CONSOLIDATED FINANCIAL STATEMENTS

National Multiple Sclerosis Society
(National Headquarters) and Affiliate
Years Ended September 30, 2008 and 2007
With Report of Independent Auditors

National Multiple Sclerosis Society
(National Headquarters) and Affiliate

Consolidated Financial Statements

Years Ended September 30, 2008 and 2007

Contents

Report of Independent Auditors....1

Consolidated Statements of Financial Position....2
Consolidated Statements of Activities....4
Consolidated Statements of Cash Flows....6
Consolidated Statements of Functional Expenses....7
Notes to Consolidated Financial Statements....9

Ernst & Young LLP
5 Times Square
New York, New York 10036-6530
Tel: +1 212 773 3000
www.ey.com

Report of Independent Auditors

Board of Directors
National Multiple Sclerosis Society
(National Headquarters)

We have audited the accompanying consolidated statements of financial position of the National Multiple Sclerosis Society (National Headquarters) and Affiliate as of September 30, 2008 and 2007, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of National Headquarters' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the National Multiple Sclerosis Society (National Headquarters) and Affiliate at September 30, 2008 and 2007, and the consolidated changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

June 23, 2009

A member firm of Ernst & Young Global Limited

National Multiple Sclerosis Society
(National Headquarters) and Affiliate

Consolidated Statements of Financial Position

	September 30 2008	September 30 2007
Assets		
Current assets:		
Cash and cash equivalents	**$ 13,990,415**	$ 12,843,232
Contributions receivable from Chapters and others	**1,088,106**	915,500
Due from Chapters for National Headquarters' activities, campaign materials and advances, less allowance of approximately $1,125,000 and $939,000 at September 30, 2008 and 2007, respectively	**11,525,833**	15,645,980
Prepaid expenses, other assets and other receivables, less allowance of approximately $57,000 and $37,000 at September 30, 2008 and 2007, respectively	**2,476,757**	2,513,202
Total current assets	**29,081,111**	31,917,914
Noncurrent assets:		
Contributions receivable from Chapters and others – long-term portion	**1,356,405**	1,981,477
Investments, at fair value	**25,327,638**	32,534,472
Beneficial interests in trusts	**530,019**	720,338
Property and equipment, net	**8,265,853**	8,589,692
Total noncurrent assets	**35,479,915**	43,825,979
Total assets	**$ 64,561,026**	$ 75,743,893

	September 30	
	2008	**2007**
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 6,861,103**	$ 5,880,025
Grants payable	**35,991,131**	37,902,153
Due to Chapters	**1,241,201**	1,449,937
Deferred income	**83,550**	903,164
Total current liabilities	**44,176,985**	46,135,279
Noncurrent liabilities:		
Long-term supplemental retirement benefit payable	**119,302**	134,913
Deferred rent	**2,237,410**	1,624,101
Due to Chapters – long-term portion	**2,837,314**	3,911,460
Liability to annuitants	**2,252,627**	2,179,196
Total noncurrent liabilities	**7,446,653**	7,849,670
Total liabilities	**51,623,638**	53,984,949
Commitments		
Net assets:		
Unrestricted	**752,722**	9,151,235
Temporarily restricted	**8,549,833**	8,972,876
Permanently restricted	**3,634,833**	3,634,833
Total net assets	**12,937,388**	21,758,944
Total liabilities and net assets	**$ 64,561,026**	$ 75,743,893

See accompanying notes.

National Multiple Sclerosis Society
(National Headquarters) and Affiliate

Consolidated Statement of Activities

Year Ended September 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenue and reclassifications				
Support:				
Contributions from Chapters	$ 59,063,726	$ 11,950,179	$ –	$ 71,013,905
Contributions for research and development	–	965,837	–	965,837
Dues and contributions from members and others	30,843,796	434,400	–	31,278,196
Federal grant	496,855	–	–	496,855
Federal Services Campaign for National Health agencies	35,215	–	–	35,215
Revenue:				
Investment return and other	2,528,207	(64,861)	–	2,463,346
Total support and revenue	92,967,799	13,285,555	–	106,253,354
Net assets released from restrictions	13,708,598	(13,708,598)	–	–
Total support, revenue and reclassifications	106,676,397	(423,043)	–	106,253,354
Expenses				
Program services:				
Research and research fellowships	45,077,195	–	–	45,077,195
Client and community services	15,136,336	–	–	15,136,336
Professional education and training	2,456,355	–	–	2,456,355
Public education	6,038,858	–	–	6,038,858
Services to Chapters	19,775,487	–	–	19,775,487
Total program services	88,484,231	–	–	88,484,231
Supporting services:		–	–	
Fund-raising	9,167,937	–	–	9,167,937
Management and general	7,855,745	–	–	7,855,745
Total supporting services	17,023,682	–	–	17,023,682
Payments to Chapters	9,566,997	–	–	9,566,997
Total expenses	115,074,910	–	–	115,074,910
Change in net assets	(8,398,513)	(423,043)	–	(8,821,556)
Net assets at beginning of year	9,151,235	8,972,876	3,634,833	21,758,944
Net assets at end of year	$ 752,722	$ 8,549,833	$ 3,634,833	$ 12,937,388

See accompanying notes.

National Multiple Sclerosis Society
(National Headquarters) and Affiliate

Consolidated Statement of Activities

Year Ended September 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenue and reclassifications				
Support:				
Contributions from Chapters	$ 59,757,810	$ 13,331,050	$ 19,367	$ 73,108,227
Contributions for research and development	–	1,412,302	–	1,412,302
Dues and contributions from members and others	25,584,864	2,177,909	–	27,762,773
Federal grant	382,625	–	–	382,625
Federal Services Campaign for National Health agencies	30,396	–	–	30,396
Revenue:				
Investment return and other	5,241,586	471,238	–	5,712,824
Total support and revenue	90,997,281	17,392,499	19,367	108,409,147
Net assets released from restrictions	17,245,986	(17,245,986)	–	–
Total support, revenue and reclassifications	108,243,267	146,513	19,367	108,409,147
Expenses				
Program services:				
Research and research fellowships	50,940,905	–	–	50,940,905
Client and community services	12,945,597	–	–	12,945,597
Professional education and training	2,222,937	–	–	2,222,937
Public education	6,328,753	–	–	6,328,753
Services to Chapters	16,063,099	–	–	16,063,099
Total program services	88,501,291	–	–	88,501,291
Supporting services:				
Fund-raising	8,840,237	–	–	8,840,237
Management and general	6,037,697	–	–	6,037,697
Total supporting services	14,877,934	–	–	14,877,934
Payments to Chapters	10,509,877	–	–	10,509,877
Total expenses	113,889,102	–	–	113,889,102
Change in net assets	(5,645,835)	146,513	19,367	(5,479,955)
Net assets at beginning of year	14,797,070	8,826,363	3,615,466	27,238,899
Net assets at end of year	$ 9,151,235	$ 8,972,876	$ 3,634,833	$ 21,758,944

See accompanying notes.

National Multiple Sclerosis Society
(National Headquarters) and Affiliate

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2008	**2007**
Cash flows from operating activities		
Change in net assets	**$ (8,821,556)**	$ (5,479,955)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	**2,513,134**	2,243,104
Net realized and unrealized loss (gain) on investments	**3,486,092**	(2,570,300)
Beneficial interests in trusts	**190,319**	(98,820)
Deferred rent	**613,309**	652,438
Changes in operating assets and liabilities:		
Contributions receivable	**452,466**	(1,111,327)
Due from Chapters	**4,120,147**	1,042,199
Prepaid expenses, other assets and other receivables, net	**36,445**	(207,567)
Accounts payable and accrued expenses	**981,078**	443,999
Grants payable	**(1,911,022)**	2,896,018
Chapters' interest in pooled investments	**662,514**	(2,497,948)
Due to Chapters	**(1,945,396)**	3,315,272
Deferred income	**(819,614)**	65,646
Long-term supplemental retirement benefit payable	**(15,611)**	(14,486)
Liability to annuitants	**73,431**	145,173
Net cash used in operating activities	**(384,264)**	(1,176,554)
Cash flows from investing activities		
Purchases of property and equipment	**(2,189,295)**	(2,488,319)
Purchases of investments	**(184,254)**	(8,186,904)
Proceeds from sales of investments	**3,904,996**	9,090,662
Net cash provided by (used in) investing activities	**1,531,447**	(1,584,561)
Net increase (decrease) in cash and cash equivalents	**1,147,183**	(2,761,115)
Cash and cash equivalents at beginning of year	**12,843,232**	15,604,347
Cash and cash equivalents at end of year	**$ 13,990,415**	$ 12,843,232

See accompanying notes.

National Multiple Sclerosis Society
(National Headquarters) and Affiliate

Consolidated Statement of Functional Expenses

Year Ended September 30, 2008

	Program Services						Supporting Services				
	Research and Research Fellowships	Client and Community Services	Professional Education and Training	Public Education	Services to Chapters	Total	Fund-raising	Management and General	Total	Payments to Chapters	Total Expenses
Research and research fellowship grants	$ 39,267,025	$ –	$ –	$ –	$ –	$ 39,267,025	$ –	$ –	$ –	$ –	$ 39,267,025
Payments to Chapters	–	–	–	–	–	–	–	–	–	9,566,997	9,566,997
Expenses:											
Salaries	1,892,139	4,584,399	791,051	1,683,616	6,544,353	15,495,558	466,048	1,292,134	1,758,182	–	17,253,740
Retirement and health insurance benefits for employees	345,106	741,873	130,058	283,381	1,116,962	2,617,380	79,230	216,379	295,609	–	2,912,989
Payroll taxes	122,835	319,324	54,259	112,128	461,751	1,070,297	31,906	88,790	120,696	–	1,190,993
Total salaries and related expenses	2,360,080	5,645,596	975,368	2,079,125	8,123,066	19,183,235	577,184	1,597,303	2,174,487	–	21,357,722
Travel	388,886	747,759	133,157	274,508	1,183,787	2,728,097	93,403	212,701	306,104	–	3,034,201
Professional fees and contract service payments	1,379,837	2,135,701	355,354	1,238,464	6,274,366	11,383,722	2,282,978	2,389,492	4,672,470	–	16,056,192
Printing and stationery	148,726	837,432	93,745	731,079	377,407	2,188,389	3,475,843	1,387,043	4,862,886	–	7,051,275
Dues, subscriptions and reprints	109,999	83,538	31,278	196,625	234,196	655,636	427,162	290,602	717,764	–	1,373,400
Office supplies	27,617	84,918	13,219	30,250	72,489	228,493	5,774	15,560	21,334	–	249,827
Rent and electricity	390,582	508,456	93,023	228,034	692,218	1,912,313	54,472	162,311	216,783	–	2,129,096
Insurance	48,247	160,996	25,535	66,251	191,210	492,239	9,403	36,105	45,508	–	537,747
Postage, trucking and express	67,069	395,792	40,288	541,665	219,425	1,264,239	2,039,157	1,234,641	3,273,798	–	4,538,037
Telephone	82,172	233,032	41,367	68,961	340,304	765,836	21,267	64,971	86,238	–	852,074
Conferences and meetings	246,327	2,052,543	301,948	238,401	781,317	3,620,536	69,050	170,622	239,672	–	3,860,208
Specific assistance to individuals and clinics	58,582	959,984	136,528	21,692	22,060	1,198,846	2,696	24,021	26,717	–	1,225,563
Awards and other grants	48,281	442,733	64,426	13,390	72,079	640,909	4,554	16,723	21,277	–	662,186
Sundry	156,723	173,371	31,080	63,183	267,752	692,109	38,800	69,316	108,116	–	800,225
Total expenses before depreciation and amortization	5,513,128	14,461,851	2,336,316	5,791,628	18,851,676	46,954,599	9,101,743	7,671,411	16,773,154	–	63,727,753
Depreciation and amortization	297,042	674,485	120,039	247,230	923,811	2,262,607	66,194	184,334	250,528	–	2,513,135
Total expenses	5,810,170	15,136,336	2,456,355	6,038,858	19,775,487	49,217,206	9,167,937	7,855,745	17,023,682	–	66,240,888
Total expenses, grants and payments to Chapters	$ 45,077,195	$ 15,136,336	$ 2,456,355	$ 6,038,858	$ 19,775,487	$ 88,484,231	$ 9,167,937	$ 7,855,745	$ 17,023,682	$ 9,566,997	$ 115,074,910

See accompanying notes.

National Multiple Sclerosis Society
(National Headquarters) and Affiliate

Consolidated Statement of Functional Expenses

Year Ended September 30, 2007

	Program Services						Supporting Services				
	Research and Research Fellowships	Client and Community Services	Professional Education and Training	Public Education	Services to Chapters	Total	Fund-raising	Management and General	Total	Payments to Chapters	Total Expenses
Research and research fellowship grants	$ 44,219,728	$ –	$ –	$ –	$ –	$ 44,219,728	$ –	$ –	$ –	$ –	$ 44,219,728
Payments to Chapters	–	–	–	–	–	–	–	–	–	10,509,877	10,509,877
Expenses:											
Salaries	2,037,069	3,702,803	741,698	1,569,157	5,089,715	13,140,442	535,840	917,028	1,452,868	–	14,593,310
Retirement and health insurance benefits for employees	289,393	544,642	105,855	207,231	732,331	1,879,452	72,766	122,728	195,494	–	2,074,946
Payroll taxes	149,211	246,358	57,633	147,337	384,064	984,603	41,248	77,492	118,740	–	1,103,343
Total salaries and related expenses	2,475,673	4,493,803	905,186	1,923,725	6,206,110	16,004,497	649,854	1,117,248	1,767,102	–	17,771,599
Travel	343,640	692,512	97,918	261,605	914,238	2,309,913	71,994	154,781	226,775	–	2,536,688
Professional fees and contract service payments	2,539,952	2,339,958	501,038	1,303,894	5,109,445	11,794,287	2,414,058	1,575,196	3,989,254	–	15,783,541
Printing and stationery	79,138	1,248,304	91,555	948,595	352,847	2,720,439	3,010,619	1,480,631	4,491,250	–	7,211,689
Dues, subscriptions and reprints	25,958	129,543	10,890	130,413	68,369	365,173	254,068	133,560	387,628	–	752,801
Office supplies	24,314	71,575	10,598	30,243	67,808	204,538	5,769	14,481	20,250	–	224,788
Rent and electricity	410,210	618,204	116,302	349,277	961,318	2,455,311	105,896	172,990	278,886	–	2,734,197
Insurance	64,653	160,159	29,109	46,504	163,111	463,536	15,343	26,009	41,352	–	504,888
Postage, trucking and express	27,111	416,009	20,783	630,662	85,933	1,180,498	2,065,940	962,035	3,027,975	–	4,208,473
Telephone	92,543	223,339	38,299	62,683	270,320	687,184	23,150	40,374	63,524	–	750,708
Conferences and meetings	130,350	520,116	59,932	393,020	565,785	1,669,203	57,425	123,633	181,058	–	1,850,261
Specific assistance to individuals and clinics	41,546	670,997	97,426	15,193	23,777	848,939	1,888	7,554	9,442	–	858,381
Awards and other grants	64,337	625,689	91,239	19,693	63,742	864,700	3,847	10,990	14,837	–	879,537
Sundry	84,886	117,825	36,296	58,309	383,822	681,138	82,527	85,177	167,704	–	848,842
Total expenses before depreciation and amortization	6,404,311	12,328,033	2,106,571	6,173,816	15,236,625	42,249,356	8,762,378	5,904,659	14,667,037	–	56,916,393
Depreciation and amortization	316,866	617,564	116,366	154,937	826,474	2,032,207	77,859	133,038	210,897	–	2,243,104
Total expenses	6,721,177	12,945,597	2,222,937	6,328,753	16,063,099	44,281,563	8,840,237	6,037,697	14,877,934	–	59,159,497
Total expenses, grants and payments to Chapters	$ 50,940,905	$ 12,945,597	$ 2,222,937	$ 6,328,753	$ 16,063,099	$ 88,501,291	$ 8,840,237	$ 6,037,697	$ 14,877,934	$ 10,509,877	$ 113,889,102

See accompanying notes.

National Multiple Sclerosis Society
(National Headquarters) and Affiliate

Notes to Consolidated Financial Statements

September 30, 2008

1. Organization and Significant Accounting Policies

Organization

The National Multiple Sclerosis Society (the "Society") is a national not-for-profit health agency dedicated to ending the devastating effects of multiple sclerosis. The Society consists of its National Headquarters ("National Headquarters") and 53 chartered chapters (the "Chapters") throughout the country, each with a separate Board of Trustees. National Headquarters' principal programs include the research and training program, which annually awards research grants, dissemination of information and coordination of programs and services to its Chapters. Services to Chapters include providing support for chapter development, campaign development, fund-raising, materials and supplies and other services as provided under the related arrangements. Services provided by the Chapters include information and referral, counseling, education, advocacy and equipment assistance.

Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements consist of the accounts of National Headquarters and its affiliate, Fast Forward, LLC ("Affiliate" or "Fast Forward"), a limited liability company of which National Headquarters is the sole member. The accounts of the Chapters, over which National Headquarters does not have control, either by majority ownership or a majority voting interest in the respective boards of trustees, are not included in the consolidated financial statements.

Use of Estimates

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

1. Organization and Significant Accounting Policies (continued)

Net Asset Classifications

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

Unrestricted Net Assets: Unrestricted net assets consist of resources available for the support of National Headquarters' operations. The unrestricted net assets may be used at the discretion of National Headquarters' management and the Board of Directors.

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

Permanently Restricted Net Assets: Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources are to be maintained permanently. Income earned on permanently restricted net assets is available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

Revenue Recognition

All unconditional contributions are recorded as revenue when received. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. All contributions are considered available for unrestricted use unless specifically restricted by the donor. National Headquarters records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions.

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

1. Organization and Significant Accounting Policies (continued)

Allowance for Doubtful Accounts

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

Expense Allocations

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

Research Grants

Research grants are recognized in accordance with defined payment schedules and as the related conditions are met. Research grants, which are generally three years in length, are subject on an annual basis to revocation rights by National Headquarters and the continued qualification of grantees, among other things. National Headquarters' policy regarding the recognition of grants payable is to include only those amounts where a specific grantee is identified.

Cash and Cash Equivalents

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

At September 30, 2008 and 2007, approximately 85% and 84%, respectively, of cash and cash equivalents were held by one financial institution. In addition, 11% of cash and cash equivalents at September 30, 2008, were held by another financial institution.

1. Organization and Significant Accounting Policies (continued)

Due from Chapters and Contributions from Chapters

National Headquarters and its Chapters have agreements under which a portion of contributions received by Chapters is shared with National Headquarters. Such amounts of approximately $71,014,000 and $73,108,000 for the years ended September 30, 2008 and 2007, respectively, are net of an agreed-upon fund-raising allowance of 20% where appropriate. Amounts not remitted by Chapters are recorded by National Headquarters as due from Chapters for national activities. The Chapters' share of contributions received directly by National Headquarters is offset against the respective Chapter's receivable. The Chapters, in turn, reflect their share of the contribution as revenue and a reduction to their liability to National Headquarters. Multi-year contributions from Chapter activities that are restricted to National Headquarters are reflected as an expense by the Chapter and a contribution by National Headquarters in the year that the multi-year contribution is made.

Investments and Investment Income

Investments in mutual funds, equity and debt securities are carried at their fair values, which are based on quoted market prices. Investments in annuity contracts are carried at contract value, which approximates fair value and represents investments made under the contracts plus interest at rates established by the financial institutions party to such contracts. Investments in certificates of deposit are carried at cost, which approximates fair value. Donated securities are recorded at their quoted market value on the date received. Income earned from investments, including realized and unrealized gains and losses, is recorded in the net asset class owning the assets with the exception of permanently restricted net assets. Income earned from permanently restricted investments, including realized and unrealized gains and losses, is recorded as unrestricted or temporarily restricted based upon stipulations by the donor.

Split-Interest Agreements and Beneficial Interests in Trusts

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

1. Organization and Significant Accounting Policies (continued)

the Chapter receives 60% of the amount distributed and the remaining 40% is received by National Headquarters, unless otherwise designated by the donor. National Headquarters records contribution income for its share and a liability for amounts payable to annuitants and for the Chapter's share using an actuarial calculation at the time of the gift. Adjustments to the actuarial calculation for changes in assumptions are made annually.

In other situations where assets are controlled and invested by an independent third party, National Headquarters records a receivable and contribution income for its share of the assets, based on the present value of the estimated future distributions expected to be received by National Headquarters over the expected term of the agreement. At September 30, 2008 and 2007, National Headquarters' beneficial interests in such trusts were approximately $530,000 and $720,000, respectively.

Property and Equipment

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

Donated Services

Highly qualified volunteers serving on peer review research committees have donated their time and efforts to the Society. These contributed services were valued at approximately $358,000 and $421,000 for the years ended September 30, 2008 and 2007, respectively, and have been recognized as support (dues and contributions from members and others) and expense in the consolidated statements of activities. Other volunteers have also donated significant time to the Society's program services and fund-raising campaigns. These services were not reflected in the accompanying consolidated statements of activities because they do not meet the necessary criteria for recognition under U.S. generally accepted accounting principles.

1. Organization and Significant Accounting Policies (continued)

Rent Expense

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

New Accounting Pronouncements

In July 2006, the Financial Standards Board ("FASB") issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), which for not-for-profit organizations is effective for fiscal years beginning after December 15, 2008. FIN 48 clarifies the accounting for income taxes recognized in the financial statements in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes*. This interpretation prescribes a comprehensive model for how an entity should recognize, measure, present and disclose in its financial statements uncertain tax positions that the entity has taken or expects to take on a tax return. National Headquarters does not believe that the effect of adoption of FIN 48 in fiscal 2009 will have a material impact on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 applies to financial statements issued for fiscal years beginning after November 15, 2007. The impact on National Headquarters' consolidated financial statements, if any, of the adoption of SFAS No. 157, is under evaluation.

In August 2008, the FASB issued Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* ("FSP 117-1"). FSP 117-1 provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). UPMIFA is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation. FSP 117-1 requires additional disclosures about endowments (both donor-restricted funds and board-designated funds) for all organizations, including those that are not yet subject to an enacted version of UPMIFA. The provisions of FSP 117-1 are effective for fiscal years ending after December 15, 2008. The impact on National Headquarters' consolidated financial statements, if any, of the adoption of FSP 117-1 is under evaluation.

2. Tax-Exempt Status

National Headquarters qualifies as a charitable organization as defined by Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from federal income taxes under Internal Revenue Code Section 501(a). Additionally, since National Headquarters is publicly supported, contributions to National Headquarters qualify for the maximum charitable contribution deduction under the Internal Revenue Code. National Headquarters is also exempt from state and local income taxes.

3. Contributions Receivable from Chapters and Others

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

	2008 Total	**2007 Total**
Less than one year	**$ 1,088,106**	$ 915,500
One to five years	**1,356,405**	1,981,477
Total	**$ 2,444,511**	$ 2,896,977

Those receivables that are due in more than one year have been discounted to their present value using discount rates ranging from 4.0% to 5.1%. The related discounts amounted to $16,819 and $26,451 at September 30, 2008 and 2007, respectively.

4. Investments

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

	Fair Value	
	2008	**2007**
Cash and cash equivalents	**$ 2,273,858**	$ 1,601,719
Certificates of deposit	**250,000**	250,000
Equities	**12,609,278**	17,060,236
Mutual funds	**93,683**	63,137
Fixed income securities	**6,644,782**	6,598,441
Annuity contracts	**–**	3,025,904
Investments related to charitable gift annuities:		
California	**690,312**	1,002,436
Maryland	**369,749**	148,411
New York	**350,745**	406,946
All other states	**2,039,231**	2,370,242
Other	**6,000**	7,000
	$ 25,327,638	$ 32,534,472

The underlying investments of charitable gift annuities are comprised of United States government and agencies fixed income securities and mutual funds (carried at fair value based on quoted market prices). The related liability to annuitants at September 30, 2008 and 2007, amounted to $2,252,627 and $2,179,196, respectively, based on a discount rate of 6% per annum. State mandated insurance reserves related to these arrangements are maintained at the required levels.

A pool of cash and cash equivalents, equities and fixed income totaling approximately $3,862,000 includes certain Chapters' ownership interest which amounted to approximately $1,988,000 and $2,650,000 as of September 30, 2008 and 2007, respectively. The Chapters' ownership interest is included in due to Chapters – long-term portion in the accompanying consolidated statements of financial position.

4. Investments (continued)

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

	Year Ended September 30	
	2008	**2007**
Interest and dividend income	**$ 272,797**	$ 429,382
Net realized and unrealized (loss) gain on investments	**(3,486,092)**	2,570,300
	$ (3,213,295)	$ 2,999,682

The change in unrealized gain on investments relating to charitable gift annuities was a decrease of $628,385 and $96,513 for fiscal 2008 and 2007, respectively.

5. Property and Equipment

At September 30, 2008 and 2007, property and equipment consisted of the following:

	2008	**2007**
Computer hardware and purchased software	**$ 26,823,747**	$ 25,111,231
Furniture and fixtures	**1,354,067**	975,160
Equipment	**880,269**	741,824
Leasehold improvements	**2,273,104**	2,313,677
	31,331,187	29,141,892
Less accumulated depreciation and amortization	**23,065,334**	20,552,200
Net	**$ 8,265,853**	$ 8,589,692

6. Pensions

National Headquarters maintains a noncontributory defined contribution retirement plan which covers all eligible employees of National Headquarters and participating Chapters. Contributions for the years ended September 30, 2008 and 2007, as determined by the President and Chief Executive Officer of the Society, were 7.0% of gross annual salary, as defined. Pension expense related to this plan for the years ended September 30, 2008 and 2007 was approximately $1,006,000 and $839,000, respectively.

7. Leases

National Headquarters currently occupies premises in New York City under an operating lease, which expires on December 31, 2021. In addition, National Headquarters leases premises in Washington, D.C. and the Denver-based Training and Resource Center under long-term operating leases expiring on various dates. The terms of the leases include provisions for certain lease concessions and rent escalations at periodic intervals over the lives of the leases.

In fiscal 2007, National Headquarters terminated early the lease for the Denver premises in anticipation of the completion of the negotiation of a new lease. On November 5, 2007, the Society signed a ten-year lease that commenced on February 1, 2008 for National Headquarters Training and Resource Center in Denver. The terms of the lease provide for monthly base rents that start at $50,000, certain lease concessions and rent escalations at periodic intervals over the life of the lease. The early termination of the prior lease resulted in a penalty of approximately $451,000 which was reflected in the 2007 consolidated statement of activities.

National Headquarters has sublet a portion of its premises in New York City to the New York City Chapter and portion of its new premises in Denver to the Colorado Chapter under non-cancelable sublease agreements. The sublease with the New York City Chapter has a 16-year term that expires on December 31, 2021 while the sublease with the Colorado Chapter has a 10-year term and expires on January 31, 2018.

Rent expense computed on the straight-line basis was approximately $2,129,000 and $2,734,000 for the years ended September 30, 2008 and 2007, respectively. Sublease income of approximately $412,000 and $277,000 for the years ended September 30, 2008 and 2007, respectively, is included in investment return and other revenue in the consolidated statements of activities. Deferred rent liability at September 30, 2008 and 2007, was approximately $2,237,000 and $1,624,000, respectively.

7. Leases (continued)

Approximate future minimum lease commitments and related sublease income are as follows:

	Lease Payments	Sublease Income
Fiscal year ending September 30:		
2009	$ 1,807,000	$ 385,000
2010	1,854,000	405,000
2011	1,870,000	408,000
2012	1,973,000	411,000
2013	2,019,000	435,000
Thereafter	14,778,000	3,250,000
Total	$ 24,301,000	$ 5,294,000

8. Commitments for Research and Fellowship Grants

The Society's program services include funding for research and fellowship projects to be conducted in the future, generally over a period of three years. Commitments for research and fellowship projects approved for funding in fiscal 2008 have been recorded as of September 30, 2008, and are included in the accompanying consolidated statement of financial position. The outstanding commitments for research and fellowship projects beyond fiscal 2009 total approximately $33,540,000 and are scheduled for funding approximately as follows: 2010 – $21,658,000; 2011 – $8,607,000; 2012 – $2,671,000; and 2013 – $604,000. These projects will be funded by unrestricted net assets and support and revenue to be generated by National Headquarters and its Chapters.

Commitments for research and fellowship projects are subject, among other things, to revocation rights by National Headquarters, the continued qualifications of grantees and the satisfaction by the grantees of prior conditions before payment.

9. Payments and Services to Chapters

During fiscal 2008 and 2007, National Headquarters made direct payments to its Chapters of approximately $9,567,000 and $10,510,000, respectively, and incurred costs of approximately $19,775,000 and $16,063,00, respectively, in providing services to Chapters, resulting in total benefits to Chapters provided by National Headquarters during fiscal 2008 and 2007 of approximately $29,342,000 and $26,573,000, respectively. The direct payments during fiscal 2008 and 2007 were made under certain agreements regarding National Headquarters' direct mail program (approximately $8,576,000 and $8,938,000, respectively), and contributions and corporate sponsorships (approximately $991,000 and $1,572,000, respectively).

10. Temporarily Restricted Net Assets

Temporarily restricted net assets for research, educational, and other purposes at September 30, 2008 and 2007 are as follows:

	2008	**2007**
Research:		
Contributions from Chapters and others for research	**$ 1,336,977**	$ 1,896,977
Ralph I. Straus Fund	**552,992**	610,322
John Dystel Fund for Multiple Sclerosis Research	**175,131**	300,000
Research Exploration Fund	**469,583**	469,583
Fast Forward activities	**2,662,285**	1,350,000
Alan Buegeleisen Research Fund	**274,235**	181,285
Educational and other:		
Annuities for various restricted purposes	**938,560**	1,268,326
John Dystel Nursing Fellowship Fund	**750,427**	722,094
Sylvia Lawry Physician's Fellowship Fund	**–**	182,282
Chairman's Fund	**–**	87,081
Corporate sponsorships	**1,389,643**	1,904,926
	$ 8,549,833	$ 8,972,876

10. Temporarily Restricted Net Assets (continued)

During fiscal 2008, a donor that previously pledged $1 million for general research projects instructed the Society to utilize such funds for Fast Forward activities. Accordingly, this amount within the temporarily restricted net asset class was reclassified from contributions from Chapters and others for research to Fast Forward activities.

During fiscal 2008 and 2007, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors, as follows:

	2008	2007
Research grants	**$ 12,643,809**	$ 14,816,924
Publications and other	**1,064,789**	2,429,062
Total	**$ 13,708,598**	$ 17,245,986

11. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity. The income is available to support the following at September 30, 2008 and 2007 as follows:

	2008	2007
Unrestricted operating purposes:		
John A. Alexander and Elyza C. Alexander Fund	**$ 20,000**	$ 20,000
J. MCV. Breed Endowment Fund	**351,921**	351,921
Restricted for research and education purposes:		
Wilfred B. Doner Multiple Sclerosis Student Scholarship Fund	**15,500**	15,500
Andrea Leeds Fund	**1,000,000**	1,000,000
Faustino Fund	**204,564**	204,564
James and Vanita Oelschlager Fund	**1,042,848**	1,042,848
Stepping Stone Fund	**1,000,000**	1,000,000
	$ 3,634,833	$ 3,634,833

11. Permanently Restricted Net Assets (continued)

The investment assets that support permanently restricted net assets were impaired by approximately $1.2 million as of September 30, 2008 and that loss on investments is included in unrestricted investment return and other revenue in the consolidated statement of activities.

12. Allocation of Joint Costs

In fiscal 2008 and 2007, National Headquarters incurred joint costs of approximately $13,262,000 and $11,714,000, respectively, for information materials and activities that included fund-raising appeals. Such costs were allocated in accordance with the requirements of the AICPA's Statement of Position 98-2, *Accounting for the Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising*.

The Society allocated approximately $7,920,000 and $7,438,000 to fund-raising expense, approximately $1,395,000 and $984,000 to public education and approximately $3,947,000 and $3,292,000 to management and general in fiscal 2008 and 2007, respectively.

13. Fast Forward, LLC

On October 1, 2007, the Society established Fast Forward, a single member limited liability company which derives its tax exemption from the Society and is treated as a "disregarded entity" for tax purposes. Its purpose is to help accelerate the discovery and development of new treatments for multiple sclerosis by connecting university-based multiple sclerosis research with private-sector drug development and by funding biotechnology/pharmaceutical companies to develop innovative new multiple sclerosis and repurpose FDA-approved drugs as new treatments for multiple sclerosis.

Contributions received by Fast Forward, which amounted to approximately $2,207,000 in fiscal 2008, are presented as temporarily restricted in the consolidated statement of activities. Expenses, which were approximately $895,000, are included in net assets released from restrictions. Net assets of Fast Forward at September 30, 2008 and 2007 amounted to $2,662,000 and $1,350,000, respectively.

14. Chapter Summarized Financial Information

Summarized financial information for the Society's Chapters, as reported in Chapters' financial statements that have been audited primarily by other auditors, at September 30, 2008 and 2007 and for the years then ended is approximately as follows:

	2008	2007
Total assets	**$ 112,429,000**	$ 122,632,000
Total liabilities	**$ 35,552,000**	$ 37,873,000
Net assets	**76,877,000**	84,759,000
	$ 112,429,000	$ 122,632,000
Total support, revenue and reclassifications	**$ 204,984,000**	$ 215,472,000
Total expenses	**212,866,000**	207,473,000
Change in net assets	**$ (7,882,000)**	$ 7,999,000

15. Subsequent Events

In December 2008, Fast Forward entered into a research agreement with Apitope International NV ("Apitope"), a Belgian limited liability company, whereby Fast Forward agreed to fund, up to $1 million, certain clinical research to be conducted by Apitope with respect to a vaccine for treatment of relapsing and remitting multiple sclerosis. The funding is payable in two installments: the first $500,000 within the first 30 days after the execution of the research agreement and the second $500,000 within 30 days of October 1, 2009 provided that certain milestones specified in the research agreement have been met by June 30, 2009, as may be reduced or refunded pursuant to the terms of the research agreement. The agreement has a term of two years and may be terminated by either party in accordance with its provisions.

In March 2009, Fast Forward entered into an agreement with MERCK SERONO, S.A. ("Merck Serono"), a Switzerland company, for the purpose of collaborating on the process of soliciting, evaluating, funding and managing certain multiple sclerosis research proposals from certain specified companies, leading to the execution of a sponsored research agreement between the selected company and Fast Forward, as well as a separate third-party agreement between such selected company and Merck Serono.

15. Subsequent Events (continued)

Subsequent to September 30, 2008, valuation of financial instruments, including the funds where the National Headquarters is invested in, continued to decline. As of June 23, 2009, the fair value of investments based on quoted market prices amounted to approximately $22,600,000 and unrealized investment losses incurred to date amounted to approximately $2,027,000.