

FINANCIAL STATEMENTS



**FOR THE YEAR ENDED DECEMBER 31, 2013
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2012**

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
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 December 31, 2013, 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 December 31, 2013, 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 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 30, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gelman Rosenberg & Friedman

April 23, 2014

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

**STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2012**

ASSETS		<u>2013</u>	<u>2012</u>
CURRENT ASSETS			
Cash and cash equivalents		\$ 4,785,236	\$ 6,480,934
Investments - Reserve and Endowments (Notes 2 and 12)		31,127,283	24,535,745
Investments - Liver Research Fund (Notes 2 and 12)		7,694,717	6,721,312
Contributions receivable, current portion		498,325	829,405
Accounts receivable		709,182	785,510
Prepaid expenses		<u>157,366</u>	<u>212,821</u>
Total current assets		<u>44,972,109</u>	<u>39,565,727</u>
FIXED ASSETS			
Office condominium (Notes 5 and 6)		8,084,528	8,081,872
Furniture and equipment		<u>474,976</u>	<u>444,167</u>
		8,559,504	8,526,039
Less: Accumulated depreciation and amortization		<u>(1,929,483)</u>	<u>(1,650,653)</u>
Net fixed assets		<u>6,630,021</u>	<u>6,875,386</u>
OTHER ASSETS			
Contributions receivable, net of current portion		-	132,225
Deferred financing cost, net of accumulated amortization of \$35,089 (Note 6)		106,844	111,575
Deferred compensation investments (Notes 9 and 12)		214,060	159,673
Deposits		<u>94,789</u>	<u>83,978</u>
Total other assets		<u>415,693</u>	<u>487,451</u>
TOTAL ASSETS		<u>\$ 52,017,823</u>	<u>\$ 46,928,564</u>

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES		
Current portion of notes payable (Note 5)	\$ 164,445	\$ 161,299
Current portion of bonds payable (Note 6)	100,000	100,000
Accounts payable and accrued expenses	966,454	1,089,304
Deferred revenue:		
Membership dues	637,586	552,040
Meeting registrations and exhibits	28,623	6,480
Grants and awards payable	<u>1,562,795</u>	<u>1,433,045</u>
Total current liabilities	<u>3,459,903</u>	<u>3,342,168</u>
LONG-TERM LIABILITIES		
Notes payable, net of current portion (Note 5)	3,261,462	3,425,907
Bonds payable, net of current portion (Note 6)	3,200,000	3,300,000
Interest rate swap obligations (Notes 7 and 12)	1,431,853	2,446,042
Deferred compensation liability (Note 9)	<u>214,060</u>	<u>159,673</u>
Total long-term liabilities	<u>8,107,375</u>	<u>9,331,622</u>
Total liabilities	<u>11,567,278</u>	<u>12,673,790</u>
NET ASSETS		
Unrestricted:		
Undesignated	23,558,898	18,033,601
Board-designated	<u>8,672,191</u>	<u>8,235,928</u>
Total unrestricted	32,231,089	26,269,529
Temporarily restricted (Notes 3 and 13)	4,157,606	3,923,395
Permanently restricted (Note 13)	<u>4,061,850</u>	<u>4,061,850</u>
Total net assets	<u>40,450,545</u>	<u>34,254,774</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 52,017,823</u>	<u>\$ 46,928,564</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2012

	2013			2012	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUE					
Annual Meeting	\$ 7,290,298	\$ 37,520	\$ -	\$ 7,327,818	\$ 6,668,577
Meetings and Education	593,967	-	-	593,967	608,148
Membership Dues	1,221,690	-	-	1,221,690	1,172,238
Professional Relations	27,922	-	-	27,922	45,000
Publications, Hepatology and Liver Transplantation Journals	2,318,117	-	-	2,318,117	2,329,996
Research and Fellowship Awards	-	1,446,775	-	1,446,775	1,196,975
Rental income (Note 8)	296,491	-	-	296,491	225,678
Fundraising	175,540	-	-	175,540	-
In-kind contribution (Note 11)	14,250	-	-	14,250	14,500
Fundraising Campaign/Liver Research	-	-	-	-	44,611
Other	800	-	-	800	476
Net assets released from donor restrictions (Note 4)	<u>1,950,654</u>	<u>(1,950,654)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>13,889,729</u>	<u>(466,359)</u>	<u>-</u>	<u>13,423,370</u>	<u>12,306,199</u>
EXPENSES					
Program Services:					
Annual Meeting	3,690,435	-	-	3,690,435	3,042,586
Professional Relations	301,626	-	-	301,626	219,278
Publication Journals	1,643,424	-	-	1,643,424	1,499,507
Communications	387,889	-	-	387,889	263,206
Research and Fellowship Awards	2,607,497	-	-	2,607,497	2,319,234
Meetings and Education (Note 11)	1,546,217	-	-	1,546,217	1,623,760
Clinical and Public Policies	274,131	-	-	274,131	265,425
Membership Development and Website	<u>806,124</u>	<u>-</u>	<u>-</u>	<u>806,124</u>	<u>921,921</u>
Total program services	<u>11,257,343</u>	<u>-</u>	<u>-</u>	<u>11,257,343</u>	<u>10,154,917</u>
Supporting Services:					
Governance, Executive and Administration	2,102,505	-	-	2,102,505	1,672,856
Fundraising	<u>345,914</u>	<u>-</u>	<u>-</u>	<u>345,914</u>	<u>226,148</u>
Total supporting services	<u>2,448,419</u>	<u>-</u>	<u>-</u>	<u>2,448,419</u>	<u>1,899,004</u>
Total expenses	<u>13,705,762</u>	<u>-</u>	<u>-</u>	<u>13,705,762</u>	<u>12,053,921</u>
Change in net assets before other items	183,967	(466,359)	-	(282,392)	252,278
OTHER ITEMS					
Investment income (Note 2)	4,763,405	700,570	-	5,463,975	3,773,256
Unrealized gain on interest rate swap obligations (Note 7)	<u>1,014,188</u>	<u>-</u>	<u>-</u>	<u>1,014,188</u>	<u>15,144</u>
Change in net assets	5,961,560	234,211	-	6,195,771	4,040,678
Net assets at beginning of year	<u>26,269,529</u>	<u>3,923,395</u>	<u>4,061,850</u>	<u>34,254,774</u>	<u>30,214,096</u>
NET ASSETS AT END OF YEAR	<u>\$ 32,231,089</u>	<u>\$ 4,157,606</u>	<u>\$ 4,061,850</u>	<u>\$ 40,450,545</u>	<u>\$ 34,254,774</u>

See accompanying notes to financial statements.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2012**

	2013					
	Program Services					
	Annual Meeting	Professional Relations	Publication Journals	Communications	Research and Fellowship Awards	Meetings and Education
Advertising	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Agency temporary	44,545	-	14,970	1,156	-	-
Audio visual	576,748	542	878	-	1,412	64,875
Awards and grants	24,000	-	-	-	2,385,000	8,000
Bank and credit card charges	132,714	-	-	-	-	-
Contributions	-	-	-	-	-	-
Depreciation and amortization	13,526	2,387	5,901	4,211	2,189	12,266
Design services	11,460	-	-	-	-	225
Editor's office expenses	-	-	18,814	-	-	-
Electronic ballot	-	-	-	-	-	-
Equipment rental	3,467	-	180	-	-	3,780
Exhibit Hall	67,215	-	-	-	-	18,301
Food and beverage	465,475	13,061	16,599	-	39,864	73,528
Honoraria	77,000	-	377,350	-	-	18,500
Insurance	32,974	-	-	-	-	-
Maintenance and repairs	1,464	259	663	462	222	1,316
Marketing design	217,511	938	417	39,599	14,252	13,345
Meeting services	315,467	5,517	-	405	-	9,706
Membership dues	1,500	-	-	-	-	1,445
Office condominium expenses	189,825	33,900	82,717	58,930	29,717	174,630
Outside storage	-	-	-	27	-	-
Postage and delivery	8,874	64	172	1,663	2,397	5,562
Printing and duplicating	176,100	9,708	45,411	1,695	-	8,491
Professional services	404,413	65,630	171,206	59,993	-	284,106
Publishers fees	-	-	561,008	-	-	-
Recruitment	-	-	-	-	-	-
Registration bags	33,112	-	-	-	-	-
Revenue sharing	70,752	-	-	-	-	-
Salaries and benefits (Note 9)	673,307	116,644	292,943	210,364	108,496	608,612
Software	13,261	2,580	6,160	4,348	1,816	14,181
Sponsorship	2,750	-	-	-	-	-
Staff development and recognition	-	2,630	88	1,947	-	1,025
Stationery and supplies	1,829	9	-	534	-	1,515
Stipend	-	-	-	-	-	-
Subscriptions and books	-	-	-	-	-	112
Telephone and fax	65,519	3,223	3,788	2,496	1,595	20,401
Travel	65,627	44,534	44,159	59	20,537	202,295
TOTAL	\$ 3,690,435	\$ 301,626	\$ 1,643,424	\$ 387,889	\$ 2,607,497	\$ 1,546,217

2012

Supporting Services							
Clinical and Public Policies	Membership Development and Website	Total Program Services	Governance, Executive and Administration	Fundraising	Total Supporting Services	Total Expenses	Total Expenses
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,142
-	-	60,671	-	-	-	60,671	80,796
77	670	645,202	12,904	637	13,541	658,743	535,002
-	-	2,417,000	-	-	-	2,417,000	2,154,500
-	49,110	181,824	9,681	6,911	16,592	198,416	175,683
-	-	-	-	-	-	-	10,000
786	7,518	48,784	17,526	2,691	20,217	69,001	68,757
-	3,818	15,503	263	2,431	2,694	18,197	15,532
-	-	18,814	-	-	-	18,814	11,214
-	-	-	7,296	-	7,296	7,296	8,420
-	-	7,427	-	-	-	7,427	5,888
-	-	85,516	-	-	-	85,516	16,812
13,548	21,008	643,083	60,824	5,598	66,422	709,505	579,470
-	-	472,850	-	-	-	472,850	421,300
-	-	32,974	23,363	-	23,363	56,337	63,494
78	869	5,333	4,171	305	4,476	9,809	24,448
775	17,205	304,042	9,014	35,157	44,171	348,213	65,357
673	5,103	336,871	3,336	6,938	10,274	347,145	376,400
-	-	2,945	2,174	190	2,364	5,309	4,924
10,544	106,468	686,731	268,461	37,969	306,430	993,161	1,075,563
-	-	27	2,455	-	2,455	2,482	7,534
-	25,469	44,201	6,040	2,118	8,158	52,359	31,484
420	1,286	243,111	7,523	9,201	16,724	259,835	177,569
169,867	56,568	1,211,783	414,081	93,498	507,579	1,719,362	1,404,272
-	-	561,008	-	-	-	561,008	529,815
-	-	-	33,843	-	33,843	33,843	4,600
-	-	33,112	-	-	-	33,112	33,753
-	-	70,752	-	-	-	70,752	82,612
38,727	372,855	2,421,948	871,248	134,096	1,005,344	3,427,292	3,198,287
8,550	51,476	102,372	30,159	3,235	33,394	135,766	114,971
-	-	2,750	-	-	-	2,750	5,500
-	-	5,690	17,742	180	17,922	23,612	26,849
-	70	3,957	32,166	591	32,757	36,714	37,257
-	-	-	107,165	-	107,165	107,165	105,000
-	-	112	1,024	75	1,099	1,211	954
498	4,022	101,542	15,092	1,738	16,830	118,372	74,297
<u>29,588</u>	<u>82,609</u>	<u>489,408</u>	<u>144,954</u>	<u>2,355</u>	<u>147,309</u>	<u>636,717</u>	<u>504,465</u>
\$ 274,131	\$ 806,124	\$ 11,257,343	\$ 2,102,505	\$ 345,914	\$ 2,448,419	\$ 13,705,762	\$ 12,053,921

See accompanying notes to financial statements.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 6,195,771	\$ 4,040,678
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	283,561	283,627
Unrealized gain on investments	(4,363,538)	(2,284,639)
Realized gain on investments	(459,746)	(605,354)
Unrealized gain on interest rate swap obligation	(1,014,188)	(15,144)
Change in net present value discount for contributions receivable	-	(1,725)
(Increase) decrease in:		
Contributions receivable	463,305	846,310
Accounts receivable	76,328	(175,222)
Prepaid expenses	55,455	(116,908)
Deposits	(10,811)	5,695
Increase (decrease) in:		
Accounts payable and accrued expenses	(122,851)	(569,655)
Deferred revenue:		
Membership dues	85,546	(166,018)
Meeting registrations and exhibits	22,143	(31,225)
Grants and awards payable	<u>129,750</u>	<u>206,388</u>
Net cash provided by operating activities	<u>1,340,725</u>	<u>1,416,808</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(33,465)	(32,022)
Purchases of investments	(13,104,118)	(10,209,784)
Proceeds from sales of investments	<u>10,362,459</u>	<u>8,144,500</u>
Net cash used by investing activities	<u>(2,775,124)</u>	<u>(2,097,306)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(161,299)	(163,346)
Payments on bonds payable	<u>(100,000)</u>	<u>(100,000)</u>
Net cash used by financing activities	<u>(261,299)</u>	<u>(263,346)</u>
Net decrease in cash and cash equivalents	(1,695,698)	(943,844)
Cash and cash equivalents at beginning of year	<u>6,480,934</u>	<u>7,424,778</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,785,236</u>	<u>\$ 6,480,934</u>
SUPPLEMENTAL INFORMATION		
Interest Paid	<u>\$ 381,887</u>	<u>\$ 364,452</u>

See accompanying notes to financial statements.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013

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 the science and practice of hepatology, liver transplantation, and hepatobiliary surgery, thereby promoting liver health and optimal care of patients with liver and biliary tract diseases.

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 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 December 31, 2012, 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. 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.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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

Contributions receivable (continued) -

As of December 31, 2013, all contributions receivable 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.

Accounts receivable -

Accounts receivable consists primarily of amounts due to the Association for royalties earned but not received. As of December 31, 2013, 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 \$69,001 is reported as depreciation expense in the Statement of Functional Expenses. Depreciation expense on the office condominium of \$214,560 is included in office condominium expenses.

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 two unaffiliated tenants. 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.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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

Income taxes (continued) -

As of December 31, 2013, there were net operating loss carryforwards of approximately \$1,300,000. No deferred tax asset has been recognized due to uncertainty regarding realization. The net operating losses expire between 2028 and 2033.

Uncertain tax positions -

For the year ended December 31, 2013, 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.

The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

Deferred revenue -

Deferred revenue consists of member dues and conference and meeting registrations and exhibits 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.

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. The undesignated net assets also include the unrestricted portion of the Campaign/Liver Research Fund for \$849,868.

During 2013, the Governing Board authorized use of unrestricted Board-designated and undesignated unrestricted net assets for the Campaign/Liver Research Fund as follows:

	<u>December 31,</u>	<u>December 31,</u>		<u>December 31,</u>
	<u>2012</u>	<u>Additions</u>	<u>Uses</u>	<u>2013</u>
Accumulated Board-designated earnings	\$ 1,111,460	\$ 1,045,830	\$ (115,860)	\$ 2,041,430
Research Awards and Grants	2,135,000	-	(328,000)	1,807,000
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	400,000	100,000	-	500,000
Mentoring Opportunities	560,318	-	(154,787)	405,531
To Support ACT First Curriculum	350,000	-	(110,920)	239,080
AASLD - LIFER Award	75,000	-	-	75,000
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>\$ 8,235,928</u>	<u>\$ 1,145,830</u>	<u>\$ (709,567)</u>	<u>\$ 8,672,191</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

Net asset classification (continued) -

• **Undesignated net assets (continued)**

During 2013, the Governing Board authorized use of unrestricted Board-designated and undesignated unrestricted net assets for the Campaign/Liver Research Fund as follows (continued):

**Funds Used From Unrestricted Portion of Campaign/
Liver Research Funds:**

Total Board-Designated Net Assets - Uses	\$ (709,567)
NP/PA Clinical Hepatology Fellowship	(79,000)
Advanced Transplant Hepatology Fellowship	(18,000)
Liver Scholar Award	<u>(260,000)</u>

**TOTAL UNRESTRICTED BOARD-DESIGNATED AND CAMPAIGN/
LIVER RESEARCH FUNDS USED** **\$ (1,066,567)**

The effect of adding the unrestricted Board-designated and Campaign/Liver Research Fund uses of \$1,066,567 to the unrestricted change in net assets of \$183,967 would have resulted in a change in net assets before other items (Operating Surplus) at December 31, 2013 of \$1,250,534. However, because the \$1,066,567 are unrestricted funds, the effect is not illustrated on the Statement of Activities and Change in Net Assets (page 6).

- **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.

Advertising -

The Association expenses advertising costs when incurred. As of December 31, 2013, there were no advertising costs.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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

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.

Fair value measurement -

The Association 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 December 31, 2013:

	<u>Reserve and Endowments</u>	<u>Liver Research Fund</u>	<u>Total Investments</u>
Money Market Funds	\$ 610,746	\$ 163,135	\$ 773,881
Mutual Funds:			
Large Cap	9,959,788	3,148,248	13,108,036
Small Cap	6,459,661	-	6,459,661
International Core Equity Fund	2,655,829	799,841	3,455,670
Emerging Markets	1,592,371	-	1,592,371
Fixed Income	<u>9,848,888</u>	<u>3,583,493</u>	<u>13,432,381</u>
TOTAL INVESTMENTS	<u>\$ 31,127,283</u>	<u>\$ 7,694,717</u>	<u>\$ 38,822,000</u>

Investment income consisted of the following at December 31, 2013:

Interest and dividends	\$ 660,842
Unrealized gain	4,363,538
Realized gain	<u>459,746</u>
	5,484,126
Less: Investment custodian fees	<u>(20,151)</u>
TOTAL INVESTMENT INCOME	<u>\$ 5,463,975</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2013:

Annual and Educational Meetings	\$ 450,020
Research and Fellowship Awards	2,251,325
Accumulated endowment earnings	<u>1,456,261</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$ <u>4,157,606</u>

4. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions, at December 31, 2013, by incurring expenses, which satisfied the restricted purposes specified by the donors:

Annual and Educational Meetings	\$ 37,500
Research Fellowship Awards	1,807,075
Timing Restrictions:	
Accumulated endowment earnings	<u>106,079</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$ <u>1,950,654</u>

5. NOTES PAYABLE

Notes payable consisted of the following at December 31, 2013:

The Association entered into a conventional loan in the amount of \$2,800,000, with SunTrust Bank, due August 1, 2036. The note bears interest at a rate equal to the LIBOR in effect for the period plus .70%. The interest rate at December 31, 2013 was 0.66875%. The Association entered into a swap agreement with SunTrust Bank dated December 31, 2006 (see Note 7 for further details). The note is secured by the property and other assets of the Association.

\$ 2,509,795

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 interest period plus .70%. The interest rate at December 31, 2013 was 0.86875%. The Association entered into a swap agreement with SunTrust Bank dated January 3, 2007 (see Note 7 for further details). The note is secured by the property and other assets of the Association.

916,112

Total	3,425,907
Less: Current portion	<u>(164,445)</u>

NOTES PAYABLE, NET **\$ 3,261,462**

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

5. NOTES PAYABLE (Continued)

Principal payments on the notes are as follows:

Year Ending December 31,

2014	\$ 164,445
2015	167,797
2016	747,483
2017	61,843
2018	65,900
2019 and Thereafter	<u>2,218,439</u>
	<u>\$ 3,425,907</u>

6. 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 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, 2036. 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, 2036. To mitigate the effect of fluctuations in interest rates, the Association has hedged these bonds using interest rate swap agreements described in Note 7.

The fixed rate and LIBOR rate at December 31, 2013 was 4.76% and .23194%, respectively. Financing cost in the amount of \$141,933 were capitalized and will be amortized over the life of the bonds. Amortization expense for the year ended December 31, 2013 was \$4,731.

Principal payments on the bonds are as follows:

Year Ending December 31,

2014	\$ 100,000
2015	100,000
2016	100,000
2017	100,000
2018	100,000
2019 and Thereafter	<u>2,800,000</u>
	<u>\$ 3,300,000</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

7. INTEREST RATE SWAP AGREEMENTS

As discussed in Notes 5 and 6, 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 December 31, 2013 was \$3,300,000, with a bond rate of 4.76%. At December 31, 2013, the swap agreement had a negative fair value of \$609,895, 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 year ended December 31, 2013 was \$160,419.

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 bond 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 December 31, 2013 was \$2,509,795, with a LIBOR rate of 6.37%. At December 31, 2013, the swap agreement had a negative fair value of \$726,546, 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 year ended December 31, 2013 was \$163,519.

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 December 31, 2013 was \$916,111, with a LIBOR rate of 5.85%. At December 31, 2013, the swap agreement had a negative fair value of \$95,412, 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 year ended December 31, 2013 totaled \$57,394.

8. RENTAL INCOME

The Association entered into a seven-year lease agreement in 2007, expiring on November 30, 2014. On July 11, 2012, the Association entered into another 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:

Year Ending December 31,

2014	\$ 280,179
2015	96,066
2016	99,909
2017	<u>68,359</u>
	<u>\$ 544,513</u>

For the year ended December 31, 2013, the Association received \$296,491 of rental income.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013

9. RETIREMENT PLANS

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 December 31, 2013 totaled \$245,447.

During 2006 and 2012, the Association entered into a 457(b) and 457(f) deferred compensation plan, respectively, for highly compensated employees. Contributions for the year ended December 31, 2013 totaled \$42,500. For the year ended December 31, 2013, the market values of the 457(b) and 457(f) deferred compensation plans were \$164,054 and \$50,006, respectively.

10. COMMITMENTS AND CONTINGENCIES

Royalty contracts -

The Association contracts with a publisher to publish the *Hepatology* journal and the *Liver Transplantation* journal. 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 2020. However, due to the numerous variables involved, the Association's ultimate liability under these contracts cannot be determined.

11. IN-KIND CONTRIBUTIONS

In-kind contributions are recorded at fair value. The Association received speakers honoraria and other educational meetings services valued at \$14,250, which were recorded as in-kind contributions for the year ended December 31, 2013.

12. 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.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

12. 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 December 31, 2013.

- *Money Market Funds* - 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.
- *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 December 31, 2013:

Asset Class:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Money Market Funds	\$ 773,881	\$ -	\$ -	\$ 773,881
Mutual Funds:				
Large Cap	13,108,036	-	-	13,108,036
Small Cap	6,459,661	-	-	6,459,661
International Core Equity Fund	3,455,670	-	-	3,455,670
Emerging Markets	1,592,371	-	-	1,592,371
Fixed Income	<u>13,432,381</u>	<u>-</u>	<u>-</u>	<u>13,432,381</u>
Total Investments	<u>38,822,000</u>	<u>-</u>	<u>-</u>	<u>38,822,000</u>
Deferred Compensation Investments:				
Money Market Funds	52,896	-	-	52,896
Mutual Funds	<u>161,164</u>	<u>-</u>	<u>-</u>	<u>161,164</u>
Total Deferred Compensation Investments	<u>214,060</u>	<u>-</u>	<u>-</u>	<u>214,060</u>
TOTAL INVESTMENTS	<u>\$ 39,036,060</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,036,060</u>
Financial Liabilities:				
Interest Rate Swap Obligation	<u>\$ -</u>	<u>\$ 1,431,853</u>	<u>\$ -</u>	<u>\$ 1,431,853</u>

13. 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.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

13. ENDOWMENT (Continued)

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. 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 December 31, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ <u>-</u>	\$ <u>1,456,261</u>	\$ <u>4,061,850</u>	\$ <u>5,518,111</u>

Changes in endowment net assets for the year ended December 31, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 861,770	\$ 4,061,850	\$ 4,923,620
Investment income	-	700,570	-	700,570
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(106,079)</u>	<u>-</u>	<u>(106,079)</u>
ENDOWMENT NET ASSETS, END OF YEAR	\$ <u>-</u>	\$ <u>1,456,261</u>	\$ <u>4,061,850</u>	\$ <u>5,518,111</u>

Permanently restricted net assets consisted of the following at December 31, 2013:

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	2,000,000
Fundraising Campaign/Liver Research	<u>1,000,000</u>
TOTAL PERMANENTLY RESTRICTED NET ASSETS	\$ <u>4,061,850</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

13. 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 December 31, 2013.

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;
- 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.

14. SUBSEQUENT EVENTS

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 23, 2014, the date the financial statements were issued.