

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

**NATIONAL MULTIPLE SCLEROSIS SOCIETY AND AFFILIATE**

September 30, 2019  
with summarized comparative information  
for the year ended September 30, 2018

# NATIONAL MULTIPLE SCLEROSIS SOCIETY AND AFFILIATE

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the Board of Directors of  
**National Multiple Sclerosis Society:**

We have audited the accompanying consolidated financial statements of National Multiple Sclerosis Society and Affiliate (collectively, the "Society"), which comprise the consolidated statement of financial position as of September 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 the entity's 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial position of National Multiple Sclerosis Society and Affiliate as of September 30, 2019, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of the Society as of and for the year ended September 30, 2019, taken as a whole. The supplementary information included on pages 26 and 27 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 audit 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.

**Report on 2018 summarized comparative information**

We have previously audited the Society's 2018 consolidated financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated February 13, 2019. In our opinion, the accompanying summarized comparative information as of and for the year ended September 30, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



New York, New York  
January 28, 2020

**NATIONAL MULTIPLE SCLEROSIS SOCIETY AND AFFILIATE**  
**Consolidated Statement of Financial Position**  
**As of September 30, 2019, with summarized comparative information as of September 30, 2018**

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 54,120,993	\$ 54,320,268
Contributions receivable, net	10,175,658	12,797,773
Investments	84,422,008	71,828,079
Prepaid expenses and other current assets	<u>8,112,568</u>	<u>5,778,620</u>
Total current assets	156,831,227	144,724,740
Contributions receivable, net	1,328,423	3,614,801
Property and equipment, at cost, net of accumulated depreciation	3,781,209	4,940,792
Investments related to endowment	16,800,888	16,700,888
Investments related to charitable gift annuities	2,760,105	2,468,307
Beneficial interests in trust	1,481,279	1,442,243
Other non-current assets	<u>1,679,840</u>	<u>859,065</u>
Total assets	<u>\$ 184,662,971</u>	<u>\$ 174,750,836</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Current liabilities		
Grants payable	\$ 31,424,423	\$ 33,952,635
Accounts payable and accrued liabilities	11,019,663	12,749,900
Deferred revenue	8,175,570	8,453,878
Due to Progressive MS Alliance	10,030,005	9,599,002
Other current liabilities	<u>1,020,484</u>	<u>830,433</u>
Total current liabilities	61,670,145	65,585,848
Deferred rent, net of current portion	2,101,913	2,582,026
Obligations to annuitants, net of current portion	1,861,979	1,659,458
Other non-current liabilities	<u>474,227</u>	<u>478,157</u>
Total liabilities	<u>66,108,264</u>	<u>70,305,489</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS</b>		
Without donor restrictions	68,662,718	63,827,269
With donor restrictions	<u>49,891,989</u>	<u>40,618,078</u>
Total net assets	<u>118,554,707</u>	<u>104,445,347</u>
Total liabilities and net assets	<u>\$ 184,662,971</u>	<u>\$ 174,750,836</u>

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

# NATIONAL MULTIPLE SCLEROSIS SOCIETY AND AFFILIATE

## Consolidated Statement of Activities

For the year ended September 30, 2019, with summarized comparative information for the year ended September 30, 2018

	2019			2018
	Without Donor	With Donor	Total	Total
	Restriction	Restriction		
<b>OPERATING REVENUE</b>				
Public Support				
Special events	\$ 134,029,026	\$ -	\$ 134,029,026	\$ 132,575,048
Less: Cost of direct benefits to donors	(24,091,854)	-	(24,091,854)	(22,199,125)
Net special events	109,937,172	-	109,937,172	110,375,923
Contributions from individuals, corporations, and foundations	42,270,064	17,063,099	59,333,163	48,330,419
Endowment contributions	-	308,566	308,566	12,000,000
Bequests and trust income	20,051,877	209,422	20,261,299	16,900,633
Contributed public service announcements, services, and goods	8,378,958	-	8,378,958	11,123,668
Total public support	180,638,071	17,581,087	198,219,158	198,730,643
Advertising, program fees, and other	3,688,019	-	3,688,019	4,677,800
Investment income designated for operations	219,134	-	219,134	145,245
Net assets released from restrictions	9,418,076	(9,418,076)	-	-
Total operating revenue	193,963,300	8,163,011	202,126,311	203,553,688
<b>OPERATING EXPENSES</b>				
Program Services				
Research	40,897,967	-	40,897,967	38,933,324
Client and community services	48,052,857	-	48,052,857	46,148,100
Public education	41,601,442	-	41,601,442	40,297,354
Professional education and training	6,326,821	-	6,326,821	5,742,797
Total program services	136,879,087	-	136,879,087	131,121,575
Support Services				
Fundraising	37,038,684	-	37,038,684	39,743,970
Management and general	15,461,585	-	15,461,585	16,101,394
Total supporting services	52,500,269	-	52,500,269	55,845,364
Total operating expenses	189,379,356	-	189,379,356	186,966,939
Change in net assets from operations	4,583,944	8,163,011	12,746,955	16,586,749
<b>NONOPERATING ACTIVITIES</b>				
Investment returns, net	188,710	810,258	998,968	4,970,429
Redesignation of net asset by donor	52,000	(52,000)	-	-
Change in fair value of beneficial interest in trusts	-	39,036	39,036	195,138
Change in value of split-interest agreements	-	313,606	313,606	250,327
Other non-operating income	10,795	-	10,795	-
Total nonoperating activities	251,505	1,110,900	1,362,405	5,415,894
Change in net assets	4,835,449	9,273,911	14,109,360	22,002,643
Net assets, beginning of year	63,827,269	40,618,078	104,445,347	82,442,704
Net assets, end of year	\$ 68,662,718	\$ 49,891,989	\$ 118,554,707	\$ 104,445,347

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

# NATIONAL MULTIPLE SCLEROSIS SOCIETY AND AFFILIATE

## Consolidated Statement of Cash Flows

For the year ended September 30, 2019, with summarized comparative information for the year ended September 30, 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 14,109,360	\$ 22,002,643
Adjustments to reconcile changes in net assets to net cash provided by operations:		
Net realized and unrealized loss (gain) on investments	1,151,984	(2,558,361)
Adjustment of research grant liability	-	-
Depreciation and amortization	1,997,555	2,363,651
Change in value of beneficial interests in trust	(39,036)	(195,138)
Change in value of split-interest agreements	(313,606)	(250,327)
Deferred rent	(392,362)	13,310
Changes in:		
Contributions receivable	4,908,493	(1,251,390)
Prepaid expenses and other assets	(3,154,723)	676,640
Accounts payable and accrued expenses	(1,730,237)	(1,730,724)
Grants payable	(2,528,212)	(3,548,293)
Deferred revenue	(278,308)	(140,352)
Other liabilities	(3,930)	256,513
Due to Progressive MS Alliance	431,003	1,914,524
Liability to annuitants	<u>304,821</u>	<u>(7,063)</u>
Net cash provided by operating activities	<u>14,462,802</u>	<u>17,545,633</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of furniture and equipment	(837,972)	(448,458)
Purchase of investments	(48,729,586)	(42,348,348)
Proceeds from sales of investments	<u>34,905,481</u>	<u>28,463,929</u>
Net cash used in investing activities	<u>(14,662,077)</u>	<u>(14,332,877)</u>
Net (decrease) increase in cash and cash equivalents	(199,275)	3,212,756
Cash and cash equivalents, beginning of year	<u>54,320,268</u>	<u>51,107,512</u>
Cash and cash equivalents, end of year	<u>\$ 54,120,993</u>	<u>\$ 54,320,268</u>

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

# NATIONAL MULTIPLE SCLEROSIS SOCIETY AND AFFILIATE

## Consolidated Statement of Functional Expenses

For the year ended September 30, 2019, with summarized comparative information for the year ended September 30, 2018

	Program Activities					Support Services			Direct Donor Benefits	Year Ended 2019	Year Ended 2018
	Research	Client and Community Services	Public Education	Professional Education and Training	Total	Fund-Raising	Management and General	Total			
Salaries, payroll taxes, and benefits	\$ 2,717,253	\$ 29,704,249	\$ 24,082,609	\$ 3,211,082	\$ 59,715,193	\$ 14,300,108	\$ 10,184,455	\$ 24,484,563	\$ -	\$ 84,199,756	\$ 81,964,554
Awards, grants, and prizes	36,521,731	3,122,675	19,333	1,684,316	41,348,055	60,762	7,311	68,073	3,158,449	44,574,577	41,824,378
Contributed public service announcements, services, and goods	344,715	25,310	7,425,826	2,107	7,797,958	550,044	9,248	559,292	1,792,966	10,150,216	12,085,248
Professional fees	307,364	6,624,167	2,939,806	332,742	10,204,079	7,011,319	1,936,378	8,947,697	-	19,151,776	17,598,909
Occupancy	200,967	3,567,168	2,814,362	301,490	6,883,987	1,862,313	1,306,273	3,168,586	4,370,969	14,423,542	13,858,874
Conferences, meetings, and travel	613,184	2,500,668	1,024,580	594,819	4,733,251	1,536,268	309,045	1,845,313	8,400,995	14,979,559	14,750,842
Printing, publication, and postage	17,474	513,610	1,938,932	24,318	2,494,334	3,918,894	693,851	4,612,745	-	7,107,079	7,024,835
Credit card fees and bank fees	676	19,730	10,432	-	30,838	4,348,805	54,952	4,403,757	-	4,434,595	4,525,360
Depreciation and amortization	40,151	704,138	554,122	65,120	1,363,531	367,350	266,674	634,024	-	1,997,555	2,363,651
Other	134,452	1,271,142	791,440	110,827	2,307,861	3,082,821	693,398	3,776,219	6,368,475	12,452,555	13,169,413
<b>Total expenses</b>	<b>40,897,967</b>	<b>48,052,857</b>	<b>41,601,442</b>	<b>6,326,821</b>	<b>136,879,087</b>	<b>37,038,684</b>	<b>15,461,585</b>	<b>52,500,269</b>	<b>24,091,854</b>	<b>213,471,210</b>	<b>209,166,064</b>
Less: Cost of direct benefits to donors	-	-	-	-	-	-	-	-	(24,091,854)	(24,091,854)	(22,199,125)
<b>Total expenses as reported on the consolidated statement of activities - 2019</b>	<b>\$ 40,897,967</b>	<b>\$ 48,052,857</b>	<b>\$ 41,601,442</b>	<b>\$ 6,326,821</b>	<b>\$ 136,879,087</b>	<b>\$ 37,038,684</b>	<b>\$ 15,461,585</b>	<b>\$ 52,500,269</b>	<b>\$ -</b>	<b>\$ 189,379,356</b>	
<b>Total expenses as reported on the consolidated statement of activities - 2018</b>	<b>\$ 38,933,324</b>	<b>\$ 46,148,100</b>	<b>\$ 40,297,354</b>	<b>\$ 5,742,797</b>	<b>\$ 131,121,575</b>	<b>\$ 39,743,970</b>	<b>\$ 16,101,394</b>	<b>\$ 55,845,364</b>	<b>\$ -</b>		<b>\$ 186,966,939</b>

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



# NATIONAL MULTIPLE SCLEROSIS SOCIETY AND AFFILIATE

## Notes to Consolidated Financial Statements

September 30, 2019

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### 1. ORGANIZATION

National Multiple Sclerosis Society and Affiliate (collectively, the “Society”), a national not-for-profit health agency, exists to create a world free of Multiple Sclerosis (“MS”). Everything the Society does is focused so that people affected by MS can live their best lives as we stop MS in its tracks, restore what has been lost, and end MS forever. The Society is comprised of a 50-state network with offices across the country and is governed by a national board of directors and supported by local boards of trustees.

The Society is a driving force of MS research which necessitates a comprehensive strategy that can fuel knowledge and speed better treatments, health care policies and new disease and symptom management therapies. To move us ever closer to a world free of MS, the Society, in fiscal 2019 alone, invested \$40.9 million to support more than 400 new and ongoing research projects around the world. The Society also provides information and services to the estimated one million people diagnosed with MS in the US.

For every person affected by MS – those diagnosed with the disease and their loved ones – the Society is determined to be a lifelong partner and resource beginning at the moment of diagnosis, when there’s a need for reliable information and connections to the right professionals and to others who have walked their own journeys, and continuing as each person makes decisions to manage their disease and live the life they want. The Society’s MS Navigators – highly skilled, compassionate professionals – are available from anywhere in the country. These supportive partners help navigate the challenges of MS unique to each situation and provide professional case manager’s support and guidance for challenges including accessing health care, financial issues, emotional support and much more.

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

### 2. PROGRAM ACTIVITIES

The Society’s mission is accomplished 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. The principal program activities of the Society are:

*Research* - The Society supports research projects around the world aimed at stopping multiple sclerosis in its tracks, restoring function, and ending the disease forever. Research priority areas to drive breakthroughs include: defining the contribution of genetics and the risk for developing MS and disease course; understanding MS pathology and pathophysiology; understanding and treating MS progression; identifying strategies for neuroprotection and nervous system repair; and, elucidating the cause of MS symptoms, the impact of comorbidities, and identifying rehabilitation, wellness behaviors and lifestyle approaches that impact disease course, symptoms and overall health.

# **NATIONAL MULTIPLE SCLEROSIS SOCIETY AND AFFILIATE**

## **Notes to Consolidated Financial Statements**

**September 30, 2019**

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*Client and Community Services* – The Society provides information, resources and support that seeks to meet the needs of people affected by MS as a whole and individually. The Society is committed to offering programs for all people regardless of where they live or where they are in their MS Journey. Programs, services and resources for people affected by multiple sclerosis facilitate education, recreation, physical and emotional wellness, provide financial resources and a connection for people living with multiple sclerosis. Also included are 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.

*Public Education* – The Society seeks to expand and deepen the individual and collective experiences of the MS movement. This includes costs associated with educating the public about multiple sclerosis including the Society’s awareness campaigns, public service announcements, Momentum, which is the Society’s flagship magazine distributed quarterly to people living with multiple sclerosis, healthcare providers, supporters of the Society, and MS Connection newsletter, which includes information about programs and activities in local markets.

*Professional Education and Training* – The Society wants scientists and healthcare professionals to be aware of and trained in MS so that the very best expertise worldwide is engaged in finding treatments and solutions for everyone with MS. This includes activities and programs designed to improve the knowledge, skills and critical judgment of scientists, physicians and other healthcare professionals engaged (directly or indirectly) in providing services to people living with MS by keeping them abreast of new diagnostic techniques and therapies.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **Principles of Consolidation**

The accompanying consolidated financial statements consist of the accounts of National Multiple Sclerosis Society and Fast Forward, a not-for-profit limited liability company of which National Multiple Sclerosis Society is the sole member.

#### **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; the collectability of contributions receivable; the fair value of contributed public service announcements; the useful lives assigned to property and equipment; and the functionalization of expenses. 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.

# NATIONAL MULTIPLE SCLEROSIS SOCIETY AND AFFILIATE

## Notes to Consolidated Financial Statements

September 30, 2019

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In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* (“ASU 2016-14”). The ASU amends the current reporting model for not-for-profit organizations and requires certain additional disclosures. The significant changes include:

- Requiring the presentation of two net asset classes classified as “net assets without donor restrictions” and “net assets with donor restrictions”;
- Modifying the presentation of underwater endowment funds and related disclosures;
- Requiring the use of the placed in-service approach to recognize the satisfaction of restrictions on gifts used to acquire or construct long-lived assets, absent explicit donor stipulations otherwise;
- Requiring that all not-for-profits present an analysis of expenses by function and nature in a separate statement or in the notes to the financial statements;
- Requiring disclosure of quantitative and qualitative information regarding liquidity;
- Presenting investment return net of external and direct internal investment expenses; and,
- Modifying other financial statement reporting requirements and disclosures intended to increase the usefulness to the reader.

For the year ended September 30, 2019, the Society adopted the relevant provisions of ASU 2016-14 and similarly revised the presentation of its fiscal 2018 consolidated financial statements to align with the new reporting presentation.

The Society classifies its net assets in the following categories:

*Net Assets Without Donor Restriction* - Represent net assets which are not restricted by donors. Net assets without donor restrictions are funds that are fully available, at the discretion of the Board of Directors and management, for the Society to utilize in any of its programs or supporting services. Net assets without donor restrictions may be designated for specific purposes by the Society’s Board of Directors or may be limited by legal requirements or contractual agreements with outside parties.

*Net Assets With Donor Restriction* - Represent net assets which are subject to donor-imposed restrictions whose use is restricted by time and/or purpose. Net assets with donor restrictions are subject to donor-imposed restrictions that require the Society to use or expend the gifts as specified, based on purpose or passage of time. When donor restrictions expire, that is, when a purpose restriction is fulfilled or a time restriction ends, such net assets are reclassified to net assets without donor restrictions and reported on the statement of activities as net assets released from restrictions.

Net assets with donor restrictions also includes that the corpus of gifts, which must be maintained in perpetuity, but allow for the expenditure of net investment income and gains earned on the corpus for either specified or unspecified purposes in accordance with donor stipulations.

# **NATIONAL MULTIPLE SCLEROSIS SOCIETY AND AFFILIATE**

## **Notes to Consolidated Financial Statements**

**September 30, 2019**

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### **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 support with donor restrictions. Unconditional promises to give, with payments due in future years, are reported as support with donor restrictions, 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the consolidated statement of activities as net assets released from restrictions.

Special event, contribution, and advertising revenues are recorded on an accrual basis as earned. Revenue from program-related fees are recorded at fair value when earned.

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.

Fast Forward receives contributions under separate collaboration agreements with other not-for-profit organizations to fund certain Sponsored Research Agreements (“SRAs”) entered with certain organizations for the purpose of conducting specified research and development and therapeutic strategies for multiple sclerosis (“R&D”) activities. Amounts received, which are refundable to the related not-for-profit organizations 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.

### **Functional Allocation of Expenses**

The Society’s expenses have been summarized on a functional basis in the consolidated statement of activities. Expenses that are specifically associated with programmatic activity or supporting service are allocated to that activity. Employee costs are allocated based on the employee time attributed to each programmatic activity or supporting service. Costs associated with the development and distribution of mail pieces that include a call to action along with a fundraising component, as described in the Joint Costs section in Note 3, are allocated based on the proportion of space used for each purpose. Supporting services costs are allocated based on a weighted average of employee costs attributed to each programmatic activity or supporting service. Supporting services includes board governance and oversight; the internal audit function, which provides oversight of accounting, internal controls, and information technology processes; general infrastructure costs; and the cost of fundraising.

### **Joint Costs**

The Society accounts for costs of activities that include both a fundraising appeal and informational content (joint costs) in accordance with standards incorporated in the Accounting Standards Codification (“ASC”) of the Financial Accounting Standards Board (the “FASB”). In fiscal year 2019, the Society incurred joint costs of \$4.0 million for information materials and activities that included fundraising appeals.

# NATIONAL MULTIPLE SCLEROSIS SOCIETY AND AFFILIATE

## Notes to Consolidated Financial Statements

### September 30, 2019

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These costs have been allocated as follows as of September 30, 2019:

Fundraising	\$ 3,044,205
Management and general	580,412
Public education	<u>425,193</u>
Total	<u>\$ 4,049,810</u>

#### Research Grants

Research grants, which are generally awarded for three to five years, are recognized in accordance with defined payment schedules, and as the related conditions on which they depend are met. Research grants are subject to revocation rights by the Society and the continued qualification of grantees, among other criteria. Accordingly, grants are evaluated annually and expensed as approved. Society 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 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 stipulated milestones, as set forth in the respective SRA, are not recognized in the financial statements.

#### Concentration of Credit Risk

Cash, cash equivalents and investments are exposed to various risks, such as interest rate, market and credit risks. To manage such risks, the Society has a diversified investment portfolio in a variety of asset classes managed by an independent investment manager under the terms of an Investment Policy Statement which is regularly reviewed by the Investment Committee. The Society's cash, cash equivalents and investments are placed with high credit quality financial institutions. The Society's Investment Committee meets at least quarterly to evaluate the 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. The Society maintains its cash in various bank deposit accounts that exceed federally insured limits; however, the Society does not anticipate nonperformance by these financial institutions.

#### Cash and Cash Equivalents

The Society 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, 2019, substantially all the Society's cash and cash equivalents were on deposit with two financial institutions.

# NATIONAL MULTIPLE SCLEROSIS SOCIETY AND AFFILIATE

## Notes to Consolidated Financial Statements

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### Contributions Receivable

At September 30, 2019, the Society's contributions receivable, net, consist of the following:

Amounts expected to be collected:

In less than one year	\$ 10,373,335
Less: Allowance for doubtful accounts	<u>(197,677)</u>
Net contributions receivable - current	10,175,658
One to three years	1,363,477
Less: Discount to present value	<u>(35,054)</u>
Net contributions receivable - long-term	<u>1,328,423</u>
Total	<u>\$ 11,504,081</u>

Long-term contributions receivable are discounted using rates ranging from 1.12% to 4.62%.

The Society maintains an allowance for doubtful accounts for estimated losses that may result from the inability of 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 markets, donors or advertisers. Accounts are written off when deemed to be uncollectible.

### Investments and Investment Return

The Society has classified its investment funds on the accompanying consolidated statement of financial position as follows:

*Investments* – Consists primarily of the Society's Stability Reserves, which are maintained to ensure financial stability during unanticipated financial circumstances. Expenditures of these investments are authorized by the Finance Committee of the Society's Board of Directors. Investments also include funds received with donor-imposed restrictions that pertain to programmatic initiatives beyond the next fiscal year.

*Investments related to endowments* – Consists of funds with donor-imposed restrictions to be held in perpetuity as well as the accumulated investment earnings thereon.

*Investments related to charitable gift annuities* – Investments held in relation to charitable gift annuity arrangements entered into with donors.

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

# **NATIONAL MULTIPLE SCLEROSIS SOCIETY AND AFFILIATE**

## **Notes to Consolidated Financial Statements**

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gains and losses and interest and dividends, is recorded in the net asset class owning the assets, except for net assets held in perpetuity where the income is recorded as net assets with donor restrictions and then reclassified to net assets without donor restrictions upon appropriation for expenditure by the Board in accordance with the Society's spending rate policy.

#### **Split-Interest Agreements and Beneficial Interest in Trust**

Under the Society's charitable gift annuity program, the Society is the beneficiary of a number of split-interest agreements established with donors, whereby the Society controls and invests the donated assets. Payments to donors are based on the payment schedule defined in the signed charitable gift annuity agreement 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 available for use by the Society subject to any restrictions stipulated by the donor. Residual assets may include income generated from investment of donated assets.

The Society records a liability for amounts payable to annuitants, using an actuarial calculation performed at the time of gift. The obligation to the annuitant is accreted to the amount payable to annuitants over their life expectancies and adjustments are made annually for changes in mortality. The Society's liability to annuitants at September 30, 2019 is based on the discount rate at the time of the gift, ranging from 1.2% to 8.2% per annum and totaled \$2,151,255, of which \$1,861,979 is reflected within the consolidated statement of financial position as due to annuitants for the non-current portion and \$289,276 is included within other current liabilities for the current portion. State-mandated reserves related to these arrangements are maintained at required levels.

In situations where the assets are controlled and invested by an independent third-party, the Society 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 the Society over the expected term of the respective agreements. The Society's beneficial interest in trusts at September 30, 2019 total \$1,481,279.

#### **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. The Society capitalizes property and equipment with a purchase price of \$5,000 or greater. Depreciation is computed on a half-year convention basis over the estimated useful lives of the assets, generally five years. Amortization of leasehold improvements is provided on the straight-line method over the lesser of their estimated useful lives or the terms of the related lease.

#### **Progressive MS Alliance**

The Progressive MS Alliance is a collaboration of MS organizations and other stakeholders. The Society is a managing member, along with Associazione Italiana Sclerosi Multipla (Italy), MS Research Australia, Multiple Sclerosis International Federation, MS Society (United Kingdom), the Multiple Sclerosis Society of Canada, and the Multiple Sclerosis International Federation 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 has made a joint commitment to accelerate the development of treatment for progressive MS by removing scientific and technological barriers. The Alliance has four priority objectives which include:

- Better understand progression so treatments can be identified and tested

# **NATIONAL MULTIPLE SCLEROSIS SOCIETY AND AFFILIATE**

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- Design shorter, faster trials that measure patient outcomes
- Conduct trials to test agents
- Develop and evaluate new therapies to manage symptoms

As a managing member, the Society committed to providing funds of \$7,691,526 through 2019 and has committed \$17,685,590 over the following six years, conditional on various factors. In addition, the Society maintains custody of the pooled funds contributed from other Alliance members. The disbursement of funds for various progressive MS research initiatives is approved by voting Alliance members. The Society received a total of \$5,787,748 during the year ending September 30, 2019 from Alliance members, which will be held until such time the funds are approved for expenditure. As of September 30, 2019, the Society recorded unspent donated funds, consisting of both Society and other Alliance members' monies, totaling \$10,030,005, as a liability.

#### **Donated Goods and Services**

Donated goods and services, including public service announcements and donated advertising, used by the Society in programs, special events, and supporting services, are reflected as in-kind contributions and expensed on the accompanying consolidated financial statements at their estimated fair value at the date of receipt.

The Society received donated print, radio and television public service announcements of \$7,746,863 for the year ended September 30, 2019. 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 contributed public service announcements revenue, public education program expense and fundraising 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 the Society. These contributed services, which meet the recognition criteria under U.S. GAAP, totaled \$343,287 for the year ended September 30, 2019. Such amounts are recorded at their estimated fair value at the date of contribution and are reported as contributions from individuals, corporations and foundations revenue and research expenses on the accompanying consolidated statements of activities and functional expenses.

A number of volunteers, including members of the Board of Directors, have made significant contributions of their time in furtherance of Society 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/income is recorded on a straight-line basis over the term of the respective lease. The difference between rental payments made/received 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 statement of financial position.



# NATIONAL MULTIPLE SCLEROSIS SOCIETY AND AFFILIATE

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#### Accounting for Uncertainty in Income Taxes

Guidance in “Accounting for Uncertainty in Income Taxes” under the ASC of the FASB, 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 Society 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. The Society has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements. In addition, the Society has not recorded a provision for income taxes as it has no material tax liability from unrelated business income activities.

#### Subsequent Events

The Society has evaluated subsequent events through January 28, 2020, the date the consolidated financial statements were available for issuance. The Society is not aware of any subsequent events which would require recognition or disclosure in the accompanying 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. Subsequently, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers, Deferral of the Effective Date,” which deferred the effective date of ASU 2014-09 for one year. As such, ASU 2014-09 will be effective for the Society for annual reporting periods beginning after December 15, 2018 (fiscal 2020 for the Society). The Society is currently evaluating 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. ASU 2016-02 will require lessees to recognize leased assets and liabilities for operating leases on the balance sheet. Subsequently, the FASB issued ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842) – Effective Dates*, which deferred the effective date of ASU 2016-02 for an additional year. As such, ASU 2016-02 will be effective for annual reporting periods beginning after December 15, 2020 (fiscal 2022 for the Society). The Society is currently evaluating the impact of ASU 2016-02 at this time.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*, which requires organizations to determine whether a contribution is conditional based on whether an agreement includes a barrier that must be overcome and either a right-of-return of assets transferred or a right-of-release of a promiser’s obligation to transfer assets. If the

# NATIONAL MULTIPLE SCLEROSIS SOCIETY AND AFFILIATE

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agreement (or referenced document) includes both, the recipient is not entitled to the transferred assets (or a future transfer of assets) until it has overcome the barriers to the agreement. For recipients, the amendments are effective for annual periods after December 15, 2018. The Society is currently evaluating the impact of ASU 2018-08 at this time.

#### 4. SPECIAL EVENTS REVENUE

A summary of the Society's special events revenue for the year ended September 30, 2019 is as follows:

Event	
Bike MS	\$ 66,856,456
Walk MS	44,265,455
Dinners, luncheons, and leadership events	17,735,880
Other special events	3,112,485
Muckfest MS	<u>2,058,750</u>
Total special events revenue, gross	134,029,026
Less: Cost of direct benefits to donors	<u>(24,091,854)</u>
Total special events revenue, net	<u>\$ 109,937,172</u>

#### 5. FAIR VALUE MEASUREMENTS

The Society 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, the Society 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 includes 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

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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. The Society 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 the Society's perceived risk of that instrument.

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 the Society's financial instruments as of September 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments, investments related to endowment, and investments related to charitable gift annuities				
Equities	\$ 43,497,154	\$ -	\$ -	\$ 43,497,154
Mutual funds	51,667,903	-	-	51,667,903
Other investments	<u>-</u>	<u>-</u>	<u>152,704</u>	<u>152,704</u>
Total investments reported on the fair value hierarchy	95,165,057	-	152,704	95,317,761
Cash and cash equivalents				<u>8,665,240</u>
Total investments				103,983,001
Beneficial interest in trust	<u>-</u>	<u>-</u>	<u>1,481,279</u>	<u>1,481,279</u>
Total	<u>\$ 95,165,057</u>	<u>\$ -</u>	<u>\$ 1,633,983</u>	<u>\$ 105,464,280</u>

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

Stock warrants, which are included in other investments in the table above, 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.

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

	<u>Other Investments</u>	<u>Beneficial Interest in Trust</u>	<u>Total</u>
<b>Balance September 30, 2018</b>	\$ 267,173	\$ 1,442,243	\$ 1,709,416
Change in fair values	<u>(114,469)</u>	<u>39,036</u>	<u>(75,433)</u>
<b>Balance September 30, 2019</b>	<u>\$ 152,704</u>	<u>\$ 1,481,279</u>	<u>\$ 1,633,983</u>

**6. INVESTMENT RETURN**

The components of the Society's net investment gains, including the change in fair value of split-interest agreements \$313,606, in the accompanying consolidated statement of activities are as follows for the year ended September 30, 2019:

Interest and dividends	\$ 2,976,966
Net realized and unrealized loss on investments	<u>(1,151,954)</u>
	1,825,012
Less: Investment advisory fees	<u>(293,304)</u>
Total	<u>\$ 1,531,708</u>

**7. PROPERTY AND EQUIPMENT, NET**

Property and equipment, net, consist of the following at September 30, 2019:

Furniture and fixtures	\$ 543,503
Equipment	4,687,311
Leasehold improvements	4,691,562
Software	<u>5,805,123</u>
	15,727,499
Less: Accumulated depreciation and amortization	<u>(11,946,290)</u>
Total	<u>\$ 3,781,209</u>

**8. EMPLOYEE RETIREMENT PLAN**

The Society participates in a 401(k) Plan for all eligible employees of the Society. The Society will match 100% of the first 3% of employee contributions to the plan plus 50% on the next 2% for a maximum Safe Harbor Match contribution of 4% of pay each payroll period. For the fiscal year ended September 30, 2019, 401(k) expense totaled \$1,973,779, after application of forfeitures.

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**9. LEASES**

The Society leases space for 88 offices throughout the United States through leases with terms expiring between fiscal 2020 and fiscal 2026 and containing provisions for future rent increases that are included in the future minimum lease payments below and are amortized using the straight-line method over the lease terms.

The Society sublets a portion of its premises in New York, NY and Chicago, IL under non-cancellable sublease agreements. The subleases are co-terminus with the respective leases.

Rent expense computed on the straight-line basis, totaled approximately \$6.9 million for the year ended September 30, 2019. The Society recorded a deferred rent liability at September 30, 2019 of \$2,833,121, the current portion of which (\$731,208) is reflected within other current liabilities on the consolidated statement of financial position, and a deferred rent receivable at September 30, 2019 of \$88,105, which is reflected in the consolidated statement of financial position as part of prepaid expenses and other current assets.

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>
2020	\$ 7,287,170	\$ 850,049
2021	6,537,568	858,166
2022	4,422,304	569,057
2023	2,200,930	48,652
2024	961,336	7,459
Thereafter	<u>545,905</u>	<u>-</u>
Total	<u>\$ 21,955,213</u>	<u>\$ 2,333,383</u>

**10. RESEARCH AND DEVELOPMENT ACTIVITIES**

**Research Grants and Fellowship Awards**

The Society's program services include funding for research grants and fellowships, and institutional clinician training awards to be conducted in the future, generally over three to five-year periods. These commitments are subject to, among other things, revocation rights by the Society, the continued qualifications of grantees, and the grantees satisfying prior conditions before payment.

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

<u>Year Ending September 30,</u>	<u>Research Grants and Fellowships</u>	<u>Institutional Clinician Training Awards</u>	<u>Total</u>
2020	\$ 18,465,614	\$ 967,727	\$ 19,433,341
2021	11,203,335	795,775	11,999,110
2022	2,040,268	693,775	2,734,043
2023	<u>1,000,608</u>	<u>693,775</u>	<u>1,694,383</u>
Total	<u>\$ 32,709,825</u>	<u>\$ 3,151,052</u>	<u>\$ 35,860,877</u>

**Commercial Research Grant Funding**

Fast Forward enters into SRAs with selected biotechnology companies and academic institutions engaged in research and development projects aimed at identifying and developing therapies and or diagnostics to improve the treatment of multiple sclerosis. Fast Forward also funds programs to facilitate the translation of academic multiple sclerosis research discoveries into commercial development. Under the SRAs, Fast Forward agrees to provide funding for specified R&D activities, payable as defined milestones are achieved. Fast Forward funds SRAs from the public support it receives from donors or through the Society, and from other funding entities under collaboration agreements. Under 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 developmental milestones for funded projects.

In fiscal year 2019, the Society deployed a total of \$1,310,313 through Fast Forward to funded entities under SRAs. Of these disbursements, \$784,582 is reflected within research expense on the consolidated statement of activities, and \$525,731 is reflected within prepaid expenses and other current assets on the consolidated statement of financial position. The total prepaid expense balance associated with the Fast Forward SRAs total \$525,731 as of September 30, 2019. Outstanding conditional funding commitments under these SRAs at September 30, 2019 totaled \$1,103,976, of which \$1,083,976 is expected to be satisfied in fiscal 2020.

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**11. NET ASSETS**

The Society's net assets with donor restrictions at September 30, 2019 are available for research, educational, and other purposes as follows:

Purpose	
Research	\$ 19,159,643
Client and community services	
General programs and services	3,446,270
Wellness initiatives	156,871
Direct financial assistance	463,873
Pediatric and family services	184,453
Professional education	1,072,630
Other services and operational support	<u>1,611,170</u>
	26,094,910
Time restriction	1,742,088
Charitable gift annuities	608,850
Endowment funds subject to the Society's appropriation and satisfaction of donor restrictions:	
Original corpus	17,806,064
Accumulated unspent earnings	<u>3,640,077</u>
Total	<u>\$ 49,891,989</u>

During fiscal year 2019, net assets were released following satisfaction of donor restrictions as follows:

Research	\$ 3,490,031
Client and community services	
Wellness initiatives	1,124,724
Direct financial assistance	222,675
Care management services	1,049,491
Other programs and services	<u>3,531,155</u>
Total	<u>\$ 9,418,076</u>

**12. ENDOWMENT FUNDS**

The Society's endowment funds have been 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.

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**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.

The Society has interpreted NYPMIFA as requiring the preservation of the value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary, except in those cases where the law allows appropriation for spending of the original gift amounts. As a result of this interpretation, the Board classifies as net assets with donor restrictions (a) the original value of the gifts donated to its donor-restricted endowment, (b) the original value of subsequent gifts to its donor-restricted endowment, and (c) accumulations of investment returns to donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if any. The remaining portion of its donor-restricted endowment fund includes the accumulated unspent earnings on the donor-restricted endowment funds that remains within net assets with donor restrictions until those amounts are appropriated for expenditure by the Board in a manner consistent with the standard of prudence prescribed by NYPMIFA.

In accordance with NYPMIFA, the Society 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 the Society

The Society’s endowment consists of donor-restricted endowment funds, restricted to the following purposes as of September 30, 2019:

Marilyn Hilton MS Achievement Center	\$ 12,000,000
Research	1,334,763
Client and community services	
Direct financial assistance	845,444
Pediatric and family services	449,137
Other services and programs	1,285,444
General operations	<u>1,891,276</u>
Total	<u>\$ 17,806,064</u>



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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. The Society 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. With the exception of one endowment gift, which requires an annual spending rate of 3.5%, 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 recommend the annual spending to the Finance Committee of the Board of Directors.

The Society has adopted an investment policy for endowment assets that provides financial stability for the Society and a revenue stream for spending on the Society's programs. Under this policy, as approved by the Board of directors, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diversified asset allocation that utilizes fixed-income and equity-based investments to achieve its long-term objectives within prudent risk constraints. The spending rate is based on the five-year rolling average market value. For the fiscal year ended September 30, 2019, a 7% spending rate on endowments was approved, exclusive of the endowment with the 3.5% guaranteed spending rate.

The following summarizes the activity of the endowment fund assets for the fiscal year ended September 30, 2019:

	<u>With Donor Restrictions</u>		
	<u>Accumulated</u>	<u>Held in</u>	
	<u>Earnings</u>	<u>Perpetuity</u>	<u>Total</u>
<b>Year ended September 30, 2018</b>	<u>\$ 3,025,457</u>	<u>\$ 17,571,146</u>	<u>\$ 20,596,603</u>
Contributions	-	308,566	308,566
Investment gain (loss)	1,029,392	(21,648)	1,007,744
Redesignation of net assets by donor	-	(52,000)	(52,000)
Appropriation of endowment earnings	(219,134)	-	(219,134)
Reclassifications	<u>(195,638)</u>	<u>-</u>	<u>(195,638)</u>
<b>Year ended September 30, 2019</b>	<u>\$ 3,640,077</u>	<u>\$ 17,806,064</u>	<u>\$ 21,446,141</u>

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**13. LIQUIDITY AND AVAILABILITY OF RESOURCES**

The Society's financial assets available within one-year of the statement of financial position date for general expenditures are as follows:

As of September 30, 2019

Cash and cash equivalents	\$ 54,120,993
Contributions receivable, net	10,175,658
Other receivables	1,182,063
Investments	<u>84,422,008</u>
Total financial assets available within one year	<u>149,900,722</u>
Less:	
Contractual, legal or donor-imposed restrictions:	
Amounts subject to expenditure for specified purposes	(10,030,005)
Amounts subject to appropriation and satisfaction of donor restrictions	<u>(26,580,739)</u>
Total amounts unavailable for general expenditures within one year	<u>(36,610,744)</u>
Total financial assets available for general expenditures within one year	<u>\$ 113,289,978</u>

The Society is primarily supported by contributions (both with and without donor restriction). Because donor restrictions require resources to be used in a particular manner or in future periods, the Society maintains sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Society's liquidity management, the Board of Directors has established guidelines for the stability reserves to consist of three to five months of operating expenses. The stability reserves, which total approximately \$58 million as of September 30, 2019, are invested in a long-term investment strategy and can be made available for expenditure upon approval by the Finance Committee of the Board of Directors. In addition, the Society invests cash in excess of working capital requirements in short-term investments.

**SUPPLEMENTARY INFORMATION**

**NATIONAL MULTIPLE SCLEROSIS SOCIETY AND AFFILIATE**  
**Consolidating Schedule of Financial Position**  
**As of September 30, 2019**

	Society	Fast Forward LLC	Eliminations	Consolidated
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 54,120,993	\$ -	\$ -	\$ 54,120,993
Contributions receivable, net	10,175,658	-	-	10,175,658
Contributions receivable due from Fast Forward	3,648,206	-	(3,648,206)	-
Investments	84,273,304	148,704	-	84,422,008
Prepaid expenses and other current assets	<u>7,586,837</u>	<u>525,731</u>	<u>-</u>	<u>8,112,568</u>
Total current assets	159,804,998	674,435	(3,648,206)	156,831,227
Contributions receivable, net	1,328,423	-	-	1,328,423
Property and equipment, at cost, net of accumulated depreciation	3,781,209	-	-	3,781,209
Investments related to endowment	16,800,888	-	-	16,800,888
Investments related to charitable gift annuities	2,760,105	-	-	2,760,105
Beneficial interests in trusts	1,481,279	-	-	1,481,279
Other non-current assets	<u>1,679,840</u>	<u>-</u>	<u>-</u>	<u>1,679,840</u>
Total assets	<u>\$ 187,636,742</u>	<u>\$ 674,435</u>	<u>\$ (3,648,206)</u>	<u>\$ 184,662,971</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Grants payable	\$ 31,424,423	\$ -	\$ -	\$ 31,424,423
Accounts payable and accrued liabilities	11,019,663	-	-	11,019,663
Deferred revenue	8,175,570	-	-	8,175,570
Due to Progressive MS Alliance	10,030,005	-	-	10,030,005
Due to National MS Society	-	3,648,206	(3,648,206)	-
Other current liabilities	<u>1,020,484</u>	<u>-</u>	<u>-</u>	<u>1,020,484</u>
Total current liabilities	61,670,145	3,648,206	(3,648,206)	61,670,145
Deferred rent, net of current portion	2,101,913	-	-	2,101,913
Obligation to annuitants, net of current portion	1,861,979	-	-	1,861,979
Other non-current liabilities	<u>474,227</u>	<u>-</u>	<u>-</u>	<u>474,227</u>
Total liabilities	<u>66,108,264</u>	<u>3,648,206</u>	<u>(3,648,206)</u>	<u>66,108,264</u>
<b>NET ASSETS (DEFICIT)</b>				
Without donor restrictions	71,636,489	(2,973,771)	-	68,662,718
With donor restrictions	<u>49,891,989</u>	<u>-</u>	<u>-</u>	<u>49,891,989</u>
Total net assets (deficit)	<u>121,528,478</u>	<u>(2,973,771)</u>	<u>-</u>	<u>118,554,707</u>
Total liabilities and net assets (deficit)	<u>\$ 187,636,742</u>	<u>\$ 674,435</u>	<u>\$ (3,648,206)</u>	<u>\$ 184,662,971</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 AND AFFILIATE**  
**Consolidating Schedule of Activities**  
**For the year ended September 30, 2019**

	Society	Fast Forward LLC	Eliminations	Consolidated
<b>OPERATING REVENUE</b>				
Public support				
Special events	\$ 134,029,026	\$ -	\$ -	\$ 134,029,026
Less: Cost of direct benefits to donors	(24,091,854)	-	-	(24,091,854)
Net special events	109,937,172	-	-	109,937,172
Contributions from individuals, corporations, and foundations	58,829,562	503,601	-	59,333,163
Endowment contributions	308,566	-	-	308,566
Bequests and trust income	20,261,299	-	-	20,261,299
Contributed public service announcements, services, and goods	8,378,958	-	-	8,378,958
Total public support	197,715,557	503,601	-	198,219,158
Advertising, program fees, and other	3,688,019	-	-	3,688,019
Investment income designated for operations	219,134	-	-	219,134
Total operating revenue	201,622,710	503,601	-	202,126,311
<b>OPERATING EXPENSES</b>				
Program services				
Research	39,286,270	1,611,697	-	40,897,967
Client and community services	48,052,857	-	-	48,052,857
Public education	41,601,442	-	-	41,601,442
Professional education and training	6,326,821	-	-	6,326,821
Total program services	135,267,390	1,611,697	-	136,879,087
Support services				
Fundraising	37,038,684	-	-	37,038,684
Management and general	15,461,585	-	-	15,461,585
Total supporting services	52,500,269	-	-	52,500,269
Total operating expenses	187,767,659	-	-	189,379,356
Changes in net assets from operations	13,855,051	(1,108,096)	-	12,746,955
<b>NONOPERATING ACTIVITIES</b>				
Investment returns, net	1,004,862	(5,894)	-	998,968
Change in fair value of beneficial interest in trusts	39,036	-	-	39,036
Change in value of split-interest agreements	313,606	-	-	313,606
Other non-operating income	10,795	-	-	10,795
Total nonoperating activities	1,368,299	(5,894)	-	1,362,405
Changes in net assets	15,223,350	(1,113,990)	-	14,109,360
Net assets (deficit), beginning of year	106,305,128	(1,859,781)	-	104,445,347
Net assets (deficit), end of year	\$ 121,528,478	\$ (2,973,771)	\$ -	\$ 118,554,707

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