

FINANCIAL STATEMENTS



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

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

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INDEPENDENT AUDITOR'S REPORT

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

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2016, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

We have previously audited the Association's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 15, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gelman Rosenberg & Friedman

October 13, 2016

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

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

ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,457,167	\$ 2,611,538
Investments - Reserve and Endowments	30,735,904	31,185,152
Contributions receivable, current portion	413,000	400,000
Due from related party	47,390	7,755
Accounts receivable	547,806	1,547,290
Prepaid expenses	<u>519,988</u>	<u>444,381</u>
Total current assets	<u>36,721,255</u>	<u>36,196,116</u>
FIXED ASSETS		
Office condominium	8,189,609	8,189,609
Furniture and equipment	<u>723,206</u>	<u>692,476</u>
	8,912,815	8,882,085
Less: Accumulated depreciation and amortization	<u>(2,600,957)</u>	<u>(2,318,764)</u>
Net fixed assets	<u>6,311,858</u>	<u>6,563,321</u>
OTHER ASSETS		
Contributions receivable, net of current portion	798,084	1,196,170
Deferred financing cost, net of accumulated amortization of \$46,917	95,016	99,747
Deposits	<u>267,810</u>	<u>52,493</u>
Total other assets	<u>1,160,910</u>	<u>1,348,410</u>
TOTAL ASSETS	<u>\$ 44,194,023</u>	<u>\$ 44,107,847</u>

LIABILITIES AND NET ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES		
Current portion of notes payable	\$ 3,008,440	\$ 169,555
Current portion of bonds payable	3,100,000	100,000
Interest rate swap obligations	<u>2,374,360</u>	<u>-</u>
Subtotal debt payable	8,482,800	269,555
Accounts payable and accrued expenses	651,467	555,664
Deferred revenue:		
Membership dues	703,109	642,769
Meeting registrations and exhibits	<u>1,172,011</u>	<u>588,920</u>
Total current liabilities	<u>11,009,387</u>	<u>2,056,908</u>
LONG-TERM LIABILITIES		
Notes payable, net of current portion	-	3,008,440
Bonds payable, net of current portion	-	3,100,000
Interest rate swap obligations	<u>-</u>	<u>1,847,609</u>
Total long-term liabilities	<u>-</u>	<u>7,956,049</u>
Total liabilities	<u>11,009,387</u>	<u>10,012,957</u>
NET ASSETS		
Unrestricted:		
Undesignated	22,457,686	22,468,777
Board-designated	<u>5,433,814</u>	<u>5,809,174</u>
Total unrestricted	27,891,500	28,277,951
Temporarily restricted	2,231,286	2,755,089
Permanently restricted	<u>3,061,850</u>	<u>3,061,850</u>
Total net assets	<u>33,184,636</u>	<u>34,094,890</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 44,194,023</u>	<u>\$ 44,107,847</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

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

	2016			2015	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUE					
Annual Meeting	\$ 8,724,196	\$ 1,914	\$ -	\$ 8,726,110	\$ 7,133,402
Meetings and Education	761,450	10,000	-	771,450	1,039,701
Membership Dues	1,516,682	-	-	1,516,682	1,412,224
Professional Relations	130,095	-	-	130,095	31,965
Publications, Hepatology and Liver Transplantation Journals	2,751,988	-	-	2,751,988	3,522,302
Rental income	103,722	-	-	103,722	100,315
In-kind contributions	6,100	-	-	6,100	-
Other	1,048	-	-	1,048	1,413
Net assets released from donor restrictions	<u>508,160</u>	<u>(508,160)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>14,503,441</u>	<u>(496,246)</u>	<u>-</u>	<u>14,007,195</u>	<u>13,241,322</u>
EXPENSES					
Program Services:					
Annual Meeting	4,229,051	-	-	4,229,051	3,654,214
Clinical and Public Policies	354,097	-	-	354,097	275,743
Communications and Marketing	564,503	-	-	564,503	333,192
Meetings and Education	2,004,066	-	-	2,004,066	2,306,942
Membership and Website	1,277,322	-	-	1,277,322	1,271,358
Professional Relations	1,615,366	-	-	1,615,366	415,018
Publication Journals	<u>1,920,210</u>	<u>-</u>	<u>-</u>	<u>1,920,210</u>	<u>1,907,475</u>
Total program services	<u>11,964,615</u>	<u>-</u>	<u>-</u>	<u>11,964,615</u>	<u>10,163,942</u>
Supporting Services:					
Governance, Executive and Administration	1,968,519	-	-	1,968,519	2,179,245
Fundraising	<u>10,528</u>	<u>-</u>	<u>-</u>	<u>10,528</u>	<u>-</u>
Total supporting services	<u>1,979,047</u>	<u>-</u>	<u>-</u>	<u>1,979,047</u>	<u>2,179,245</u>
Total expenses	<u>13,943,662</u>	<u>-</u>	<u>-</u>	<u>13,943,662</u>	<u>12,343,187</u>
Change in net assets before other items	559,779	(496,246)	-	63,533	898,135
OTHER ITEMS					
Investment loss	(419,478)	(27,557)	-	(447,035)	1,035,890
Unrealized loss on interest rate swap obligations	<u>(526,752)</u>	<u>-</u>	<u>-</u>	<u>(526,752)</u>	<u>(121,048)</u>
Change in net assets before transfer of assets	(386,451)	(523,803)	-	(910,254)	1,812,977
Transfer of assets to AASLD Foundation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,096,576)</u>
Change in net assets	(386,451)	(523,803)	-	(910,254)	(9,283,599)
Net assets at beginning of year	<u>28,277,951</u>	<u>2,755,089</u>	<u>3,061,850</u>	<u>34,094,890</u>	<u>43,378,489</u>
NET ASSETS AT END OF YEAR	<u>\$ 27,891,500</u>	<u>\$ 2,231,286</u>	<u>\$ 3,061,850</u>	<u>\$ 33,184,636</u>	<u>\$ 34,094,890</u>

See accompanying notes to financial statements.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

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

	2016				
	Program Services				
	Annual Meeting	Clinical and Public Policies	Communications and Marketing	Meetings and Education	Membership and Website
Advertising	\$ -	\$ -	\$ -	\$ 2,730	\$ -
Agency temporary	46,657	-	29,454	5,012	2,208
Audio visual	793,539	1,869	-	66,994	16,925
Awards	12,360	-	-	13,000	700
Bank and credit card charges	176,406	-	-	-	51,516
Contributions	-	-	-	-	-
Depreciation and amortization	8,744	879	3,294	10,220	7,231
Design services	-	-	-	-	221
Editor's office expenses	-	-	-	-	-
Electronic ballot	-	-	-	-	-
Equipment rental	2,588	-	-	2,555	-
Exhibit hall	67,864	-	-	15,495	5,188
Food and beverage	582,012	8,689	97	126,377	35,710
Honoraria	111,500	-	-	36,400	-
Insurance	32,751	-	-	-	-
Maintenance and repairs	2,102	98	503	1,268	1,028
Marketing expenses	234,481	131	32,516	39,479	55,417
Meeting services	369,436	1,278	7,031	17,808	1,790
Membership dues	-	11,500	375	1,630	63
Office condominium expenses	171,924	18,487	66,315	212,345	145,606
Outside storage	-	-	-	-	-
Postage and delivery	57,178	29	317	25,193	33,362
Printing and duplicating	129,443	-	1,406	3,044	4,334
Professional services	361,052	185,315	129,024	324,040	106,915
Publishers fees	-	-	-	-	-
Recruitment	-	-	4,840	1,817	-
Registration bags	36,095	-	-	-	-
Revenue sharing	58,086	-	-	-	-
Salaries and benefits	733,349	76,438	279,848	873,262	613,829
Software	11,569	10,358	4,453	13,875	70,493
In-kind expenses	6,100	-	-	-	-
Staff development and recognition	-	-	1,682	4,030	5,412
Stationery and supplies	-	-	308	1,034	912
Stipend	-	-	-	-	-
Subscriptions and books	-	-	24	-	-
Telephone and fax	61,039	2,094	2,876	14,930	8,012
Travel	<u>162,776</u>	<u>36,932</u>	<u>140</u>	<u>191,528</u>	<u>110,450</u>
TOTAL	<u>\$ 4,229,051</u>	<u>\$ 354,097</u>	<u>\$ 564,503</u>	<u>\$ 2,004,066</u>	<u>\$ 1,277,322</u>

								2015	
Supporting Services									
Professional Relations	Publication Journals	Total Program Services	Governance, Executive and Administration	Fundraising	Total Supporting Services	Total Expenses	Total Expenses		
\$ 302	\$ -	\$ 3,032	\$ -	\$ -	\$ -	\$ 3,032	\$ 5,219		
-	11,647	94,978	5,481	-	5,481	100,459	54,840		
3,840	849	884,016	13,610	-	13,610	897,626	825,623		
1,978	-	28,038	1,563	-	1,563	29,601	52,888		
-	-	227,922	15,510	-	15,510	243,432	196,289		
1,169,000	-	1,169,000	-	-	-	1,169,000	15,000		
1,783	4,631	36,782	9,341	43	9,384	46,166	34,937		
-	-	221	65	-	65	286	3,504		
-	29,419	29,419	-	-	-	29,419	20,114		
-	-	-	7,728	-	7,728	7,728	6,697		
-	-	5,143	-	-	-	5,143	17,799		
-	-	88,547	-	-	-	88,547	80,022		
17,970	22,994	793,849	59,017	-	59,017	852,866	935,317		
-	423,700	571,600	-	-	-	571,600	626,800		
-	-	32,751	13,075	-	13,075	45,826	73,895		
219	684	5,902	4,032	4	4,036	9,938	13,231		
2,784	10,528	375,336	1,130	-	1,130	376,466	340,166		
-	-	397,343	12,787	-	12,787	410,130	360,397		
-	-	13,568	2,492	-	2,492	16,060	9,546		
35,858	96,422	746,957	232,647	949	233,596	980,553	956,450		
-	-	-	3,641	-	3,641	3,641	3,050		
31	1,488	117,598	5,924	-	5,924	123,522	72,007		
-	63,495	201,722	997	-	997	202,719	218,572		
169,747	178,799	1,454,892	349,139	5,689	354,828	1,809,720	1,892,643		
-	616,100	616,100	-	-	-	616,100	699,015		
-	295	6,952	345	-	345	7,297	2,220		
-	-	36,095	-	-	-	36,095	76,124		
17,921	-	76,007	-	-	-	76,007	58,439		
151,587	397,100	3,125,413	841,545	3,750	845,295	3,970,708	3,596,705		
3,189	6,402	120,339	34,622	58	34,680	155,019	145,675		
-	-	6,100	-	-	-	6,100	-		
1,813	-	12,937	31,601	-	31,601	44,538	40,463		
183	1,689	4,126	33,560	-	33,560	37,686	43,372		
-	-	-	105,000	-	105,000	105,000	105,000		
-	-	24	611	-	611	635	931		
4,092	8,119	101,162	15,221	35	15,256	116,418	87,388		
<u>33,069</u>	<u>45,849</u>	<u>580,744</u>	<u>167,835</u>	<u>-</u>	<u>167,835</u>	<u>748,579</u>	<u>672,849</u>		
\$ 1,615,366	\$ 1,920,210	\$ 11,964,615	\$ 1,968,519	\$ 10,528	\$ 1,979,047	\$ 13,943,662	\$ 12,343,187		

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

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

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (910,254)	\$ (9,283,599)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	286,324	268,229
Unrealized loss on investments	135,420	45,441
Realized loss (gain) on investments	958,127	(396,741)
Unrealized loss on interest rate swap obligation	526,752	121,048
Change in net present value discount for contributions receivable	(1,914)	(8,929)
Transfer of assets to AASLD Foundation	-	11,096,576
(Increase) decrease in:		
Contributions receivable	387,000	493,380
Due from related party	(39,635)	(42,775)
Accounts receivable	999,484	(1,185,071)
Prepaid expenses	(75,607)	(14,859)
Deposits	(215,317)	71,205
Increase (decrease) in:		
Accounts payable and accrued expenses	95,803	84,820
Deferred revenue:		
Membership dues	60,340	41,379
Meeting registrations and exhibits	<u>583,091</u>	<u>(74,824)</u>
Net cash provided by operating activities	<u>2,789,614</u>	<u>1,215,280</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(30,130)	(312,885)
Purchases of investments	<u>(644,300)</u>	<u>(684,143)</u>
Net cash used by investing activities	<u>(674,430)</u>	<u>(997,028)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(169,555)	(166,096)
Payments on bonds payable	<u>(100,000)</u>	<u>(100,000)</u>
Net cash used by financing activities	<u>(269,555)</u>	<u>(266,096)</u>
Net increase (decrease) in cash and cash equivalents	1,845,629	(47,844)
Cash and cash equivalents at beginning of year	<u>2,611,538</u>	<u>2,659,382</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,457,167</u>	<u>\$ 2,611,538</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

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

SUPPLEMENTAL INFORMATION	<u>2016</u>	<u>2015</u>
Interest Paid	\$ <u>345,698</u>	\$ <u>359,373</u>
Transfer of Assets to the Foundation		
Investments	\$ -	11,034,695
Accounts receivable	-	106,791
Contributions receivable	-	1,786,445
Prepaid expenses	-	5,255
Due to related party - Memorial Travel Awards	-	35,020
Accounts payable	-	(106,880)
Grants and awards payable	-	<u>(1,764,750)</u>
TOTAL TRANSFER OF ASSETS TO THE FOUNDATION	\$ <u>-</u>	\$ <u>11,096,576</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The American Association for the Study of Liver Diseases (the Association), a non-profit organization, was established in 1950 to promote the advancement of medical education, research and clinical care in the field of liver and biliary tracts. The Association is the leading organization of scientists and healthcare professionals committed to preventing and curing liver disease. The Association fosters research that leads to improved treatment options for millions of liver disease patients.

The Association's vision is to prevent and cure liver disease. The mission is to advance and disseminate the science and practice of hepatology, and to promote liver health and quality patient care.

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 Association only. For the year ended June 30, 2016, the financial statements of the Association have been combined with the AASLD Foundation in accordance with FASB ASC 958-810, *Not-for-Profit Entities, Consolidation*. The combined financial statements are available at the Association'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 Association's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Cash and cash equivalents -

For purposes of reporting cash flows, the Association 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 Association'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 Association maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

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

Contributions receivable -

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

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

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

Contributions receivable (continued) -

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows.

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

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

Accounts receivable -

Accounts receivable consists primarily of amounts due to the Association for royalties earned but not received.

As of June 30, 2016, all receivables are deemed by management to be fully collectible; therefore, no allowance for doubtful accounts has been established. Accounts receivable are expected to be collected within a period of one year.

Fixed assets -

Fixed assets are stated at acquisition cost. The Association capitalizes all expenditures for property and equipment over \$1,000. Depreciation and amortization are computed using the straight-line method, over the estimated useful lives of the assets, ranging from three to thirty nine years. When assets are sold or otherwise disposed of, the asset and related accumulated depreciation are removed from the accounts and, any remaining gain or loss is included in operations. Expenditures for repairs and maintenance are charged to expense when incurred.

Depreciation of furniture and equipment of \$46,166 is reported as depreciation expense in the Statement of Functional Expenses. Depreciation expense on the office condominium in the amount of \$235,427 is included in office condominium expenses.

Impairment of long-lived assets -

Management reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the assets is reduced, by a charge to Statement of Activities and Change in Net Assets, to its current fair value.

Deferred revenue -

Deferred revenue consists of member dues and conference and meeting registrations and exhibits revenue received in advance. The Association recognizes member dues on a pro-rata basis over the annual membership period. The Association recognizes conference and meeting revenue and exhibit revenue when the related event has occurred.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

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

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

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 Association and include both internally designated and undesignated resources.

During 2016, the Governing Board authorized use of unrestricted Board-designated net assets as follows:

	Investment			
	June 30, 2015	losses	Uses	June 30, 2016
Accumulated Board-Designated Earnings	\$ 1,495,252	\$ (43,396)	\$ (82,002)	\$ 1,369,854
Emerging Trends Single Topic Conference	1,600,000	-	-	1,600,000
Clinical Single Topic Conference	1,250,000	-	-	1,250,000
Basic Single Topic Conference	750,000	-	-	750,000
Building Infrastructure Fund	220,000	-	-	220,000
Mentoring Opportunities	395,979	-	(156,169)	239,810
ACT First Curriculum	93,793	-	(93,793)	-
Board-Designated: State of the Art - Starzl	<u>4,150</u>	<u>-</u>	<u>-</u>	<u>4,150</u>
TOTAL BOARD-DESIGNATED NET ASSETS	<u>\$ 5,809,174</u>	<u>\$ (43,396)</u>	<u>\$ (331,964)</u>	<u>\$ 5,433,814</u>

- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the Association 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 Association. Investment earnings can be utilized for operations.

Contributions and grants -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor.

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

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

Advertising -

The Association expenses advertising costs when incurred. For the year ended June 30, 2016, \$3,032 of advertising costs were incurred.

Functional allocation of expenses -

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

Use of estimates -

The preparation of 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 Association is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Association is also exempt from sales tax in the state of Virginia. The Association is not a private foundation. The Association is required to report unrelated business income to the Internal Revenue Service and the appropriate state taxing authorities.

The Association leases office space to one unaffiliated tenant. This activity is considered to be unrelated business activity under Internal Revenue Service regulations. Defined net income from these operations is taxable. To date, there has been a loss from unrelated business activities.

As of June 30, 2016, there were net operating loss carry forwards of approximately \$1,520,000. No deferred tax asset has been recognized due to uncertainty regarding realization. The net operating losses expire between 2030 and 2035.

Uncertain tax positions -

For the year ended June 30, 2016, the Association 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 Association 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 financial statements.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

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

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

Fair value measurement -

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

2. INVESTMENTS

Investments, at fair value, consisted of the following at June 30, 2016:

	<u>Endowments</u>	<u>Reserve</u>	<u>Total Investments</u>
Money Market Funds	\$ 98,913	\$ 358,516	\$ 457,429
Mutual Funds:			
Domestic Large Cap Value and Growth	1,700,452	8,011,450	9,711,902
Domestic Small Cap Value and Growth	193,899	934,184	1,128,083
International Equity	1,285,883	6,031,131	7,317,014
Fixed Income	<u>2,103,891</u>	<u>10,017,585</u>	<u>12,121,476</u>
TOTAL INVESTMENTS	<u>\$ 5,383,038</u>	<u>\$ 25,352,866</u>	<u>\$ 30,735,904</u>

The Association's Reserve and Endowment investments asset allocations are based on a Board approved investment policy.

Investment losses consisted of the following at June 30, 2016:

Interest and dividends	\$ 662,054
Unrealized loss	(135,420)
Realized loss	(1,263,675)
Short-term capital gains	49,745
Long-term capital gains	<u>255,803</u>
	(431,493)
Less: Investment custodian fees	<u>(15,542)</u>
TOTAL INVESTMENT LOSS	<u>\$ (447,035)</u>

The investment advisory firm's annual fees for year ended June 30, 2016 were \$44,857. These fees are included in the Statement of Functional Expenses under professional services.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

3. CONTRIBUTIONS RECEIVABLE

Contributions due in more than one year have been recorded at the present value of the estimated cash flows, using a discount rate of 0.160%.

Contributions are due as follows at June 30, 2016:

Less than one year	\$ 413,000
One to five years	<u>800,000</u>
Total	1,213,000
Less: Allowance to discount balance to present value	<u>(1,916)</u>
CONTRIBUTIONS RECEIVABLE, NET	<u>\$ 1,211,084</u>

4. TEMPORARILY RESTRICTED NET ASSETS

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

Annual Meeting and Meetings and Education	\$ 1,290,090
Accumulated Endowment Earnings	<u>941,196</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 2,231,286</u>

5. NET ASSETS RELEASED FROM RESTRICTIONS

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

	<u>Released</u>
Annual Meeting and Meetings and Education	\$ 264,462
Accumulated Endowment Earnings	<u>243,698</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS AND TRANSFERRED	<u>\$ 508,160</u>

6. RELATED PARTIES

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. These costs are subsequently reimbursed between the two organizations. Operating costs are billed to the AASLD Foundation based upon appropriate apportionment methods. During the fiscal year 2016, AASLD gave AASLD Foundation a \$1,000,000 contribution to help support their activities during the year.

As of June 30, 2016 and 2015, the AASLD Foundation owed the Association \$47,390 and \$7,755, respectively, as a result of these activities.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

7. NOTES PAYABLE

Notes payable consisted of the following at June 30, 2016:

The Association entered into a conventional loan in the amount of \$2,800,000, with SunTrust Bank, due August 1, 2016. The note bears interest at a rate equal to the LIBOR in effect for the period plus .70%. The interest rate at June 30, 2016 was 0.684%. The Association entered into a swap agreement with SunTrust Bank dated December 31, 2006 (see Note 9 for further details). The note is secured by the property. The Association pays approximately \$60,000 in annual principal payments. Subsequent to June 30, 2016, the balance of the note was paid in full. See Note 15 for further detail.

\$ 2,375,662

The Association entered into a term note loan agreement in the amount of \$1,700,000, with SunTrust Bank, due August 1, 2016. The note bears interest at a rate equal to LIBOR in effect for the period plus .70%. The interest rate at June 30, 2016 was 0.884%. The Association entered into a swap agreement with SunTrust Bank dated January 3, 2007 (see Note 9 for further details). The Association pays approximately \$113,000 in annual principal payments. Subsequent to June 30, 2016, the balance of the note was paid in full. See Note 15 for further detail.

632,778

NOTES PAYABLE, CURRENT

\$ 3,008,440

8. BONDS PAYABLE

On August 1, 2006, the Association purchased an office condominium with 22,504 square feet in Alexandria, Virginia. The purchase was financed with two debt instruments totaling \$6,800,000 (85% of the appraised value of the office condominium at that date was \$6,853,334), and secured with a First Deed of Trust, Assignment and Security Agreement on the property. Both debt instruments were underwritten by SunTrust Capital Markets.

The Association was issued Tax Exempt Bonds in the amount of \$4,000,000 through the Industrial Development Authority of the City of Alexandria (the American Association for the Study of Liver Diseases Project, Series 2006 Revenue Bonds). The bonds are being amortized over thirty years, beginning August 1, 2007. The maturity date of the bonds is August 1, 2016. The bonds bear interest at the variable rates that are determined by SunTrust Capital Markets, in order to place the bonds at 100% par, with a maturity date of August 1, 2016. To mitigate the effect of fluctuations in interest rates, the Association has hedged these bonds using interest rate swap agreements described in Note 9.

The fixed rate and LIBOR rate at June 30, 2016 was 4.76%. Financing cost in the amount of \$141,933 were capitalized and are being amortized over the life of the bonds. Amortization expense for the year ended June 30, 2016 was \$4,731, and is included in office condominium expenses.

Subsequent to June 30, 2016, the balance of the bonds was paid in full. See Note 15 for further detail.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

9. INTEREST RATE SWAP AGREEMENTS

As discussed in Notes 7 and 8, the Association entered into swap agreements with SunTrust Bank. The intention of the swap agreements is to synthetically fix the interest rate on the bonds and notes as a means to reduce their exposure to volatility in the rate indexes. The swap valuation was established by market quotations from SunTrust Bank representing estimates of the amounts that would be paid upon terminating the agreement.

On June 16, 2006, the Association entered into a 30-year swap agreement with SunTrust Bank, with an effective date of August 1, 2006, to fix 100% of its outstanding bonds at a fixed rate of 4.76%, based on the actual bond rate with an original notional amount of \$4,000,000. Interest on the swap is due monthly. The notional amount at June 30, 2016 was \$3,100,000, with a bond rate of 4.76%. At June 30, 2016, the swap agreement had a negative fair value of \$1,154,261, which is reflected as a liability in the financial statements. The maturity date of the swap agreement is August 1, 2036. Total interest expense paid for the period ended June 30, 2016 was \$148,399.

On June 16, 2006, the Association entered into a 30-year swap agreement with SunTrust Bank, with an effective date of August 1, 2006, to fix 100% of its conventional loan at a fixed rate of 6.37%, based on a 30-day LIBOR rate with an original notional amount of \$2,800,000. Interest on the swap is due monthly. The notional amount at June 30, 2016 was \$2,375,662, with a LIBOR rate of 6.37%. At June 30, 2016, the swap agreement had a negative fair value of \$1,215,112, which is reflected as a liability in the financial statements. The maturity date of the swap agreement is August 1, 2036. Total interest expense paid for the period ended June 30, 2016 was \$155,544.

On January 3, 2007, the Association entered into a 10-year swap agreement with SunTrust Bank, with an effective date of January 12, 2007, to fix 100% of its term loan at a fixed rate of 5.85%, based on a 30-day LIBOR rate with an original notional amount of \$1,700,000. Interest on the swap is due monthly. The notional amount at June 30, 2016 was \$632,778, with a LIBOR rate of 5.85%. At June 30, 2016, the swap agreement had a negative fair value of \$4,987, which is reflected as a liability in the financial statements. The maturity date of the swap agreement is August 1, 2016. Interest expense paid for the period ended June 30, 2016 totaled \$40,743.

Subsequent to June 30, 2016, all swap agreements were paid in full. See Note 15 for further detail.

10. RENTAL INCOME

On July 11, 2012, the Association entered into a five-year lease agreement, commencing on August 1, 2012 and expiring August 31, 2017.

The future minimum lease payments to be received are as follows:

<u>Year Ending June 30,</u>	
2017	\$ 103,774
2018	<u>17,421</u>
	<u>\$ 121,195</u>

For the year ended June 30, 2016, the Association received \$103,722 of rental income.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

11. RETIREMENT PLAN

The Association maintains a 403(b) plan, covering all full-time employees who have met the eligibility requirements of the plan, which is one year of service. The Association contributes ten percent of eligible employees' gross salaries to the plan. Contributions for the year ended June 30, 2016 totaled \$309,671.

12. COMMITMENTS AND CONTINGENCIES

Royalty contracts -

The Association contracts with a publisher to publish the *Hepatology* journal, *Liver Transplantation* journal, and *Clinical Liver Disease* (CLD). By the terms of the contract, the Association receives non-reimbursable grants to cover the editorial expenses and honoraria. In addition, the Association earns royalties based on the net accrued revenue of the journals.

Future contracts -

The Association reserves hotel space for its conferences several years in advance. The contracts stipulate the number of rooms to be reserved and the time period for which they are to be reserved. As of the date of this report, contracts for various hotel space had been entered into through 2026. However, due to the numerous variables involved, the Association's ultimate liability under these contracts cannot be determined.

13. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, the Association 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 Association 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.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

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

13. FAIR VALUE MEASUREMENT (Continued)

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

- *Money Market Funds* - Fair value is equal to the reported net asset value of the fund.
- *Mutual Funds* - Fair value is equal to the reported net asset value of the fund, which is the price at which additional shares can be obtained.
- *Interest Rate Swap Agreements* - Fair value is derived from quotes from a dealer or broker, where available. Models used in valuing such agreements consider the contractual terms of and specific risks inherent in the instrument, and inputs used typically include yield curve, instrument volatility, prepayment rates and assumptions concerning nonperformance risk.

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Class - Investments:				
Money Market Funds	\$ 457,429	\$ -	\$ -	\$ 457,429
Mutual Funds:				
Domestic Large Cap Value and Growth	9,711,902	-	-	9,711,902
Domestic Small Cap Value and Growth	1,128,083	-	-	1,128,083
International Equity	7,317,014	-	-	7,317,014
Fixed Income	<u>12,121,476</u>	<u>-</u>	<u>-</u>	<u>12,121,476</u>
TOTAL INVESTMENTS	<u>\$ 30,735,904</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,735,904</u>
Financial Liabilities:				
Interest Rate Swap Obligation	<u>\$ -</u>	<u>\$ 2,374,360</u>	<u>\$ -</u>	<u>\$ 2,374,360</u>

14. ENDOWMENT

The Association's endowment consists of donor-restricted endowment funds. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

As a result of this interpretation, the Association 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.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

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

14. ENDOWMENT (Continued)

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 Association in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Association 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 Association 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 Association.

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ <u>-</u>	\$ <u>941,196</u>	\$ <u>3,061,850</u>	\$ <u>4,003,046</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,212,451	\$ 3,061,850	\$ 4,274,301
Investment loss	-	(27,557)	-	(27,557)
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(243,698)</u>	<u>-</u>	<u>(243,698)</u>
ENDOWMENT NET ASSETS, END OF YEAR	\$ <u>-</u>	\$ <u>941,196</u>	\$ <u>3,061,850</u>	\$ <u>4,003,046</u>

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

Basic Research Single Topic Conference	\$ 726,000
State of the Art Lectures:	
Leon Schiff	100,000
Hyman J. Zimmerman	140,000
Thomas E. Starzl	95,850
Hepatitis Single Topic Conference	<u>2,000,000</u>
TOTAL PERMANENTLY RESTRICTED NET ASSETS	\$ <u>3,061,850</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

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

14. ENDOWMENT (Continued)

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Association 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 as of June 30, 2016.

Return Objectives and Risk Parameters -

The Association 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 Association 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 Association 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 Association 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 Association 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 Association'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.

15. SUBSEQUENT EVENTS

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

On August 1, 2016, the Association paid all outstanding debt associated with the purchase and construction of its office condominium: 1) the remainder principal due on both conventional loans, 2) the remainder principal on the Tax Exempt Bonds, and 3) the total interest rate swap obligations related to all three loans.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

15. **SUBSEQUENT EVENTS (Continued)**

The Association paid these debts with \$3.0 million from cash and investment reserves and entered into a 10 year Note Payable in the amount of \$5,470,814 with a 3.26% fixed interest rate and a closing commitment fee of 20 basis points. The new loan is secured by AASLD's investments.

The loan agreement contains various covenants which, among other things, place restrictions on the Association's ability to incur additional indebtedness and requires the Association to maintain certain financial ratios.

Principal payments on the notes are as follows:

<u>Year Ending June 30,</u>	
2017	\$ 392,269
2018	485,416
2019	501,429
2020	526,445
2021	535,057
2022 through 2027	<u>3,030,198</u>
	<u>\$ 5,470,814</u>