

FINANCIAL STATEMENTS

American Liver Foundation
Year Ended September 30, 2006
With Report of Independent Auditors

American Liver Foundation

Financial Statements

September 30, 2006

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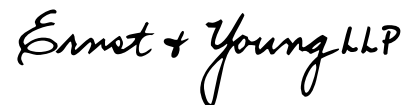
Report of Independent Auditors

The Board of Directors
American Liver Foundation

We have audited the accompanying statements of financial position of the American Liver Foundation (“Foundation”) as of September 30, 2006 and 2005 and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Foundation’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Foundation’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Liver Foundation as of September 30, 2006 and 2005 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.



July 5, 2007, except for the second paragraph of
Note 6, as to which the date is August 1, 2007

American Liver Foundation
Statements of Financial Position

	September 30	
	2006	2005
Assets		
Cash and cash equivalents	\$ 893,643	\$1,506,417
Investments	6,599,418	6,835,493
Contributions receivable	1,092,862	908,702
Prepaid expenses and other assets	112,694	176,080
Property and equipment, net	634,355	470,003
Total assets	\$ 9,332,972	\$9,896,695
Liabilities and net assets		
Liabilities:		
Accrued expenses	\$ 1,181,833	\$ 892,310
Awards and grants payable	3,412,500	2,216,027
Short-term notes payable to bank	700,000	-
Total liabilities	5,294,333	3,108,337
Net assets (deficit):		
Unrestricted	(993,822)	205,327
Temporarily restricted	4,040,001	5,590,996
Permanently restricted	992,460	992,035
Total net assets	4,038,639	6,788,358
Total liabilities and net assets	\$ 9,332,972	\$9,896,695

See accompanying notes.

American Liver Foundation

Statement of Activities

Year Ended September 30, 2006
(with comparative totals for 2005)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2006	2005
Revenues, gains and other support:					
Contributions, memberships and grants	\$ 1,458,303	\$ 2,898,207	\$ 425	\$ 4,356,935	\$ 5,426,177
Donated services	119,184			119,184	1,326,770
Sale of merchandise	39,228			39,228	66,671
Investment income, net	160,056	70,798		230,854	882,774
Conferences and programs	937,017			937,017	1,270,142
Transplant patient support		170,335		170,335	230,891
Special events, net of direct expenses of \$1,839,378	5,263,951			5,263,751	4,657,174
Net assets released from restriction - satisfaction of program restrictions	4,690,335	(4,690,335)		-	-
Total revenues, gains and other support	12,668,074	(1,550,995)	425	11,117,504	13,860,599
Expenses:					
Program services:					
Public education	3,810,284			3,810,284	4,038,856
Research	3,365,255			3,365,255	2,243,034
Professional education	1,000,040			1,000,040	812,782
Transplant patient support	581,065			581,065	693,354
Community services	1,712,969			1,712,969	1,595,089
Total program services	10,469,613			10,469,613	9,383,115
Support services:					
Administrative	463,653			463,653	565,533
Fund raising	2,933,957			2,933,957	2,147,626
Total support services	3,397,610			3,397,610	2,713,159
Total expenses	13,867,223			13,867,223	12,096,274
Change in net assets	(1,199,149)	(1,550,995)	425	(2,749,719)	1,764,325
Net assets at beginning of year	205,327	5,590,996	992,035	6,788,358	5,024,033
Net assets (deficit) at end of year	\$ (993,822)	\$ 4,040,001	\$ 992,460	\$ 4,038,639	\$ 6,788,358

See accompanying notes.

American Liver Foundation

Statement of Activities

Year Ended September 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions, memberships and grants	\$ 1,528,209	\$ 3,897,968		\$ 5,426,177
Donated services	1,326,770			1,326,770
Sale of merchandise	66,671			66,671
Investment income, net	771,216	111,558		882,774
Conferences and programs	1,270,142			1,270,142
Transplant patient support	24,827	206,064		230,891
Special events, net of direct expenses of \$2,851,395	4,657,174			4,657,174
Net assets released from restriction - satisfaction of program restrictions	2,386,482	(2,386,482)		-
Total revenues, gains and other support	<u>12,031,491</u>	<u>1,829,108</u>		<u>13,860,599</u>
Expenses:				
Program services:				
Public education	4,038,856			4,038,856
Research	2,243,034			2,243,034
Professional education	812,782			812,782
Transplant patient support	693,354			693,354
Community services	1,595,089			1,595,089
Total program services	<u>9,383,115</u>			<u>9,383,115</u>
Support services:				
Administrative				
Fund raising	565,533			565,533
Total support services	<u>2,147,626</u>			<u>2,147,626</u>
Total expenses	<u>2,713,159</u>			<u>2,713,159</u>
Changes in net assets	(64,783)	1,829,108		1,764,325
Net assets at beginning of year	270,110	3,761,888	\$ 992,035	5,024,033
Net assets at end of year	<u>\$ 205,327</u>	<u>\$ 5,590,996</u>	<u>\$ 992,035</u>	<u>\$ 6,788,358</u>

See accompanying notes.

American Liver Foundation

Statements of Cash Flows

	Year Ended September 30	
	2006	2005
Changes in net assets	\$ (2,749,719)	\$ 1,764,325
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation	101,240	87,970
Gain on investments, net	(50,090)	(710,520)
Changes in assets and liabilities:		
Contributions receivable	(184,160)	(588,977)
Prepaid expenses and other assets	63,386	(10,786)
Accrued expenses	289,523	(289,066)
Awards and grants payable	1,196,473	560,780
Net cash (used in) provided by operating activities	(1,333,347)	813,726
Cash flows from investing activities		
Purchase of investments	(3,223,390)	(4,956,470)
Sale of investments	3,509,555	4,541,408
Purchase of equipment	(265,592)	(144,381)
Net cash used in investing activities	(20,573)	(559,443)
Cash flows from financing activities		
Borrowings under line of credit	700,000	-
Net cash provided by financing activities	700,000	-
Net (decrease) increase in cash and cash equivalents	(612,774)	254,283
Cash and cash equivalents at beginning of year	1,506,417	1,252,134
Cash and cash equivalents at end of year	\$ 893,643	\$ 1,506,417

See accompanying notes.

American Liver Foundation

Statement of Functional Expenses

Year Ended September 30, 2006
(with comparative totals for 2005)

	Program Services					Support Services		Total	
	Public	Research	Professional	Transplant	Community	Administrative	Fund	2006	2005
	Education		Education	Patient	Services		Raising		
Salaries and related expenses	\$ 1,785,821	\$ 323,859	\$ 468,356	\$ 260,366	\$ 1,095,711	\$ 288,340	\$ 1,935,586	\$ 6,158,039	\$ 5,550,165
Awards and grants	-	2,824,136	-	-	-	-	-	2,824,136	1,597,743
Depreciation	16,705	14,477	14,477	14,477	16,705	14,477	9,922	101,240	87,970
Equipment maintenance and repair	90,448	16,462	23,607	13,045	55,287	14,600	102,917	316,366	256,403
Media	277,159	564	281	-	564	2,535	564	281,667	1,544,840
Postage and shipping	101,924	28,667	34,457	22,007	46,039	20,848	35,615	289,557	309,111
Printing, publishing and copying	173,975	41,866	53,960	32,097	75,358	32,097	55,821	465,174	335,843
Professional services	744,466	21,511	66,000	17,294	106,911	19,153	203,184	1,178,519	789,058
Rent and occupancy	206,219	37,398	54,084	30,066	126,528	33,296	223,514	711,105	603,568
Supplies	50,061	5,468	8,615	4,333	18,921	4,848	32,487	124,733	52,464
Telephone and internet	60,582	10,873	16,176	8,615	36,515	9,642	65,779	208,182	200,340
Transplant support	-	-	-	158,443	-	-	-	158,443	157,273
Travel	105,164	14,158	59,288	11,219	51,704	12,555	127,685	381,773	281,594
Other expenses	197,760	25,816	200,739	9,103	82,726	11,262	140,883	668,289	329,902
Total expenses	\$ 3,810,284	\$ 3,365,255	\$ 1,000,040	\$ 581,065	\$ 1,712,969	\$ 463,653	\$ 2,933,957	\$ 13,867,223	\$ 12,096,274

See accompanying notes.

American Liver Foundation
Statement of Functional Expenses
Year Ended September 30, 2005

	Program Services					Support Services		Total
	Public Education	Research	Professional Education	Transplant Patient Support	Community Services	Administrative	Fund Raising	
Salaries and related expenses	\$ 1,609,538	\$ 291,891	\$ 422,124	\$ 234,664	\$ 987,551	\$ 259,877	\$ 1,744,520	\$ 5,550,165
Awards and grants	-	1,597,743	-	-	-	-	-	1,597,743
Depreciation	14,497	12,567	12,567	12,567	14,497	12,567	8,708	87,970
Equipment maintenance and repair	34,468	21,326	21,326	21,326	77,318	21,326	59,313	256,403
Media	1,519,073	3,609	1,263	-	3,291	14,196	3,408	1,544,840
Postage and shipping	108,524	30,565	36,853	23,512	49,243	22,265	38,149	309,111
Printing, publishing and copying	125,688	30,104	39,007	23,157	54,533	23,013	40,341	335,843
Professional services	259,357	94,464	94,484	72,665	108,968	61,046	98,074	789,058
Rent and occupancy	99,463	86,224	86,224	86,224	99,463	86,224	59,746	603,568
Supplies	20,881	2,900	6,197	2,230	10,686	3,192	6,378	52,464
Telephone and internet	23,133	20,055	20,056	20,055	83,089	20,056	13,896	200,340
Transplant support	-	-	-	157,273	-	-	-	157,273
Travel	95,233	31,222	33,657	24,017	41,422	21,148	34,895	281,594
Other expenses	129,001	20,364	39,024	15,664	65,028	20,623	40,198	329,902
Total expenses	\$ 4,038,856	\$ 2,243,034	\$ 812,782	\$ 693,354	\$ 1,595,089	\$ 565,533	\$ 2,147,626	\$ 12,096,274

See accompanying notes.

American Liver Foundation

Notes to Financial Statements

Year Ended September 30, 2006

1. Summary of Significant Accounting Policies

General

The American Liver Foundation (the “Foundation”) is a national nonprofit organization for liver health promotion and disease prevention. The Foundation provides research, education and advocacy for those affected by liver-related diseases, including hepatitis. The Foundation is supported primarily by private and corporate contributions, memberships and grants.

The Foundation has a number of chapters throughout the United States which conduct a variety of community-based activities in the name of the Foundation. The results of these activities are reflected in the accompanying financial statements.

Basis of Presentation

The Foundation’s financial statements have been prepared on the accrual basis of accounting and in accordance with Statements of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, and No. 117, *Financial Statements for Not-for-Profit Organizations*. Statement No. 116 requires that contributions be recognized as additions to net assets at their fair values when they are received. Statement No. 117 requires that resources be classified for accounting and reporting purposes into separate classes of net assets (unrestricted, temporarily restricted and permanently restricted) based on the existence or absence of donor-imposed restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

All highly liquid investments with maturity dates of three months or less when purchased are considered cash equivalents. Included in cash and cash equivalents are investments in money market funds in the amounts of \$271,757 and \$967,060 at September 30, 2006 and 2005, respectively.

American Liver Foundation

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Investments

Investments are reported at fair values. Investment income earned on permanently restricted net assets is restricted to fund research projects as stipulated by the donor. All other investment income is unrestricted as to use.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets:

Buildings and improvements	3 – 40 years
Equipment	5 years
Software and infrastructure	3 years

Contributions

Contributions received, including unconditional promises to give, are recognized as revenue at their fair values in the period the promises are received. Contributions for which donors have not stipulated restrictions are reported as unrestricted support. Contributions receivable totaled \$1,092,862 and \$908,702 at September 30, 2006 and 2005, respectively, and are due in less than one year. The Foundation has not recorded an allowance for uncollectible contributions at September 30, 2006 and 2005 because it is management's opinion that such receivables are fully collectible.

Donated Services

In the normal course of business, the Foundation receives donated professional services relating primarily to media. Donated services reported in the accompanying financial statements are \$119,184 and \$1,326,770 for the years ended September 30, 2006 and 2005, respectively.

The Foundation also received a substantial amount of donated clerical and other services from volunteers which is not reflected in the accompanying financial statements.

American Liver Foundation

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Functional Expenses

The costs of providing the various programs and other activities of the Foundation have been summarized on a functional basis. The allocation of certain expenses, primarily salaries and indirect expenses, into functional categories was based upon time spent in the various functions by management and other personnel and other appropriate bases of allocation.

Income Taxes

The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income tax pursuant to Section 501(a) of the Code.

2. Investments

All investments are reported at fair values as determined by quoted market prices. A summary of these investments by type is shown below:

	September 30 2006	2005
Government securities	\$2,310,912	\$2,427,221
Mutual funds	169,184	168,439
Corporate bonds	311,417	394,750
Equity securities	3,807,905	3,845,083
	\$6,599,418	\$6,835,493

Investment income consists of the following:

	Year Ended September 30 2006	2005
Interest and dividends	\$ 190,986	\$ 172,254
Realized gains	370,511	393,172
Unrealized (losses) gains	(266,758)	380,447
	294,739	945,873
Less investment management fees	(63,885)	(63,099)
	\$ 230,854	\$ 882,774

American Liver Foundation

Notes to Financial Statements (continued)

3. Property and Equipment

Property and equipment consist of the following:

	September 30	
	2006	2005
Building and improvements	\$ 524,285	\$ 491,066
Office equipment	1,041,909	924,499
Web page development in progress	114,963	–
	1,681,159	1,415,565
Less accumulated depreciation	(1,046,802)	(945,562)
	\$ 634,355	\$ 470,003

4. Pension Plan

The Foundation has a defined contribution retirement plan providing benefits limited to annuity coverage purchased through contributions. The Foundation's contribution is equal to 4.3% of compensation up to \$25,000 and 8.6% of compensation in excess of \$25,000 up to \$220,000. Substantially all employees are covered by the plan. It is the Foundation's policy to fund pension costs accrued. The expense under this plan was \$198,453 and \$233,505 for the years ended September 30, 2006 and 2005, respectively.

5. Awards and Grants Payable

Liver scholarship awards and post-doctoral research fellowships are expensed in the year granted and are subject to an annual review and renewal process.

The amount of awards and grants payable at September 30, 2006 will be paid as follows:

Fiscal year:	
2007	\$ 1,893,750
2008	1,237,500
2009	281,250
	\$ 3,412,500

American Liver Foundation

Notes to Financial Statements (continued)

6. Short-Term Notes Payable to Bank

On August 7, 2006, the Foundation entered into a revolving line of credit agreement (the “Credit Agreement”) with TD Banknorth, National Association (the “Bank”). The Credit Agreement consists of a revolving line of credit expiring July 1, 2007 pursuant to which the Foundation can borrow up to \$800,000 at the Bank’s Base Rate (as defined in the Credit Agreement) of 5.3725%, plus 200 Basis Points as of September 30, 2006. The line of credit is collateralized by all of the assets of the Foundation. The Credit Agreement provides for certain financial covenants that shall only be tested as of the end of any fiscal year.

As of September 30, 2006, the Foundation had breached certain covenants relating to the Credit Agreement. This technical default was acknowledged and waived by the Bank effective August 1, 2007.

As of September 30, 2006, the Foundation had \$700,000 outstanding borrowings under the Credit Agreement. The Foundation’s undrawn availability under the Credit Agreement was \$100,000 as of September 30, 2006. The weighted average rate on outstanding borrowings under the line of credit was 5.3870%, plus 200 Basis Points for the years ended September 30, 2006.

7. Temporarily Restricted and Permanently Restricted Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes and amounts:

	September 30	
	2006	2005
Transplant program	\$ 1,396,638	\$ 1,550,877
Research program	2,283,361	3,120,161
Community services	360,002	916,849
Education program	–	3,109
Total	<u>\$ 4,040,001</u>	<u>\$ 5,590,996</u>

Permanently Restricted Net Assets

Permanently restricted net assets at September 30, 2006 and 2005 totaled \$992,460 and \$992,035, respectively. Income from permanently restricted net assets is restricted for various research projects as stipulated by donors.

American Liver Foundation

Notes to Financial Statements (continued)

8. Rent Expense

The Foundation rents office space, under annual renewable leases, for its chapters and New York City office. The lease agreements run through June 30, 2011 with the future minimum lease payments as follows:

Year ending September 30:	
2007	\$ 592,230
2008	555,527
2009	347,676
2010	100,291
2011	21,978
	<hr/>
	\$ 1,617,702
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Total rent expense for the Foundation was \$588,772 and \$524,969 for the years ended September 30, 2006 and 2005, respectively.