

FINANCIAL STATEMENTS



**FOR THE YEAR ENDED JUNE 30, 2019
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2018**

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

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CPAs & ADVISORS

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 (the AASLD Foundation), which comprise the statement of financial position as of June 30, 2019, 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, 2019, 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 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 26, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, 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 & Freedman".

September 25, 2019

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 348,617	\$ 229,265
Investments	16,818,823	13,784,615
Contributions receivable, current portion	869,875	1,681,875
Due from related party, net	60,807	64,572
Prepaid expenses	14,265	15,988
Total current assets	18,112,387	15,776,315
OTHER ASSETS		
Contributions receivable, long-term portion	1,118,033	936,834
TOTAL ASSETS	\$ 19,230,420	\$ 16,713,149
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 13,269	\$ 54,831
Awards payable	5,968,130	5,311,500
Total current liabilities	5,981,399	5,366,331
NET ASSETS		
Without donor restrictions:		
Undesignated	4,456,869	5,295,399
Board designated	3,134,350	2,499,350
Total without donor restrictions	7,591,219	7,794,749
With donor restrictions	5,657,802	3,552,069
Total net assets	13,249,021	11,346,818
TOTAL LIABILITIES AND NET ASSETS	\$ 19,230,420	\$ 16,713,149

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE AND SUPPORT				
Contributions	\$ 1,393,407	\$ -	\$ 1,393,407	\$ 1,365,750
Research and Fellowship Awards	899,760	4,461,349	5,361,109	2,189,314
Net assets released from donor restrictions	<u>2,434,051</u>	<u>(2,434,051)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>4,727,218</u>	<u>2,027,298</u>	<u>6,754,516</u>	<u>3,555,064</u>
EXPENSES				
Program Services:				
Awards	4,199,760	-	4,199,760	4,644,819
Emerging Liver Scholars	192,479	-	192,479	121,327
Fundamentals of Liver Disease	31,234	-	31,234	70,988
Public Awareness	<u>78,048</u>	<u>-</u>	<u>78,048</u>	<u>93,462</u>
Total program services	<u>4,501,521</u>	<u>-</u>	<u>4,501,521</u>	<u>4,930,596</u>
Supporting Services:				
Leadership and Administration	539,375	-	539,375	426,747
Fundraising	<u>695,624</u>	<u>-</u>	<u>695,624</u>	<u>732,423</u>
Total supporting services	<u>1,234,999</u>	<u>-</u>	<u>1,234,999</u>	<u>1,159,170</u>
Total expenses	<u>5,736,520</u>	<u>-</u>	<u>5,736,520</u>	<u>6,089,766</u>
Change in net assets before other item	(1,009,302)	2,027,298	1,017,996	(2,534,702)
OTHER ITEM				
Investment income, net	<u>805,772</u>	<u>78,435</u>	<u>884,207</u>	<u>789,404</u>
Change in net assets	(203,530)	2,105,733	1,902,203	(1,745,298)
Net assets at beginning of year	<u>7,794,749</u>	<u>3,552,069</u>	<u>11,346,818</u>	<u>13,092,116</u>
NET ASSETS AT END OF YEAR	<u>\$ 7,591,219</u>	<u>\$ 5,657,802</u>	<u>\$ 13,249,021</u>	<u>\$ 11,346,818</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	2019					2018				
	Program Services				Supporting Services			Total	Total	
	Emerging Liver Scholars	Fundamentals of Liver Disease	Public Awareness	Total Program Services	Leadership and Administration	Fundraising	Total Supporting Services	Total Expenses	Total Expenses	
Advertising	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11	
Agency temporary	-	-	-	-	-	31,261	31,261	31,261	13,948	
Audio visual	15,272	5,144	-	1,378	21,794	15,488	4,175	19,663	41,457	
Awards	3,476,625	-	-	-	3,476,625	-	-	-	3,476,625	
Bank and credit card charges	-	-	-	-	-	532	-	532	43	
Contributions	-	-	-	-	-	50,000	-	50,000	-	
Design services	-	-	-	-	-	-	-	-	6,267	
Food and beverage	70,739	15,937	-	-	86,676	19,973	3,721	23,694	110,370	
Honoraria	-	-	-	-	-	-	-	-	3,000	
Maintenance and repairs	556	-	28	43	627	319	303	622	1,487	
Marketing expenses	24,609	12,867	7,182	11,944	56,602	13,500	21,725	35,225	91,827	
Meeting services	11,646	6,944	-	7,811	26,401	25,419	15,489	40,908	67,309	
Membership dues	149	-	-	-	149	-	-	-	149	
Office condominium expenses	68,452	-	2,975	4,709	76,136	38,194	35,952	74,146	150,282	
Postage and delivery	30,747	42,312	303	589	73,951	2,103	1,509	3,612	77,563	
Printing and duplicating	636	-	-	-	636	306	1,610	1,916	2,552	
Professional services	-	-	3,250	24,696	27,946	89,487	321,246	410,733	438,679	
Recruitment	95	-	-	-	95	317	-	317	412	
Registration and fees	-	-	-	-	-	-	-	-	180	
Salaries and benefits	400,202	-	16,284	25,126	441,612	221,397	207,765	429,162	870,774	
Software	26,740	-	1,085	1,535	29,360	19,586	13,934	33,520	62,880	
Staff development and recognition	330	-	-	-	330	5,380	-	5,380	5,710	
Stationery and supplies	-	-	-	-	-	937	1,022	1,959	1,959	
Stipend	-	-	-	-	-	15,000	-	15,000	15,000	
Telephone and fax	4,743	-	127	217	5,087	3,033	2,508	5,541	10,628	
Travel	68,219	109,275	-	-	177,494	18,404	33,404	51,808	229,302	
TOTAL	\$4,199,760	\$ 192,479	\$ 31,234	\$ 78,048	\$ 4,501,521	\$ 539,375	\$ 695,624	\$ 1,234,999	\$ 5,736,520	\$ 6,089,766

See accompanying notes to financial statements.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,902,203	\$ (1,745,298)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Unrealized gain	(463,071)	(390,707)
Realized (gain) loss and capital gains	(42,397)	13,007
Contributions restricted in perpetuity	(147,750)	(686,955)
Change in net present value discount for contributions receivable	60,301	128,533
Decrease (increase) in:		
Contributions receivable	570,500	(1,144,375)
Due from related party, net	3,765	-
Prepaid expenses	1,723	(15,988)
(Decrease) increase in:		
Accounts payable	(41,562)	87
Awards payable	656,630	1,902,000
Due to related party, net	<u>-</u>	<u>(211,872)</u>
Net cash provided (used) by operating activities	<u>2,500,342</u>	<u>(2,151,568)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(12,133,814)	(411,704)
Proceeds from sales of investments	<u>9,605,074</u>	<u>1,870,232</u>
Net cash (used) provided by investing activities	<u>(2,528,740)</u>	<u>1,458,528</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted in perpetuity	<u>147,750</u>	<u>686,955</u>
Net cash provided by financing activities	<u>147,750</u>	<u>686,955</u>
Net increase (decrease) in cash and cash equivalents	119,352	(6,085)
Cash and cash equivalents at beginning of year	<u>229,265</u>	<u>235,350</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 348,617</u>	<u>\$ 229,265</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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 mission of the AASLD Foundation is to invest in innovative Hepatology research and in the people who study and treat liver disease. The vision is to prevent and cure liver disease.

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.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The ASU was adopted during the year ended June 30, 2019 and applied retrospectively.

The accompanying financial statements represent the activity of the AASLD Foundation only. For the year ended June 30, 2019, the financial statements of the AASLD Foundation have been consolidated with the Association in accordance with FASB ASC 958-810, *Not-for-Profit Entities, Consolidation*. The consolidated financial statements are available at the AASLD Foundation'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, 2018, 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.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

Investments (continued) -

Interest, dividends, unrealized and realized gains, short-term and long-term gains, net of investment custodian fees are included in investment income in the Statement of Activities and Change in Net Assets.

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, 2019, all contributions receivable are deemed by management to be fully collectible; therefore, no allowance for doubtful accounts has been established.

Awards payable -

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

Net asset classification -

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported as net assets without donor restrictions. As of June 30, 2019, Board designated net assets is comprised of the Board designated endowment in the amount of \$2,634,350 and \$500,000 designated for research awards.
- **Net Assets With Donor Restrictions** - Contributions restricted by donors (or certain grantors) are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in "net assets with donor restrictions", depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities and Change in Net Assets as net assets released from donor restrictions. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

Contributions and research and fellowship awards -

Contributions and research and fellowship awards are recorded as revenue in the year notification is received from the donor. Contributions and research and fellowship awards with donor restrictions are recognized as support without donor restrictions only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions.

Contributions and research and fellowship awards with donor restrictions received in excess of expenses incurred are shown as net assets with donor restrictions 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.

Expenses directly attributed to a specific functional area of the AASLD Foundation are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of estimated time and effort or other reasonable basis.

Awards expenses include research and travel awards as well as supporting expenses such as awards marketing, advertising and promotions, research awards committee travels and meeting expenses and staff time supporting the awards. The Emerging Liver Scholars program represents the direct expenses and the Association funds up to \$100,000. All other costs related to this program are under the Association.

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, 2019, 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.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

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

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. The reclassifications are primarily due to the adoption of ASU 2016-14, as discussed above, which requires two classifications of net assets from the previously presented three classes. Net assets previously classified as of June 30, 2018 as unrestricted net assets in the amount of \$7,794,749 are now classified as "net assets without donor restrictions". Net assets previously classified as temporarily restricted net assets and permanently restricted net assets in the amounts of \$1,865,114 and \$1,686,955, respectively, are now classified as "net assets with donor restrictions".

New accounting pronouncements (Adopted July 1, 2019) -

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted. The AASLD Foundation has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

New accounting pronouncements (adopted July 1, 2019) (continued) -

The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. The AASLD Foundation has not yet decided on a transition method. The ASU is effective for fiscal years beginning after December 15, 2018.

The AASLD Foundation plans to adopt the new ASUs at the respective required implementation dates.

2. **INVESTMENTS**

Investments consisted of the following at June 30, 2019:

Money Market Funds	\$ 551,323
Mutual Funds:	
Domestic Large Cap Value and Growth	4,948,230
Domestic Small Cap Value and Growth	497,356
Fixed income	6,294,009
International Developed Equity	3,749,165
Emerging Market Equity	<u>778,740</u>
TOTAL INVESTMENTS	<u>\$ 16,818,823</u>

Included in investment income are the following for the year ended June 30, 2019:

Interest and dividends	\$ 382,245
Unrealized gain	463,071
Realized gain	39,850
Short-term capital gains	1,544
Long-term capital gains	<u>1,003</u>
	887,713
Less: Investment custodian fees	<u>(3,506)</u>
TOTAL INVESTMENT INCOME, NET	<u>\$ 884,207</u>

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 0.01% - 5.50%. Contributions are due as follows at June 30, 2019:

Less than one year	\$ 869,875
One to five years	<u>1,323,000</u>
Total	2,192,875
Less: Allowance to discount balance to present value	<u>(204,967)</u>
CONTRIBUTIONS RECEIVABLE, NET	<u>\$ 1,987,908</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

4. NET ASSETS WITHOUT DONOR RESTRICTIONS

As of June 30, 2019, net assets have been designated by the Board of Trustees for the following purposes:

Undesignated	\$ 4,456,869
Board designated endowment	2,634,350
Board designated for research awards	<u>500,000</u>
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ 7,591,219</u>

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at June 30, 2019:

Subject to expenditure for specified purpose:	
Accumulated Endowment Earnings	\$ 384,044
Research and Fellowship Awards	3,414,033
Memorial Travel Awards	25,020
Endowment Contributions Restricted in Perpetuity	<u>1,834,705</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 5,657,802</u>

The following net assets with donor restrictions were released, for the year ended June 30, 2019, by incurring expenses, which satisfied the restricted purposes specified by the donors:

Purpose restrictions accomplished:	
Research and Fellowship Awards	\$ 2,374,051
Accumulated Endowment Earnings	<u>60,000</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 2,434,051</u>

6. LIQUIDITY AND AVAILABILITY

Financial assets available for use for general expenditures within one year of the Statement of Financial Position date comprise the following at June 30, 2019:

Cash and cash equivalents	\$ 348,617
Investments	16,818,823
Contributions receivable	<u>1,987,908</u>
Subtotal financial assets available	19,155,348
Less: Donor restricted funds	(5,657,802)
Less: Board designated endowment	(2,634,350)
Less: Board designated for research awards	<u>(500,000)</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 10,363,196</u>

The AASLD Foundation has a policy to structure its financial assets to be available and liquid as its obligations become due. As of June 30, 2019, the AASLD Foundation has liquid financial assets equal to approximately 22 months of average annual operating expenses. The AASLD Foundation also has an operating reserve that can be drawn upon if needed.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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 AASLD Foundation and as a result, they incur costs on behalf of one another which is based upon appropriate apportionment methods. These costs are subsequently reimbursed between the two organizations.

As of June 30, 2019, the Association owed the AASLD Foundation \$60,807, net of payable, as a result of these activities.

During the year ended June 30, 2019, the AASLD Foundation received a grant in the amount of \$1,175,460 from the Association which is recorded in the Statement of Activities and Change in Net Assets. In addition, the Association donated \$55,000 received from in-kind contributions for honoraria and stipends.

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. 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, 2019.

- *Money Market Funds* - The money market fund is an open-end funds that are registered with the Securities and Exchange Commission (SEC) and is deemed to be actively traded.
- *Mutual Funds* - Valued at the daily closing price as reported by the fund. Mutual funds held by the AASLD Foundation are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily value and to transact at that price. Mutual funds held by the AASLD Foundation are deemed to be actively traded.

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

8. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, by level within the fair value hierarchy, the AASLD Foundation's investments as of June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2019</u>
Asset Class:				
Money Market Funds	\$ 551,323	\$ -	\$ -	\$ 551,323
Mutual Funds:				
Domestic Large Cap Value and Growth	4,948,230	-	-	4,948,230
Domestic Small Cap Value and Growth	497,356	-	-	497,356
Fixed income	6,294,009	-	-	6,294,009
International Developed Equity	3,749,165	-	-	3,749,165
Emerging Market Equity	<u>778,740</u>	<u>-</u>	<u>-</u>	<u>778,740</u>
TOTAL INVESTMENTS	<u>\$ 16,818,823</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,818,823</u>

9. ENDOWMENT

The AASLD Foundation's endowment consists of donor-restricted endowment funds and funds designated by the governing Board to function as endowments. As required by 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. In relation to the endowment, the Board of Trustees is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those assets are time restricted until the governing Board appropriates such amounts for expenditures. Most of those net asset also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The governing Board has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the AASLD Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The AASLD Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the AASLD Foundation considers the following factors in making a determination to appropriated 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.

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**NOTES TO FINANCIAL STATEMENTS
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9. ENDOWMENT (Continued)

Endowment net asset composition by type of fund as of June 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board Designated Endowment Funds	\$ 2,634,350	\$ -	\$ 2,634,350
Donor-Restricted Endowment Funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	1,834,705	1,834,705
Accumulated investment earnings	<u>-</u>	<u>384,044</u>	<u>384,044</u>
TOTAL ENDOWMENT FUNDS	<u>\$ 2,634,350</u>	<u>\$ 2,218,749</u>	<u>\$ 4,853,099</u>

Changes in endowment net assets for the year ended June 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,499,350	\$ 2,052,564	\$ 4,551,914
Investment return, net	135,000	78,435	213,435
Contributions	-	147,750	147,750
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(60,000)</u>	<u>(60,000)</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ 2,634,350</u>	<u>\$ 2,218,749</u>	<u>\$ 4,853,099</u>

Contributions restricted in perpetuity consisted of the following at June 30, 2019:

Foundation Campaign	<u>\$ 1,834,705</u>
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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.

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

9. ENDOWMENT (Continued)

Return Objectives and Risk Parameters (Continued) -

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 September 25, 2019, the date the financial statements were issued.