

AMERICAN LIVER FOUNDATION

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2016

AMERICAN LIVER FOUNDATION

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**Board of Directors
American Liver Foundation**

Report on the Financial Statements

We have audited the accompanying financial statements of American Liver Foundation, which comprise the balance sheet as of December 31, 2016, and the related statements of activities, 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 American Liver Foundation as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Loeb & Troper LLP

May 26, 2017

AMERICAN LIVER FOUNDATION

BALANCE SHEET

DECEMBER 31, 2016

ASSETS

Cash and cash equivalents	\$ 1,344,390
Investments (Note 3)	2,548,877
Contributions receivable - current	857,931
Prepaid expenses and other assets	244,797
Fixed assets - net (Note 4)	<u>162,082</u>
Total assets	<u>\$ 5,158,077</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	\$ 238,050
Accrued payroll and related liabilities	276,987
Funds held on behalf of others (Note 2)	808,606
Awards and grants payable (Note 2)	137,500
Loan payable (Note 5)	300,000
Deferred rent payable (Note 9)	<u>191,181</u>
Total liabilities	<u>1,952,324</u>
Net assets (deficit) (Exhibit B)	
Unrestricted	(275,929)
Temporarily restricted (Note 6)	2,489,647
Permanently restricted (Note 7)	<u>992,035</u>
Total net assets	<u>3,205,753</u>
Total liabilities and net assets	<u>\$ 5,158,077</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AMERICAN LIVER FOUNDATION

EXHIBIT B

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains, losses and other support				
Contributions and grants	\$ 3,795,549	\$ 756,075		\$ 4,551,624
Investment income (Note 3)	44,616	57,727		102,343
Special events revenues	\$ 5,964,244			
Direct costs of special events	(982,817)			
Other income	4,981,427			4,981,427
Net assets released from restrictions (Note 6)	11,876			11,876
	302,102	(302,102)		
Total revenues, gains, losses and other support	<u>9,135,570</u>	<u>511,700</u>		<u>9,647,270</u>
Expenses (Exhibit C)				
Program services				
Public education	2,016,769			2,016,769
Research	453,287			453,287
Professional education	1,243,301			1,243,301
Patient support	1,635,176			1,635,176
Community services	1,367,682			1,367,682
Total program services	<u>6,716,215</u>			<u>6,716,215</u>
Supporting services				
Management and general	900,792			900,792
Fund raising	886,310			886,310
Total supporting services	<u>1,787,102</u>			<u>1,787,102</u>
Total expenses	<u>8,503,317</u>			<u>8,503,317</u>
Change in net assets (Exhibit D)	632,253	511,700		1,143,953
Net assets (deficit) - beginning of year	(908,182)	1,977,947	\$ 992,035	2,061,800
Net assets (deficit) - end of year (Exhibit A)	<u>\$ (275,929)</u>	<u>\$ 2,489,647</u>	<u>\$ 992,035</u>	<u>\$ 3,205,753</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016

	Program Services					Supporting Services					
	Public Education	Research	Professional Education	Patient Support	Community Services	Total	Management and General	Fund Raising	Direct Costs of Special Events	Total	Total
Salaries and related expenses	\$ 1,106,729	\$ 116,734	\$ 723,596	\$ 1,137,451	\$ 910,346	\$ 3,994,856	\$ 517,533	\$ 431,027		\$ 948,560	\$ 4,943,416
Awards and grants (Note 2)		284,375				284,375					284,375
Depreciation and amortization	13,194	1,392	8,627	13,560	10,853	47,626	6,170	5,138		11,308	58,934
Computer support services	92,762	7,507	46,530	73,143	58,539	278,481	33,280	28,157		61,437	339,918
Media	244,678	242	1,148	1,581	2,741	250,390	719	15,561		16,280	266,670
Postage and shipping	7,709	371	3,306	3,614	4,687	19,687	1,644	36,864		38,508	58,195
Printing, publishing and copying	58,177	427	9,549	3,936	5,945	78,034	1,791	78,007		79,798	157,832
Professional services	167,530	17,670	109,534	172,181	137,803	604,718	113,830	65,246		179,076	783,794
Occupancy (Note 9)	145,245	15,320	94,963	149,276	119,472	524,276	67,920	56,607		124,527	648,803
Insurance	8,349	881	5,459	8,581	6,868	30,138	3,904	3,252		7,156	37,294
Supplies	16,722	535	3,763	5,051	5,837	31,908	2,298	18,738		21,036	52,944
Telephone and internet	16,954	1,752	10,858	17,069	13,661	60,294	7,766	6,468		14,234	74,528
Travel	105,532	3,565	87,118	34,748	37,402	268,365	15,810	25,681		41,491	309,856
Hotel, catering and other event expenses	19,038	830	126,354	1,079	28,399	175,700	492	78,857	\$ 982,817	1,062,166	1,237,866
Interest							5,371			5,371	5,371
Credit card fees							115,394			115,394	115,394
Other expenses	14,150	1,686	12,496	13,906	25,129	67,367	16,202	36,707		52,909	120,276
Total expenses	2,016,769	453,287	1,243,301	1,635,176	1,367,682	6,716,215	910,124	886,310	982,817	2,779,251	9,495,466
Less expenses deducted directly from revenues											
Direct costs of special events									(982,817)	(982,817)	(982,817)
Investment fees							(9,332)			(9,332)	(9,332)
Total expenses reported by function on statement of activities (Exhibit B)	\$ 2,016,769	\$ 453,287	\$ 1,243,301	\$ 1,635,176	\$ 1,367,682	\$ 6,716,215	\$ 900,792	\$ 886,310	\$ -	\$ 1,787,102	\$ 8,503,317

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT D**AMERICAN LIVER FOUNDATION****STATEMENT OF CASH FLOWS****YEAR ENDED DECEMBER 31, 2016**

Cash flows from operating activities	
Change in net assets (Exhibit B)	\$ 1,143,953
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	58,934
Net realized and unrealized gain on investments	(59,369)
Decrease (increase) in assets	
Contributions receivable	(537,200)
Prepaid expenses and other assets	41,347
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	81,648
Accrued payroll and related liabilities	71,619
Funds held on behalf of others	(15,083)
Deferred rent payable	(14,829)
	<u>771,020</u>
Net cash provided by operating activities	
Cash flows from investing activities	
Purchase of investments	(767,596)
Proceeds from sale of investments	552,925
Fixed asset acquisitions	(99,777)
	<u>(314,448)</u>
Net cash used by investing activities	
Cash flows from financing activities	
Proceeds from loan	300,000
Principal payments on loan	(250,000)
	<u>50,000</u>
Net cash provided by financing activities	
Net change in cash and cash equivalents	506,572
Cash and cash equivalents - beginning of year	<u>837,818</u>
Cash and cash equivalents - end of year	\$ <u><u>1,344,390</u></u>
Supplemental disclosure of cash flow information	
Cash paid for interest	\$ <u><u>4,373</u></u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AMERICAN LIVER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1 - NATURE OF ORGANIZATION

American Liver Foundation (the "Foundation") is a national nonprofit organization supporting liver health education, advocacy and disease prevention. The Foundation provides funds for research, public, patient and professional education programs, support services, broad awareness activities and advocacy for those affected by liver-related diseases.

The Foundation has 17 divisions throughout the United States. The divisions conduct community-based programs that provide the most up-to-date information on disease-specific and treatment issues, address the trends in hepatology research and connect individuals and groups to information and services they need. The Foundation's programmatic efforts address the needs of liver patients and their families; the general public; health care and social service professionals; health care institutions; local, state and federal legislators and policy makers; and advocacy groups and community-based organizations. The Foundation operates a national helpline providing basic disease information in English.

American Liver Foundation is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a).

The Foundation is supported primarily by special events, individual and corporate contributions and grants.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

Use of estimates - The preparation of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - Cash equivalents include highly liquid instruments with maturities, when acquired, of three months or less at the date of purchase.

Investments - Investments are stated at fair value. The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the Foundation's financial statements.

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AMERICAN LIVER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in the contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Allowance for doubtful accounts - The Foundation has determined that no allowance for uncollectible accounts for contributions receivable is necessary as of December 31, 2016. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions, subsequent collections and historical information.

Fixed assets - Fixed assets with a cost in excess of \$500 and an estimated useful life greater than one year are capitalized. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the term of the lease or the estimated useful lives of the assets, whichever is shorter.

Funds held on behalf of others - The Foundation acts as an administrator for funds collected on behalf of liver transplant patients. The Foundation disburses funds to cover the cost of properly documented post-surgery expenses.

Awards and grants payable - Liver Scholars Awards, Special Research Initiative Awards, Seed Grant Awards and post-doctoral research fellowships are expensed in the year granted and are subject to an annual review and renewal process. All awards and grants payable are current as of December 31, 2016.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Special events - The Foundation conducts special events in which a portion of the gross proceeds paid by the participants represents payment for the direct cost of the benefits received by the participants at the events. All proceeds received are recorded as special events revenues in the accompanying statement of activities.

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AMERICAN LIVER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Temporarily restricted net assets are those funds restricted by donors, to be used for a specified time period or purpose. Permanently restricted net assets are for investment in perpetuity, the income from which is restricted for various research projects as stipulated by donors.

Functional expenses - The costs of providing the Foundation's services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Rent expense - The Foundation leases space at various locations. All leases are operating leases. All leases are reflected on the straight-line basis. When material, deferred rent is recorded.

Fair Value Measurements

Fair Value Measurements establishes a framework for measuring fair value in accordance with generally accepted accounting principles. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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AMERICAN LIVER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

The following is a description of the valuation methodology used for assets measured at fair value. There has been no change in the methodology used at December 31, 2016 as compared to that used at December 31, 2015.

Mutual funds (including money market mutual funds) - Valued at the net asset value (NAV) of shares held at year end.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The investments at December 31, 2016 are disclosed in Note 3 by level within the fair value hierarchy.

Uncertainty in income taxes - The Foundation has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending September 30, 2013 (change in year end) and subsequent remain subject to review by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through May 26, 2017, which is the date the financial statements were available to be issued.

NOTE 3 - INVESTMENTS

	<u>Level 1</u>
Mutual funds	
Money market	\$ 229,776
U.S. equity	858,381
International equity	308,219
Emerging markets	32,540
Real asset securities	96,459
Fixed income	<u>1,023,502</u>
	<u>\$ 2,548,877</u>

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AMERICAN LIVER FOUNDATION
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 3 - INVESTMENTS (continued)

Investment income (loss) consists of the following:

Interest and dividends	\$ 52,306
Realized gains	76,214
Unrealized losses	(16,845)
Investment fees	<u>(9,332)</u>
	<u>\$ 102,343</u>

NOTE 4 - FIXED ASSETS

		<u>Estimated Useful Lives</u>
Leasehold improvements	\$ 97,448	4 - 10 years
Office equipment	453,744	5 years
Computers and peripherals	<u>746,222</u>	3 years
	1,297,414	
Less accumulated depreciation and amortization	<u>(1,135,332)</u>	
	<u>\$ 162,082</u>	

NOTE 5 - LOAN PAYABLE

- A. On December 9, 2016, the Foundation obtained a \$300,000 unsecured loan from a board member. The loan bears interest at 8.25% and is due on June 30, 2017. Interest expense on the unsecured loan in the amount of \$998 was accrued (as part of accounts payable and accrued expenses on the balance sheet) as of December 31, 2016. The loan was repaid in full on April 26, 2017.
- B. On December 30, 2015, the Foundation obtained a \$250,000 unsecured loan from a Board member which was fully repaid in 2016. The loan bore interest at 8.25%. Interest expense on the loan was \$4,373 in 2016.

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AMERICAN LIVER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Research program	\$ 860,766
Community services	<u>1,628,881</u>
	<u>\$ 2,489,647</u>

For the year ended December 31, 2016, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes specified by donors:

Research program	<u>\$ 302,102</u>
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NOTE 7 - PERMANENTLY RESTRICTED NET ASSETS

General

Permanently restricted net assets consist of six funds totaling \$992,035 and are restricted to investment in perpetuity, the income from which is restricted for six research projects as stipulated by donors. As required by GAAP, net assets associated with permanently restricted funds are classified and reported based on the existence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Foundation adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the “historic dollar value” standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. The Foundation is governed by the NYPMIFA spending policy, which establishes a standard maximum prudent spending limit of 7%. As a result of this interpretation, the 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 standards of prudence prescribed by NYPMIFA.

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AMERICAN LIVER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 7 - PERMANENTLY RESTRICTED NET ASSETS (continued)

Return Objectives, Strategies Employed and Spending Policy

The objective of the Foundation is to grow the endowment funds to maintain purchasing power.

The investment policy to achieve this objective is to invest in mutual funds and money market funds. Investment income earned in relation to the endowment funds is recorded as temporarily restricted income and released from restriction upon expenditure for the program for which the endowment fund was established. The Foundation appropriated \$50,000 for expenditures for the year ended December 31, 2016.

Funds with Deficiencies

The Foundation does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund as of December 31, 2016

The endowment net assets composition of \$1,103,423 comprises \$111,388 of temporarily restricted net assets and \$992,035 of permanently restricted net assets.

Changes in Endowment Net Assets for the Year Ended December 31, 2016

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 103,661	\$ 992,035	\$ 1,095,696
Interest and dividends	24,827		24,827
Realized and unrealized gain	32,900		32,900
Appropriation	<u>(50,000)</u>		<u>(50,000)</u>
Endowment net assets, end of year	<u>\$ 111,388</u>	<u>\$ 992,035</u>	<u>\$ 1,103,423</u>

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AMERICAN LIVER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 8 - PENSION PLAN

The Foundation has a 403(b) defined contribution pension plan. The employer matches 50% of the first 2% of salary contributed to the Plan by eligible participants. All active employees are covered by the plan. Pension expense was \$23,128 for the year ended December 31, 2016.

NOTE 9 - LEASE COMMITMENTS

The Foundation rents space under several noncancelable operating leases that have expiration dates ranging from 2017 through 2022. Rent is being expensed on the straight-line method over the term of the lease. The following are the total future minimum rental payments required under operating leases that have initial or remaining lease terms in excess of one year:

2017	\$ 538,269
2018	483,698
2019	428,962
2020	313,378
2021	73,019
Thereafter	<u>3,379</u>
	<u>\$ 1,840,705</u>

Rent expense for the year ended December 31, 2016 was \$610,914. Deferred rent payable was \$191,181 as of December 31, 2016.

NOTE 10 - CONCENTRATIONS

Financial instruments which potentially subject the Foundation to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits.