

FINANCIAL STATEMENTS



**FOR THE YEAR ENDED JUNE 30, 2016
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2015**

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
American Association for the Study of Liver Diseases Foundation
Alexandria, Virginia

We have audited the accompanying financial statements of the American Association for the Study of Liver Diseases Foundation (AASLD Foundation), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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, the financial statements referred to above present fairly, in all material respects, the financial position of the AASLD Foundation as of June 30, 2016, and the change 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.

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Report on Summarized Comparative Information

We have previously audited the AASLD Foundation's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 15, 2015. 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 financial statements from which it has been derived.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Friedman".

October 13, 2016

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 105,282	\$ 81,458
Investments - Liver Research Fund	11,450,746	11,216,498
Contributions receivable, current portion	877,000	772,000
Accounts receivable	43,515	69,485
Prepaid expenses	<u>-</u>	<u>143</u>
Total current assets	<u>12,476,543</u>	<u>12,139,584</u>
OTHER ASSETS		
Contributions receivable - net of current portion	<u>1,480,298</u>	<u>2,053,838</u>
TOTAL ASSETS	<u>\$ 13,956,841</u>	<u>\$ 14,193,422</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 99	\$ 13,213
Awards payable	2,169,697	1,922,250
Due to related party	<u>47,390</u>	<u>7,755</u>
Total current liabilities	<u>2,217,186</u>	<u>1,943,218</u>
NET ASSETS		
Unrestricted:		
Undesignated	5,896,228	3,273,536
Board-designated (Foundation endowment)	<u>1,000,500</u>	<u>3,703,501</u>
Total unrestricted	6,896,728	6,977,037
Temporarily restricted	3,842,927	4,273,167
Permanently restricted	<u>1,000,000</u>	<u>1,000,000</u>
Total net assets	<u>11,739,655</u>	<u>12,250,204</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,956,841</u>	<u>\$ 14,193,422</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015**

	<u>2016</u>			<u>2015</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
REVENUE					
Contributions	\$ 130,224	\$ -	\$ -	\$ 130,224	\$ 136,047
Research and Fellowship Awards	1,123,919	1,741,298	-	2,865,217	3,695,840
Net assets released from donor restrictions	<u>2,172,038</u>	<u>(2,172,038)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>3,426,181</u>	<u>(430,740)</u>	<u>-</u>	<u>2,995,441</u>	<u>3,831,887</u>
EXPENSES					
Program Services:					
Research and Fellowship Awards	<u>3,027,740</u>	<u>-</u>	<u>-</u>	<u>3,027,740</u>	<u>2,627,426</u>
Supporting Services:					
Governance, Executive and Administration	410,268	-	-	410,268	363,899
Fundraising	<u>53,348</u>	<u>-</u>	<u>-</u>	<u>53,348</u>	<u>36,760</u>
Total supporting services	<u>463,616</u>	<u>-</u>	<u>-</u>	<u>463,616</u>	<u>400,659</u>
Total expenses	<u>3,491,356</u>	<u>-</u>	<u>-</u>	<u>3,491,356</u>	<u>3,028,085</u>
Change in net assets before other item	(65,175)	(430,740)	-	(495,915)	803,802
OTHER ITEM					
Investment (loss) income	<u>(15,134)</u>	<u>500</u>	<u>-</u>	<u>(14,634)</u>	<u>349,826</u>
Change in net assets before transfer of assets	(80,309)	(430,240)	-	(510,549)	1,153,628
Transfer of assets from the Association	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,096,576</u>
Change in net assets	(80,309)	(430,240)	-	(510,549)	12,250,204
Net assets at beginning of year	<u>6,977,037</u>	<u>4,273,167</u>	<u>1,000,000</u>	<u>12,250,204</u>	<u>-</u>
NET ASSETS AT END OF YEAR	<u>\$ 6,896,728</u>	<u>\$ 3,842,927</u>	<u>\$ 1,000,000</u>	<u>\$ 11,739,655</u>	<u>\$ 12,250,204</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015**

	2016				2015	
	Program Services	Supporting Services			Total Expenses	Total Expenses
	Research and Fellowship Awards	Governance, Executive and Administration	Fundraising	Total Supporting Services		
Advertising and promotion	\$ -	\$ 650	\$ -	\$ 650	\$ 650	\$ -
Agency temporary	-	-	-	-	-	360
Audio visual	6,886	3,460	-	3,460	10,346	5,487
Awards	2,624,998	-	-	-	2,624,998	2,403,000
Bank and credit card charges	-	-	-	-	-	119
Design services	9,887	18,378	-	18,378	28,265	10,982
Food and beverage	27,751	17,915	427	18,342	46,093	39,831
Exhibit booth	4,457	4,457	-	4,457	8,914	-
Maintenance and repairs	359	366	70	436	795	533
Marketing expenses	11,228	16,184	-	16,184	27,412	32,370
Meeting services	-	-	-	-	-	550
Membership dues	-	393	-	393	393	119
Office condominium expenses	57,309	45,844	9,860	55,704	113,013	84,469
Outside storage	-	-	-	-	-	6
Postage and delivery	3,603	4,070	680	4,750	8,353	6,824
Printing and duplicating	4,178	808	-	808	4,986	3,123
Professional services	250	73,049	4,553	77,602	77,852	47,200
Recruitment	-	-	-	-	-	1,085
Salaries and benefits	222,438	194,257	36,674	230,931	453,369	315,021
Software	3,622	2,904	625	3,529	7,151	6,267
Staff development and recognition	-	200	-	200	200	249
Stationery and supplies	23	371	41	412	435	1,560
Stipend	-	15,000	-	15,000	15,000	20,000
Telephone and fax	3,551	2,826	418	3,244	6,795	3,537
Travel	47,200	9,136	-	9,136	56,336	45,393
TOTAL	\$ 3,027,740	\$ 410,268	\$ 53,348	\$ 463,616	\$ 3,491,356	\$ 3,028,085

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (510,549)	\$ 12,250,204
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized loss (gain)	134,878	(50,603)
Realized loss (gain)	134,579	(13,268)
Change in net present value discount for contributions receivable	21,540	2,162
Transfer of assets from the Association	-	(11,096,576)
(Increase) decrease in:		
Contributions receivable	447,000	(1,041,555)
Accounts receivable	25,970	37,306
Prepaid expenses	143	5,112
Increase (decrease) in:		
Accounts payable	(13,114)	(93,667)
Awards payable	247,447	157,500
Due to related party	<u>39,635</u>	<u>42,775</u>
Net cash provided by operating activities	<u>527,529</u>	<u>199,390</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,489,455)	(1,205,281)
Proceeds from sales of investments	<u>985,750</u>	<u>1,087,349</u>
Net cash used by investing activities	<u>(503,705)</u>	<u>(117,932)</u>
Net increase in cash and cash equivalents	23,824	81,458
Cash and cash equivalents at beginning of year	<u>81,458</u>	<u>-</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 105,282</u>	<u>\$ 81,458</u>
SUPPLEMENTAL INFORMATION:		
Transfer of Assets from the Association		
Investments	\$ -	\$ 11,034,695
Accounts receivable	-	106,791
Contributions receivable	-	1,786,445
Prepaid expenses	-	5,255
Due to related party - Memorial Travel Award	-	35,020
Accounts payable	-	(106,880)
Awards payable	<u>-</u>	<u>(1,764,750)</u>
TOTAL TRANSFER OF ASSETS FROM THE ASSOCIATION	<u>\$ -</u>	<u>\$ 11,096,576</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The American Association for the Study of Liver Diseases Foundation (the AASLD Foundation), an affiliate controlled by the American Association for the Study of Liver Diseases (the Association) was established in 2014 to support liver research and provide education about liver disease and its treatment to those providing care to patients. Core programs of the AASLD Foundation include providing research support for young investigators, advanced training and career development and the dissemination of educational materials for the non-hepatologist.

The Association has the authority to appoint the members of the Board of Trustees for the Foundation and provides shared office space, personnel and other resources with the Foundation, and as a result, they incur costs on behalf of one another. In 2015, to fund the AASLD Foundation, the Association's Governing Board authorized a transfer of net assets of \$11,061,556 and authorized a transfer of \$35,020 of Memorial Travel Awards to the AASLD Foundation, totaling 11,096,576 of net assets transferred.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

The accompanying financial statements represent the activity of the AASLD Foundation only. For the year ended June 30, 2016, the financial statements of the AASLD Foundation have been combined with the Association in accordance with FASB ASC 958-810, *Not-for-Profit Entities, Consolidation*. The combined financial statements are available at the AASLD's headquarters.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the AASLD Foundation's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Cash and cash equivalents -

For purposes of reporting cash flows, the AASLD Foundation considers demand deposits, money market accounts, and all other investments, with an original maturity date of three months or less, other than those held as part of the AASLD Foundation's long-term investments, to be cash and cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, the AASLD Foundation maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Unrealized and realized gains are included in investment income in the Statement of Activities and Change in Net Assets.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Contributions receivable -

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows.

The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

As of June 30, 2016, all contributions receivable are deemed by management to be fully collectible; therefore, no allowance for doubtful accounts has been established.

Accounts receivable -

Accounts receivable consist primarily of amounts due to the AASLD Foundation for relinquished grant funds from award recipients. As of June 30, 2016, all receivables are deemed by management to be fully collectible; therefore, no allowance for doubtful accounts has been established. Accounts receivable are expected to be collected within a period of one year.

Awards payable -

Awards are recorded as a liability when the commitment has been made by the Foundation.

Net asset classification -

The net assets are reported in three self-balancing groups as follows:

- **Undesignated net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the AASLD Foundation and includes both internally designated and undesignated resources. The designated net assets includes the Board of Trustee's Foundation endowment in the amount of \$1,000,500.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the AASLD Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in perpetuity by the AASLD Foundation.

Contributions and grants -

Contributions and grants are recorded as revenue in the year notification is received from the donor.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Contributions and grants (continued) -

Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Temporarily restricted contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Income taxes -

The AASLD Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The AASLD Foundation is not a private foundation.

Uncertain tax positions -

For the year ended June 30, 2016, the AASLD Foundation has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Risks and uncertainties -

The AASLD Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks.

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurement -

The AASLD Foundation adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Fair value measurement (continued) -

The AASLD Foundation accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

2. INVESTMENTS

Investments consisted of the following at June 30, 2016:

	<u>Foundation Investments</u>
Money Market Funds	\$ 414,004
Mutual Funds:	
Domestic Large Cap Value and Growth	2,947,499
Domestic Small Cap Value and Growth	375,408
Fixed Income	5,384,206
International Equity	<u>2,329,629</u>
TOTAL INVESTMENTS	\$ <u>11,450,746</u>

Included in investment loss are the following at June 30, 2016:

Interest and dividends	\$ 261,056
Unrealized loss	(134,878)
Realized loss	(175,648)
Short-term capital gains	23,146
Long-term capital gains	<u>17,923</u>
	(8,401)
Less: Investment custodian fees	<u>(6,233)</u>
TOTAL INVESTMENT LOSS	\$ <u>(14,634)</u>

The investment advisory firm's annual fees for the year ended June 30, 2016 were \$16,693. These fees are included in the Statement of Functional Expenses under Professional Services.

3. CONTRIBUTIONS RECEIVABLE

Contributions due in more than one year have been recorded at the net present value of the estimated cash flows, using a discount rate between 0.010% - 3.50%. Contributions are due as follows at June 30, 2016:

Less than one year	\$ 877,000
One to five years	<u>1,504,000</u>
Total	2,381,000
Less: Allowance to discount balance to present value	<u>(23,702)</u>
CONTRIBUTIONS RECEIVABLE, NET	\$ <u>2,357,298</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2016:

Accumulated Endowment Earnings	\$ 365,609
Research and Fellowship Awards	3,452,298
Memorial Travel Awards	<u>25,020</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$ <u>3,842,927</u>

5. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions, at June 30, 2016, by incurring expenses, which satisfied the restricted purposes specified by the donors:

Research and Fellowship Awards	\$ 2,132,538
Memorial Travel Awards	39,000
Accumulated Endowment Earnings	<u>500</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$ <u>2,172,038</u>

6. CONCENTRATION OF REVENUE

Approximately 63% of the AASLD Foundation's operational revenue for the year ended June 30, 2016 was derived from three grantors. The AASLD Foundation has no reason to believe that relationships with these agencies will be discontinued in the foreseeable future. However, any interruption of these relationships (i.e., the failure to renew grant agreements or withholding of funds) would adversely affect the AASLD Foundation's ability to finance ongoing operations.

7. RELATED PARTY

The American Association for the Study of Liver Diseases (the Association) has the authority to appoint the members of the Board of Trustees for the AASLD Foundation and provides shared office space, personnel and other resources to the Foundation, and as a result, they incur costs on behalf of one another.

These costs are subsequently reimbursed between the two organizations. Operating costs are billed to the AASLD Foundation based upon appropriate apportionment methods. As of June 30, 2016, the AASLD Foundation owed the Association \$47,390 as a result of these activities. Additionally, during the year ended June 30, 2016, the AASLD Foundation received \$1,000,000 from the Association for operations.

8. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, the AASLD Foundation has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

8. FAIR VALUE MEASUREMENT (Continued)

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

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the AASLD Foundation has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at June 30, 2016.

- *Money Market Funds* - The fair value is equal to the reported net asset value of the fund.
- *Mutual Funds* - The fair value is equal to the reported net asset value of the fund, which is the price at which additional shares can be obtained.

The table below summarizes, by level within the fair value hierarchy, the AASLD Foundation's investments as of June 30, 2016:

Asset Class:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2016</u>
Money Market Funds	\$ 414,004	\$ -	\$ -	\$ 414,004
Mutual Funds:				
Domestic Large Cap Value and Growth	2,947,499	-	-	2,947,499
Domestic Small Cap Value and Growth	375,408	-	-	375,408
Fixed Income	5,384,206	-	-	5,384,206
International Equity	<u>2,329,629</u>	<u>-</u>	<u>-</u>	<u>2,329,629</u>
TOTAL	<u>\$ 11,450,746</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,450,746</u>

9. ENDOWMENT

The AASLD Foundation's endowment consists of donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

9. ENDOWMENT (Continued)

The Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the AASLD Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the AASLD Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the AASLD Foundation and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the AASLD Foundation.

Endowment net asset composition by type of fund as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ -	\$ 365,609	\$ 1,000,000	\$ 1,365,609
Board-Designated Endowment Funds	<u>1,000,500</u>	<u>-</u>	<u>-</u>	<u>1,000,500</u>
TOTAL FUNDS	<u>\$ 1,000,500</u>	<u>\$ 365,609</u>	<u>\$ 1,000,000</u>	<u>\$ 2,366,109</u>

Changes in endowment net assets for the year ended June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 750,000	\$ 365,609	\$ 1,000,000	\$ 2,115,609
Investment income	500	500	-	1,000
Appropriation of endowment assets for expenditure	-	(500)	-	(500)
Transfer of Board-designated net assets	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>250,000</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ 1,000,500</u>	<u>\$ 365,609</u>	<u>\$ 1,000,000</u>	<u>\$ 2,366,109</u>

Permanently restricted net assets consisted of the following at June 30, 2016:

Fundraising Campaign/Liver Research	<u>\$ 1,000,000</u>
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9. ENDOWMENT (Continued)

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as fund of perpetual duration. In accordance with GAAP, there were no deficiencies of this nature that are reported in unrestricted net assets.

Return Objectives and Risk Parameters -

The AASLD Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds.

Under this policy, as approved by the Board of Directors, the investment objectives are:

- A. Preservation of capital;
- B. The achievement of a favorable rate of return over time, within acceptable parameters of risk; and
- C. Sufficient liquidity to provide for the necessary cash flow requirements.

Strategies Employed for Achieving Objectives -

To satisfy its long-term rate-of-return objectives, the AASLD Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The AASLD Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy -

The AASLD Foundation has a policy of appropriating for distribution each year an amount not to exceed earnings from dividends, interest and realized gains and losses. This is consistent with the AASLD Foundation's objective to maintain the purchasing power of the endowment assets held in-perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

10. SUBSEQUENT EVENTS

In preparing these financial statements, the AASLD Foundation has evaluated events and transactions for potential recognition or disclosure through October 13, 2016, the date the financial statements were issued.