



MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA, INC. AND AFFILIATES

Consolidated Financial Statements

For the Year Ended June 30, 2013

(With Summarized Financial Information for the Year Ended June 30, 2012)



**and
Report Thereon**



**MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA, INC.
AND AFFILIATES**

**TABLE OF CONTENTS
For the Year Ended June 30, 2013**

	<i>Page</i>
Independent Auditor's Report	1-2
Financial Statements	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities.....	4
Consolidated Statement of Functional Expenses.....	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7-16
Supplemental Consolidating Information	
Consolidating Statement of Financial Position	17
Consolidating Statement of Activities.....	18



Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Multiple Sclerosis Association of America, Inc.
and Affiliates

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Multiple Sclerosis Association of America, Inc. (the Association) and Affiliates (collectively referred to as MSAA), which comprise the consolidated statement of financial position as of June 30, 2013, 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 did not audit the financial statements of the Affiliates of the Association as of June 30, 2013, which statements reflect total assets of \$8,572,286 and total revenues of \$1,976,843 for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Affiliates of the Association, is based solely on the report of the other auditors. 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.

Continued

Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Multiple Sclerosis Association of America, Inc. and Affiliates as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Error

As discussed in Note 13 to the consolidated financial statements, certain errors in classifying unrestricted and temporarily restricted net assets as of June 30, 2012, were discovered by management of MSAA during the current year. Accordingly, beginning of the year net assets have been reclassified between unrestricted and temporarily restricted net assets and restated in the 2012 comparative consolidated financial statements presented to correct the error. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited MSAA's 2012 consolidated financial statements, and our report dated November 12, 2012, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived, as restated.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating statements of financial position and activities are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities, and are not a required part of the consolidated financial statements. Such 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 consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such 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, which insofar as it relates to the Affiliates of the Association, is based on the report of other auditors, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Raffa, P.C.

Raffa, P.C.

Washington, DC
November 13, 2013

**MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA, INC.
AND AFFILIATES**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2013
(With Summarized Financial Information as of June 30, 2012)

	2013	2012 (Restated)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,921,809	\$ 1,839,513
Pledges receivable, net	601,473	595,152
Accounts receivable	50,993	62,571
Prepaid expenses and other assets	84,380	87,641
Total Current Assets	4,658,655	2,584,877
Investments	1,160,618	2,929,341
Restricted cash and cash equivalents	1,764,952	1,738,181
Property and equipment, net	7,401,407	7,417,891
TOTAL ASSETS	\$ 14,985,632	\$ 14,670,290
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 950,685	\$ 1,125,806
Capital lease obligations, current portion	10,932	10,759
Note payable, current portion	5,353	6,760
Mortgage payable, current portion	52,390	47,778
Line of credit	621,492	851,492
Total Current Liabilities	1,640,852	2,042,595
Tenant security deposits	36,372	35,682
Capital lease obligations, net of current portion	25,246	36,179
Note payable, net of current portion	-	4,776
Mortgage payable, net of current portion	1,287,864	1,340,254
TOTAL LIABILITIES	2,990,334	3,459,486
Net Assets		
Unrestricted:		
General - Association	2,144,068	1,411,678
General - Affiliates	189,094	(18,480)
Board designated	1,500,000	1,800,000
Total Unrestricted	3,833,162	3,193,198
Temporarily restricted	8,162,136	8,017,606
TOTAL NET ASSETS	11,995,298	11,210,804
TOTAL LIABILITIES AND NET ASSETS	\$ 14,985,632	\$ 14,670,290

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

**MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA, INC.
AND AFFILIATES**

**CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013
(With Summarized Financial Information for the Year Ended June 30, 2012)**

	Unrestricted	Temporarily Restricted	2013 Total	2012 Total
REVENUE AND SUPPORT				
Contributions	\$ 10,010,550	\$ -	\$ 10,010,550	\$ 5,752,553
Donated materials, services and equipment	6,375,125	-	6,375,125	5,190,455
Grants and bequests	504,703	2,890,233	3,394,936	2,787,951
Rental income	2,041,057	-	2,041,057	1,975,778
Investment income	281,855	-	281,855	71,778
Special events	188,866	-	188,866	156,903
Miscellaneous income	71,171	-	71,171	64,044
Net assets released from restrictions:				
Satisfaction of program restrictions	2,745,703	(2,745,703)	-	-
TOTAL REVENUE AND SUPPORT	22,219,030	144,530	22,363,560	15,999,462
EXPENSES				
Program Services:				
Public education and patient services	12,438,775	-	12,438,775	10,639,215
Housing	1,769,269	-	1,769,269	1,837,376
Total Program Services	14,208,044	-	14,208,044	12,476,591
Supporting Services:				
Fundraising	6,755,103	-	6,755,103	2,107,964
General and administrative	615,919	-	615,919	1,254,940
Total Supporting Services	7,371,022	-	7,371,022	3,362,904
TOTAL EXPENSES	21,579,066	-	21,579,066	15,839,495
CHANGE IN NET ASSETS	639,964	144,530	784,494	159,967
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	3,193,198	8,017,606	11,210,804	11,050,837
NET ASSETS, END OF YEAR	\$ 3,833,162	\$ 8,162,136	\$ 11,995,298	\$ 11,210,804

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

**MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA, INC.
AND AFFILIATES**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2013

(With Summarized Financial Information for the Year Ended June 30, 2012)

	Program Services			Supporting Services			2013 Total	2012 Total
	Public Education and Patient Services	Housing	Total Program Services	Fundraising	General and Administrative	Total Supporting Services		
Donated media	\$ 5,964,703	\$ -	\$ 5,964,703	\$ -	\$ -	\$ -	\$ 5,964,703	\$ 4,877,953
Patient assistance	2,839,010	-	2,839,010	-	-	-	2,839,010	2,930,679
Contract services	646,425	-	646,425	5,659,814	38,692	5,698,506	6,344,931	2,412,707
Salaries and wages	1,321,836	459,303	1,781,139	108,719	356,174	464,893	2,246,032	2,296,657
Postage, printing and mailing costs	559,902	-	559,902	733,445	34,182	767,627	1,327,529	753,962
Occupancy	57,166	530,714	587,880	3,052	19,043	22,095	609,975	612,274
Payroll taxes and fringe benefits	362,321	99,034	461,355	21,689	84,115	105,804	567,159	530,228
Depreciation and amortization	28,427	358,198	386,625	1,575	9,831	11,406	398,031	367,549
Professional fees and counseling	237,733	55,898	293,631	13,921	33,524	47,445	341,076	317,735
Interest	23,267	125,902	149,169	1,608	4,355	5,963	155,132	160,576
Licenses and fees	63,049	-	63,049	59,251	1,746	60,997	124,046	149,147
Office supplies and expenses	15,535	113,461	128,996	718	1,944	2,662	131,658	142,411
Bank and investment management fees	55,877	-	55,877	3,857	10,447	14,304	70,181	61,261
Travel	48,592	-	48,592	2,858	7,742	10,600	59,192	59,749
Special events	-	-	-	139,381	-	139,381	139,381	49,844
Miscellaneous	38,286	25,694	63,980	1,229	3,328	4,557	68,537	56,259
Telephone	19,096	-	19,096	316	856	1,172	20,268	26,549
Data processing and list costs	57,710	-	57,710	3,582	9,702	13,284	70,994	13,362
Advertising	1,272	1,065	2,337	88	238	326	2,663	12,709
Publications	98,568	-	98,568	-	-	-	98,568	7,884
TOTAL EXPENSES	\$ 12,438,775	\$ 1,769,269	\$ 14,208,044	\$ 6,755,103	\$ 615,919	\$ 7,371,022	\$ 21,579,066	\$ 15,839,495

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

**MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA, INC.
AND AFFILIATES**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2013
(With Summarized Financial Information for the Year Ended June 30, 2012)
Increase (Decrease) in Cash and Cash Equivalents

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 784,494	\$ 159,967
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	398,031	367,549
Net realized and unrealized losses (gains) on investments	(188,646)	31,079
Changes in assets and liabilities:		
Pledges receivable	(6,321)	(142,199)
Accounts receivable	11,578	16,499
Prepaid expenses and other assets	3,261	(14,744)
Accounts payable and accrued expenses	(175,121)	270,019
Tenant security deposits	690	864
	827,966	689,034
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(955,436)	(2,332,585)
Proceeds from sales of investments	2,912,805	2,154,421
Deposits to restricted cash for replacement reserves and interest	(26,771)	(166,899)
Purchases and construction of property and equipment	(381,547)	(296,706)
	1,549,051	(641,769)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligations	(10,760)	(10,589)
Principal payments on mortgage payable	(47,778)	(43,573)
Principal payment on note payable	(6,183)	(6,315)
Repayments on line of credit	(230,000)	-
	(294,721)	(60,477)
NET CASH USED IN FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,082,296	(13,212)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,839,513	1,852,725
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,921,809	\$ 1,839,513
SUPPLEMENTAL CASH FLOW INFORMATION		
Actual cash payments for interest	\$ 155,132	\$ 160,576
NONCASH INVESTING AND FINANCING ACTIVITIES		
Equipment purchased under a capital lease	\$ -	\$ (57,527)
Obligation incurred under a capital lease	-	57,527
NET CASH OUTLAY	\$ -	\$ -

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

**MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA, INC.
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

1. Organization and Summary of Significant Accounting Policies

Organization

The Multiple Sclerosis Association of America, Inc. (the Association) was incorporated as a nonprofit organization in 1970. The mission of the Association is to ease the day-to-day challenges of individuals with multiple sclerosis (MS) and their caregivers through service, education and research. These activities are funded primarily through contributions from individuals.

The affiliates of the Association – Multiple Sclerosis Housing, Inc. (MSH); MSAA Housing for Independent Living, Inc. (MSAA HIL); MSAA Jacksonville, Inc. (MSAA Jacksonville); Multiple Sclerosis Handicapped Housing, Inc. (MSHH); and MSAA Housing for the Disabled, Inc. (MSAA HFD) (collectively referred to as the Affiliates) – have been organized to acquire real property in various locations and to construct and operate thereon an apartment complex for elderly and handicapped persons. Such projects are regulated by the U.S. Department of Housing and Urban Development (HUD) as to rent charges and operating methods.

Principles of Consolidation

The consolidated financial statements of the Association and its Affiliates (collectively referred to as MSAA) have been prepared on the accrual basis of accounting and include the accounts of the Association and its Affiliates. All material intercompany balances and transactions have been eliminated in the consolidation.

Cash and Cash Equivalents

MSAA considers all money market funds to be cash equivalents.

Investments

Investments are composed of equity mutual funds, fixed-income mutual funds, and equity securities and are recorded in the accompanying consolidated financial statements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Interest income is recorded as earned and dividends are recorded on the ex-dividend date. Realized and unrealized gains (losses) on investments are reported as unrestricted investment income.

Fair Value of Financial Instruments

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic, *Fair Value Measurements and Disclosures*, defines fair value and establishes a framework for measuring fair value for assets and liabilities that are measured at fair value on a recurring basis. In accordance with the accounting standards for fair value measurements for those assets and liabilities that are measured at fair value on a recurring basis, MSAA has categorized its applicable financial instruments into a required fair value hierarchy.

**MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA, INC.
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs based on unadjusted quoted prices in active markets for identical assets or liabilities accessible at the measurement date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

Level 3 – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

As of June 30, 2013, only MSAA's investments, as described in Note 3, were measured at fair value on a recurring basis and subject to the disclosure requirements of the *Fair Value Measurements and Disclosures* topic of the FASB ASC.

Pledges Receivable

MSAA reports unconditional promises to give as contribution revenue at their estimated net realizable value on the date of donation. The majority of the pledges receivable consist of pledges made to MSAA through its telemarketing campaigns and through America's Charities. Due to the nature of these pledges, the amounts are recorded in the accompanying consolidated financial statements net of an allowance for estimated amounts that will not be collected based on MSAA's experience with these revenue sources. For the year ended June 30, 2013, the pledges were recorded in the accompanying consolidated financial statements net of an allowance of approximately 25%. All pledges are expected to be collected in less than one year and the net amount recorded in the accompanying consolidated statement of financial position is considered fully collectible. Accrued expenses include the costs related to the solicitation of pledges receivable.

Property and Equipment and Related Depreciation and Amortization

Property and equipment are recorded at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the respective assets, which range from five to seven years for furniture and equipment and thirty to forty years for buildings. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and

**MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA, INC.
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

1. Organization and Summary of Significant Accounting Policies (continued)

Property and Equipment and Related Depreciation and Amortization (continued)

maintenance costs are expensed as incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss, if any, is included in revenue or expenses in the accompanying consolidated statement of activities.

MSAA reviews long-lived assets to determine if the carrying value exceeds the undiscounted cash flows expected to be derived from the asset. If the carrying value exceeds the cash flows, then the recorded amount of the assets will be reduced to their fair value. There was no impairment loss recognized for the year ended June 30, 2013.

Classification of Net Assets

MSAA's net assets are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of MSAA's operations. Also included in unrestricted net assets is \$1,500,000 of funds designated by the Board of Directors to serve as a working capital reserve.
- Temporarily restricted net assets represent funds that are specifically restricted by donors and HUD for use in various programs.

Revenue Recognition

Unrestricted contributions are reported as revenue in the year in which payments are received and/or unconditional promises are made.

MSAA reports gifts of cash and other assets as temporarily restricted if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

MSAA receives capital advances from HUD under Section 811 of the National Affordable Housing Act. These advances are reported as temporarily restricted support when received. The capital advances do not bear interest and are not required to be repaid as long as the housing remains available to disabled persons for at least 40 years. Failure to keep the housing available to disabled persons would result in HUD billing the owner for the entire capital advance outstanding, plus interest, since the date of the first advance. The entire amount of the capital advances will be released from temporarily restricted net assets upon the expiration of the 40-year term of the agreements, which will occur between 2033 and 2039.

Rental income is recognized as rent becomes due. All leases between MSAA and the tenants of the property are operating leases.

Continued

**MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA, INC.
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

1. Organization and Summary of Significant Accounting Policies (continued)

Donated Materials, Services and Equipment

The Association records various donated materials, services and equipment, which include various types of media and other donated materials and equipment. Donated services are recognized at fair value if the services received create or enhance long-lived assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated materials and equipment are recognized at fair value when received. The amounts reflected in the accompanying consolidated statement of activities as donated materials, services and equipment are offset by like amounts included in the accompanying consolidated statement of functional expenses as donated media and patient assistance based on the functional areas benefited.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services based upon various methods deemed to justify the benefits received by those programs and supporting services.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Change in Accounting Principle

MSAA early-adopted Accounting Standards Update 2012-05, *Statement of Cash Flows*, which requires the recognition of donated securities that have no donor-imposed restrictions and that are immediately converted into cash, as cash from operating activities. During the year ended June 30, 2013, MSAA received \$995 of donated securities that had no donor-imposed restrictions and were immediately converted into cash. These donated securities are recognized as cash from operating activities in the accompanying consolidated statement of cash flows. The consolidated statement of cash flows for the year ended June 30, 2012, which previously reported \$102,232 of donated securities as investing activities, has been adjusted to report this amount in operating activities.

2. Investments

As of June 30, 2013, the Association's investments consisted of the following:

Fixed-income mutual funds	\$ 1,104,962
Equity mutual funds	54,544
Equity securities	<u>1,112</u>
Total	<u>\$ 1,160,618</u>

Continued

**MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA, INC.
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

2. Investments (continued)

Investment returns are summarized as follows for the year ended June 30, 2013:

Realized gains	\$ 306,002
Unrealized losses	(117,356)
Interest and dividends	<u>88,753</u>
Total	<u>\$ 277,399</u>

Also included in investment income in the accompanying consolidated statement of activities is \$4,456 of interest income earned on cash and cash equivalents.

3. Fair Value Measurements

The following table summarizes MSAA's assets measured at fair value on a recurring basis as of June 30, 2013, aggregated by the fair value hierarchy level with which those measurements were made:

	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Fixed-income mutual funds:				
Intermediate term	\$ 595,825	\$ 595,825	\$ -	\$ -
International	209,566	209,566	-	-
High yield	167,385	167,385	-	-
Inflation hedges	132,186	132,186	-	-
Equity mutual funds:				
Large cap	36,624	36,624	-	-
International	17,920	17,920	-	-
Equity securities:				
Services	<u>1,112</u>	<u>1,112</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,160,618</u>	<u>\$ 1,160,618</u>	<u>\$ -</u>	<u>\$ -</u>

Continued

**MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA, INC.
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

4. Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents represent amounts required to be maintained in accordance with regulatory agreements with HUD for the replacement of property and other expenditures, as approved by HUD. As of June 30, 2013, \$1,764,952 is included in restricted cash and cash equivalents in the accompanying consolidated statement of financial position in accordance with the terms of these agreements.

5. Property and Equipment and Related Depreciation and Amortization

MSAA held the following property and equipment as of June 30, 2013:

Land		\$ 737,672
Buildings and improvements		10,615,749
Furniture, fixtures and equipment		<u>1,413,102</u>
Total Property and Equipment		12,766,523
Less: Accumulated Depreciation		<u>(5,365,116)</u>
Property and Equipment, Net		<u>\$ 7,401,407</u>

Depreciation and amortization expense was \$ 398,031 for the year ended June 30, 2013.

6. Mortgage Payable

As of June 30, 2013, the mortgage payable represents a 30-year building loan provided by HUD. The original amount of the mortgage was \$1,835,800. The mortgage note, which is collateralized by MSH's apartment complex, is payable in monthly installments of \$14,415, including principal and interest, at an annual rate of 9.25% through November 2026. During the year ended June 30, 2013, interest expense under this mortgage was \$125,902.

The schedule of future principal payments under the note is as follows as of June 30, 2013:

	<u>For the Year Ending June 30,</u>	
2014		\$ 52,390
2015		57,447
2016		62,992
2017		69,074
2018		75,741
Thereafter		<u>1,022,610</u>
Total Mortgage Payable		1,340,254
Less: Current Portion		<u>(52,390)</u>
Noncurrent Portion		<u>\$ 1,287,864</u>

Continued

**MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA, INC.
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

7. Temporarily Restricted Net Assets

As of June 30, 2013, temporarily restricted net assets are available for the following purposes:

Housing	\$ 6,853,200
Patient services	<u>1,308,936</u>
Total	<u>\$ 8,162,136</u>

8. Commitments and Contingencies

Concentrations of Risk

The operations of each of the Affiliates are concentrated in the multifamily real estate market. The Affiliates operate in a heavily regulated environment. The operations of the Affiliates are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Concentrations of Credit Risk

MSAA maintains its cash and cash equivalents with certain commercial financial institutions, which aggregate balance, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per depositor per institution. As of June 30, 2013, MSAA had approximately \$2,685,000 composed of demand deposits and savings and money market accounts, which exceeded the maximum limit insured of the FDIC by approximately \$1,627,000. MSAA monitors the creditworthiness of these institutions and has not experienced any credit losses on its cash and cash equivalents.

Line of Credit

The Association has a \$2,000,000 revolving line of credit with a bank that is secured by the Association's investments held at the bank. The interest rate is calculated using the bank's commercial rate index, which, as of June 30, 2013, was 3.25%. The line of credit is due upon demand. As of June 30, 2013, \$621,492 was outstanding on the line of credit. Interest expense incurred on this line of credit during the year ended June 30, 2013 was \$27,977.

**MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA, INC.
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

9. Donated Materials, Services and Equipment

During the year ended June 30, 2013, the Association received the following in-kind contributions, which were recorded at their estimated fair value on the date of donation:

Media materials	\$ 5,964,703
Google AdWords campaign	371,427
Other	<u>38,995</u>
Total	<u>\$ 6,375,125</u>

The donated material, services, and equipment are recorded within the public education and patient services program in the accompanying consolidated statement of activities.

MSAA's programs are also furthered through the contribution of time from unpaid volunteers. For the year ended June 30, 2013, volunteers have contributed more than 1,300 hours to MSAA's program services. These donated services are not reflected in the accompanying consolidated statement of activities because they do not meet the necessary criteria for recognition under accounting principles generally accepted in the United States of America.

10. Allocation of Joint Costs

For the year ended June 30, 2013, MSAA incurred joint costs for direct mail campaigns, special events and telemarketing activities, all of which included fundraising appeals. These joint costs have been included in contract services; data processing and list costs; and postage, printing and mailing costs in the accompanying consolidated statement of functional expenses. Those joint costs are allocated as follows:

Fundraising	\$ 1,759,436
Public education and patient services	1,077,003
General and administrative	<u>316,467</u>
Total	<u>\$ 3,152,906</u>

Also included in contract services; data processing and list costs; and postage, printing and mailing costs in the accompanying consolidated statement of functional expenses were \$841,755 of costs related to telemarketing campaigns and \$3,598,826 of costs related to direct mail campaigns for donated household goods which did not qualify under accounting standards as joint costs and therefore were recorded entirely as fundraising expenses.

**MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA, INC.
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

11. Pension Plan

MSAA has a noncontributory defined contribution retirement plan that is available to all employees who have completed one year of service and attained 21 years of age. Employer contributions are made to the plan according to an employee's years of service based on percentages, as defined in the plan document. An employee is vested in the employer contributions according to the employee's years of service with MSAA, as defined in the plan document. During the year ended June 30, 2013, MSAA contributed \$58,347 to the plan.

12. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, the Association and its Affiliates are exempt from the payment of taxes on income other than net unrelated business income. For the year ended June 30, 2013, no provision for income taxes was made, as the Association and its Affiliates had no net unrelated business income.

MSAA follows the authoritative guidance relating to accounting for uncertainty in income taxes included in ASC Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's consolidated financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. MSAA performed an evaluation of uncertain tax positions for the year ended June 30, 2013, and determined that there were no matters that would require recognition in the consolidated financial statements or that may have any effect on its tax-exempt status. As of June 30, 2013, the statute of limitations for tax years 2009 through 2011 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which MSAA files tax returns. It is MSAA's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

13. Prior Period Adjustment

During the year ended June 30, 2013, MSAA restated its unrestricted and temporarily restricted net asset balances as of June 30, 2012 to correct errors in classifying unrestricted and temporarily restricted net assets which had accumulated over the life of a grant. During the financial close process for the year ended June 30, 2013, MSAA determined that expenses incurred under a grant were not properly allocated and coded in the general ledger. Management revised the allocations based on an analysis of actual expenses incurred. Accordingly, an adjustment was made to decrease temporarily restricted net assets by \$475,069 and increase unrestricted net assets by the same amount as of June 30, 2012. The adjustment had no effect on the total net assets.

**MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA, INC.
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

14. Reclassifications

Certain 2012 financial information has been reclassified to conform with the 2013 presentation.

15. Prior Year Financial Information

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class and functional area. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with MSAA's consolidated financial statements for the year ended June 30, 2012, from which the summarized information was derived.

16. Subsequent Events

In preparing these consolidated financial statements, MSAA has evaluated events and transactions for potential recognition or disclosure through November 13, 2013, the date the consolidated financial statements were available to be issued. Except as discussed below there were no subsequent events that require recognition of, or disclosure in, these consolidated financial statements.

Subsequent to year end MSAA entered into a contract to sell its headquarters building in Cherry Hill, New Jersey. No adjustments have been included on the financial statements to account for the potential sale of the property.

SUPPLEMENTAL CONSOLIDATING INFORMATION

**MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA, INC.
AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2013**

	The Association	MSH	MSAA HIL	MSAA Jacksonville	MSHH	MSAA HFD	Total	Eliminations	Total
ASSETS									
Current Assets									
Cash and cash equivalents	\$ 3,728,248	\$ 125,996	\$ 10,263	\$ 16,946	\$ 20,151	\$ 20,205	\$ 3,921,809	\$ -	\$ 3,921,809
Pledges receivable, net	601,473	-	-	-	-	-	601,473	-	601,473
Accounts receivable	29,025	9,602	3,664	-	7,449	1,253	50,993	-	50,993
Due from affiliates	8,102	-	-	-	-	-	8,102	(8,102)	-
Prepaid expenses and other assets	13,658	21,323	14,836	1,472	17,916	15,175	84,380	-	84,380
Total Current Assets	4,380,506	156,921	28,763	18,418	45,516	36,633	4,666,757	(8,102)	4,658,655
Investments	1,160,618	-	-	-	-	-	1,160,618	-	1,160,618
Restricted cash and cash equivalents	-	564,886	428,182	39,845	305,731	426,308	1,764,952	-	1,764,952
Property and equipment, net	880,324	1,196,231	1,590,157	692,314	1,350,732	1,691,649	7,401,407	-	7,401,407
TOTAL ASSETS	\$ 6,421,448	\$ 1,918,038	\$ 2,047,102	\$ 750,577	\$ 1,701,979	\$ 2,154,590	\$ 14,993,734	\$ (8,102)	\$ 14,985,632
LIABILITIES AND NET ASSETS									
Current Liabilities									
Accounts payable and accrued expenses	\$ 803,963	\$ 52,698	\$ 25,103	\$ 13,286	\$ 32,020	\$ 31,717	\$ 958,787	\$ (8,102)	\$ 950,685
Capital lease obligations, current portion	10,932	-	-	-	-	-	10,932	-	10,932
Note payable, current portion	5,353	-	-	-	-	-	5,353	-	5,353
Mortgage payable, current portion	-	52,390	-	-	-	-	52,390	-	52,390
Line of credit	621,492	-	-	-	-	-	621,492	-	621,492
Total Current Liabilities	1,441,740	105,088	25,103	13,286	32,020	31,717	1,648,954	(8,102)	1,640,852
Tenant security deposits	1,458	10,636	5,655	3,318	7,863	7,442	36,372	-	36,372
Capital lease obligations, net of current portion	25,246	-	-	-	-	-	25,246	-	25,246
Note payable, net of current portion	-	-	-	-	-	-	-	-	-
Mortgage payable, net of current portion	-	1,287,864	-	-	-	-	1,287,864	-	1,287,864
TOTAL LIABILITIES	1,468,444	1,403,588	30,758	16,604	39,883	39,159	2,998,436	(8,102)	2,990,334
Net Assets									
Unrestricted									
General	2,144,068	514,450	(38,556)	(200,727)	41,396	(127,469)	2,333,162	-	2,333,162
Board designated	1,500,000	-	-	-	-	-	1,500,000	-	1,500,000
Total Unrestricted	3,644,068	514,450	(38,556)	(200,727)	41,396	(127,469)	3,833,162	-	3,833,162
Temporarily restricted	1,308,936	-	2,054,900	934,700	1,620,700	2,242,900	8,162,136	-	8,162,136
TOTAL NET ASSETS	4,953,004	514,450	2,016,344	733,973	1,662,096	2,115,431	11,995,298	-	11,995,298
TOTAL LIABILITIES AND NET ASSETS	\$ 6,421,448	\$ 1,918,038	\$ 2,047,102	\$ 750,577	\$ 1,701,979	\$ 2,154,590	\$ 14,993,734	\$ (8,102)	\$ 14,985,632

**MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA, INC.
AND AFFILIATES**

**CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013**

	The Association	MSH	MSAA HIL	MSAA Jacksonville	MSHH	MSAA HFD	Total	Eliminations	Total
REVENUE AND SUPPORT									
Contributions	\$ 10,010,550	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,010,550	\$ -	\$ 10,010,550
Donated materials, services and equipment	6,375,125	-	-	-	-	-	6,375,125	-	6,375,125
Grants and bequests	3,394,936	-	-	-	-	-	3,394,936	-	3,394,936
Rental income	77,191	744,073	326,577	143,789	356,181	393,246	2,041,057	-	2,041,057
Special events	188,866	-	-	-	-	-	188,866	-	188,866
Investment income	278,774	1,122	864	72	66	957	281,855	-	281,855
Miscellaneous income	61,275	2,648	1,810	1,063	2,733	1,642	71,171	-	71,171
TOTAL REVENUE AND SUPPORT	20,386,717	747,843	329,251	144,924	358,980	395,845	22,363,560	-	22,363,560
EXPENSES									
Program Services:									
Public education and patient services	12,438,775	-	-	-	-	-	12,438,775	-	12,438,775
Housing	-	578,004	320,570	154,117	340,988	375,590	1,769,269	-	1,769,269
Total Program Services	12,438,775	578,004	320,570	154,117	340,988	375,590	14,208,044	-	14,208,044
Supporting Services:									
Fundraising	6,755,103	-	-	-	-	-	6,755,103	-	6,755,103
General and administrative	615,919	-	-	-	-	-	615,919	-	615,919
Total Supporting Services	7,371,022	-	-	-	-	-	7,371,022	-	7,371,022
TOTAL EXPENSES	19,809,797	578,004	320,570	154,117	340,988	375,590	21,579,066	-	21,579,066
CHANGE IN NET ASSETS	576,920	169,839	8,681	(9,193)	17,992	20,255	784,494	-	784,494
NET ASSETS, BEGINNING OF YEAR	4,376,084	344,611	2,007,663	743,166	1,644,104	2,095,176	11,210,804	-	11,210,804
NET ASSETS, END OF YEAR	\$ 4,953,004	\$ 514,450	\$ 2,016,344	\$ 733,973	\$ 1,662,096	\$ 2,115,431	\$ 11,995,298	\$ -	\$ 11,995,298