

FINANCIAL STATEMENTS



**FOR THE YEAR ENDED JUNE 30, 2018
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2017**

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	2 - 3
EXHIBIT A - Statement of Financial Position, as of June 30, 2018, with Summarized Financial Information for 2017	4
EXHIBIT B - Statement of Activities and Change in Net Assets, for the Year Ended June 30, 2018, with Summarized Financial Information for 2017	5
EXHIBIT C - Statement of Functional Expenses, for the Year Ended June 30, 2018, with Summarized Financial Information for 2017	6 - 7
EXHIBIT D - Statement of Cash Flows, for the Year Ended June 30, 2018, with Summarized Financial Information for 2017	8
NOTES TO FINANCIAL STATEMENTS	9 - 17

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, 2018, 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, 2018, 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.

4550 MONTGOMERY AVENUE • SUITE 650 NORTH • BETHESDA, MARYLAND 20814
(301) 951-9090 • FAX (301) 951-3570 • WWW.GRFCPA.COM

Report on Summarized Comparative Information

We have previously audited the AASLD Foundation's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 20, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

September 26, 2018

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017

ASSETS		<u>2018</u>	<u>2017</u>
CURRENT ASSETS			
Cash and cash equivalents	\$	229,265	\$ 235,350
Investments		13,784,615	14,865,443
Contributions receivable, current portion		1,681,875	931,500
Due from related parties, net		64,572	-
Prepaid expenses		<u>15,988</u>	<u>-</u>
Total current assets		<u>15,776,315</u>	<u>16,032,293</u>
OTHER ASSETS			
Contributions receivable, long-term portion		<u>936,834</u>	<u>671,367</u>
TOTAL ASSETS		<u>\$ 16,713,149</u>	<u>\$ 16,703,660</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$	54,831	\$ 54,744
Awards payable		5,311,500	3,409,500
Due to related party, net		<u>-</u>	<u>147,300</u>
Total current liabilities		<u>5,366,331</u>	<u>3,611,544</u>
NET ASSETS			
Unrestricted:			
Undesignated		5,295,399	7,971,946
Board-designated		<u>2,499,350</u>	<u>1,377,625</u>
Total unrestricted		7,794,749	9,349,571
Temporarily restricted		1,865,114	2,742,545
Permanently restricted		<u>1,686,955</u>	<u>1,000,000</u>
Total net assets		<u>11,346,818</u>	<u>13,092,116</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 16,713,149</u>	<u>\$ 16,703,660</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017

	<u>2018</u>			<u>2017</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
REVENUE					
Contributions	\$ 1,365,750	\$ -	\$ -	\$ 1,365,750	\$ 1,251,996
Research and Fellowship Awards	867,892	634,467	686,955	2,189,314	3,364,774
Net assets released from donor restrictions	<u>1,565,998</u>	<u>(1,565,998)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>3,799,640</u>	<u>(931,531)</u>	<u>686,955</u>	<u>3,555,064</u>	<u>4,616,770</u>
EXPENSES					
Program Services:					
Awards	4,644,819	-	-	4,644,819	3,796,146
Emerging Liver Scholars	121,327	-	-	121,327	-
Fundamentals of Liver Disease	70,988	-	-	70,988	131,166
Public Awareness	<u>93,462</u>	<u>-</u>	<u>-</u>	<u>93,462</u>	<u>41,132</u>
Total program services	<u>4,930,596</u>	<u>-</u>	<u>-</u>	<u>4,930,596</u>	<u>3,968,444</u>
Supporting Services:					
Leadership and Administration	426,747	-	-	426,747	369,881
Fundraising	<u>732,423</u>	<u>-</u>	<u>-</u>	<u>732,423</u>	<u>224,576</u>
Total supporting services	<u>1,159,170</u>	<u>-</u>	<u>-</u>	<u>1,159,170</u>	<u>594,457</u>
Total expenses	<u>6,089,766</u>	<u>-</u>	<u>-</u>	<u>6,089,766</u>	<u>4,562,901</u>
Change in net assets before other item	(2,290,126)	(931,531)	686,955	(2,534,702)	53,869
OTHER ITEM					
Investment income	<u>735,304</u>	<u>54,100</u>	<u>-</u>	<u>789,404</u>	<u>1,298,592</u>
Change in net assets	(1,554,822)	(877,431)	686,955	(1,745,298)	1,352,461
Net assets at beginning of year	<u>9,349,571</u>	<u>2,742,545</u>	<u>1,000,000</u>	<u>13,092,116</u>	<u>11,739,655</u>
NET ASSETS AT END OF YEAR	<u>\$ 7,794,749</u>	<u>\$ 1,865,114</u>	<u>\$ 1,686,955</u>	<u>\$ 11,346,818</u>	<u>\$ 13,092,116</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	2018				
	Program Services				
	Awards	Emerging Liver Scholars	Fundamentals of Liver Disease	Public Awareness	Total Program Services
Advertising	\$ 11	\$ -	\$ -	\$ -	\$ 11
Agency temporary	364	-	-	-	364
Audio visual	19,819	8,332	-	6,874	35,025
Awards	4,132,017	-	-	-	4,132,017
Bank and credit card charges	43	-	-	-	43
Depreciation and amortization	5,182	-	514	371	6,067
Design services	5,504	-	-	479	5,983
Food and beverage	51,783	20,980	-	-	72,763
Honoraria	-	-	3,000	-	3,000
Maintenance and repairs	555	-	66	50	671
Marketing expenses	11,567	6,501	623	29,631	48,322
Meeting services	1,657	2,636	-	19,533	23,826
Membership dues	-	-	-	-	-
Office condominium expenses	49,395	-	5,178	4,342	58,915
Postage and delivery	2,675	32,440	355	-	35,470
Printing and duplicating	408	118	-	-	526
Professional services	-	-	27,910	3,000	30,910
Recruitment	-	-	-	-	-
Registration and fees	-	-	-	-	-
Salaries and benefits	295,194	-	30,011	23,098	348,303
Software	19,710	-	1,849	1,663	23,222
Staff development and recognition	1,924	-	-	-	1,924
Stationery and supplies	156	342	1,157	-	1,655
Stipend	-	-	-	-	-
Telephone and fax	4,328	395	325	1,787	6,835
Travel	42,527	49,583	-	2,634	94,744
TOTAL	\$ 4,644,819	\$ 121,327	\$ 70,988	\$ 93,462	\$ 4,930,596

Supporting Services				2017	
Leadership and Administration	Fundraising	Total Supporting Services	Total Expenses	Total Expenses	
\$ -	\$ -	\$ -	\$ 11	\$ 12,332	
2,640	10,944	13,584	13,948	5,473	
4,639	2,928	7,567	42,592	17,939	
-	-	-	4,132,017	3,407,302	
-	-	-	43	-	
3,674	3,394	7,068	13,135	7,038	
284	-	284	6,267	28,240	
14,214	4,775	18,989	91,752	39,260	
-	-	-	3,000	5,000	
445	371	816	1,487	1,126	
7,051	8,771	15,822	64,144	56,838	
3,778	-	3,778	27,604	8,561	
351	125	476	476	500	
36,726	32,760	69,486	128,401	113,992	
1,362	1,281	2,643	38,113	9,616	
669	162	831	1,357	3,413	
92,328	436,447	528,775	559,685	203,625	
317	-	317	317	295	
180	-	180	180	-	
209,655	196,435	406,090	754,393	551,861	
14,161	12,765	26,926	50,148	7,268	
1,654	134	1,788	3,712	680	
605	59	664	2,319	928	
7,500	-	7,500	7,500	15,000	
3,035	3,154	6,189	13,024	8,997	
21,479	17,918	39,397	134,141	57,617	
\$ 426,747	\$ 732,423	\$ 1,159,170	\$ 6,089,766	\$ 4,562,901	

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, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,745,298)	\$ 1,352,461
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Unrealized gain	(390,707)	(848,494)
Realized loss (gain) and capital gains	13,007	(78,436)
Permanently restricted contributions	(686,955)	-
Change in net present value discount for contributions receivable	128,533	7,569
(Increase) decrease in:		
Contributions receivable	(1,144,375)	746,862
Accounts receivable	-	43,515
Prepaid expenses	(15,988)	-
Increase (decrease) in:		
Accounts payable	87	54,643
Awards payable	1,902,000	1,239,803
Due to related party, net	<u>(211,872)</u>	<u>99,910</u>
Net cash (used) provided by operating activities	<u>(2,151,568)</u>	<u>2,617,833</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(411,704)	(7,661,798)
Proceeds from sales of investments	<u>1,870,232</u>	<u>5,174,033</u>
Net cash provided (used) by investing activities	<u>1,458,528</u>	<u>(2,487,765)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted contributions	<u>686,955</u>	<u>-</u>
Net cash provided by financing activities	<u>686,955</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents	(6,085)	130,068
Cash and cash equivalents at beginning of year	<u>235,350</u>	<u>105,282</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 229,265</u>	<u>\$ 235,350</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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 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 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, 2018, 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, 2017, 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. 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.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

**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, 2018, 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 -

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 board designated net assets is comprised of the Board designated endowment in the amount of \$2,499,350.
- **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 research and fellowship awards -

Contributions and research and fellowship awards are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and research and fellowship awards 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 research and fellowship awards received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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

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. 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, 2018, 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. The AASLD Foundation accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

2. INVESTMENTS

Investments consisted of the following at June 30, 2018:

	<u>Foundation Investments</u>
Money Market Funds	\$ 802,344
Mutual Funds:	
Domestic Large Cap Value and Growth	4,228,838
Domestic Small Cap Value and Growth	397,150
Fixed income	5,704,011
International Developed Equity	2,186,384
Emerging Market Equity	<u>465,888</u>
TOTAL INVESTMENTS	<u>\$ 13,784,615</u>

Included in investment income are the following at June 30, 2018:

Interest and dividends	\$ 416,622
Unrealized gain	390,707
Realized loss	(19,218)
Short-term capital gains	4,289
Long-term capital gains	<u>1,922</u>
	794,322
Less: Investment custodian fees	<u>(4,918)</u>
TOTAL INVESTMENT INCOME	<u>\$ 789,404</u>

The investment advisory firm's annual fees for the year ended June 30, 2018 were \$37,062. 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 0.01% - 5.00%.

Contributions are due as follows at June 30, 2018:

Less than one year	\$ 1,681,875
One to five years	<u>1,081,500</u>
Total	2,763,375
Less: Allowance to discount balance to present value	<u>(144,666)</u>
CONTRIBUTIONS RECEIVABLE, NET	<u>\$ 2,618,709</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2018:

Accumulated Endowment Earnings	\$ 365,609
Research and Fellowship Awards	1,474,485
Memorial Travel Awards	<u>25,020</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$ <u>1,865,114</u>

5. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions, at June 30, 2018, by incurring expenses, which satisfied the restricted purposes specified by the donors:

Research and Fellowship Awards	\$ 1,511,898
Accumulated Endowment Earnings	<u>54,100</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$ <u>1,565,998</u>

6. 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 which is based upon appropriate apportionment methods. These costs are subsequently reimbursed between the two organizations.

As of June 30, 2018, the Association owed AASLD Foundation \$64,572, net of payable, as a result of these activities.

During the year ended June 30, 2018, the AASLD Foundation received a grant in the amount of \$1,150,000 from the Association which is recorded in the Statement of Activities and Change in Net Assets. In addition, the Association donated \$54,000 received from in-kind contributions for honoraria. Additionally, as previously disclosed, in fiscal year 2015, the Association transferred \$11,096,576 to fund the AASLD Foundation (see Note 1).

7. 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.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

7. FAIR VALUE MEASUREMENT (Continued)

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, 2018.

- *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, 2018:

Asset Class:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2018</u>
Money Market Funds	\$ 802,344	\$ -	\$ -	\$ 802,344
Mutual Funds:				
Domestic Large Cap Value and Growth	4,228,838	-	-	4,228,838
Domestic Small Cap Value and Growth	397,150	-	-	397,150
Fixed income	5,704,011	-	-	5,704,011
International Developed Equity	2,186,384	-	-	2,186,384
Emerging Market Equity	<u>465,888</u>	<u>-</u>	<u>-</u>	<u>465,888</u>
TOTAL	<u>\$ 13,784,615</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,784,615</u>

8. 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.

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. The Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the AASLD Foundation to appropriate for expenditures or accumulate so much of an endowment fund as the AASLD Foundation determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

8. ENDOWMENT (Continued)

Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Trustees. As a result of this interpretation, the AASLD Foundation has not changed the way permanently restricted net assets are classified. See note 1 for further information on net asset classification. The remaining portion of the donor-restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization 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, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ -	\$ 365,609	\$ 1,686,955	\$ 2,052,564
Board-Designated Endowment Funds	<u>2,499,350</u>	<u>-</u>	<u>-</u>	<u>2,499,350</u>
TOTAL FUNDS	<u>\$ 2,499,350</u>	<u>\$ 365,609</u>	<u>\$ 1,686,955</u>	<u>\$ 4,551,914</u>

Changes in endowment net assets for the year ended June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,377,625	\$ 365,609	\$ 1,000,000	\$ 2,743,234
Investment income	121,725	54,100	-	175,825
Contributions	1,000,000	-	686,955	1,686,955
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(54,100)</u>	<u>-</u>	<u>(54,100)</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ 2,499,350</u>	<u>\$ 365,609</u>	<u>\$ 1,686,955</u>	<u>\$ 4,551,914</u>

Permanently restricted net assets consisted of the following at June 30, 2018:

Foundation Campaign	<u>\$ 1,686,955</u>
----------------------------	----------------------------

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.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

8. ENDOWMENT (Continued)

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.

9. NEW ACCOUNTING PRONOUNCEMENT (NOT YET ADOPTED) (to be adopted July 1, 2018)

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of the AASLD Foundation's financial statements, it is not expected to alter the AASLD Foundation's reported financial position.

The AASLD Foundation plans to adopt the new ASU at the respective required implementation date.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

10. SUBSEQUENT EVENTS

In preparing these financial statements, the AASLD Foundation has evaluated events and transactions for potential recognition or disclosure through September 26, 2018, the date the financial statements were issued.