

FINANCIAL STATEMENTS

AMERICAN ASSOCIATION FOR
THE STUDY OF LIVER DISEASES



**FOR THE SIX MONTH PERIOD
JANUARY 1 THROUGH JUNE 30, 2014**

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

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GELMAN, ROSENBERG

& FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



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 June 30, 2014, and the related statements of activities and change in net assets, functional expenses and cash flows for the six month period January 1 through June 30, 2014, 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, 2014, and the change in its net assets and its cash flows for the six month period January 1 through June 30, 2014 in accordance with accounting principles generally accepted in the United States of America.

October 8, 2014

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AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2014

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 2,659,382
Investments - Reserve and Endowments (Notes 2 and 12)	32,817,150
Investments - Liver Research Fund (Notes 2 and 12)	8,367,254
Contributions receivable, current portion (Note 3)	679,825
Accounts receivable	469,010
Prepaid expenses	<u>434,777</u>

Total current assets 45,427,398

FIXED ASSETS

Office condominium (Notes 6 and 7)	8,084,528
Furniture and equipment	<u>486,253</u>

Less: Accumulated depreciation and amortization 8,570,781
(2,056,847)

Net fixed assets 6,513,934

OTHER ASSETS

Contributions receivable, net of current portion (Note 3)	3,187,241
Deferred financing cost, net of accumulated amortization of \$37,455 (Note 7)	104,478
Deferred compensation investments (Notes 10 and 12)	188,521
Deposits	<u>123,698</u>

Total other assets 3,603,938

TOTAL ASSETS **\$ 55,545,270**

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Current portion of notes payable (Note 6)	\$ 166,095
Current portion of bonds payable (Note 7)	100,000
Accounts payable and accrued expenses	577,724
Deferred revenue:	
Membership dues	601,390
Meeting registrations and exhibits	663,744
Grants and awards payable	<u>1,764,750</u>
Total current liabilities	<u>3,873,703</u>

LONG-TERM LIABILITIES

Notes payable, net of current portion (Note 6)	3,177,996
Bonds payable, net of current portion (Note 7)	3,200,000
Interest rate swap obligations (Notes 8 and 12)	1,726,561
Deferred compensation liability (Note 10)	<u>188,521</u>
Total long-term liabilities	<u>8,293,078</u>
Total liabilities	<u>12,166,781</u>

NET ASSETS

Unrestricted:	
Undesignated	22,723,220
Board-designated	<u>8,847,785</u>
Total unrestricted	31,571,005
Temporarily restricted (Notes 4 and 13)	7,745,634
Permanently restricted (Note 13)	<u>4,061,850</u>
Total net assets	<u>43,378,489</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 55,545,270</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE SIX MONTH PERIOD JANUARY 1 THROUGH JUNE 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE				
Annual Meeting	\$ 12,235	\$ 707,767	\$ -	\$ 720,002
Meetings and Education	558,084	987,448	-	1,545,532
Membership Dues	621,316	-	-	621,316
Professional Relations	-	498,405	-	498,405
Publications, Hepatology and Liver Transplantation Journals	1,011,904	-	-	1,011,904
Research and Fellowship Awards	193,524	2,722,620	-	2,916,144
Rental income (Note 9)	119,632	-	-	119,632
Fundraising	20,040	-	-	20,040
In-kind contributions	5,500	-	-	5,500
Net assets released from donor restrictions (Note 5)	<u>1,549,726</u>	<u>(1,549,726)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>4,091,961</u>	<u>3,366,514</u>	<u>-</u>	<u>7,458,475</u>
EXPENSES				
Program Services:				
Annual Meeting	249,143	-	-	249,143
Clinical and Public Policies	137,437	-	-	137,437
Communications	155,385	-	-	155,385
Meetings and Education	1,234,716	-	-	1,234,716
Membership Development and Website	501,995	-	-	501,995
Professional Relations	175,004	-	-	175,004
Publication Journals	733,866	-	-	733,866
Research and Fellowship Awards	<u>1,684,866</u>	<u>-</u>	<u>-</u>	<u>1,684,866</u>
Total program services	<u>4,872,412</u>	<u>-</u>	<u>-</u>	<u>4,872,412</u>
Supporting Services:				
Governance, Executive and Administration	1,233,530	-	-	1,233,530
Fundraising	<u>229,079</u>	<u>-</u>	<u>-</u>	<u>229,079</u>
Total supporting services	<u>1,462,609</u>	<u>-</u>	<u>-</u>	<u>1,462,609</u>
Total expenses	<u>6,335,021</u>	<u>-</u>	<u>-</u>	<u>6,335,021</u>
Change in net assets before other items	(2,243,060)	3,366,514	-	1,123,454
OTHER ITEMS				
Investment income (Note 2)	1,877,683	221,514	-	2,099,197
Unrealized loss on interest rate swap obligations (Note 8)	<u>(294,707)</u>	<u>-</u>	<u>-</u>	<u>(294,707)</u>
Change in net assets	(660,084)	3,588,028	-	2,927,944
Net assets at beginning of period	<u>32,231,089</u>	<u>4,157,606</u>	<u>4,061,850</u>	<u>40,450,545</u>
NET ASSETS AT END OF PERIOD	<u>\$ 31,571,005</u>	<u>\$ 7,745,634</u>	<u>\$ 4,061,850</u>	<u>\$ 43,378,489</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE SIX MONTH PERIOD JANUARY 1 THROUGH JUNE 30, 2014**

	Program Services				
	Annual Meeting	Clinical and Public Policies	Communications	Meetings and Education	Membership Development and Website
Advertising	\$ -	\$ -	\$ -	\$ -	\$ -
Agency temporary	-	-	-	-	-
Audio visual	-	220	-	41,157	19
Awards and grants	-	-	-	14,000	-
Bank and credit card charges	-	-	-	-	24,159
Contributions	-	-	-	-	-
Depreciation and amortization	2,072	255	1,277	5,222	2,984
Design services	-	-	-	-	166
Editor's office expenses	-	-	-	-	-
Electronic ballot	-	-	-	-	-
Equipment rental	-	-	-	1,534	-
Exhibit Hall	-	-	-	26,800	-
Food and beverage	-	2,098	-	110,557	565
Honoraria	-	-	-	23,500	-
Insurance	-	-	-	-	-
Maintenance and repairs	189	25	123	533	292
Marketing design	1,579	26	6,145	20,487	2,285
Meeting services	-	1,153	-	35,800	-
Membership dues	-	-	-	723	-
Office condominium expenses	49,116	4,943	28,279	112,002	64,851
Outside storage	-	-	-	-	-
Postage and delivery	130	35	-	8,987	4,485
Printing and duplicating	2,183	-	513	4,815	427
Professional services	-	91,900	1,158	198,664	112,850
Publishers fees	-	-	-	-	-
Recruitment	-	-	-	-	-
Salaries and benefits (Note 10)	184,762	21,075	112,023	455,875	259,936
Software	3,533	4,510	2,158	8,983	25,519
Staff development and recognition	-	-	2,004	3,471	328
Stationery and supplies	59	-	25	1,559	130
Stipend	-	-	-	-	-
Subscriptions and books	-	-	-	115	-
Telephone and fax	1,747	266	1,214	10,016	2,452
Travel	3,773	10,931	466	149,916	547
TOTAL	\$ 249,143	\$ 137,437	\$ 155,385	\$ 1,234,716	\$ 501,995

								Supporting Services	
Professional Relations	Publication Journals	Research and Fellowship Awards	Total Program Services	Governance, Executive and Administration	Fundraising	Total Supporting Services	Total Expenses		
\$ -	\$ -	\$ 2,919	\$ 2,919	\$ -	\$ -	\$ -	\$ 2,919	\$ -	\$ 2,919
-	-	-	-	10,292	-	10,292	10,292	-	10,292
108	-	-	41,504	4,236	-	4,236	45,740	-	45,740
-	-	1,587,000	1,601,000	-	-	-	1,601,000	-	1,601,000
-	-	-	24,159	5,615	84	5,699	29,858	-	29,858
20,000	-	-	20,000	100	-	100	20,100	-	20,100
696	2,005	702	15,213	6,259	889	7,148	22,361	-	22,361
-	-	-	166	-	1,952	1,952	2,118	-	2,118
-	6,707	-	6,707	-	-	-	6,707	-	6,707
-	-	-	-	242	-	242	242	-	242
-	-	-	1,534	-	-	-	1,534	-	1,534
-	-	-	26,800	-	-	-	26,800	-	26,800
6,188	2,372	226	122,006	15,337	2,860	18,197	140,203	-	140,203
1,000	213,300	-	237,800	-	-	-	237,800	-	237,800
-	-	-	-	18,508	-	18,508	18,508	-	18,508
71	190	64	1,487	1,363	90	1,453	2,940	-	2,940
512	507	7,481	39,022	64	5,130	5,194	44,216	-	44,216
1,100	-	-	38,053	170	-	170	38,223	-	38,223
-	-	-	723	1,337	119	1,456	2,179	-	2,179
13,245	43,379	14,847	330,662	150,644	19,872	170,516	501,178	-	501,178
-	-	-	-	1,442	-	1,442	1,442	-	1,442
-	254	1,138	15,029	2,134	1,019	3,153	18,182	-	18,182
75	28,061	-	36,074	1,798	1,315	3,113	39,187	-	39,187
51,781	67,739	-	524,092	199,572	104,357	303,929	828,021	-	828,021
-	189,750	-	189,750	-	-	-	189,750	-	189,750
-	-	-	-	74,199	-	74,199	74,199	-	74,199
57,828	172,568	59,140	1,323,207	553,365	78,498	631,863	1,955,070	-	1,955,070
1,113	3,331	1,126	50,273	16,485	1,531	18,016	68,289	-	68,289
1,025	-	-	6,828	16,938	49	16,987	23,815	-	23,815
139	-	-	1,912	16,075	589	16,664	18,576	-	18,576
-	-	-	-	52,500	5,000	57,500	57,500	-	57,500
-	-	-	115	93	-	93	208	-	208
1,570	1,832	920	20,017	6,842	950	7,792	27,809	-	27,809
<u>18,553</u>	<u>1,871</u>	<u>9,303</u>	<u>195,360</u>	<u>77,920</u>	<u>4,775</u>	<u>82,695</u>	<u>278,055</u>	-	<u>278,055</u>
\$ 175,004	\$ 733,866	\$ 1,684,866	\$ 4,872,412	\$ 1,233,530	\$ 229,079	\$ 1,462,609	\$ 6,335,021	-	\$ 6,335,021

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES
STATEMENT OF CASH FLOWS
FOR THE SIX MONTH PERIOD JANUARY 1 THROUGH JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 2,927,944
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation and amortization	129,731
Unrealized gain on investments	(1,853,652)
Unrealized loss on interest rate swap obligation	294,707
Change in net present value discount for contributions receivable	12,759
(Increase) decrease in:	
Contributions receivable	(3,381,500)
Accounts receivable	240,172
Prepaid expenses	(277,411)
Deposits	(28,909)
Increase (decrease) in:	
Accounts payable and accrued expenses	(388,730)
Deferred revenue:	
Membership dues	(36,196)
Meeting registrations and exhibits	635,121
Grants and awards payable	<u>201,955</u>
Net cash used by operating activities	<u>(1,524,009)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of fixed assets	(11,277)
Purchases of investments	(561,721)
Proceeds from sales of investments	<u>52,969</u>
Net cash used by investing activities	<u>(520,029)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on notes payable	<u>(81,816)</u>
Net cash used by financing activities	<u>(81,816)</u>
Net decrease in cash and cash equivalents	(2,125,854)
Cash and cash equivalents at beginning of period	<u>4,785,236</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 2,659,382</u>

SUPPLEMENTAL INFORMATION

Interest Paid	<u>\$ 185,203</u>
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AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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.

Effective January 1, 2014, the Association changed its year end to June 30, 2014. The financial statements being presented are for the period January 1, 2014 through June 30, 2014.

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*.

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.

As of June 30, 2014, all contributions receivable are deemed by management to be fully collectible; therefore, no allowance for doubtful accounts has been established.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

Accounts receivable -

Accounts receivable consists primarily of amounts due to the Association for royalties earned but not received. As of June 30, 2014, 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 \$22,361 is reported as depreciation expense in the Statement of Functional Expenses. Depreciation expense on the office condominium in the amount of \$105,004 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.

As of June 30, 2014, there were net operating loss carryforwards of approximately \$1,380,000. 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 six month period January 1 through June 30, 2014, 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.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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

Uncertain tax positions (continued) -

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.

Grants payable -

Grant awards are recorded as a liability when the commitment has been made by the Association. All grants are payable within the next fiscal year and are recorded as a current liability in the Statement of Financial Position.

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 \$1,031,504.

During 2014, 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>June 30,</u>
	<u>2013</u>	<u>Additions</u>	<u>Uses</u>	<u>2014</u>
Accumulated Board-designated earnings	\$ 2,041,430	\$ 327,387	\$ (67,140)	\$ 2,301,677
Research Awards and Grants	1,807,000	173,186	(78,000)	1,902,186
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	500,000	-	-	500,000
Mentoring Opportunities	405,531	-	(9,552)	395,979
ACT First Curriculum	239,080	-	(145,287)	93,793
AASLD - LIFER Award	75,000	-	(25,000)	50,000
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>\$ 8,672,191</u>	<u>\$ 500,573</u>	<u>\$ (324,979)</u>	<u>\$ 8,847,785</u>

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

Total Board-designated Net Assets - Uses	\$ (324,979)
Clinical and Translational Research Award	<u>(75,000)</u>

TOTAL UNRESTRICTED BOARD-DESIGNATED AND CAMPAIGN/ LIVER RESEARCH FUNDS USED	<u>\$ (399,979)</u>
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AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

Net asset classification (continued) -

- **Undesignated net assets** (continued)

The effect of adding the unrestricted Board-designated and Campaign/Liver Research Fund uses of \$399,979 to the unrestricted change in net assets would have resulted in a change in net assets before other items (operating deficit) at June 30, 2014 of \$(1,843,081). However, because the \$399,979 are unrestricted funds, the effect is not illustrated on the Statement of Activities and Change in Net Assets (page 5).

- **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.

In-kind contributions -

In-kind contributions are recorded at fair value. The Association received speakers' honoraria valued at \$5,500, which were recorded as in-kind contributions for the six month period January 1 through June 30, 2014.

Advertising -

The Association expenses advertising costs when incurred. For the six month period January 1 through June 30, 2014, \$2,919 of advertising costs were incurred.

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, 2014**

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

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 June 30, 2014:

	<u>Reserve and Endowments</u>	<u>Liver Research Fund</u>	<u>Total Investments</u>
Money Market Funds	\$ 602,746	\$ 424,072	\$ 1,026,818
Mutual Funds:			
Large Cap	10,667,953	3,366,322	14,034,275
Small Cap	6,761,559	-	6,761,559
International Core Equity Fund	2,865,630	863,026	3,728,656
Emerging Markets	1,710,844	-	1,710,844
Fixed Income	<u>10,208,418</u>	<u>3,713,834</u>	<u>13,922,252</u>
TOTAL INVESTMENTS	<u>\$ 32,817,150</u>	<u>\$ 8,367,254</u>	<u>\$ 41,184,404</u>

Investment income consisted of the following at June 30, 2014:

Interest and dividends	\$ 256,727
Unrealized gain	<u>1,853,652</u>
	2,110,379
Less: Investment custodian fees	<u>(11,182)</u>
TOTAL INVESTMENT INCOME	<u>\$ 2,099,197</u>

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, 2014:

Less than one year	\$ 679,825
One to five years	<u>3,200,000</u>
Total	3,879,825
Less: Allowance to discount balance to present value	<u>(12,759)</u>
CONTRIBUTIONS RECEIVABLE, NET	<u>\$ 3,867,066</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2014:

Annual Meeting and Meetings & Education	\$ 2,145,235
Professional Relations	498,405
Research and Fellowship Awards	3,522,620
Accumulated Endowment Earnings	<u>1,579,374</u>

TOTAL TEMPORARILY RESTRICTED NET ASSETS **\$ 7,745,634**

5. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions, at June 30, 2014, by incurring expenses, which satisfied the restricted purposes specified by the donors:

Research and Fellowship Awards	\$ 1,451,325
Timing Restrictions:	
Accumulated endowment earnings	<u>98,401</u>

TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS **\$ 1,549,726**

6. NOTES PAYABLE

Notes payable consisted of the following at June 30, 2014:

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 June 30, 2014 was 0.651%. The Association entered into a swap agreement with SunTrust Bank dated December 31, 2006 (see Note 8 for further details). The note is secured by the property.

\$ 2,484,646

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, 2014 was 0.85100%. The Association entered into a swap agreement with SunTrust Bank dated January 3, 2007 (see Note 8 for further details).

859,445

Total	3,344,091
Less: Current portion	<u>(166,095)</u>

NOTES PAYABLE, LONG-TERM **\$ 3,177,996**

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

6. NOTES PAYABLE (Continued)

Principal payments on the notes are as follows:

<u>Year Ending June 30,</u>	
2015	\$ 166,095
2016	169,555
2017	173,243
2018	583,285
2019	68,027
2020 and Thereafter	<u>2,183,886</u>
	<u>\$ 3,344,091</u>

7. 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 8.

The fixed rate and LIBOR rate at June 30, 2014 was 4.76% and 0.21367%, 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 period ended June 30, 2014 was \$2,366 and is included in office condominium expenses.

Principal payments on the bonds are as follows:

<u>Year Ending June 30,</u>	
2015	\$ 100,000
2016	100,000
2017	100,000
2018	100,000
2019	100,000
2020 and Thereafter	<u>2,800,000</u>
	<u>\$ 3,300,000</u>

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

8. INTEREST RATE SWAP AGREEMENTS

As discussed in Notes 6 and 7, 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, 2014 was \$3,300,000, with a bond rate of 4.76%. At June 30, 2014, the swap agreement had a negative fair value of \$772,375, 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, 2014 was \$77,911.

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, 2014 was \$2,484,645, with a LIBOR rate of 6.37%. At June 30, 2014, the swap agreement had a negative fair value of \$878,107, 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, 2014 was \$79,470.

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, 2014 was \$859,445, with a LIBOR rate of 5.85%. At June 30, 2014, the swap agreement had a negative fair value of \$76,079, 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, 2014 totaled \$25,830.

9. RENTAL INCOME

The Association entered into a seven-year lease agreement in 2007 with a subtenant, expiring on November 30, 2014. During 2014, the sublease was terminated early, effective April 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 June 30,

2015	\$	95,029
2016		99,305
2017		103,774
2018		<u>14,421</u>
	\$	<u>312,529</u>

For the period ended June 30, 2014, the Association received \$119,632 of rental income.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

10. 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 six month period January 1 through June 30, 2014 totaled \$126,096.

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 six month period January 1 through June 30, 2014 totaled \$42,500. During the year, the 457(f) plan was liquidated in its entirety. As of June 30, 2014, the market value of the 457(b) deferred compensation plan was \$188,521.

11. 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 2020. However, due to the numerous variables involved, the Association's ultimate liability under these contracts cannot be determined.

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.

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, 2014**

12. 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, 2014.

- *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, 2014:

Asset Class:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Money Market Funds	\$ 1,026,818	\$ -	\$ -	\$ 1,026,818
Mutual Funds:				
Large Cap	14,034,275	-	-	14,034,275
Small Cap	6,761,559	-	-	6,761,559
International Core Equity Fund	3,728,656	-	-	3,728,656
Emerging Markets	1,710,844	-	-	1,710,844
Fixed Income	<u>13,922,252</u>	<u>-</u>	<u>-</u>	<u>13,922,252</u>
Total Investments	<u>41,184,404</u>	<u>-</u>	<u>-</u>	<u>41,184,404</u>
Deferred Compensation Investments:				
Money Market Funds	4,852	-	-	4,852
Mutual Funds	<u>183,669</u>	<u>-</u>	<u>-</u>	<u>183,669</u>
Total Deferred Compensation Investments	<u>188,521</u>	<u>-</u>	<u>-</u>	<u>188,521</u>
TOTAL INVESTMENTS	<u>\$ 41,372,925</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,372,925</u>
Financial Liabilities:				
Interest Rate Swap Obligation	<u>\$ -</u>	<u>\$ 1,726,561</u>	<u>\$ -</u>	<u>\$ 1,726,561</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.

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.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

13. ENDOWMENT (Continued)

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, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ <u>-</u>	\$ <u>1,579,374</u>	\$ <u>4,061,850</u>	\$ <u>5,641,224</u>

Changes in endowment net assets for the period ended June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,456,261	\$ 4,061,850	\$ 5,518,111
Investment income	-	221,514	-	221,514
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(98,401)</u>	<u>-</u>	<u>(98,401)</u>
ENDOWMENT NET ASSETS, END OF YEAR	\$ <u>-</u>	\$ <u>1,579,374</u>	\$ <u>4,061,850</u>	\$ <u>5,641,224</u>

Permanently restricted net assets consisted of the following at June 30, 2014:

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>

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, 2014.

AMERICAN ASSOCIATION FOR THE STUDY OF LIVER DISEASES

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

13. ENDOWMENT (Continued)

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.

14. SUBSEQUENT EVENTS

Subsequent to year-end, the Association established the AASLD Foundation. On July 1, 2014, the Association transferred \$12,933,186 of its assets, \$1,871,630 of its liabilities, and \$11,061,556 of its net assets to the AASLD Foundation.

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through October 8, 2014, the date the financial statements were issued.