	6,719,745	(3,082,134)	(1,502,848)	2,134,763
Net assets, beginning of year	<u>15,360,468</u>	<u>6,134,957</u>	<u>3,644,833</u>	<u>25,140,258</u>
Net assets, end of year	<u>\$ 22,080,213</u>	<u>\$ 3,052,823</u>	<u>\$ 2,141,985</u>	<u>\$ 27,275,021</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, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND OTHER REVENUE				
PUBLIC SUPPORT				
Contributions from chapters	\$ 72,037,787	\$ 3,301,860	\$ -	\$ 75,339,647
Contributions for research and development	-	1,581,779	-	1,581,779
Contributions from individuals and foundations (includes donated public service announcements of approximately \$4,063,000)	24,524,466	233,688	-	24,758,154
Federal Service Campaign for National Health Agencies	16,080	-	-	16,080
Total public support	<u>96,578,333</u>	<u>5,117,327</u>	<u>-</u>	<u>101,695,660</u>
OTHER REVENUE				
Advertising, program fees, and other revenue	3,132,282	-	-	3,132,282
Investment return	1,109,582	201,386	-	1,310,968
Total other revenue	<u>4,241,864</u>	<u>201,386</u>	<u>-</u>	<u>4,443,250</u>
Net assets released from restrictions	6,550,092	(6,450,092)	(100,000)	-
Total revenue	<u>107,370,289</u>	<u>(1,131,379)</u>	<u>(100,000)</u>	<u>106,138,910</u>
EXPENSES				
PROGRAM SERVICES				
Research and research fellowships	43,255,235	-	-	43,255,235
Client and community services	9,083,351	-	-	9,083,351
Professional education and training	1,997,952	-	-	1,997,952
Public education (includes donated public service announcements of approximately \$4,063,000)	8,506,966	-	-	8,506,966
Services to chapters	23,566,071	-	-	23,566,071
Total program services	<u>86,409,575</u>	<u>-</u>	<u>-</u>	<u>86,409,575</u>
SUPPORTING SERVICES				
Fundraising	7,745,953	-	-	7,745,953
Management and general	7,474,271	-	-	7,474,271
Total supporting services	<u>15,220,224</u>	<u>-</u>	<u>-</u>	<u>15,220,224</u>
Payments to chapters	3,830,709	-	-	3,830,709
Total expenses	<u>105,460,508</u>	<u>-</u>	<u>-</u>	<u>105,460,508</u>
Changes in net assets	1,909,781	(1,131,379)	(100,000)	678,402
Net assets, beginning of year	13,450,687	7,266,336	3,744,833	24,461,856
Net assets, end of year	<u>\$ 15,360,468</u>	<u>\$ 6,134,957</u>	<u>\$ 3,644,833</u>	<u>\$ 25,140,258</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, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 2,134,763	\$ 678,402
<i>Adjustments to reconcile changes in net assets to net cash provided by operations:</i>		
Provision for (credit) doubtful accounts	232,765	(1,845,795)
Net realized and unrealized gains on investments	(4,105,443)	(656,813)
Depreciation and amortization	1,569,753	1,888,426
Change in value of beneficial interest in trust	2,220	(23,681)
Deferred rent	144,809	(371,695)
<i>Changes in:</i>		
Contributions receivable	(578,305)	378,239
Contributions receivable due from chapters	1,335,657	3,597,163
Prepaid expenses and other assets	(4,971,356)	701,478
Accounts payable and accrued expenses	645,962	(1,062,822)
Grants payable	3,209,135	2,132,801
Deferred revenue	389,876	(100,287)
Due to chapters	2,071,123	438,549
Liability to annuitants	<u>(25,246)</u>	<u>7,180</u>
Net cash provided by operating activities	<u>2,055,713</u>	<u>5,761,145</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of furniture and equipment	(1,192,139)	(1,390,484)
Purchase of investments	(21,419,053)	(908,758)
Proceeds from sales of investments	<u>19,583,306</u>	<u>411,282</u>
Net cash used in investing activities	<u>(3,027,886)</u>	<u>(1,887,960)</u>
Net (decrease) increase in cash and cash equivalents	(972,173)	3,873,185
Cash and cash equivalents, beginning of year	<u>30,915,308</u>	<u>27,042,123</u>
Cash and cash equivalents, end of year	<u>\$ 29,943,135</u>	<u>\$ 30,915,308</u>

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

**National Multiple Sclerosis Society
(National Headquarters) and Affiliate
Consolidated Statement of Functional Expenses
For the year ended September 30, 2013**

	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	Payments to Chapters	
Research and Fellowship Grants	\$ 43,624,784	\$ -	\$ -	\$ -	\$ -	\$ 43,624,784	\$ -	\$ -	\$ -	\$ -	\$ 43,624,784
Payments to Chapters	-	-	-	-	-	-	-	-	-	67,507	67,507
<i>Expenses</i>											
Salaries	1,928,054	4,344,667	350,095	1,860,949	8,872,431	17,356,196	676,778	2,630,123	3,306,901	-	20,663,097
Retirement and Health Insurance Benefits	277,053	1,002,952	61,851	294,941	1,345,489	2,982,286	105,410	372,084	477,494	-	3,459,780
Payroll Taxes	117,083	291,515	23,299	166,238	623,176	1,221,311	45,577	184,839	230,416	-	1,451,727
Total salaries and related expenses	2,322,190	5,639,134	435,245	2,322,128	10,841,096	21,559,793	827,765	3,187,046	4,014,811	-	25,574,604
Travel	389,315	273,495	23,802	231,300	900,636	1,818,548	90,461	219,481	309,942	-	2,128,490
Professional Fees and Contract Services Payments	1,257,260	513,579	112,982	1,022,216	6,787,451	9,693,488	1,766,657	2,608,292	4,374,949	-	14,068,437
Donated Public Service Announcements	-	-	-	30,634,377	-	30,634,377	-	-	-	-	30,634,377
Printing and Stationary	71,322	328,688	34,741	956,576	325,048	1,716,375	2,101,719	1,761,071	3,862,790	-	5,579,165
Dues, Subscriptions and Reprints	58,028	16,659	4,932	62,943	221,217	363,779	48,045	131,920	179,965	-	543,744
Office Supplies	8,176	52,085	2,776	29,647	102,176	194,860	3,577	21,516	25,093	-	219,953
Rent and Electricity	341,417	1,029,224	57,004	211,959	969,461	2,609,065	67,032	292,847	359,879	-	2,968,944
Insurance	96,774	438,370	24,402	102,345	507,976	1,169,867	35,230	101,578	136,808	-	1,306,675
Postage, Trucking and Delivery	31,360	138,772	21,314	597,003	218,463	1,006,912	1,334,248	1,113,101	2,447,349	-	3,454,261
Telephone	13,356	79,320	3,345	20,984	66,821	183,826	5,087	17,539	22,626	-	206,452
Conferences and Meetings	87,102	126,232	15,622	193,439	326,237	748,632	63,217	118,355	181,572	-	930,204
Specific Assistance to Individuals and Clinics	-	1,832,238	-	-	-	1,832,238	-	-	-	-	1,832,238
Awards and Prizes	31,484	179,608	6,276	6,763	37,936	262,067	7,515	8,032	15,547	-	277,614
Depreciation and amortization	109,415	498,658	26,553	115,677	619,617	1,369,920	42,954	156,879	199,833	-	1,569,753
Sundry	11,732	41,547	4,363	37,534	133,300	228,476	61,262	82,505	143,767	-	372,243
Total expenses	2,506,741	5,548,475	338,112	34,222,763	11,216,339	53,832,430	5,627,004	6,633,116	12,260,120	-	66,092,550
Total grants, expenses and payments to chapters	\$ 48,453,715	\$ 11,187,609	\$ 773,357	\$ 36,544,891	\$ 22,057,435	\$ 119,017,007	\$ 6,454,769	\$ 9,820,162	\$ 16,274,931	\$ 67,507	\$ 135,359,445

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, 2012**

	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	Payments to Chapters	
Research and Fellowship Grants	\$ 38,348,183	\$ -	\$ -	\$ -	\$ -	\$ 38,348,183	\$ -	\$ -	\$ -	\$ -	\$ 38,348,183
Payments to Chapters	-	-	-	-	-	-	-	-	-	3,830,709	3,830,709
<i>Expenses</i>											
Salaries	1,628,624	3,764,857	667,592	1,544,095	9,134,511	16,739,679	464,818	2,369,135	2,833,953	-	19,573,632
Retirement and Health Insurance Benefits	233,268	888,313	111,801	236,107	1,399,260	2,868,749	66,675	347,712	414,387	-	3,283,136
Payroll Taxes	117,216	301,983	46,968	108,896	633,094	1,208,157	32,006	163,133	195,139	-	1,403,296
Total salaries and related expenses	1,979,108	4,955,153	826,361	1,889,098	11,166,865	20,816,585	563,499	2,879,980	3,443,479	-	24,260,064
Travel	393,286	197,256	98,850	142,867	1,144,465	1,976,724	51,559	244,977	296,536	-	2,273,260
Professional Fees and Contract Services Payments	1,401,514	367,975	166,098	783,034	6,735,467	9,454,088	1,658,198	1,762,836	3,421,034	-	12,875,122
Donated Public Service Announcements	-	-	-	4,063,472	-	4,063,472	-	-	-	-	4,063,472
Printing and Stationary	99,776	526,645	133,172	458,072	290,609	1,508,274	2,713,100	794,169	3,507,269	-	5,015,543
Dues, Subscriptions and Reprints	98,426	16,918	10,414	97,772	236,592	460,122	388,978	184,302	573,280	-	1,033,402
Office Supplies	8,652	48,454	3,835	11,647	55,222	127,810	2,607	14,581	17,188	-	144,998
Rent and Electricity	303,019	503,079	122,021	161,328	1,008,304	2,097,751	45,690	273,117	318,807	-	2,416,558
Insurance	16,696	71,251	7,852	16,836	113,309	225,944	4,986	26,537	31,523	-	257,467
Rent and Electrician	46,077	345,490	48,854	345,768	188,286	974,475	2,085,237	601,314	2,686,551	-	3,661,026
Telephone	107,956	400,581	57,998	96,396	645,630	1,308,561	27,626	153,695	181,321	-	1,489,882
Conferences and Meetings	126,528	154,330	38,575	147,101	551,927	1,018,461	37,736	149,040	186,776	-	1,205,237
Specific Assistance to Individuals & Clinics	95,279	582,707	329,049	72,998	138,594	1,218,627	13,738	36,171	49,909	-	1,268,536
Awards and Prizes	32,366	96,954	53,566	13,251	45,336	241,473	3,301	10,912	14,213	-	255,686
Depreciation and amortization	132,264	564,299	62,677	131,665	772,166	1,663,071	35,383	189,972	225,355	-	1,888,426
Sundry	66,105	252,259	38,630	75,661	473,299	905,954	114,315	152,668	266,983	-	1,172,937
Total expenses	2,927,944	4,128,198	1,171,591	6,617,868	12,399,206	27,244,807	7,182,454	4,594,291	11,776,745	-	39,021,552
Total grants, expenses and payments to chapters	\$ 43,255,235	\$ 9,083,351	\$ 1,997,952	\$ 8,506,966	\$ 23,566,071	\$ 86,409,575	\$ 7,745,953	\$ 7,474,271	\$ 15,220,224	\$ 3,830,709	\$ 105,460,508

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, 2013 and 2012**

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 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, last year alone, invested over \$48 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.

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.

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 National Headquarters and Fast Forward and changes therein are classified and reported as follows:

**National Multiple Sclerosis Society
(National Headquarters) and Affiliate
Notes to Consolidated Financial Statements
September 30, 2013 and 2012**

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 11).

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 statement of activities as net assets released from restrictions.

Conditional contributions are recognized as revenue when the conditions on which they depend are all or substantially met. At September 30, 2012, National Headquarters had conditional contributions of \$450,000. The conditional contributions as of September 30, 2012, consisted of amounts expected to be received under a collaboration agreement with certain not-for-profit organizations. The Society recognized the full \$450,000 as contribution revenue in fiscal 2013.

Legacies and bequests are recognized when an unassailable right to the gift has been established by the court and the proceeds are measurable.

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 received.

Fast Forward receives contributions under separate collaboration agreements with a pharmaceutical company and another not-for-profit organization 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. Contributions 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 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 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 rehab, 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 the National Headquarters and more.

Services to Chapters - Include costs incurred by the 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.

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Research Grants

Research grants are recognized in accordance with defined payment schedules, and as the related conditions 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 criteria, 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 ("SRAs") (see Note 8) are recognized as an expense, as services or R&D activities are 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 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. In fiscal year 2013 and 2012, National Headquarters incurred joint costs of approximately \$10,528,000 and \$9,087,000, respectively, for information materials and activities that included fundraising appeals.

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

	<u>2013</u>	<u>2012</u>
Fundraising	\$ 4,821,000	\$ 6,674,000
Management and General	3,938,000	1,781,000
Public Education	<u>1,769,000</u>	<u>632,000</u>
Total	<u>\$ 10,528,000</u>	<u>\$ 9,087,000</u>

Concentration of Credit Risk

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

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, 2013 and 2012, 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, 2013 and 2012, National Headquarters contributions receivable, net, consist approximately of the following:

	<u>2013</u>	<u>2012</u>
Amounts expected to be collected:		
In less than one year	\$ 328,344	\$ 133,416
One to four years	<u>400,000</u>	<u>-</u>
	728,344	133,416
Less: Discount to present value	<u>(16,623)</u>	<u>-</u>
	<u>\$ 711,721</u>	<u>\$ 133,416</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. The amounts received from chapters under this calculation for the years ended September 30, 2013 and 2012 approximated \$70,020,000 and \$64,969,000, respectively. Total contributions from chapters for the years ended September 30, 2013 and 2012 approximated \$74,961,000 and \$75,340,000, respectively.

Investments and Investment Return

Investments in mutual funds and equity securities are reported at fair value, which is based on published unit values or quoted market prices in active markets as of the reporting date. Investments in debt securities are carried at their fair value, which are 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 by the Board in accordance with National Headquarters' spending rate policy.

Split-Interest Agreements and Beneficial Interest in Trusts

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

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Headquarters' policy to allocate 100% of the residual assets, excluding amounts restricted for research, to the chapter stipulated by the donor as the beneficiary.

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 the annuitant 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, 2013 and 2012 totaled approximately \$2,333,000 and \$2,358,000, 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 \$1,164,000 and \$1,154,000, at September 30, 2013 and 2012, respectively.

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, 2013 and 2012 totaled approximately \$115,000 and \$117,000, respectively.

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.

In-Kind Donated Services

National Headquarters' received donated print, radio and television public service announcements of approximately \$30,634,000 and \$4,063,000 for the years ended September 30, 2013 and 2012, respectively. Such amounts, which are based upon information provided by third-party media services, are recorded at the estimated fair value on the date of contribution and are reported as contributions from others 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 \$552,000 and \$404,000, respectively, for the years ended September 30, 2013 and 2012. Such amounts are recorded at the estimated fair value at the date of contribution and are reported as contributions from others and expenses on the accompanying consolidated statements of activities and functional expenses.

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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.

Rent Expense

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

Accounting for Uncertainty in Income Taxes

Guidance in the area of "Accounting for Uncertainty in Income Taxes" under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification, 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 2010, 2011, 2012 and 2013 are still 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.

Reclassification

Certain amounts in the 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation. Such reclassifications did not change total assets, liabilities, revenues or expenses or changes in net assets as reflected on the 2012 consolidated financial statements.

Subsequent Events

National Headquarters has evaluated subsequent events through June 23, 2014, the date the consolidated financial statements were available for issuance.

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.

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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.

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.

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The following table provides the fair value hierarchy of National Headquarters' financial instruments as of September 30, 2013 and 2012:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
September 30, 2013				
<i>Cash equivalents*</i>	\$ 19,674,560	\$ -	\$ -	\$ 19,674,560
<i>Investments</i>				
Cash and cash equivalents	6,662,721	-	-	6,662,721
Certificate of Deposit	-	250,000	-	250,000
Equities	18,821,984	35,000	-	18,856,984
Fixed Income:				
Asset Back Securities	713,454	-	-	713,454
Mutual Funds	9,355,247	-	-	9,355,247
Govt. Securities and Agency Bonds	-	1,433,014	-	1,433,014
Preferred Securities	65,965	-	-	65,965
Broad Commodities	784,327	-	-	784,327
Other Investments	-	-	4,000	4,000
Warrants	-	-	338,690	338,690
Total Investments	36,403,698	1,718,014	342,690	38,464,402
<i>Beneficial Interest in trust</i>	-	-	114,612	114,612
Total	<u>\$ 56,078,258</u>	<u>\$ 1,718,014</u>	<u>\$ 457,302</u>	<u>\$ 58,253,574</u>
	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
September 30, 2012				
<i>Cash equivalents*</i>	\$ 19,769,409	\$ -	\$ -	\$ 19,769,409
<i>Investments</i>				
Cash and cash equivalents	4,288,507	-	-	4,288,507
Certificate of Deposit	-	250,000	-	250,000
Equities	16,436,210	-	-	16,436,210
Fixed Income:				
Asset Back Securities	2,410,005	-	-	2,410,005
Mutual Funds	5,770,392	-	-	5,770,392
Govt. Securities and Agency Bonds	-	1,403,067	-	1,403,067
Preferred Securities	29,181	-	-	29,181
Broad Commodities	1,128,777	-	-	1,128,777
Other Investments	-	-	6,000	6,000
Warrants	-	-	801,073	801,073
Total Investments	30,063,072	1,653,067	807,073	32,523,212
<i>Beneficial Interest in trust</i>	-	-	116,832	116,832
Total	<u>\$ 49,832,481</u>	<u>\$ 1,653,067</u>	<u>\$ 923,905</u>	<u>\$ 52,409,453</u>

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

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

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:

	<u>Warrants</u>	<u>Beneficial Interests in Trust</u>	<u>Other</u>	<u>Total</u>
Balance September 30, 2011	\$1,737,950	\$ 93,151	\$ 6,076	\$1,837,177
Change in fair values	<u>(936,877)</u>	<u>23,681</u>	<u>(76)</u>	<u>(913,272)</u>
Balance September 30, 2012	<u>\$ 801,073</u>	<u>\$ 116,832</u>	<u>\$ 6,000</u>	<u>\$ 923,905</u>
Proceeds from maturity of bond	-	-	(2,000)	(2,000)
Proceeds from warrants exercised	(32,000)	-	-	(32,000)
Loss from conversion of stock warrants	(315,000)	-	-	(315,000)
Change in fair values	<u>(115,383)</u>	<u>(2,220)</u>	<u>-</u>	<u>(117,603)</u>
Balance September 30, 2013	<u>\$ 338,690</u>	<u>\$ 114,612</u>	<u>\$ 4,000</u>	<u>\$ 457,302</u>

In fiscal 2013, the Society exercised certain stock warrants. The Society recorded a net realized gain from the exercised stock warrants of approximately \$2,679,000 which is included in investment return on the 2013 accompanying consolidated statement of activities. In addition, the Society recorded a receivable associated with funds due as of September 30, 2013 in relation to exercised stock warrants of approximately \$3,026,000, which is included in prepaid expenses and other assets on the accompanying 2013 consolidated statement of financial position.

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4. INVESTMENTS

National Headquarters' investments at September 30, 2013 and 2012 consist of the following:

	2013	2012
	Fair Value	Fair Value
Cash and Cash Equivalents	\$ 6,662,721	\$ 4,288,507
Certificate of Deposit	250,000	250,000
Equities	18,856,984	16,436,210
Fixed Income	11,567,680	9,612,645
Broad Commodities	784,327	1,128,777
Other Investments	4,000	6,000
Warrants	338,690	801,073
Total	<u>\$ 38,464,402</u>	<u>\$ 32,523,212</u>

Investments include ownership interests for pooled investment funds pertaining to certain chapters, which amounted to approximately \$4,568,000 and \$4,090,000 as of September 30, 2013 and 2012, respectively. The chapters' ownership interests are reflected as due to chapters on the accompanying consolidated statements of financial position.

The components of National Headquarters' net investment gains (losses) in the accompanying consolidated statements of activities are as follows for the years ended September 30, 2013 and 2012:

	2013	2012
Interest and dividends	\$ 626,821	\$ 817,907
Net realized and unrealized gains on investments	4,105,443	656,813
	4,732,264	1,474,720
Less: Investment advisory fees	(134,647)	(163,752)
Total	<u>\$ 4,597,617</u>	<u>\$ 1,310,968</u>

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5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consist of the following at September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Furniture and Fixtures	\$ 1,959,476	\$ 1,881,763
Equipment	178,107	178,107
Computers	31,626,456	31,143,772
Software	750,801	-
Telephone Systems	1,522,082	1,563,429
Leasehold Improvements	<u>2,370,123</u>	<u>2,315,455</u>
	38,407,045	37,082,526
Less: Accumulated depreciation and amortization	<u>(33,952,939)</u>	<u>(32,250,806)</u>
Property and equipment, net	<u>\$ 4,454,106</u>	<u>\$ 4,831,720</u>

6. PENSION PLANS

National Headquarters maintains a non-contributory defined contribution retirement plan covering all eligible employees of National Headquarters and participating chapters. Employer contributions to the plan are determined and authorized by the President and Chief Executive Officer of the Society. A contribution of 3% was authorized for fiscal years ended September 30, 2013 and 2012, resulting in pension expense of approximately \$480,000 and \$496,000, respectively, after utilization of forfeitures.

In addition, National Headquarters also sponsors a defined contribution retirement plan that covers all eligible employees of National Headquarters and participating chapters of which National Headquarters does not match voluntary contributions to the plan.

7. LEASES

National Headquarters currently leases offices in New York City, Denver and Washington D.C. under operating leases expiring on December 31, 2021, January 31, 2023, and April 30, 2014, respectively. The terms of the leases include provisions for certain lease concessions and rent escalations at periodic intervals over the lives of the leases.

National Headquarters sublets a portion of its premises in New York City to the New York City Chapter and a portion of its premises in Denver to the Colorado Chapter under non-cancellable sublease agreements. The subleases are co-terminus with the respective leases.

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Rent expense computed on the straight-line basis, totaled approximately \$1,992,000 and \$2,739,000 for the years ended September 30, 2013 and 2012, respectively. Sublease income of approximately \$518,000 and \$536,000 for the years ended September 30, 2013 and 2012, 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, 2013 and 2012 of approximately \$2,096,000 and \$1,891,000, respectively, and a deferred rent receivable at September 30, 2013 and 2012 of approximately \$450,000 and \$390,000, respectively.

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

Year Ending September 30th	Lease Payments	Sublease Income
2014	\$ 2,062,000	\$ 433,000
2015	2,020,000	439,000
2016	2,022,000	444,000
2017	2,111,000	468,000
2018	2,161,000	479,000
Thereafter	8,059,000	1,775,000
Total	\$ 18,435,000	\$ 4,038,000

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.

Commitments for research and fellowship projects approved for funding in fiscal 2014 have been recorded as of September 30, 2013, and are included in grants payable in the accompanying 2013 consolidated statement of financial position.

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Outstanding future commitments beyond fiscal 2014 for research and fellowship projects which are not recorded within grants payable on the accompanying 2013 statement of financial position, due to the conditional nature of the payments, are as follows:

<u>Year Ending September 30th</u>	<u>Research and Fellowships</u>
2015	\$ 16,005,000
2016	7,825,000
2017	1,502,000
2018	580,000
Total	<u>\$ 25,912,000</u>

Collaboration Agreement with Merck KGaA

During fiscal 2009, 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 and 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 was renewed during fiscal year 2013 with a management fee of \$700,000, which was received net of approximately \$195,000 of unspent prior year’s management fees. Approximately \$227,000 and \$616,000 was earned and expended in during 2013 and 2012, respectively. These amounts have been recorded as contributions for research and development, and research and research fellowships program expense in the accompanying consolidated statements of activities and functional expenses. The unspent portion of the fees, which amounted to approximately \$473,000 and \$334,000 at September 30, 2013 and 2012, respectively, is reflected in deferred revenue in the accompanying consolidated statements of financial position.

The collaboration agreement further provides the 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

In October 2010, 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.

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The agreement expired on December 31, 2012 in accordance with its terms, but the collaboration will continue until the project is complete or funding is fully spent. For fiscal years 2013 and 2012, Fast Forward received funding of \$450,000 and \$350,000, respectively, and expensed funding of \$200,000 each year for fiscal years 2013 and 2012.

Sponsored Research Agreements

Fast Forward enters into SRAs with selected companies (each a Research and Development (“R&D”) company) 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. Fast Forward exercised two warrants related to SRAs in fiscal 2013 and recorded a gain of approximately \$2,994,000, which is recorded as part of investment return on the accompanying 2013 consolidated statement of activities.

There were no warrants received during fiscal 2013 or 2012, and none of the milestones that would require payment of royalties to Fast Forward have been achieved.

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

As of September 30, 2013, Fast Forward entered into twenty SRAs funded by public support and the collaboration agreement with other not-for-profit organizations. Total funds available for expenditure to the R&D companies under these SRAs totaled approximately \$2,788,000 and \$1,844,000 in fiscal 2013 and 2012, respectively. Approximately \$1,655,000 and \$1,799,000 was charged to R&D grants expense in 2013 and 2012, respectively, and approximately \$1,133,000 and \$802,000 was recorded as prepaid expense as of September 30, 2013 and 2012, respectively. Outstanding funding commitments under these SRAs at September 30, 2013 totaled approximately \$2,767,000 and are expected to be satisfied by fiscal 2016.

SRA Funded Under the Collaboration Agreement with Merck KGaA

As of September 30, 2013, Fast Forward entered into eleven 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 \$1,828,000 and \$951,000 during fiscal years 2013 and 2012, respectively. Approximately \$1,596,000 and \$744,000 was charged to R&D grants expense during fiscal years 2013 and 2012, respectively, and approximately \$233,000 and \$415,000 was recorded as prepaid expense as of September 30, 2013 and 2012, respectively. Outstanding funding commitments under these SRAs at September 30, 2013 totaled approximately \$2,187,000 and are expected to be satisfied by fiscal 2016.

**National Multiple Sclerosis Society
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9. PAYMENTS AND SERVICES TO CHAPTERS

During fiscal years 2013 and 2012, National Headquarters made direct payments to its chapters of approximately \$68,000 and \$3,831,000, respectively, and incurred costs of approximately \$22,057,000 and \$23,566,000, respectively, in providing services to chapters.

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for research, educational, and other purposes at September 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
<i>Research</i>		
Contributions from Others for Research	\$ 678,727	\$ 475,354
Ralph I. Strauss Fund	706,391	706,391
John Dystel Fund for Multiple Sclerosis Research	-	193,405
Dystel Nursing Fund	197,478	197,478
Research Exploration Fund	510,151	510,152
Alan Buegeleisen Fund	133,072	133,072
<i>Educational and other</i>		
Charitable Gift Annuities	527,379	969,712
Corporate Sponsorships	90,871	2,699,117
Weinberg Trust	-	84,480
<i>Unappropriated investment income of permanently restricted net assets</i>	<u>208,754</u>	<u>165,796</u>
Total	<u>\$ 3,052,823</u>	<u>\$ 6,134,957</u>

During fiscal year 2013 and 2012, net assets were released following satisfaction of donor restrictions as follows:

	<u>2013</u>	<u>2012</u>
Research	\$ 8,309,115	\$ 5,167,836
Education and other	<u>6,478,957</u>	<u>1,282,256</u>
Total	<u>\$ 14,788,072</u>	<u>\$ 6,450,092</u>

Net assets were reclassified from unrestricted net assets and temporarily restricted net assets in the amount of \$106,595 and \$193,405 to permanently restricted net assets during fiscal 2013.

**National Multiple Sclerosis Society
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September 30, 2013 and 2012**

11. PERMANENTLY RESTRICTED NET ASSETS

National Headquarters permanently restricted net assets or endowments consist of funds established for a variety of purposes. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

From time to time, certain funds may be reclassified from permanently restricted net assets to temporarily restricted net assets or unrestricted net assets due to clarification of donor stipulations. During fiscal 2013, permanently restricted endowments, in the approximate amount of \$1,803,000, were reclassified to temporarily restricted and unrestricted net assets following communications with the donors who established the respective endowment funds. The donors expressly stated that such net assets (principal and accumulated unspent earnings) should be used for the benefit of National Headquarters' operations and other temporarily restricted purposes, as defined, rather than to be held as an endowment fund. National Headquarters has recorded this reclassification of net assets as re-designation of net assets by donor on the accompanying 2013 consolidated statement of activities.

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 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 management appropriations or investment losses on the endowment fund reduce the assets of the endowment funds below the permanently restricted net asset amount, 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 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 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 Multiple Sclerosis Society
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Notes to Consolidated Financial Statements
September 30, 2013 and 2012**

National Headquarters endowment consists of the following donor-restricted endowment funds as of September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
<i>Unrestricted Operating Purposes</i>		
Alexander Endowment Fund	\$ 20,000	\$ 20,000
Breed Endowment Fund	351,921	351,921
<i>Restricted for Research, educational and other</i>		
Donor Student Scholarship Endowment Fund	15,500	15,500
Andrea Leeds Endowment Fund	-	760,000
Fasutino Endowment Fund	204,564	204,564
Stepping Stone Endowment Fund	1,000,000	1,000,000
Dystel Research Endowment Fund	300,000	-
James and Vanita Oelshlager Fund	-	1,042,848
Weinberg Foundation Endowment Fund	<u>250,000</u>	<u>250,000</u>
Total	<u>\$ 2,141,985</u>	<u>\$ 3,644,833</u>

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

The Endowment Spending Policy (stated as a percentage) is reviewed annually and will be set on an annual basis as part of the budgeting process. The annual spending rate on endowed funds held by the Society may range from a minimum of 0% to a maximum of 7%.

**National Multiple Sclerosis Society
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Notes to Consolidated Financial Statements
September 30, 2013 and 2012**

The following summarizes the activity of the endowment assets for the fiscal years ended September 30, 2013 and 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<i>Year ended September 30, 2011</i>	\$ (946,850)	\$ -	\$ 3,744,833	\$ 2,797,983
Released from restriction	100,000	-	(100,000)	-
Appropriation for expenditures	(50,000)	-	-	(50,000)
Distribution to a chapter	(50,000)	-	-	(50,000)
Investment return	<u>200,394</u>	<u>165,796</u>	<u>-</u>	<u>366,190</u>
<i>Year ended September 30, 2012</i>	<u>(746,456)</u>	<u>165,796</u>	<u>3,644,833</u>	<u>3,064,173</u>
Redesignation of funds by donors	-	186,667	(1,802,848)	(1,616,181)
Net asset reclassification	-	84,479	300,000	384,479
Appropriation of net assets for expenditure	-	(229,823)	-	(229,823)
Investment return	<u>81,200</u>	<u>1,635</u>	<u>-</u>	<u>82,835</u>
<i>Year ended September 30, 2013</i>	<u>\$ (665,256)</u>	<u>\$ 208,754</u>	<u>\$ 2,141,985</u>	<u>\$ 1,685,483</u>

SUPPLEMENTARY INFORMATION

**National Multiple Sclerosis Society
(National Headquarters) and Affiliate
Consolidating Schedule of Financial Position
As of September 30, 2013**

	<u>National Headquarters</u>	<u>Fast Forward LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>
ASSETS				
Cash and cash equivalents	\$ 29,874,180	\$ 68,955	\$ -	\$ 29,943,135
Contributions receivable, net	711,721	-	-	711,721
Contributions receivable due from chapters	4,941,106	-	-	4,941,106
Deferred rent receivable	450,295	-	-	450,295
Contributions receivable due from Fast Forward	3,557,580	-	(3,557,580)	-
Prepaid expenses and other assets	3,207,823	4,763,924	-	7,971,747
Investments	38,090,712	373,690	-	38,464,402
Beneficial interest in trust	114,612	-	-	114,612
Property and equipment, net	<u>4,453,552</u>	<u>554</u>	<u>-</u>	<u>4,454,106</u>
Total assets	<u>\$ 85,401,581</u>	<u>\$ 5,207,123</u>	<u>\$ (3,557,580)</u>	<u>\$ 87,051,124</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable and accrued expenses	\$ 8,407,769	\$ 37,034	\$ -	\$ 8,444,803
Grants payable	39,460,258	-	-	39,460,258
Deferred revenue	150,000	805,887	-	955,887
Deferred rent	2,096,410	-	-	2,096,410
Due to chapters	6,485,895	-	-	6,485,895
Due to National Multiple Sclerosis Society	-	3,557,580	(3,557,580)	-
Liability to annuitants	<u>2,332,850</u>	<u>-</u>	<u>-</u>	<u>2,332,850</u>
Total liabilities	<u>58,933,182</u>	<u>4,400,501</u>	<u>(3,557,580)</u>	<u>59,776,103</u>
NET ASSETS				
Unrestricted	21,273,591	806,622	-	22,080,213
Temporarily Restricted	3,052,823	-	-	3,052,823
Permanently Restricted	<u>2,141,985</u>	<u>-</u>	<u>-</u>	<u>2,141,985</u>
Total net assets	<u>26,468,399</u>	<u>806,622</u>	<u>-</u>	<u>27,275,021</u>
Total liabilities and net assets	<u>\$ 85,401,581</u>	<u>\$ 5,207,123</u>	<u>\$ (3,557,580)</u>	<u>\$ 87,051,124</u>

This schedule should be read in conjunction with the accompanying report of independent certified public accounts 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, 2013**

	<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	\$ 74,961,388	\$ -	\$ -	\$ 74,961,388
Contributions for research and development	1,014,136	1,775,074	-	2,789,210
Contributions from others	52,235,035	606,458	-	52,841,493
Federal Service Campaign for National Health Agencies	5,845	-	-	5,845
Total public support	<u>128,216,404</u>	<u>2,381,532</u>	<u>-</u>	<u>130,597,936</u>
OTHER REVENUE				
Advertising, program fees, and other revenue	2,298,655	-	-	2,298,655
Investment return	2,034,129	2,563,488	-	4,597,617
Total other revenue	<u>4,332,784</u>	<u>2,563,488</u>	<u>-</u>	<u>6,896,272</u>
Total revenue	<u>132,549,188</u>	<u>4,945,020</u>	<u>-</u>	<u>137,494,208</u>
EXPENSES				
PROGRAM SERVICES				
Research and research fellowships	44,277,250	4,176,465	-	48,453,715
Client and community services	11,187,609	-	-	11,187,609
Professional education and training	773,357	-	-	773,357
Public education	36,544,891	-	-	36,544,891
Services to chapters	22,057,435	-	-	22,057,435
Total program services	<u>114,840,542</u>	<u>4,176,465</u>	<u>-</u>	<u>119,017,007</u>
SUPPORTING SERVICES				
Fundraising	6,454,769	-	-	6,454,769
Management and general	9,820,162	-	-	9,820,162
Total supporting services	<u>16,274,931</u>	<u>-</u>	<u>-</u>	<u>16,274,931</u>
Payments to chapters	67,507	-	-	67,507
Total expenses	<u>131,182,980</u>	<u>4,176,465</u>	<u>-</u>	<u>135,359,445</u>
Changes in net assets	1,366,208	768,555	-	2,134,763
Net assets, beginning of year	25,102,191	38,067	-	25,140,258
Net assets, end of year	<u>\$ 26,468,399</u>	<u>\$ 806,622</u>	<u>\$ -</u>	<u>\$ 27,275,021</u>

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