

MSAA

**MULTIPLE SCLEROSIS
ASSOCIATION OF AMERICA**

Improving Lives Today!®

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

Consolidated Financial Statements

For the Year Ended June 30, 2018

(With Summarized Financial Information for the Year Ended June 30, 2017)



**and
Report Thereon**



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

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For the Year Ended June 30, 2018**

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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 Affiliate

We have audited the accompanying consolidated financial statements of the Multiple Sclerosis Association of America, Inc. (the Association) and Affiliate (collectively referred to as MSAA), which comprise the consolidated statement of financial position as of June 30, 2018, 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 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 Jacksonville, Inc. (MSAA Jacksonville) as of June 30, 2018, which statements reflects total assets of \$661,864 and total revenue of \$145,760 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 Jacksonville, 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.

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 Affiliate as of June 30, 2018, 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 Matter

Report on Summarized Comparative Information

We have previously audited MSAA's 2017 consolidated financial statements, and our report dated October 19, 2017, 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, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Raffa, P.C.

Raffa, P.C.

Washington, DC
October 25, 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2018

(With Summarized Financial Information as of June 30, 2017)

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 1,960,283	\$ 1,875,712
Pledges receivable, net	616,068	465,416
Accounts receivable	83,540	81,619
Prepaid expenses and other assets	192,818	221,757
Investments	2,479,841	2,596,024
Restricted cash and cash equivalents	61,995	53,908
Property and equipment, net	2,127,587	1,964,178
TOTAL ASSETS	\$ 7,522,132	\$ 7,258,614
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 834,404	\$ 792,641
Line of credit	1,103,393	1,103,393
Tenant security deposits	3,190	3,570
TOTAL LIABILITIES	1,940,987	1,899,604
Net Assets		
Without donor restrictions		
General – Association	2,029,889	1,695,723
General – Affiliate	(280,575)	(280,875)
Board-designated	1,500,000	1,500,000
Total Without Donor Restrictions	3,249,314	2,914,848
With donor restrictions	2,331,831	2,444,162
TOTAL NET ASSETS	5,581,145	5,359,010
TOTAL LIABILITIES AND NET ASSETS	\$ 7,522,132	\$ 7,258,614

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

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

**CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018
(With Summarized Financial Information for the Year Ended June 30, 2017)**

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
REVENUE AND SUPPORT				
Contributions	\$ 5,257,258	\$ -	\$ 5,257,258	\$ 4,996,351
Grants and bequests	338,384	2,627,639	2,966,023	3,049,278
Rental income	145,340	-	145,340	681,771
Special events	706,602	-	706,602	666,290
Investment income, net	143,572	-	143,572	141,137
Miscellaneous income	122,400	-	122,400	239,922
Net assets released from restrictions:				
Satisfaction of program restrictions	2,739,970	(2,739,970)	-	-
TOTAL REVENUE AND SUPPORT	9,453,526	(112,331)	9,341,195	9,774,749
EXPENSES				
Program Services:				
Public education and patient services	5,744,728	-	5,744,728	5,107,743
Housing	145,460	-	145,460	609,118
Total Program Services	5,890,188	-	5,890,188	5,716,861
Supporting Services:				
Fundraising	2,625,344	-	2,625,344	2,652,101
General and administrative	603,528	-	603,528	667,518
Total Supporting Services	3,228,872	-	3,228,872	3,319,619
TOTAL EXPENSES	9,119,060	-	9,119,060	9,036,480
Change in net assets from operations	334,466	(112,331)	222,135	738,269
Donated media revenue	645,785	-	645,785	1,906,649
Donated media expenses	(645,785)	-	(645,785)	(1,906,649)
Change in net assets before transfer of net assets to new sponsors	334,466	(112,331)	222,135	738,269
Transfer of net assets to new sponsors	-	-	-	(4,058,329)
CHANGE IN NET ASSETS	334,466	(112,331)	222,135	(3,320,060)
NET ASSETS, BEGINNING OF YEAR	2,914,848	2,444,162	5,359,010	8,679,070
NET ASSETS, END OF YEAR	\$ 3,249,314	\$ 2,331,831	\$ 5,581,145	\$ 5,359,010

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

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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2018
(With Summarized Financial Information for the Year Ended June 30, 2017)**

	Program Services			Supporting Services			2018 Total	2017 Total
	Public Education and Patient Services	Housing	Total Program Services	Fundraising	General and Administrative	Total Supporting Services		
Patient assistance	\$ 2,687,692	\$ -	\$ 2,687,692	\$ -	\$ -	\$ -	\$ 2,687,692	\$ 2,182,436
Salaries and wages	1,095,930	34,454	1,130,384	233,745	376,964	610,709	1,741,093	1,804,094
Contract services	340,009	-	340,009	1,084,782	22,310	1,107,092	1,447,101	1,557,784
Postage, printing and mailing costs	560,843	-	560,843	909,063	71,821	980,884	1,541,727	1,538,145
Payroll taxes and fringe benefits	468,449	4,947	473,396	19,659	29,385	49,044	522,440	541,326
Special events	-	-	-	294,662	-	294,662	294,662	277,671
Professional fees and counseling	204,347	7,846	212,193	21,215	30,430	51,645	263,838	272,618
Miscellaneous	117,382	9,302	126,684	21,349	11,203	32,552	159,236	168,347
Data processing and list costs	72,005	-	72,005	9,343	13,400	22,743	94,748	94,114
Occupancy	16,289	57,286	73,575	3,651	6,257	9,908	83,483	237,127
Bank fees	57,442	-	57,442	10,104	14,493	24,597	82,039	49,050
Depreciation and amortization	28,308	26,945	55,253	6,344	10,875	17,219	72,472	175,419
Travel	57,360	-	57,360	5,331	7,647	12,978	70,338	73,186
Office supplies and expenses	38,672	4,680	43,352	6,096	8,743	14,839	58,191	65,163
Total Expenses Excluding Donated Media	5,744,728	145,460	5,890,188	2,625,344	603,528	3,228,872	9,119,060	9,036,480
Donated media expenses	534,666	-	534,666	111,119	-	111,119	645,785	1,906,649
TOTAL EXPENSES	\$ 6,279,394	\$ 145,460	\$ 6,424,854	\$ 2,736,463	\$ 603,528	\$ 3,339,991	\$ 9,764,845	\$ 10,943,129

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

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

**CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2018
(With Summarized Financial Information for the Year Ended June 30, 2017)
Increase (Decrease) in Cash and Cash Equivalents**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 222,135	\$ (3,320,060)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	72,472	175,419
Loss on disposal of property	7,760	-
Net realized and unrealized gains on investments	(96,353)	(90,566)
Net assets of properties transferred to new sponsors	-	4,058,329
Changes in assets and liabilities:		
Pledges receivable	(150,652)	317,267
Accounts receivable	(1,921)	(45,481)
Prepaid expenses and other assets	28,939	(83,391)
Accounts payable and accrued expenses	41,763	(154,676)
Tenant security deposits	(380)	(520)
	123,763	856,321
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(624,029)	(2,079,236)
Proceeds from sales of investments	836,565	2,384,766
Deposits to restricted cash for replacement reserves and interest	(8,087)	(20,277)
Cash of housing properties transferred to new sponsors	-	(33,644)
Purchases of property and equipment	(243,641)	(215,837)
	(39,192)	35,772
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on the line of credit	-	200,500
Repayments on the line of credit	-	(593,599)
	-	(393,099)
NET CASH USED IN FINANCING ACTIVITIES		
NET INCREASE IN CASH AND CASH EQUIVALENTS	84,571	498,994
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,875,712	1,376,718
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,960,283	\$ 1,875,712
SUPPLEMENTAL CASH FLOW INFORMATION		
Actual cash payments for interest	\$ 38,182	\$ 39,458

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

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 and corporate grants.

MSAA Jacksonville, Inc. (MSAA Jacksonville), an affiliate of the Association, was organized to construct and operate an apartment complex for elderly and handicapped persons under Section 811 of the National Housing Act and 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 affiliate (collectively referred to as MSAA) have been prepared on the accrual basis of accounting and include the accounts of the Association and its affiliate. 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 and equity 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.

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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

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

Fair Value of Financial Instruments (continued)

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, 2018, 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 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. 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, 2018, the pledges were recorded in the accompanying consolidated financial statements, net of an allowance of approximately 23%. 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 with a useful life of more than one year and an acquisition cost greater than \$2,000 are capitalized at cost. Costs incurred in the development of software and 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.

Continued

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

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

Property and Equipment and Related Depreciation and Amortization (continued)

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 and software 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, 2018.

Classification of Net Assets

MSAA's net assets are reported as follows:

- Net assets without donor restrictions represent the portion of expendable funds that are available for any purpose in performing the primary objectives of MSAA at the discretion of MSAA's management and the Board of Directors (the Board). From time to time, the Board designates a portion of these net assets for specific purposes, which makes them unavailable for use at management's discretion. The Board has designated \$1,500,000 of net assets without donor restrictions to serve as a working capital reserve to secure MSAA's long-term financial viability.
- Net assets with donor restrictions represent funds that are specifically restricted by donors and HUD for use in various programs and/or for a specific period of time. These donor restrictions can be temporary in nature in that they will be met by actions of MSAA or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. As of June 30, 2018, MSAA had no net assets with donor restrictions that are required to be maintained in perpetuity.

Revenue Recognition

Contributions, grants and bequests without donor restrictions 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 having donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose of a restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Continued

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

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

Revenue Recognition (continued)

MSAA receives a capital advance from HUD under Section 811 of the National Affordable Housing Act. This advance is reported as support with donor restrictions when received. The capital advance does not bear interest and is 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 advance will be released from net assets with donor restrictions upon the expiration of the 40-year term of the agreements, which will occur in January 2039.

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

Donated Media

Donated media is reflected as revenue and expenses in the accompanying consolidated statement of activities at the estimated fair value as provided by the donor or third party. Donated media primarily consists of digital media spots on the internet 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. Expenses directly attributed to a specific functional area of MSAA are reported as expenses of those functional areas, while shared costs that benefit multiple functional areas have been allocated among the various functional areas based on estimates determined by management to be equitable. Occupancy and depreciation expenses are allocated by the square footage used by the related department, and costs that are part of the direct mail and telemarketing campaigns are allocated based on the line counts of the direct mail and telemarketing pieces. All other shared costs are allocated based on a time study which is done every six months.

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.

Measure of Operations

MSAA includes in its measure of operations all revenue and expenses from contributions, grants and bequests, rental income, special events, investment income, and other revenue generated from MSAA's programs. The measure of operations excludes donated media, as these revenue and expense amounts are not part of MSAA's annual budgeting process.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

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

New Accounting Pronouncements

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return for nonprofit organizations. MSAA has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

2. Investments

As of June 30, 2018, MSAA's investments consisted of the following:

Fixed income	\$ 695,479
Fixed-income mutual funds	304,383
Equity securities	748,250
Equity mutual funds	<u>731,729</u>
Total Investments	<u>\$ 2,479,841</u>

Investment income is summarized as follows for the year ended June 30, 2018:

Realized gains	\$ 12,502
Unrealized gains	83,851
Interest and dividends	69,178
Investment management fees	<u>(21,959)</u>
Investment Income, Net	<u>\$ 143,572</u>

Included in interest and dividends above, and in investment income in the accompanying consolidated statement of activities, is \$101 of interest income earned on cash and cash equivalents.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

3. Fair Value Measurement

The following table summarizes MSAA's assets measured at fair value on a recurring basis as of June 30, 2018, 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	\$ 130,772	\$ -	\$ 130,772	\$ -
Corporate	475,206	-	475,206	-
Preferred	29,594	-	29,594	-
Secured	23,673	-	23,673	-
Municipal	36,234	-	36,234	-
Fixed-income mutual funds:				
Long-short credit	26,656	26,656	-	-
Domestic	193,575	193,575	-	-
International	84,152	84,152	-	-
Equity securities:				
Large cap	643,954	643,954	-	-
International	104,296	104,296	-	-
Equity mutual funds:				
Large cap	524,887	524,887	-	-
Mid cap	61,521	61,521	-	-
International	104,981	104,981	-	-
Emerging markets	40,340	40,340	-	-
Total Investments	<u>\$ 2,479,841</u>	<u>\$ 1,784,362</u>	<u>\$ 695,479</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 – Represents 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 AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

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, 2018, restricted cash and cash equivalents of \$61,995, which are included in the accompanying consolidated statement of financial position, were being maintained 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, 2018:

Land	\$ 476,858
Buildings and improvements	1,785,012
Furniture, fixtures and equipment	112,032
Website and software costs	<u>405,886</u>
Total Property and Equipment	2,779,788
Less: Accumulated Depreciation and Amortization	<u>(652,201)</u>
Property and Equipment, Net	<u>\$ 2,127,587</u>

Depreciation and amortization expense was \$72,472 for the year ended June 30, 2018.

6. Net Assets

Net Assets Without Donor Restrictions

MSAA's net assets without donor restrictions are composed of undesignated amounts and board-designated amounts for a working capital reserve. As of June 30, 2018, MSAA's net assets without donor restrictions were as follows:

Undesignated – Association	\$ 2,029,889
Undesignated – Affiliate	(280,575)
Board-designated	<u>1,500,000</u>
Total Net Assets Without Donor Restrictions	<u>\$ 3,249,314</u>

The board-designated net assets for a working capital reserve were instituted to provide funding for various strategic initiatives of MSAA.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

6. Net Assets (continued)

Net Assets With Donor Restrictions

As of June 30, 2018, net assets with donor restrictions were restricted for the following purposes or period:

Subject to expenditure for specified purpose:

Housing*	\$ 934,700
Patient services	<u>1,349,631</u>
Total Subject to Expenditure for Specified Purpose	<u>2,284,331</u>

Subject to occurrence of specified events/passage of time:

Sponsorship for 2019 MS Journey Exhibits	37,500
Sponsorship for 2019 MS Family Day	<u>10,000</u>
Total Subject to Occurrence of Specified Events/ Passage of Time	<u>47,500</u>
Total Net Assets with Donor Restrictions	<u>\$ 2,331,831</u>

* This represents the capital advance from HUD under Section 811 of the National Affordable Housing Act. It is 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 advance will be released from net assets with donor restrictions upon the expiration of the 40-year term of the agreements, which will occur in January 2039.

7. Commitments and Contingencies

Concentrations of Risk

The operations of MSAA Jacksonville are concentrated in the multifamily real estate market, which is a heavily regulated environment. The operations of MSAA Jacksonville 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 change may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a new mandate.

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7. 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, 2018, MSAA had approximately \$2,123,000 composed of demand deposits, savings and money market accounts and other investment securities, which exceeded the maximum limit insured by the FDIC by approximately \$1,830,000. MSAA monitors the creditworthiness of these institutions and has not experienced any credit losses on its cash and cash equivalents.

Line of Credit

MSAA has a \$1,900,000 revolving line of credit with a financial institution that is secured by MSAA's investments held at the bank. The interest rate is calculated using the bank's commercial rate index, which, as of June 30, 2018, was 4.25%. The line of credit is due upon demand. As of June 30, 2018, \$1,103,393 was outstanding on the line of credit. Interest expense incurred on this line of credit during the year ended June 30, 2018, was \$42,094.

8. Availability and Liquidity

MSAA regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. MSAA's financial assets available within one year of the consolidated statement of financial position date for general expenditures at June 30, 2018, were as follows:

Cash and cash equivalents	\$ 1,960,283
Pledges receivable	616,068
Accounts receivable	83,540
Investments	<u>2,479,841</u>
Total Financial Assets Available Within One Year	5,139,732
Less:	
Amounts unavailable for general expenditures within one year due to donor's restriction with purpose restriction	(61,000)
Amounts unavailable to management without Board approval:	
Board-designated for working capital reserve	<u>(1,500,000)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 3,578,732</u>

MSAA has various sources of liquidity at its disposal, including cash and cash equivalents and investments, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of MSAA throughout the year. This is done through monitoring and reviewing MSAA's cash flow needs on a weekly basis. As a result, management is aware of the cyclical nature of MSAA's cash

Continued

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8. Availability and Liquidity (continued)

flow related to MSAA's various funding sources and is therefore able to ensure that there is cash available to meet current liquidity needs. As part of its liquidity plan, excess cash is invested in publicly traded investment vehicles, including mutual funds and equity securities, or to support organizational initiatives. MSAA can liquidate its investments anytime, and therefore the investments are available to meet current cash flow needs. To help manage unanticipated liquidity needs, MSAA has a committed line of credit of \$1,900,000, of which approximately \$800,000 was unused and available to draw upon as of June 30, 2018. MSAA's used line of credit is secured by MSAA's investments. Additionally, MSAA has board-designated net assets that could be available for current operations with Board approval, if necessary.

9. Donated Media and Services

During the year ended June 30, 2018, MSAA received \$124,955 of donated advertisements from the Google AdWords campaign. The Google AdWords campaign consists of advertisements for MSAA's services received from Google free of charge and is recorded as donated media expenses under the public education and patient services program in the accompanying consolidated statement of functional expenses.

In addition, during the year ended June 30, 2018, MSAA received donated media totaling \$520,830, which consisted of newspaper and digital articles that were donated to MSAA by various media outlets. MSAA has contracted with an independent outside agency to track the publication of these media materials. Media materials are reflected as donated media expenses in the accompanying consolidated statement of functional expenses under the public education and patient services program and fundraising.

MSAA's programs are also furthered through the contribution of time by unpaid volunteers. In the year ended June 30, 2018, volunteers contributed more than 1,267 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, 2018, 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. These joint costs are allocated as follows:

Fundraising	\$ 1,821,931
Public education and patient services	873,421
General and administrative	<u>92,740</u>
Total	<u>\$ 2,788,092</u>

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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, 2018, MSAA contributed \$44,294 to the plan.

12. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, the Association and MSAA Jacksonville are exempt from the payment of taxes on income other than net unrelated business income. For the year ended June 30, 2018, no provision for income taxes was made, as the Association and MSAA Jacksonville 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. MSAA performed an evaluation of uncertainty in income taxes for the year ended June 30, 2018, 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, 2018, the statute of limitations for tax years ended June 30, 2015, through June 30, 2017, remained 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 uncertainty in income taxes, if any, in income tax expense.

13. Related Party Transactions

MSAA is one of the founding members of the MS Coalition, another nonprofit organization that advocates programs for treatment of multiple sclerosis. In addition to being a coalition member, the President and CEO of MSAA served as Treasurer for the MS Coalition. During the year ended June 30, 2018, the MS Coalition conducted an educational convention for people living with multiple sclerosis to showcase products and services that can help ease their day-to-day lives. MSAA assisted in raising funds for the event. All funds raised by MSAA for the event were specifically designated to support the event and, consequently, in accordance with the provisions of FASB ASC Topic 958-20, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*, the amounts received and disbursed by MSAA for the event were not considered revenue and expenses of MSAA for the year ended June 30, 2018, as MSAA does not have the variance power to redirect these funds to other grantees or purposes. During the year ended June 30, 2018, MSAA received \$201,500 from various donors that was subsequently disbursed to MS Coalition. As of June 30, 2018, \$35,000 of the pass-through contributions were included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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14. 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, 2017, from which the summarized information was derived.

15. Reclassifications

Certain 2017 balances were reclassified to conform to the 2018 financial statement presentation.

16. Subsequent Events

In preparing these consolidated financial statements, MSAA has evaluated, for potential recognition or disclosure, events and transactions through October 25, 2018, 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.