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MULTIPLE SCLEROSIS ASSOCIATION OF AMERICA, INC. AND AFFILIATES

Consolidated Financial Statements and Supplemental Information

For the Year Ended June 30, 2016

(With Summarized Financial Information for the Year Ended June 30, 2015)



**and
Report Thereon**



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

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For the Year Ended June 30, 2016**

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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 Consolidated 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, 2016, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 MSAA Housing for Independent Living, Inc. (MSAA HIL); MSAA Jacksonville, Inc. (MSAA Jacksonville); and MSAA Housing for the Disabled, Inc. (MSAA HFD) as of June 30, 2016, which statements reflect total assets of \$4,778,117 and total revenues of \$890,196 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 MSAA HIL, MSAA Jacksonville, and MSAA HFD, 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.

Continued

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit 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, 2016, 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.

Other Matters

Report on Summarized Comparative Information

We have previously audited MSAA's 2015 consolidated financial statements, and our report dated November 12, 2015, 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, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

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 shown on pages 17 and 18 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
October 21, 2016

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2016
(With Summarized Financial Information as of June 30, 2015)

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,376,718	\$ 5,058,241
Pledges receivable, net	782,683	1,038,184
Accounts receivable	69,825	86,264
Prepaid expenses and other assets	172,149	105,631
Total Current Assets	2,401,375	6,288,320
Investments	2,810,988	255,635
Restricted cash and cash equivalents	1,184,610	1,421,139
Property and equipment, net	4,768,257	6,199,357
TOTAL ASSETS	\$ 11,165,230	\$ 14,164,451
LIABILITIES AND NET ASSETS		
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	\$ 973,755	\$ 796,773
Capital lease obligations, current portion	-	11,288
Line of credit	1,496,492	346,492
Total Current Liabilities	2,470,247	1,154,553
Tenant security deposits	15,913	23,056
Capital lease obligations, net of current portion	-	2,850
TOTAL LIABILITIES	2,486,160	1,180,459
Net Assets		
Unrestricted:		
General – Association	1,462,750	2,712,436
General – Affiliates	(539,458)	(422,547)
Board-Designated	1,500,000	1,500,000
Total Unrestricted	2,423,292	3,789,889
Temporarily restricted	6,255,778	9,194,103
TOTAL NET ASSETS	8,679,070	12,983,992
TOTAL LIABILITIES AND NET ASSETS	\$ 11,165,230	\$ 14,164,451

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, 2016
(With Summarized Financial Information for the Year Ended June 30, 2015)**

	Unrestricted	Temporarily Restricted	2016 Total	2015 Total
REVENUE AND SUPPORT				
Donated media, occupancy and services	\$ 14,019,469	\$ -	\$ 14,019,469	\$ 13,826,043
Contributions	3,809,606	1,357,267	5,166,873	5,262,809
Grants and bequests	1,249,405	-	1,249,405	3,914,537
Rental income	1,248,103	-	1,248,103	1,640,304
Special events	341,813	-	341,813	583,743
Investment income (loss)	(33,651)	-	(33,651)	97,300
Gain on sale of property and equipment	-	-	-	1,072,324
Miscellaneous income	124,653	-	124,653	77,439
Net assets released from restrictions:				
Satisfaction of program restrictions	2,674,892	(2,674,892)	-	-
TOTAL REVENUE AND SUPPORT	23,434,290	(1,317,625)	22,116,665	26,474,499
EXPENSES				
Program Services:				
Public education and patient services	16,926,991	-	16,926,991	18,325,071
Housing	1,269,418	-	1,269,418	1,668,440
Total Program Services	18,196,409	-	18,196,409	19,993,511
Supporting Services:				
Fundraising	2,998,287	-	2,998,287	4,436,446
General and administrative	3,531,853	-	3,531,853	839,407
Total Supporting Services	6,530,140	-	6,530,140	5,275,853
TOTAL EXPENSES	24,726,549	-	24,726,549	25,269,364
CHANGE IN NET ASSETS BEFORE TRANSFER OF NET ASSETS TO A NEW SPONSOR	(1,292,259)	(1,317,625)	(2,609,884)	1,205,135
TRANSFER OF NET ASSETS TO A NEW SPONSOR	(74,338)	(1,620,700)	(1,695,038)	(712,288)
CHANGE IN NET ASSETS	(1,366,597)	(2,938,325)	(4,304,922)	492,847
NET ASSETS, BEGINNING OF YEAR	3,789,889	9,194,103	12,983,992	12,491,145
NET ASSETS, END OF YEAR	\$ 2,423,292	\$ 6,255,778	\$ 8,679,070	\$ 12,983,992

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, 2016

(With Summarized Financial Information for the Year Ended June 30, 2015)

	Program Services			Supporting Services			2016 Total	2015 Total
	Public Education and Patient Services	Housing	Total Program Services	Fundraising	General and Administrative	Total Supporting Services		
Donated media	\$ 10,379,843	\$ -	\$ 10,379,843	\$ 467,893	\$ 2,644,158	\$ 3,112,051	\$ 13,491,894	\$ 12,876,573
Patient assistance	2,904,003	-	2,904,003	-	-	-	2,904,003	2,900,900
Salaries and wages	1,427,996	374,153	1,802,149	106,388	514,134	620,522	2,422,671	2,326,938
Contract services	360,250	-	360,250	1,433,557	41,337	1,474,894	1,835,144	2,141,829
Postage, printing and mailing costs	709,708	338	710,046	785,211	65,935	851,146	1,561,192	1,135,293
Payroll taxes and fringe benefits	443,432	60,376	503,808	36,255	136,437	172,692	676,500	729,741
Professional fees and counseling	340,270	55,202	395,472	19,633	65,333	84,966	480,438	633,469
Occupancy	32,077	422,969	455,046	3,189	18,375	21,564	476,610	1,126,899
Depreciation and amortization	13,821	266,463	280,284	1,427	8,225	9,652	289,936	350,856
Office supplies and expenses	31,109	70,954	102,063	2,141	7,126	9,267	111,330	169,321
Special events	-	-	-	99,914	-	99,914	99,914	340,421
Licenses and fees	52,046	3,146	55,192	33,756	1,106	34,862	90,054	104,279
Publications	81,108	-	81,108	-	-	-	81,108	74,689
Bank and investment management fees	45,666	-	45,666	3,463	11,524	14,987	60,653	74,434
Travel	45,199	-	45,199	2,239	7,452	9,691	54,890	83,705
Miscellaneous	14,652	10,175	24,827	827	2,754	3,581	28,408	96,105
Interest	19,533	-	19,533	1,481	4,929	6,410	25,943	63,063
Telephone	14,563	5,498	20,061	314	1,040	1,354	21,415	23,312
Data processing and list costs	10,936	-	10,936	541	1,797	2,338	13,274	16,233
Advertising	779	144	923	58	191	249	1,172	1,304
TOTAL EXPENSES	\$ 16,926,991	\$ 1,269,418	\$ 18,196,409	\$ 2,998,287	\$ 3,531,853	\$ 6,530,140	\$ 24,726,549	\$ 25,269,364

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, 2016
(With Summarized Financial Information for the Year Ended June 30, 2015)
Increase (Decrease) in Cash and Cash Equivalents**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (4,304,922)	\$ 492,847
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	289,936	350,856
Net realized and unrealized losses (gains) on investments	108,393	(32,873)
Gain on sale of property and equipment	-	(1,072,324)
Net assets of properties transferred to a new sponsor	1,695,038	712,288
Changes in assets and liabilities:		
Pledges receivable	255,501	(552,640)
Accounts receivable	10,110	31,102
Prepaid expenses and other assets	(79,509)	(45,523)
Accounts payable and accrued expenses	206,510	90,754
Tenant security deposits	437	(4,084)
	(1,818,506)	(29,597)
NET CASH USED IN OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(4,224,647)	(1,098,571)
Proceeds from sales of investments	1,560,901	3,761,901
Deposits to restricted cash for replacement reserves and interest	(197,177)	(95,868)
Cash of housing properties transferred to a new sponsor	(15,032)	(75,835)
Proceeds from sale of property and equipment	-	1,850,780
Purchases and construction of property and equipment	(122,924)	(1,288,725)
	(2,998,879)	3,053,682
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligations	(14,138)	(11,108)
Principal payments on mortgage payable	-	(23,295)
Borrowings on the line of credit	1,150,000	-
Repayments on the line of credit	-	(155,000)
	1,135,862	(189,403)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,681,523)	2,834,682
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,058,241	2,223,559
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,376,718	\$ 5,058,241
SUPPLEMENTAL CASH FLOW INFORMATION		
Actual cash payments for interest	\$ 19,319	\$ 63,063

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, 2016**

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); 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. In June 2016, the Board of Directors approved the transfer of the building owned by MSAA HIL and MSAA HFD to other sponsors. MSAA is working towards transferring the two housing properties and had submitted all documents necessary for the transfer to HUD for review. As of October 21, 2016, MSAA is awaiting final approval from HUD.

In March 2016, HUD approved MSAA's request to transfer the building owned by Multiple Sclerosis Handicapped Housing, Inc. (MSHH), a former affiliate, to another sponsor. MSAA continued to manage the property until it was transferred to the new sponsor, and the members of MSAA's Board of Directors who served on the Board of Directors of MSHH resigned effective April 30, 2016. Effective May 1, 2016, MSHH's activities were no longer included in the consolidated financial statements of the Association, as the Association no longer controlled MSHH.

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 fixed income, fixed-income mutual funds, equity securities equity mutual funds and real estate mutual funds 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 (loss) in the accompanying consolidated statement of activities.

Continued

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

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

Fair Value of Financial Instruments

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, 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.

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, 2016, only MSAA's investments, as described in Note 4, were measured at fair value on a recurring basis and subject to the disclosure requirements of the *Fair Value Measurement* 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. For the year ended June 30, 2015, pledges receivable also includes a bequest receivable of \$401,500. 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, 2016, the pledges were recorded in the accompanying consolidated financial statements net of an allowance of approximately 27%. 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.

Continued

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

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

Property and Equipment and Related Depreciation and Amortization

Property and equipment with a useful life of more than one year and an acquisition cost greater than \$2,000 is capitalized at cost. Costs incurred in the development of the website are expensed during the preliminary and post-implementation operation stages, including data conversion, training and maintenance costs. Costs incurred during the development stage are capitalized. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and 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. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives for property and equipment are as follows:

<u>Categories</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	30-40 years
Furniture, fixtures and equipment	5-7 years
Website costs	3 years

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, 2016.

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 to give 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.

Continued

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

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

Revenue Recognition (continued)

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 2038 and 2039.

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

Donated Media and Services

Donated media and services are recognized as revenue and support and expenses in the accompanying consolidated statement of activities at the estimated fair value as provided by the donor at the date of donation. Donated media and services primarily consist of public service announcements received from various media outlets across the country and advertisements received through the Google AdWords campaign.

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 (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Transfer of MSHH to A New Sponsor

In March 2016, HUD approved MSAA's request to transfer the building owned by MSHH to another sponsor. MSAA continued to manage the property until it was transferred to the new sponsor effective April 30, 2016, at which date the members of MSAA's Board of Directors who served on the Board of Directors of MSHH resigned. On May 1, 2016, control of MSHH and all of its assets, liabilities, net assets and activities were assumed by the new sponsor.

Continued

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

2. Transfer of MSHH to A New Sponsor (continued)

The fair value of the assets and liabilities of MSHH transferred to the new sponsor on May 1, 2016, are summarized as follows:

Assets:

Cash and cash equivalents	\$ 15,032
Accounts receivable	6,329
Prepaid expenses and other assets	12,991
Restricted cash and cash equivalents	392,254
Property and equipment, net	<u>1,305,540</u>
Total Assets	<u>\$ 1,732,146</u>

Liabilities:

Accounts payable and accrued expenses	\$ 29,528
Tenant security deposits	<u>7,580</u>
Total Liabilities	<u>\$ 37,108</u>
Transfer of Net Assets to New Sponsor	<u>\$ 1,695,038</u>

3. Investments

As of June 30, 2016, the Association's investments consisted of the following:

Fixed income	\$ 655,377
Fixed-income mutual funds	431,877
Equity securities	992,237
Equity mutual funds	641,679
Real estate mutual funds	<u>89,818</u>
Total Investments	<u>\$ 2,810,988</u>

Investment returns are summarized as follows for the year ended June 30, 2016:

Realized losses	\$ (70,705)
Unrealized losses	(37,688)
Interest and dividends	<u>74,742</u>
Total Investment Income (Loss)	<u>\$ (33,651)</u>

Also included in interest and dividends above and in investment income in the accompanying consolidated statement of activities is \$3,520 of interest income earned on cash and cash equivalents.

Continued

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

4. Fair Value Measurements

The following table summarizes MSAA's assets measured at fair value on a recurring basis as of June 30, 2016, aggregated by the fair value hierarchy level with which those measurements were made:

	Total 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:				
Government	\$ 139,743	\$ -	\$ 139,743	\$ -
Corporate	362,314	-	362,314	-
Preferred	52,220	-	52,220	-
Secured	55,658	-	55,658	-
Municipal	45,442	-	45,442	-
Fixed-income mutual funds:				
Domestic	250,449	250,449	-	-
International	181,428	181,428	-	-
Equity securities:				
Large cap	841,024	841,024	-	-
Mid cap	21,797	21,797	-	-
Small cap	20,040	20,040	-	-
International	109,376	109,376	-	-
Equity mutual funds:				
Mid cap	193,675	193,675	-	-
Small cap	61,514	61,514	-	-
International	221,078	221,078	-	-
Emerging markets	165,412	165,412	-	-
Real estate mutual funds	89,818	89,818	-	-
Total	<u>\$ 2,810,988</u>	<u>\$ 2,155,611</u>	<u>\$ 655,377</u>	<u>\$ -</u>

MSAA used the following methods and significant assumptions to estimate fair value for assets recorded at fair value:

Mutual funds and equity securities – Valued at the net asset value of shares held at year-end, which represents quoted prices in an active market.

Fixed income – Represent securities that are generally not traded on a daily basis. The fair value estimates of such investments are based on observable market information, rather than market quotes. Accordingly, the estimates of fair value for such investments, as provided by the pricing service, are included in Level 2.

Continued

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

5. 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, 2016, \$1,184,610 is included in restricted cash and cash equivalents in the accompanying consolidated statement of financial position in accordance with the terms of these agreements.

6. Property and Equipment and Related Depreciation and Amortization

MSAA held the following property and equipment as of June 30, 2016:

Land	\$ 598,019
Buildings and improvements	6,224,236
Furniture, fixtures and equipment	755,309
Website costs	<u>72,490</u>
Total Property and Equipment	7,650,054
Less: Accumulated Depreciation and Amortization	<u>(2,881,797)</u>
Property and Equipment, Net	<u>\$ 4,768,257</u>

Depreciation and amortization expense was \$289,936 for the year ended June 30, 2016.

7. Temporarily Restricted Net Assets

As of June 30, 2016, temporarily restricted net assets were available for the following purposes:

Housing	\$ 5,232,500
Sponsorship for 2017 Lone Star Round Up for MS	80,000
Patient services	<u>943,278</u>
Total	<u>\$ 6,255,778</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.

Continued

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

8. Commitments and Contingencies (continued)

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, 2016, MSAA had approximately \$1,161,000 composed of demand deposits, savings and money market accounts, and other investment securities, which exceeded the maximum limit insured by the FDIC by approximately \$850,000. 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 \$1,900,000 revolving line of credit with a financial institution 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, 2016, was 2.72%. The line of credit is due upon demand. As of June 30, 2016, \$1,496,492 was outstanding on the line of credit. Interest expense incurred on this line of credit during the year ended June 30, 2016, was \$22,712.

9. Donated Media and Services

During the year ended June 30, 2016, the Association received the following in-kind contributions, which were recorded at their estimated fair value on the date of donation:

Media materials	\$ 13,491,894
Services	45,813
Google AdWords campaign	<u>481,762</u>
Total	<u>\$ 14,019,469</u>

Media materials consist of televised, newspaper and digital public service announcements that have been donated to the Association by various media outlets. These public service announcements are distributed to media outlets nationwide and run free of charge. The Association has contracted with an independent outside agency to track the date and time at which each public service announcement runs, and the value of the announcements is based on the date, time and market. Media materials appear as donated media in the accompanying consolidated statement of functional expenses under the public education and patient services program, general and administrative and fundraising.

The Google AdWords campaign consists of advertisements for the Association's services received from Google free of charge and is recorded within patient assistance under the public education and patient services program.

Continued

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

9. Donated Media and Services (continued)

MSAA's programs are also furthered through the contribution of time by unpaid volunteers. For the year ended June 30, 2016, volunteers have contributed more than 1,098 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 GAAP.

10. Allocation of Joint Costs

For the year ended June 30, 2016, MSAA incurred joint costs for direct mail campaigns and telemarketing activities, both 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	\$ 2,095,295
Public education and patient services	1,039,676
General and administrative	<u>104,692</u>
Total	<u>\$ 3,239,663</u>

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, 2016, MSAA contributed \$98,530 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, 2016, 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 FASB 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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

12. Income Taxes (continued)

MSAA performed an evaluation of uncertain tax positions for the year ended June 30, 2016, 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, 2016, the statute of limitations for tax years ended June 30, 2013, through June 30, 2015, 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 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 GAAP. Accordingly, such information should be read in conjunction with MSAA's consolidated financial statements for the year ended June 30, 2015, from which the summarized information was derived.

14. Subsequent Events

In preparing these consolidated financial statements, MSAA has evaluated events and transactions for potential recognition or disclosure through October 21, 2016, the date the consolidated financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in these consolidated financial statements.

SUPPLEMENTAL INFORMATION

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

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2016**

	The Association	MSAA HIL	MSAA Jacksonville	MSHH	MSAA HFD	Total	Eliminations	Total
ASSETS								
Current Assets								
Cash and cash equivalents	\$ 1,344,814	\$ 18,111	\$ 4,016	\$ -	\$ 9,777	\$ 1,376,718	\$ -	\$ 1,376,718
Pledges receivable, net	782,683	-	-	-	-	782,683	-	782,683
Accounts receivable	60,900	3,887	-	-	5,038	69,825	-	69,825
Prepaid expenses and other assets	106,686	27,303	11,538	-	26,622	172,149	-	172,149
Total Current Assets	2,295,083	49,301	15,554	-	41,437	2,401,375	-	2,401,375
Investments	2,810,988	-	-	-	-	2,810,988	-	2,810,988
Restricted cash and cash equivalents	-	511,579	55,254	-	617,777	1,184,610	-	1,184,610
Property and equipment, net	1,281,042	1,422,587	617,678	-	1,446,950	4,768,257	-	4,768,257
TOTAL ASSETS	\$ 6,387,113	\$ 1,983,467	\$ 688,486	\$ -	\$ 2,106,164	\$ 11,165,230	\$ -	\$ 11,165,230
LIABILITIES AND NET ASSETS								
Liabilities								
Current Liabilities								
Accounts payable and accrued expenses	\$ 904,593	\$ 32,917	\$ 13,482	\$ -	\$ 22,763	\$ 973,755	\$ -	\$ 973,755
Line of credit	1,496,492	-	-	-	-	1,496,492	-	1,496,492
Total Current Liabilities	2,401,085	32,917	13,482	-	22,763	2,470,247	-	2,470,247
Tenant security deposits	-	6,155	3,688	-	6,070	15,913	-	15,913
TOTAL LIABILITIES	2,401,085	39,072	17,170	-	28,833	2,486,160	-	2,486,160
Net Assets								
Unrestricted								
General	1,462,750	(110,505)	(263,384)	-	(165,569)	923,292	-	923,292
Board-designated	1,500,000	-	-	-	-	1,500,000	-	1,500,000
Total Unrestricted	2,962,750	(110,505)	(263,384)	-	(165,569)	2,423,292	-	2,423,292
Temporarily restricted	1,023,278	2,054,900	934,700	-	2,242,900	6,255,778	-	6,255,778
TOTAL NET ASSETS	3,986,028	1,944,395	671,316	-	2,077,331	8,679,070	-	8,679,070
TOTAL LIABILITIES AND NET ASSETS	\$ 6,387,113	\$ 1,983,467	\$ 688,486	\$ -	\$ 2,106,164	\$ 11,165,230	\$ -	\$ 11,165,230

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

**CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016**

	The Association	MSAA HIL	MSAA Jacksonville	MSHH	MSAA HFD	Total	Eliminations	Total
REVENUE AND SUPPORT								
Donated media and services	\$ 14,019,469	\$ -	\$ -	\$ -	\$ -	\$ 14,019,469	\$ -	\$ 14,019,469
Contributions	5,166,873	-	-	-	-	5,166,873	-	5,166,873
Grants and bequests	1,249,405	-	-	-	-	1,249,405	-	1,249,405
Rental income	30,108	351,242	110,703	334,325	421,725	1,248,103	-	1,248,103
Special events	341,813	-	-	-	-	341,813	-	341,813
Investment income (loss)	(37,071)	806	63	549	2,002	(33,651)	-	(33,651)
Miscellaneous income	119,223	1,490	222	1,775	1,943	124,653	-	124,653
TOTAL REVENUE AND SUPPORT	20,889,820	353,538	110,988	336,649	425,670	22,116,665	-	22,116,665
EXPENSES								
Program Services:								
Public education and patient services	16,926,991	-	-	-	-	16,926,991	-	16,926,991
Housing	-	365,442	171,019	310,400	422,557	1,269,418	-	1,269,418
Total Program Services	16,926,991	365,442	171,019	310,400	422,557	18,196,409	-	18,196,409
Supporting Services:								
Fundraising	2,998,287	-	-	-	-	2,998,287	-	2,998,287
General and administrative	3,531,853	-	-	-	-	3,531,853	-	3,531,853
Total Supporting Services	6,530,140	-	-	-	-	6,530,140	-	6,530,140
TOTAL EXPENSES	23,457,131	365,442	171,019	310,400	422,557	24,726,549	-	24,726,549
CHANGE IN NET ASSETS BEFORE TRANSFER OF NET ASSETS OF MULTIPLE SCLEROSIS HANDICAPPED HOUSING, INC. (MSHH) TO A NEW SPONSOR	(2,567,311)	(11,904)	(60,031)	26,249	3,113	(2,609,884)	-	(2,609,884)
TRANSFER OF NET ASSETS OF MSHH TO A NEW SPONSOR	-	-	-	(1,695,038)	-	(1,695,038)	-	(1,695,038)
CHANGE IN NET ASSETS	(2,567,311)	(11,904)	(60,031)	(1,668,789)	3,113	(4,304,922)	-	(4,304,922)
NET ASSETS, BEGINNING OF YEAR	6,553,339	1,956,299	731,347	1,668,789	2,074,218	12,983,992	-	12,983,992
NET ASSETS, END OF YEAR	\$ 3,986,028	\$ 1,944,395	\$ 671,316	\$ -	\$ 2,077,331	\$ 8,679,070	\$ -	\$ 8,679,070