# NATIONAL MULTIPLE SCLEROSIS SOCIETY (NATIONAL HEADQUARTERS) AND AFFILIATE

**Consolidated Financial Statements**
**For the Years Ended September 30, 2011 and 2010**
**With Report of Independent Auditors**

**NATIONAL MULTIPLE SCLEROSIS SOCIETY**
**(NATIONAL HEADQUARTERS AND AFFILIATE)**
Years Ended September 30, 2011 and 2010

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# REPORT OF INDEPENDENT AUDITORS

Board of Directors
National Multiple Sclerosis Society
(National Headquarters)

We have audited the accompanying consolidated statements of financial position of the National Multiple Sclerosis Society (National Headquarters) and Affiliate (collectively, National Headquarters) as of September 30, 2011 and 2010, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of National Headquarters' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of National Headquarters' internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the National Multiple Sclerosis Society (National Headquarters) and Affiliate at September 30, 2011 and 2010, and the consolidated changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 17 to the consolidated financial statements, the 2010 financial statements have been restated to correct the unrestricted net assets at the beginning of the year as a result of recording a liability arising in prior years.

Mitchell & Titus, LLP

August 10, 2012

**NATIONAL MULTIPLE SCLEROSIS SOCIETY**
**(NATIONAL HEADQUARTERS) AND AFFILIATE**
Consolidated Statements of Financial Position
As of September 30, 2011 and 2010

| | 2011 | 2010 (RESTATED) |
|---|---|---|
| **ASSETS** | | |
| *Current assets* | | |
| Cash and cash equivalents | $ 27,042,123 | $ 12,859,211 |
| Contributions receivable from Chapters and others | 511,655 | 796,779 |
| Due from Chapters for National Headquarters' activities, campaign materials, and advances, less allowance of approximately $3,048,000 and $3,200,000 at September 30, 2011 and 2010, respectively | 9,106,691 | 16,976,842 |
| Prepaid expenses, other assets and other receivables, less allowance of approximately $887,000 and $80,000 at September 30, 2011 and 2010, respectively | 3,246,074 | 4,208,248 |
| Total current assets | 39,906,543 | 34,841,080 |
| *Non-current assets* | | |
| Contributions receivable from Chapters and others– long-term portion | - | 441,661 |
| Investments, at fair value | 30,690,967 | 29,893,470 |
| Beneficial interests in trusts | 93,151 | 437,792 |
| Property and equipment, net | 5,329,662 | 5,725,383 |
| Total non-current assets | 36,113,780 | 36,498,306 |
| **Total assets** | $ 76,020,323 | $ 71,339,386 |

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

**NATIONAL MULTIPLE SCLEROSIS SOCIETY**
**(NATIONAL HEADQUARTERS) AND AFFILIATE**
Consolidated Statements of Financial Position
As of September 30, 2011 and 2010

| | 2011 | 2010 (RESTATED) |
|---|---|---|
| **LIABILITIES AND NET ASSETS** | | |
| *Current liabilities* | | |
| Accounts payable and accrued expenses | $ 8,576,719 | $ 8,050,166 |
| Grants payable | 34,118,322 | 29,430,642 |
| Due to Chapters | - | 12,662 |
| Deferred income | 666,298 | 882,293 |
| Total current liabilities | 43,361,339 | 38,375,763 |
| *Non-current liabilities* | | |
| Deferred rent | 2,263,001 | 2,295,066 |
| Due to Chapters–long-term portion | 3,583,211 | 3,150,318 |
| Liability to annuitants | 2,350,916 | 2,238,245 |
| Total non-current liabilities | 8,197,128 | 7,683,629 |
| Total liabilities | 51,558,467 | 46,059,392 |
| *Commitments* | | |
| *Net assets* | | |
| Unrestricted | 13,450,687 | 11,655,242 |
| Temporarily restricted | 7,266,336 | 9,879,919 |
| Permanently restricted | 3,744,833 | 3,744,833 |
| Total net assets | 24,461,856 | 25,279,994 |
| **Total liabilities and net assets** | $ 76,020,323 | $ 71,339,386 |

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

**NATIONAL MULTIPLE SCLEROSIS SOCIETY**
**(NATIONAL HEADQUARTERS) AND AFFILIATE**
Consolidated Statement of Activities
For the Year Ended September 30, 2011

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **SUPPORT, REVENUE, AND RECLASSIFICATIONS** | | | | |
| *Support* | | | | |
| Contributions from Chapters | $ 63,682,968 | $ 7,881,597 | $ - | $ 71,564,565 |
| Contributions for research and development | - | 480,149 | - | 480,149 |
| Dues and contributions from members and others | 20,052,168 | 1,034,219 | - | 21,086,387 |
| Federal grant | 472,183 | - | - | 472,183 |
| Federal Services Campaign for National Health agencies | 35,888 | - | - | 35,888 |
| *Revenue* | | | | - |
| Advertising, program fees, and other revenue | 3,867,013 | - | - | 3,867,013 |
| Investment return | 149,874 | (4,145) | - | 145,729 |
| Total support and revenue | 88,260,094 | 9,391,820 | - | 97,651,914 |
| Net assets released from restrictions | 12,005,403 | (12,005,403) | - | - |
| Total support, revenue, and reclassifications | 100,265,497 | (2,613,583) | - | 97,651,914 |
| **EXPENSES** | | | | |
| *Program services* | | | | |
| Research and research fellowships | 40,257,414 | - | - | 40,257,414 |
| Client and community services | 9,263,829 | - | - | 9,263,829 |
| Professional education and training | 2,665,011 | - | - | 2,665,011 |
| Public education | 4,328,156 | - | - | 4,328,156 |
| Services to Chapters | 23,305,937 | - | - | 23,305,937 |
| Total program services | 79,820,347 | - | - | 79,820,347 |
| *Supporting services* | | | | |
| Fundraising | 6,970,244 | - | - | 6,970,244 |
| Management and general | 7,699,676 | - | - | 7,699,676 |
| Total supporting services | 14,669,920 | - | - | 14,669,920 |
| Payments to Chapters | 3,979,785 | - | - | 3,979,785 |
| Total expenses | 98,470,052 | - | - | 98,470,052 |
| **CHANGE IN NET ASSETS** | 1,795,445 | (2,613,583) | - | (818,138) |
| **NET ASSETS AT BEGINNING OF YEAR** | 11,655,242 | 9,879,919 | 3,744,833 | 25,279,994 |
| **NET ASSETS AT END OF YEAR** | $ 13,450,687 | $ 7,266,336 | $ 3,744,833 | $ 24,461,856 |

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

**NATIONAL MULTIPLE SCLEROSIS SOCIETY**
**(NATIONAL HEADQUARTERS) AND AFFILIATE**
Consolidated Statement of Activities
For the Year Ended September 30, 2010

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **SUPPORT, REVENUE, AND RECLASSIFICATIONS** | | | | |
| *Support* | | | | |
| Contributions from Chapters | $ 58,246,296 | $ 16,641,093 | $ 250,000 | $ 75,137,389 |
| Contributions for research and development | - | 1,819,170 | - | 1,819,170 |
| Dues and contributions from members and others | 20,835,738 | 1,131,314 | - | 21,967,052 |
| Federal grant | 485,200 | - | - | 485,200 |
| Federal Services Campaign for National Health agencies | 60,258 | - | - | 60,258 |
| *Revenue* | | | | |
| Advertising, program fees, and other revenue | 2,956,053 | - | - | 2,956,053 |
| Investment return | 3,163,379 | 151,952 | - | 3,315,331 |
| Total support and revenue | 85,746,924 | 19,743,529 | 250,000 | 105,740,453 |
| Net assets released from restrictions | 19,176,268 | (19,036,268) | (140,000) | - |
| Total support, revenue, and reclassifications | 104,923,192 | 707,261 | 110,000 | 105,740,453 |
| **EXPENSES** | | | | |
| *Program services* | | | | |
| Research and research fellowships | 36,918,907 | - | - | 36,918,907 |
| Client and community services | 9,007,464 | - | - | 9,007,464 |
| Professional education and training | 2,461,223 | - | - | 2,461,223 |
| Public education | 4,728,055 | - | - | 4,728,055 |
| Services to Chapters | 21,920,021 | - | - | 21,920,021 |
| Total program services | 75,035,670 | - | - | 75,035,670 |
| *Supporting services* | | | | |
| Fundraising | 7,298,429 | - | - | 7,298,429 |
| Management and general | 6,425,880 | - | - | 6,425,880 |
| Total supporting services | 13,724,309 | - | - | 13,724,309 |
| Payments to Chapters | 4,258,705 | - | - | 4,258,705 |
| Total expenses | 93,018,684 | - | - | 93,018,684 |
| **CHANGE IN NET ASSETS** | 11,904,508 | 707,261 | 110,000 | 12,721,769 |
| **NET ASSETS AT BEGINNING OF YEAR (RESTATED)** | (249,266) | 9,172,658 | 3,634,833 | 12,558,225 |
| **NET ASSETS AT END OF YEAR** | $ 11,655,242 | $ 9,879,919 | $ 3,744,833 | $ 25,279,994 |

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

**NATIONAL MULTIPLE SCLEROSIS SOCIETY**
**(NATIONAL HEADQUARTERS) AND AFFILIATE**
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in net assets | $ (818,138) | $ 12,721,769 |
| *Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities* | | |
| Provision for doubtful accounts | 655,480 | 442,248 |
| Depreciation and amortization | 2,225,458 | 2,534,961 |
| Net realized and unrealized gain on investments | (116,902) | (2,515,628) |
| Beneficial interests in trusts | 14,695 | 7,686 |
| Deferred rent | (32,065) | (16,501) |
| *Changes in operating assets and liabilities* | | |
| Contributions receivable | 726,785 | 778,166 |
| Due from Chapters | 7,772,151 | (4,174,242) |
| Prepaid expenses, other assets and other receivables, net | 154,694 | (1,541,924) |
| Accounts payable and accrued expenses | 526,553 | 956,065 |
| Grants payable | 4,687,680 | (2,721,194) |
| Chapters' interest in pooled investments | 432,893 | 507,711 |
| Due to Chapters | (12,662) | (2,161,727) |
| Deferred income | (215,995) | 184,717 |
| Liability to annuitants | 112,671 | (4,467) |
| Net cash provided by operating activities | 16,113,298 | 4,997,640 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | (1,829,737) | (1,313,085) |
| Purchases of investments | (680,595) | (2,010,732) |
| Proceeds from liquidation of trust | 329,946 | - |
| Proceeds from sales of investments | - | 732,413 |
| Net cash used in investing activities | (2,180,386) | (2,591,404) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Permanently restricted contributions received | 250,000 | - |
| Net cash provided by financing activities | 250,000 | - |
| Net increase in cash and cash equivalents | 14,182,912 | 2,406,236 |
| Cash and cash equivalents at beginning of year | 12,859,211 | 10,452,975 |
| **Cash and cash equivalents at end of year** | $ 27,042,123 | $ 12,859,211 |
| **SUPPLEMENTAL INFORMATION NON-CASH FINANCING ACTIVITIES** | | |
| Permanently restricted contribution receivable | $ - | $ 250,000 |

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

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

Consolidated Statement of Functional Expenses

For the Year Ended September 30, 2011

| | **Program Services** | | | | | | **Supporting Services** | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Research and Research Fellowships** | **Client and Community Services** | **Professional Education and Training** | **Public Education** | **Services to Chapters** | **Total** | **Fundraising** | **Management and General** | **Total** | **Payments to Chapters** | **Total Expenses** |
| Research and research fellowship grants | $ 35,272,837 | $ - | $ - | $ - | $ - | $ 35,272,837 | $ - | $ - | $ - | $ - | $ 35,272,837 |
| Payments to Chapters | - | - | - | - | - | - | - | - | - | 3,979,785 | 3,979,785 |
| *Expenses* | | | | | | | | | | | |
| Salaries | 1,340,952 | 3,750,835 | 751,846 | 1,528,700 | 8,627,415 | 15,999,748 | 427,718 | 2,271,760 | 2,699,478 | - | 18,699,226 |
| Retirement and health insurance benefits for employees | 212,566 | 654,066 | 100,491 | 235,210 | 1,155,764 | 2,358,097 | 53,090 | 300,494 | 353,584 | - | 2,711,681 |
| Payroll taxes | 97,002 | 306,219 | 55,958 | 106,247 | 604,197 | 1,169,623 | 28,763 | 156,626 | 185,389 | - | 1,355,012 |
| Total salaries and related expenses | 1,650,520 | 4,711,120 | 908,295 | 1,870,157 | 10,387,376 | 19,527,468 | 509,571 | 2,728,880 | 3,238,451 | - | 22,765,919 |
| Travel | 539,463 | 165,830 | 111,504 | 125,803 | 1,166,634 | 2,109,234 | 47,647 | 240,748 | 288,395 | - | 2,397,629 |
| Professional fees and contract service payments | 1,504,158 | 800,661 | 358,042 | 696,338 | 7,109,528 | 10,468,727 | 1,652,303 | 1,992,992 | 3,645,295 | - | 14,114,022 |
| Printing and stationery | 59,501 | 422,725 | 98,590 | 407,579 | 264,152 | 1,252,547 | 2,260,579 | 779,779 | 3,040,358 | - | 4,292,905 |
| Dues, subscriptions, and reprints | 77,857 | 26,131 | 17,559 | 69,382 | 208,211 | 399,140 | 352,340 | 186,102 | 538,442 | - | 937,582 |
| Office supplies | 9,537 | 45,454 | 5,101 | 10,278 | 56,083 | 126,453 | 2,430 | 13,053 | 15,483 | - | 141,936 |
| Rent and electricity | 356,244 | 499,676 | 137,109 | 192,529 | 1,051,074 | 2,236,632 | 52,424 | 360,727 | 413,151 | - | 2,649,783 |
| Insurance | 26,885 | 106,707 | 15,450 | 25,761 | 166,126 | 340,929 | 7,299 | 44,227 | 51,526 | - | 392,455 |
| Postage, trucking, and express | 33,787 | 334,613 | 33,999 | 370,107 | 157,286 | 929,792 | 1,823,250 | 638,577 | 2,461,827 | - | 3,391,619 |
| Telephone | 83,790 | 211,075 | 50,240 | 53,764 | 405,559 | 804,428 | 17,537 | 91,296 | 108,833 | - | 913,261 |
| Conferences and meetings | 202,081 | 58,738 | 42,766 | 72,883 | 329,868 | 706,336 | 14,024 | 74,812 | 88,836 | - | 795,172 |
| Specific assistance to individuals and clinics | 96,475 | 563,422 | 369,945 | 80,301 | 142,060 | 1,252,203 | 13,946 | 37,163 | 51,109 | - | 1,303,312 |
| Awards and other grants | 114,338 | 472,269 | 359,230 | 79,012 | 146,656 | 1,171,505 | 13,946 | 38,278 | 52,224 | - | 1,223,729 |
| Sundry | 77,581 | 232,846 | 69,618 | 128,256 | 773,056 | 1,281,357 | 161,574 | 229,717 | 391,291 | - | 1,672,648 |
| Total expenses before depreciation and amortization | 4,832,217 | 8,651,267 | 2,577,448 | 4,182,150 | 22,363,669 | 42,606,751 | 6,928,870 | 7,456,351 | 14,385,221 | - | 56,991,972 |
| Depreciation and amortization | 152,360 | 612,562 | 87,563 | 146,006 | 942,268 | 1,940,759 | 41,374 | 243,325 | 284,699 | - | 2,225,458 |
| Total expenses | 4,984,577 | 9,263,829 | 2,665,011 | 4,328,156 | 23,305,937 | 44,547,510 | 6,970,244 | 7,699,676 | 14,669,920 | - | 59,217,430 |
| **Total expenses, grants, and payments to Chapters** | $ 40,257,414 | $ 9,263,829 | $ 2,665,011 | $ 4,328,156 | $ 23,305,937 | $ 79,820,347 | $ 6,970,244 | $ 7,699,676 | $ 14,669,920 | $ 3,979,785 | $ 98,470,052 |

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

**NATIONAL MULTIPLE SCLEROSIS SOCIETY**
**(NATIONAL HEADQUARTERS) AND AFFILIATE**
Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2010

| | Program Services | | | | | | Supporting Services | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Research and Research Fellowships | Client and Community Services | Professional Education and Training | Public Education | Services to Chapters | Total | Fundraising | Management and General | Total | Payments to Chapters | Total Expenses |
| Research and research fellowship grants | $ 31,678,521 | $ - | $ - | $ - | $ - | $ 31,678,521 | $ - | $ - | $ - | $ - | $ 31,678,521 |
| Payments to Chapters | - | - | - | - | - | - | - | - | - | 4,258,705 | 4,258,705 |
| *Expenses* | | | | | | | | | | | |
| Salaries | 1,598,070 | 3,436,502 | 757,945 | 1,431,627 | 8,038,384 | 15,262,528 | 394,644 | 1,756,473 | 2,151,117 | - | 17,413,645 |
| Retirement and health insurance benefits for employees | 277,361 | 629,345 | 98,015 | 158,470 | 876,887 | 2,040,078 | 40,880 | 198,681 | 239,561 | - | 2,279,639 |
| Payroll taxes | 105,155 | 267,217 | 61,032 | 101,452 | 615,774 | 1,150,630 | 29,348 | 135,424 | 164,772 | - | 1,315,402 |
| Total salaries and related expenses | 1,980,586 | 4,333,064 | 916,992 | 1,691,549 | 9,531,045 | 18,453,236 | 464,872 | 2,090,578 | 2,555,450 | - | 21,008,686 |
| Travel | 372,090 | 149,358 | 91,417 | 186,684 | 1,050,086 | 1,849,635 | 35,376 | 207,146 | 242,522 | - | 2,092,157 |
| Professional fees and contract service payments | 1,787,173 | 590,532 | 313,250 | 1,009,569 | 6,855,271 | 10,555,795 | 1,872,677 | 1,816,994 | 3,689,671 | - | 14,245,466 |
| Printing and stationery | 62,389 | 588,172 | 82,206 | 549,804 | 390,020 | 1,672,591 | 2,373,776 | 702,623 | 3,076,399 | - | 4,748,990 |
| Dues, subscriptions, and reprints | 65,793 | 21,164 | 15,202 | 76,755 | 195,189 | 374,103 | 357,944 | 139,842 | 497,786 | - | 871,889 |
| Office supplies | 12,969 | 53,907 | 4,709 | 10,525 | 48,513 | 130,623 | 2,078 | 10,802 | 12,880 | - | 143,503 |
| Rent and electricity | 353,271 | 562,717 | 147,452 | 192,328 | 1,015,342 | 2,271,110 | 49,761 | 281,106 | 330,867 | - | 2,601,977 |
| Insurance | 13,367 | 54,825 | 8,353 | 14,323 | 77,662 | 168,530 | 3,483 | 19,222 | 22,705 | - | 191,235 |
| Postage, trucking, and express | 30,361 | 325,451 | 40,039 | 353,644 | 182,991 | 932,486 | 1,951,585 | 558,669 | 2,510,254 | - | 3,442,740 |
| Telephone | 78,985 | 260,038 | 48,233 | 71,529 | 446,194 | 904,979 | 18,693 | 92,865 | 111,558 | - | 1,016,537 |
| Conferences and meetings | 112,017 | 349,822 | 62,294 | 233,611 | 591,495 | 1,349,239 | 39,563 | 126,072 | 165,635 | - | 1,514,874 |
| Specific assistance to individuals and clinics | 80,556 | 510,185 | 373,941 | 62,693 | 102,738 | 1,130,113 | 10,274 | 27,085 | 37,359 | - | 1,167,472 |
| Awards and other grants | 76,159 | 327,257 | 239,085 | 41,446 | 104,451 | 788,398 | 8,061 | 22,811 | 30,872 | - | 819,270 |
| Sundry | 40,167 | 127,429 | 21,400 | 45,714 | 301,186 | 535,896 | 64,411 | 81,394 | 145,805 | - | 681,701 |
| Total expenses before depreciation and amortization | 5,065,883 | 8,253,921 | 2,364,573 | 4,540,174 | 20,892,183 | 41,116,734 | 7,252,554 | 6,177,209 | 13,429,763 | - | 54,546,497 |
| Depreciation and amortization | 174,503 | 753,543 | 96,650 | 187,881 | 1,027,838 | 2,240,415 | 45,875 | 248,671 | 294,546 | - | 2,534,961 |
| Total expenses | 5,240,386 | 9,007,464 | 2,461,223 | 4,728,055 | 21,920,021 | 43,357,149 | 7,298,429 | 6,425,880 | 13,724,309 | - | 57,081,458 |
| **Total expenses, grants, and payments to Chapters** | $ 36,918,907 | $ 9,007,464 | $ 2,461,223 | $ 4,728,055 | $ 21,920,021 | $ 75,035,670 | $ 7,298,429 | $ 6,425,880 | $ 13,724,309 | $ 4,258,705 | $ 93,018,684 |

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

## NOTE 1 ORGANIZATION

The National Multiple Sclerosis Society (the Society), a national not-for-profit health agency, is dedicated to ending the devastating effects of multiple sclerosis. The Society consists of National Headquarters (National Headquarters), Fast Forward, LLC (Fast Forward), and 45 chartered chapters (the Chapters) throughout the country, each with a separate Board of Trustees. National Headquarters' principal program includes a research and training program, which annually awards research grants, disseminates information and coordinates programs and services for its chapters. Services provided to the Chapters include chapter and campaign development, fundraising, materials and supplies, and other services as provided under the related arrangements. Services provided by the Chapters include information and referral, counseling, education, advocacy, and equipment assistance.

## NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements consist of the accounts of National Headquarters and Fast Forward, a not-for-profit limited liability company of which National Headquarters is the sole member. The accounts of the Chapters, which National Headquarters does not have control over, either by majority ownership or a majority voting interest in the respective Boards of Trustees, are not included in the consolidated financial statements. See Note 15 for a summary of the Chapters' financial position and operating results.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## NOTE 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Net Asset Classifications

Resources for various purposes are classified for accounting and financial reporting purposes into net asset classes established according to their nature and purpose as follows:

*Unrestricted net assets:* Consist of resources available for the support of National Headquarters' operations. They may be used at the discretion of National Headquarters' management and the Board of Directors.

*Temporarily restricted net assets:* Represent amounts restricted by donors and grantors for specific activities of National Headquarters or to be used at some future date.

*Permanently restricted net assets:* Contain donor-imposed restrictions that stipulate that the resources are to be maintained permanently. Income earned on permanently restricted net assets is available to be used in the unrestricted or temporarily restricted net asset class, based on donor stipulations.

Revenue Recognition

All unconditional contributions are recorded as revenue when received at their fair value. Commencing in fiscal 2009, the fair value of long-term contributions receivable is measured based on the present value of future cash flows, with consideration of expectation about possible variations in the amount and/or timing of the cash flows and other specific factors that would be considered by market participants. The fair value measurements also consider donors' credit risk. Long-term contributions received prior to fiscal 2009 are measured at fair value based on the present value of cash flows utilizing risk-free discount rates. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Conditional contributions totaled $800,000 as of September 30, 2011, which consists of amounts expected to be received under a collaboration agreement with certain not-for-profit organizations (see Note 10).

## NOTE 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue Recognition *(continued)*

All contributions are considered available for unrestricted use unless specifically restricted by the donor. National Headquarters records contributions as temporarily restricted net assets if they are received with donor stipulations that limit their use either through purpose or time. When donor restrictions expire (i.e., when a time or purpose restriction is fulfilled), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statements of activities as net assets released from restrictions.

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

Fast Forward receives contributions under separate collaboration agreements with a pharmaceutical company and two not-for-profit organizations (the funding entities) 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 (see Note 10). Contributions received, which are refundable to the company if not spent for the specified activities, are recorded as support (contributions for R&D) when the activities have been performed or expenditures have been incurred by the recipient organizations.

Allowance for Doubtful Accounts

National Headquarters maintains an allowance for doubtful accounts for estimated losses that may result from the inability of the Chapters or advertisers to make payment. Such allowances are based on several factors, including, but not limited to, historical experience and the financial condition of the Chapters or its advertisers.

Expense Allocations

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

## NOTE 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 things, annually. National Headquarters' policy regarding the recognition of grants payable is to include only those amounts for which a specific grantee is identified.

Payments made under SRAs are recognized as an expense, as services or R&D activities are performed by the funded entities in accordance with the terms of the SRAs. Funding commitments by Fast Forward, for which future payments are contingent upon achieving certain milestones set forth in the SRAs, are not recognized in the accompanying consolidated financial statements.

Cash and Cash Equivalents

National Headquarters considers highly liquid investments with maturities of three months or less when purchased, other than those held in the investment portfolio, to be cash equivalents.

At September 30, 2011 and 2010, approximately 97% and 92%, respectively, of cash and cash equivalents were held by one financial institution.

Due from Chapters and Contributions from Chapters

In January 2010, the Board of Directors approved a policy change in the calculation of each chapter's contributions to National Headquarters, effective fiscal year 2011. Under the new policy, 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 (the revenue base) for the two fiscal years immediately prior to the preceding fiscal year. To determine the revenue base, in-kind contributions and investment results are excluded from the calculation. The percentages are subject to an adjustment each year to ensure that the Society meets its programmatic goals and that all donor restrictions are honored. The amounts received from chapters under the new policy for the year ended September 30, 2011 approximated $58,733,000. Total contributions from Chapters for the year ended September 30, 2011 approximated $71,565,000.

## NOTE 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Due from Chapters and Contributions from Chapters *(continued)*

During fiscal year 2010, which was prior to the adoption of the policy described in the preceding paragraph, National Headquarters and the Chapters had agreements under which a portion of contributions received by the Chapters was shared with National Headquarters. This portion amounted to approximately $63,652,000 for the year ended September 30, 2010, which was net of an agreed-upon fundraising allowance of 20% where appropriate. Amounts not remitted by the Chapters were recorded by National Headquarters as due from Chapters for national activities. The Chapters' share of contributions received directly by National Headquarters was offset against the respective amounts due from Chapters. The Chapters, in turn, recorded their share of the contribution, which reduced their liability to National Headquarters. Multiyear contributions from the Chapter activities that were restricted to National Headquarters were reflected as an expense by the Chapter and as a contribution by National Headquarters in the year that the multiyear contribution was made. Total contributions from the Chapters for the year ended September 30, 2010 approximated $75,137,000.

Investments and Investment Income

Investments in mutual funds and equity securities are carried at their fair values, which are based on published unit values or quoted market prices. Investments in debt securities are carried at their fair values, which are based on measurement inputs derived indirectly 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 market value 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, is recorded in the net asset class owning the assets, with the exception of permanently restricted net assets. Prior to the enactment of the New York Prudent Management of Institutional Funds Act (NYPMIFA) on September 17, 2010, income earned from permanently restricted investments, including realized and unrealized gains and losses, was recorded as unrestricted or temporarily restricted based on stipulations by the donor or law. As a result of UPMIFA, such income from permanently restricted investments is recorded as temporarily restricted and then reclassified to unrestricted upon appropriation.

## NOTE 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Split-Interest Agreements and Beneficial Interests in Trusts

The Society is the beneficiary in a number of split-interest agreements with donors, whereby National Headquarters controls and invests the donated assets and shares with the donor or the donor's designee income generated from these assets until such time as stated in the agreement (usually upon the death of the donor or the donor's designee). At that time, the remaining assets are shared between the chapter designated by the donor and National Headquarters. Generally, the chapter receives 60% of the amount distributed and National Headquarters receives 40%, unless otherwise designated by the donor.

National Headquarters records contribution income for its share and a liability for amounts payable to annuitants and for the chapter's share, at fair value, using an actuarial calculation at the time of the gift. The fair value of the liability to annuitants is accreted to the amount payable to the annuitants over their life expectancies and adjustments are made annually for changes in mortality, if any.

In other situations where assets are controlled and invested by an independent third party, National Headquarters records a beneficial interest in trust and contribution income 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. At September 30, 2011 and 2010, National Headquarters' beneficial interests in such trusts were approximately $93,000 and $438,000, respectively.

Property and Equipment

Property and equipment is carried at cost or, if donated, at fair value on the date received. Property and equipment other than leasehold improvements are depreciated on the straight-line basis over the respective estimated useful lives of the assets, which range from three to five years. Leasehold improvements are amortized over the term of the related lease or the estimated useful life of the improvement, whichever is shorter.

Donated Services

Highly qualified volunteers serving on peer review research committees have donated their time and efforts to the Society. These contributed services were valued at approximately $323,000 and $435,000 for the years ended September 30, 2011 and 2010, respectively, and have been recognized as support (dues and contributions from members and others) and expense in the consolidated statements of activities.

## NOTE 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Donated Services *(continued)*

Other volunteers have also donated significant time to the Society's program services and fundraising campaigns. These services were not reflected in the accompanying consolidated statements of activities because they do not meet the necessary criteria for recognition under GAAP.

Donated public service announcements received were deemed not material and, accordingly, have not been reflected as support and expense in the accompanying consolidated statements of activities.

Rent Expense

Rent expense is recorded on the straight-line basis over the term of the leases. The difference between rental payments made under the leases and rent expense calculated on the straight-line basis is recorded as prepaid rent or deferred rent liability.

Recent Accounting Pronouncement

During fiscal year 2011, National Headquarters adopted Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amended certain disclosures required under Accounting Standards Codification 820. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2, and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances, and settlements of Level 3 assets and liabilities on a gross basis.

## NOTE 3 TAX-EXEMPT STATUS

National Headquarters 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 Headquarters is publicly supported, contributions to National Headquarters qualify for the maximum charitable contribution deduction under the IRC. National Headquarters is also exempt from state and local income taxes. Fast Forward, its consolidated not-for-profit affiliate, derives its tax exemption from National Headquarters and is treated as a "disregarded entity" for tax purposes.

## NOTE 3 TAX-EXEMPT STATUS *(continued)*

Management has analyzed the tax positions it has taken and has concluded that, as of September 30, 2011, there were no uncertain tax positions taken or are expected to be taken. Accordingly, no interest or penalties related to uncertain tax positions have been accrued in the accompanying consolidated financial statements.

National Headquarters is subject to audits by taxing jurisdictions; however, no audits for any tax periods are currently in progress. Management believes that the National Headquarters is no longer subject to such audits for years ended on or prior to September 30, 2007 under federal and other state tax jurisdictions.

## NOTE 4 CONTRIBUTIONS RECEIVABLE FROM CHAPTERS AND OTHERS

Contributions receivable from the Chapters and others as of September 30 were due to be collected as follows:

| | 2011 | 2010 |
|---|---|---|
| Less than one year | $ 511,655 | $ 796,779 |
| One to five years | - | 441,661 |
| **Total** | $ 511,655 | $ 1,238,440 |

Those receivables that are due in more than one year at inception have been discounted to their present value at the rate of 4.25%. The related discounts amounted to approximately $18,000 and $55,000 at September 30, 2011 and 2010, respectively.

## NOTE 5 INVESTMENTS

A summary of National Headquarters' investments at September 30 is as follows:

| | 2011 | 2010 |
|---|---|---|
| Cash equivalents | $ 4,029,384 | $ 2,630,219 |
| Certificates of deposit | 250,000 | 250,000 |
| *Equities–common stocks, sponsored American depositary receipts, and other equity securities* | | |
| Consumer–discretionary | 1,697,381 | 1,665,500 |
| Consumer–staples | 1,206,433 | 1,030,410 |
| Energy | 1,242,286 | 1,309,903 |
| Financial services | 1,291,757 | 1,606,530 |
| Healthcare | 1,326,848 | 1,222,707 |
| Industrials | 1,346,536 | 1,512,792 |
| Telecommunications | 769,819 | 877,056 |
| Utilities | 666,892 | 699,950 |
| Information technology | 1,567,407 | 1,854,512 |
| Materials | 1,075,005 | 1,120,106 |
| Unclassified | 377,339 | 468,189 |
| | 12,567,703 | 13,367,655 |
| Equity mutual fund | 262,327 | 269,991 |
| *Fixed income* | | |
| U.S. treasury and agency obligations | 3,738,275 | 4,956,565 |
| *Mutual funds invested mainly in* | | |
| U.S. domestic and international corporate and convertible debt securities | 3,214,937 | 1,715,069 |
| Mortgage- and asset-backed securities | - | 1,713,394 |
| Limited maturity bond fund | 103,201 | 104,474 |
| | 7,056,413 | 8,489,502 |
| Commodities–mutual fund | 1,209,550 | 68,688 |
| Warrants | 1,737,950 | 1,327,945 |
| *Investments related to charitable gift annuities* | | |
| Cash equivalents | 208,248 | 190,943 |
| U.S. Treasury and agency obligations | 405,039 | 126,610 |
| Fixed-income mutual funds | 1,743,183 | 1,852,079 |
| Equity mutual funds | 1,215,094 | 1,313,762 |
| | 3,571,564 | 3,483,394 |
| Other | 6,076 | 6,076 |
| **Total** | $ 30,690,967 | $ 29,893,470 |

## NOTE 5 INVESTMENTS *(continued)*

The investments related to charitable gift annuities are further categorized by state as follows:

| | 2011 | 2010 |
|---|---|---|
| California | $ 542,556 | $ 688,810 |
| Maryland | 252,321 | 417,474 |
| New York | 746,355 | 284,856 |
| All other states | 2,030,332 | 2,092,254 |
| **Total** | $ 3,571,564 | $ 3,483,394 |

The related liability to annuitants at September 30, 2011 and 2010 amounted to approximately $2,351,000 and $2,238,000, respectively, based on a discount rate of 6% per year. State-mandated insurance reserves related to these arrangements are maintained at the required levels.

Investments include certain Chapters' ownership interests, which amounted to approximately $3,527,000 and $2,921,000 as of September 30, 2011 and 2010, respectively. The Chapters' ownership interests are included in due to Chapters – long-term portion in the accompanying consolidated statements of financial position.

The components of National Headquarters' investment return in the accompanying consolidated statements of activities are as follows:

| | 2011 | 2010 |
|---|---|---|
| Interest and dividend income | $ 28,827 | $ 799,703 |
| Net realized and unrealized gain on investments | 116,902 | 2,515,628 |
| **Total** | $ 145,729 | $ 3,315,331 |

The unrealized (loss) gain on investments relating to charitable gift annuities during the fiscal years 2011 and 2010 was approximately $(257,000) and $73,000, respectively.

## NOTE 6 FAIR VALUE MEASUREMENTS

National Headquarters accounts for fair value measurements under the accounting standard that establishes a hierarchy for the inputs used to measure fair value based on the nature of the data input, which generally range from quoted prices for identical instruments in a principal trading market (Level 1) to estimates determined using related market data (Level 3). Multiple inputs may be used to measure fair value.

*Level 1*: Measurements that are most observable are based on quoted prices of identical instruments obtained from principal markets in which they are traded. Closing prices are both readily available and representative of fair value. Market transactions occur with sufficient frequency and volume to ensure liquidity.

*Level 2*: Measurements derived indirectly from observable inputs or from quoted prices from markets that are less liquid. Measurements may consider inputs that other market participants would use in valuing a portfolio, quoted market prices for similar securities, interest rates, credit risks and others.

*Level 3*: Measurements that are least observable are estimated from related market data, determined from sources with little or no market activity for comparable contracts, or are positions with longer durations.

## NOTE 6 FAIR VALUE MEASUREMENTS *(continued)*

The following table provides the fair value hierarchy of National Headquarters' financial instruments as of September 30, 2011 and 2010:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| *September 30, 2011* | | | | |
| Cash equivalents | $ 214,121 | $ - | $ - | $ 214,121 |
| *Investments* | | | | |
| Cash equivalents | 4,029,384 | - | - | 4,029,384 |
| Certificates of deposit | - | 250,000 | - | 250,000 |
| Equities–common stocks, American depositary receipts, and other equity securities | 12,567,703 | - | - | 12,567,703 |
| Equities–mutual fund | 262,327 | - | - | 262,327 |
| *Fixed income* | | | | |
| U.S. Treasury and agency obligations | - | 3,738,275 | - | 3,214,937 |
| Mutual funds | 3,214,937 | - | - | 3,214,937 |
| Limited maturity bond fund | 103,201 | - | - | 103,201 |
| Commodities mutual fund | 1,209,550 | - | - | 1,209,550 |
| Warrants | - | - | 1,737,950 | 1,737,950 |
| *Investments related to charitable gift annuities* | | | | |
| Cash equivalents | 208,248 | - | - | 208,248 |
| U.S. Treasury and agency obligations | - | 405,039 | - | 405,039 |
| Fixed-income mutual funds | 1,743,183 | - | - | 1,743,183 |
| Equity mutual funds | 1,215,094 | - | - | 1,215,094 |
| Other investments | - | - | 6,076 | 6,076 |
| Beneficial interest in trusts | - | - | 93,151 | 93,151 |
| **Total** | $ 24,767,748 | $ 4,393,314 | $ 1,837,177 | $ 30,998,239 |

## NOTE 6 FAIR VALUE MEASUREMENTS *(continued)*

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| *September 30, 2010* | | | | |
| Cash equivalents | $ 550,418 | $ - | $ - | $ 550,418 |
| *Investments* | | | | |
| Cash equivalents | 2,630,219 | - | - | 2,630,219 |
| Certificates of deposit | | 250,000 | - | 250,000 |
| Equities–common stocks, American depositary receipts, and other equity securities | 13,367,655 | - | - | 13,367,655 |
| Equities–mutual fund | 269,991 | - | - | 269,991 |
| *Fixed income* | | | | |
| U.S. Treasury and agency obligations | - | 4,956,565 | - | 4,956,565 |
| Mutual funds | 3,428,463 | - | - | 3,428,463 |
| Limited maturity bond fund | 104,474 | - | - | 104,474 |
| Commodities mutual fund | 68,688 | - | - | 68,688 |
| Warrants | - | - | 1,327,945 | 1,327,945 |
| *Investments related to charitable gift annuities* | | | | |
| Cash equivalents | 190,943 | - | - | 190,943 |
| U.S. Treasury and agency obligations | - | 126,610 | - | 126,610 |
| Fixed-income mutual funds | 1,852,079 | - | - | 1,852,079 |
| Equity mutual funds | 1,313,762 | - | - | 1,313,762 |
| Other investments | - | - | 6,076 | 6,076 |
| Beneficial interest in trusts | - | - | 437,792 | 437,792 |
| **Total** | $ 23,776,692 | $ 5,333,175 | $ 1,771,813 | $ 30,881,680 |

Beneficial interests in trusts are stated at fair value using Level 3 inputs based on the present value of the estimated future distributions to be received by National Headquarters over the expected term of the respective agreements.

Warrants, which were received prior to fiscal year 2011 under the SRAs as discussed in Note 10, are valued using Level 3 inputs. The valuation of $1,737,950 and $1,327,945, respectively, was 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.

## NOTE 6 FAIR VALUE MEASUREMENTS *(continued)*

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

| | Warrants and Options | Beneficial Interests in Trusts | Other | Total |
|---|---|---|---|---|
| *Year ended September 30, 2010* | | | | |
| Fair value at beginning of year | $ 308,567 | $ 445,478 | $ 6,076 | $ 760,121 |
| *Change in unrealized gain on* | | | | |
| Investments acquired during the year | 770,646 | - | - | 770,646 |
| Prior-year investments held at year end | 248,732 | (7,686) | - | 241,046 |
| | 1,019,378 | (7,686) | - | 1,011,692 |
| **Fair value at end of year** | $ 1,327,945 | $ 437,792 | $ 6,076 | $ 1,771,813 |
| *Year ended September 30, 2011* | | | | |
| Fair value at beginning of year | $ 1,327,945 | $ 437,792 | $ 6,076 | $ 1,771,813 |
| Proceeds from a trust liquidated during the year | - | (329,946) | - | (329,946) |
| *Change in unrealized gain on* | | | | |
| Prior-year investments held at year end | 410,005 | (14,695) | - | 395,310 |
| **Fair value at end of year** | $ 1,737,950 | $ 93,151 | $ 6,076 | $ 1,837,177 |

## NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment at September 30 consisted of the following:

| | 2011 | 2010 |
|---|---|---|
| Computer hardware and purchased software | $ 30,442,258 | $ 29,032,877 |
| Furniture and fixtures | 1,358,156 | 1,356,076 |
| Equipment | 1,616,471 | 1,199,196 |
| Leasehold improvements | 2,273,104 | 2,273,104 |
| | 35,689,989 | 33,861,253 |
| *Less*: Accumulated depreciation and amortization | 30,360,327 | 28,135,870 |
| **Net** | $ 5,329,662 | $ 5,725,383 |

## NOTE 8 PENSIONS

National Headquarters maintains a non-contributory defined contribution retirement plan that covers 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 year 2011, resulting in pension expense of approximately $268,000. No contribution was authorized for the year ended September 30, 2010.

## NOTE 9 LEASES

National Headquarters currently leases offices in New York City and Washington, D.C. under operating leases that expire on December 31, 2021 and April 30, 2014, respectively. In addition, National Headquarters leases premises for its Denver-based Training and Resource Center under an operating lease that expires on January 31, 2018. 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-cancelable sublease agreements. The subleases are co-terminus with the respective leases.

Rent expense, computed on the straight-line basis, was approximately $2,632,000 and $2,528,000 for the years ended September 30, 2011 and 2010, respectively. Sublease income of approximately $539,000 and $535,000 for the years ended September 30, 2011 and 2010, respectively, is included in advertising, program fees, and other revenue in the consolidated statements of activities. Deferred rent liability at September 30, 2011 and 2010 was approximately $2,263,000 and $2,295,000, respectively. Approximate future minimum lease commitments and related sublease income are as follows:

| **Fiscal Year Ending September 30** | **Lease Payments** | **Sublease Income** |
|---|---|---|
| 2012 | $ 2,091,000 | $ 411,000 |
| 2013 | 2,137,000 | 435,000 |
| 2014 | 2,105,000 | 445,000 |
| 2015 | 2,053,000 | 448,000 |
| 2016 | 2,071,000 | 452,000 |
| Thereafter | 8,618,000 | 1,905,000 |
| **Total** | $ 19,075,000 | $ 4,096,000 |

## NOTE 10 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 a three-year period. Commitments for research and fellowship projects that have been approved for funding in fiscal 2012 were recorded as of September 30, 2011, and are included in grants payable in the accompanying consolidated statements of financial position. As of September 30, 2011, the outstanding commitments for research and fellowship projects beyond fiscal 2012 total approximately $27,133,000, and are scheduled for funding as follows: 2013–$17,816,000; 2014–$8,520,000; and 2015–$797,000. These projects are expected to be funded by unrestricted net assets and support 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.

Collaboration Agreement With Merck KGaA

During fiscal 2009, Fast Forward entered into an agreement with a leading pharmaceutical company, 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 has an initial two-year term, which automatically renews for three successive 12-month periods unless earlier terminated in accordance therewith.

Under the collaboration agreement, Fast Forward is entitled to an annual management fee of $800,000, any unspent amount of which will be credited against the management fee for the subsequent year or refunded to Merck KGaA should the collaboration agreement be terminated under the conditions set forth therein. The collaboration agreement was renewed during fiscal year 2011 with the same management fee of $800,000, which was received net of approximately $245,000 of unspent prior years' management fees. Approximately $713,000 and $961,000 was earned and expended during 2011 and 2010, respectively. These amounts were recorded as other revenue and research expense in the accompanying consolidated statements of activities. The unspent portion of the fees, which amounted to $320,000 and $478,000 at September 30, 2011 and 2010, respectively, is reflected in deferred income in the accompanying consolidated statements of financial position.

## NOTE 10 RESEARCH AND DEVELOPMENT ACTIVITIES *(continued)*

Collaboration Agreement With Merck KGaA *(continued)*

The collaboration agreement further provides that Merck KGaA, subject to certain limitations, funds the research activities established under an SRA executed with the Funded Entity. In addition, Fast Forward provides a matching amount up to 10% of Merck KGaA's funding, subject to availability of funds. As discussed further below, Fast Forward entered into three SRAs during fiscal year 2011, with a total funding commitment of approximately $1,006,000, and four SRAs during fiscal year 2010, with a total funding commitment of approximately $1,430,000.

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. Fast Forward will be responsible for choosing the companies or institutions to be funded using the funds to be provided by the organizations, according to the following schedule: $200,000 on October 1, 2010, $350,000 on October 1, 2011 and $450,000 on October 1, 2011.

The agreement expires on December 31, 2012, subject to early termination or extension under its provisions. Any funds remaining unspent or uncommitted as of the expiration or termination date of the agreement shall be returned to the organizations.

For fiscal year 2011, Fast Forward received and spent the first funding of $200,000 in accordance with the terms of the agreement.

## NOTE 10 RESEARCH AND DEVELOPMENT ACTIVITIES *(continued)*

Sponsored Research Agreements *(continued)*

Fast Forward enters into SRAs with selected companies (each an R&D company) 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 the SRAs from the public support it receives from donors or through the chapters and National Headquarters of the Society 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.

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

As of September 30, 2011, Fast Forward had entered into seven SRAs funded by public support and the collaboration agreement with other not-for-profit organizations. Payments to the R&D companies under these SRAs totaled approximately $476,000 and $1,208,000 in 2011 and 2010, respectively. Approximately $803,000 and $548,000 were charged to R&D grants in 2011 and 2010, respectively, and approximately $757,000 and $1,084,000 were recorded as prepaid expense as of September 30, 2011 and 2010, respectively. Outstanding funding commitments under these SRAs at September 30, 2011 totaled approximately $502,000.

There were no new warrants received during fiscal 2011 and none of the milestones that would require payment of royalties to Fast Forward have been achieved.

## NOTE 10 RESEARCH AND DEVELOPMENT ACTIVITIES *(continued)*

Sponsored Research Agreements *(continued)*

*SRA Funded Under the Collaboration Agreement with Merck KGaA*

As of September 30, 2011, Fast Forward entered into seven SRAs pursuant to the terms of the collaboration agreement with Merck KGaA. Payments to the R&D companies under these SRAs totaled approximately $942,000 and $660,000 during fiscal years 2011 and 2010, respectively. Approximately $924,000 and $470,000 was charged to R&D grants during fiscal years 2011 and 2010, respectively, and approximately $208,000 and $190,000 to prepaid expense at September 30, 2011 and 2010, respectively. Contributions received or due from Merck KGaA totaled approximately $819,000 and $600,000 during fiscal years 2011 and 2010, respectively. Approximately $796,000 and $427,000 were recognized as revenue in fiscal year 2011 and 2010, respectively. Deferred revenue related to these contributions at September 30, 2011 and 2010 amounted to approximately $196,000 and $173,000, respectively. Outstanding funding commitments under these SRAs totaled approximately $826,000 at September 30, 2011, of which $774,000 will be funded by Merck KGaA and $52,000 by Fast Forward from public support.

There were no new warrants received during fiscal 2011 and none of the milestones that would require payment of royalties to Fast Forward have been achieved.

## NOTE 11 PAYMENTS AND SERVICES TO CHAPTERS

During fiscal 2011 and 2010, National Headquarters made direct payments to its Chapters of approximately $3,980,000 and $4,258,000, respectively, and incurred costs of approximately $23,306,000 and $21,920,000, respectively, in providing services to Chapters. Total benefits to Chapters provided by National Headquarters during fiscal 2011 and 2010 were approximately $27,286,000 and $26,178,000, respectively. The direct payments during fiscal 2011 and 2010 were made under certain agreements regarding National Headquarters' direct mail program (approximately $3,793,000 and $3,925,000, respectively) and contributions and corporate sponsorships (approximately $187,000 and $333,000, respectively).

## NOTE 12 TEMPORARILY RESTRICTED NET ASSETS

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

| | 2011 | 2010 |
|---|---|---|
| *Research* | | |
| Contributions from Chapters and others for research | $ 475,354 | $ 905,354 |
| Ralph I. Straus Fund | 693,912 | 695,365 |
| John Dystel Fund for Multiple Sclerosis Research | 170,294 | 187,986 |
| Research Exploration Fund | 505,151 | 500,152 |
| Fast Forward activities | 1,418,164 | 3,270,296 |
| Alan Buegeleisen Research Fund | 261,532 | 389,992 |
| *Educational and other* | | |
| Annuities for various restricted purposes | 760,102 | 969,713 |
| John Dystel Nursing Fellowship Fund | 197,478 | 330,336 |
| Corporate sponsorships | 2,699,869 | 2,544,659 |
| Weinberg Trust | 84,480 | 86,066 |
| **Total** | $ 7,266,336 | $ 9,879,919 |

During fiscal 2011 and 2010, net assets were released from donor restrictions (by incurring expenses satisfying the restrictions) as follows:

| | 2011 | 2010 |
|---|---|---|
| Research grants and expenses | $ 9,296,173 | $ 17,489,947 |
| Educational and other | 2,709,230 | 1,546,321 |
| **Total** | $ 12,005,403 | $ 19,036,268 |

## NOTE 13 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.

<u>Interpretation of Relevant Law</u>

On September 17, 2010, the State of New York enacted the New York Prudent Management of Institutional Funds Act, a modified version of the Uniform Prudent Management of Institutional Funds Act, which superseded the State of New York Uniform Management of Institutional Funds Act (the prior law).

National Headquarters manages its institutional funds with a focus on the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary, consistent with its interpretation of the prior law. As a result, National Headquarters classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, and (2) the original value of subsequent gifts to the permanent endowment. Currently, there are no provisions in donor gift instruments that provide for any other accumulations to permanent endowments. National Headquarters considers the following factors in making a determination to appropriate or calculate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. General purposes of the organization and the 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. Investment policy of the organization
8. Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the organization

## NOTE 13 PERMANENTLY RESTRICTED NET ASSETS *(continued)*

National Headquarters' endowment consists of the following donor-restricted endowment funds, the respective incomes of which are restricted as follows:

| | 2011 | 2010 |
|---|---|---|
| *Unrestricted operating purposes* | | |
| John A. Alexander and Elyza C. Alexander Fund | $ 20,000 | $ 20,000 |
| J. MCV. Breed Endowment Fund | 351,921 | 351,921 |
| *Restricted for research, education, and other services* | | |
| Harry and Jeanette Weinberg Foundation, Inc. | 250,000 | 250,000 |
| Wilfred B. Doner Multiple Sclerosis Student Scholarship Fund | 15,500 | 15,500 |
| Andrea Leeds Fund | 860,000 | 860,000 |
| Faustino Fund | 204,564 | 204,564 |
| James and Vanita Oelschlager Fund | 1,042,848 | 1,042,848 |
| Stepping Stone Fund | 1,000,000 | 1,000,000 |
| **Total** | $ 3,744,833 | $ 3,744,833 |

Return Objectives and Risk Parameters

National Headquarters has maintained its investment and spending policies for endowment assets aimed at providing a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Under this policy, as provided by the Board of Directors, the endowment assets are invested in a manner intended to produce results that exceed the price and yield results of the S&P 500 Index, while assuming a moderate level of investment risk. National Headquarters expects its endowment funds, over time, to provide an average annual rate of return of approximately 5%. However, actual returns in any given year may vary from this rate.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The investment objectives require disciplined and consistent management philosophies that accommodate all events that are relevant, reasonable, and probable. Therefore, a periodic review of total rate of return and spending rate objectives is required. Extreme positions or variations in management style are not consistent with these objectives. The Board of Directors has established that, annually, the actual return on investments, including realized and unrealized gains as measured on September 30 of each year, can be transferred to the operating account for the program purposes identified by the donor's restrictions.

## NOTE 13 PERMANENTLY RESTRICTED NET ASSETS *(continued)*

The following table summarizes the activity in the investment of endowment assets:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| *Year ended September 30, 2010* | | | | |
| Net endowment assets at beginning of year | $ (1,185,229) | $ - | $ 3,634,833 | $ 2,449,604 |
| Amount released from restriction to fund clinical services | 140,000 | - | (140,000) | - |
| Amount spent | (140,000) | - | - | (140,000) |
| Investment return | 250,381 | - | - | 250,381 |
| **Net endowment assets at end of year** | $ (934,848) | $ - | $ 3,494,833 | $ 2,559,985 |
| *Year ended September 30, 2011* | | | | |
| Net endowment assets at beginning of year | $ (934,848) | $ - | $ 3,494,833 | $ 2,559,985 |
| Contribution received | - | - | 250,000 | 250,000 |
| Investment return | (12,002) | - | - | (12,002) |
| **Net endowment assets at end of year** | $ (946,850) | $ - | $ 3,744,833 | $ 2,797,983 |

Permanently restricted endowments with original values totaling approximately $3,255,000 had underlying investments with a fair value of approximately $2,285,000 and $2,320,000 at September 30, 2011 and 2010, respectively.

## NOTE 14 ALLOCATION OF JOINT COSTS

In fiscal 2011 and 2010, National Headquarters incurred joint costs of approximately $8,327,000 and $8,623,000, respectively, for information materials and activities that included fundraising appeals. Such costs were allocated in accordance with the Accounting Standards Codification standards as follows: approximately $5,897,000 and $6,358,000 to fundraising expense, approximately $570,000 and $643,000 to public education, and approximately $1,860,000 and $1,622,000 to management and general, in fiscal 2011 and 2010, respectively.

## NOTE 15 CHAPTER SUMMARIZED FINANCIAL INFORMATION

Summarized financial information for the Chapters at September 30, 2011 and 2010 and for the years then ended, as reported in the Chapters' financial statements that were audited primarily by other auditors, is approximately as follows:

| | 2011 | 2010 |
|---|---|---|
| Total assets | $ 94,966,000 | $ 105,594,000 |
| Total liabilities | $ 29,809,000 | $ 43,090,000 |
| Net assets | 65,157,000 | 62,504,000 |
| | $ 94,966,000 | $ 105,594,000 |
| Total support, revenue, and reclassifications | $ 218,033,000 | $ 194,725,000 |
| Total expenses | 215,380,000 | 198,052,000 |
| **Change in net assets** | $ 2,653,000 | $ (3,327,000) |

## NOTE 16 LINE OF CREDIT

National Headquarters has a $5 million line of credit for general operating purposes with one of the financial institutions holding its investments. The line of credit is collateralized by the investments held by such financial institutions, excluding investments representing endowment assets and assets held on behalf of the Chapters. There are no fees or interest charges related to the line of credit unless funds are drawn against it; draws against the line of credit bear interest at LIBOR plus 0.25%. There have been no draws against the line of credit since its inception. The line of credit does not have an expiration date.

## NOTE 17 RESTATEMENT

Certain funds received on behalf of another organization (the Organization) during fiscal years 2008 and 2009 were improperly reported as revenue in National Headquarters' consolidated statements of activities for those years. National Headquarters adjusted the accompanying consolidated financial statements by recognizing a liability to the Organization and reducing unrestricted net assets in the amount of $2,522,444 at the beginning of fiscal year 2010.

## NOTE 18 SUBSEQUENT EVENTS

National Headquarters has evaluated subsequent events through August 10, 2012, the date the financial statements were approved for issuance. There were no subsequent events that should be accounted for or require disclosure in the accompanying consolidated financial statements.