

**AMERICAN LIVER FOUNDATION**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**SEPTEMBER 30, 2008**

**AMERICAN LIVER FOUNDATION**

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## Independent Auditor's Report

### Board of Directors American Liver Foundation

We have audited the accompanying balance sheet of American Liver Foundation (Foundation) as of September 30, 2008, and the related statements of activities, functional expenses and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from American Liver Foundation's 2007 financial statements and, in our report dated August 4, 2008, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes 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 American Liver 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 American Liver Foundation as of September 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Loeb &amp; Troper LLP".

May 22, 2009

## AMERICAN LIVER FOUNDATION

EXHIBIT A

## STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2008  
 (With Summarized Financial Information  
 for the Year Ended September 30, 2007)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2008	2007
Revenues, gains, losses and other support					
Contributions, memberships and grants	\$ 2,801,524	\$ 833,749	\$ 2,348	\$ 3,637,621	\$ 4,674,085
Donated services	30,007			30,007	43,721
Sale of merchandise	9,187			9,187	28,128
Investment income (loss) (Note 3)	(44,488)	(12,590)		(57,078)	522,725
Special events revenues	\$ 6,285,600				
Direct costs of special events	(1,190,353)				
Net assets released from restriction (Note 7)	1,301,797	(1,301,797)		5,095,247	5,995,782
Total revenues, gains, losses and other support	9,193,274	(480,638)	2,348	8,714,984	11,264,441
Expenses (Exhibit D)					
Program services					
Public education	1,201,358			1,201,358	2,066,939
Research	2,744,150			2,744,150	2,770,541
Professional education	806,197			806,197	790,931
Transplant patient support	2,211,216			2,211,216	1,679,855
Community services	1,262,828			1,262,828	1,496,144
Total program services	8,225,749			8,225,749	8,804,410
Supporting services					
Management and general	615,382			615,382	777,677
Fund raising	1,253,535			1,253,535	1,926,982
Total supporting services	1,868,917			1,868,917	2,704,659
Total expenses	10,094,666			10,094,666	11,509,069
Change in net assets (Exhibit C)	(901,392)	(480,638)	2,348	(1,379,682)	(244,628)
Net assets (deficit) - beginning of year, as previously stated	(1,577,551)	2,981,924	993,000	2,397,373	4,038,639
Restatement - (Note 9)					(1,396,638)
Net assets (deficit) - beginning of year, restated	(1,577,551)	2,981,924	993,000	2,397,373	2,642,001
Net assets (deficit) - end of year (Exhibit B)	\$ (2,478,943)	\$ 2,501,286	\$ 995,348	\$ 1,017,691	\$ 2,397,373

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## AMERICAN LIVER FOUNDATION

## BALANCE SHEET

SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 520,145	\$ 377,419
Investments (Note 3)	4,192,812	5,397,990
Contributions receivable - current	442,026	1,468,981
Prepaid expenses and other assets	307,801	219,019
Fixed assets - net (Note 4)	<u>487,960</u>	<u>602,204</u>
Total assets	<u>\$ 5,950,744</u>	<u>\$ 8,065,613</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 992,435	\$ 494,691
Accrued payroll and related liabilities	336,930	595,263
Funds held on behalf of others	1,232,897	1,330,454
Awards and grants payable (Note 5)	1,570,791	2,447,832
Line of credit (Note 6)	<u>800,000</u>	<u>800,000</u>
Total liabilities	<u>4,933,053</u>	<u>5,668,240</u>
<b>Net assets (deficit) (Exhibit A)</b>		
Unrestricted	(2,478,943)	(1,577,551)
Temporarily restricted (Note 7)	2,501,286	2,981,924
Permanently restricted (Note 8)	<u>995,348</u>	<u>993,000</u>
Total net assets	<u>1,017,691</u>	<u>2,397,373</u>
Total liabilities and net assets	<u>\$ 5,950,744</u>	<u>\$ 8,065,613</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## AMERICAN LIVER FOUNDATION

## STATEMENT OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Change in net assets (Exhibit A)	\$ (1,379,682)	\$ (244,628)
Adjustments to reconcile change in net assets to net to net cash used by operating activities		
Depreciation and amortization	162,020	133,425
Loss (gain) on investments	204,690	(297,342)
Decrease (increase) in assets		
Contributions receivable	1,026,955	(376,119)
Prepaid expenses and other assets	(88,782)	(106,325)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	497,744	(42,551)
Accrued payroll and related liabilities	(258,333)	(49,328)
Funds held on behalf of others	(97,557)	(66,184)
Awards and grants payable	(877,041)	(964,668)
Net cash used by operating activities	<u>(809,986)</u>	<u>(2,013,720)</u>
Cash flows from investing activities		
Purchase of investments	(1,338,730)	(3,388,290)
Proceed from sale of investments	2,339,218	4,887,060
Fixed asset acquisitions	(47,776)	(101,274)
Net cash provided by investing activities	<u>952,712</u>	<u>1,397,496</u>
Cash flows from financing activities		
Proceeds from line of credit		<u>100,000</u>
Net increase (decrease) in cash and cash equivalents	142,726	(516,224)
Cash and cash equivalents - beginning of year	<u>377,419</u>	<u>893,643</u>
Cash and cash equivalents - end of year	<u>\$ 520,145</u>	<u>\$ 377,419</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 48,544</u>	<u>\$ 63,684</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2008  
(With Summarized Financial Information  
for the Year Ended September 30, 2007)

	Program Services						Supporting Services				Total	
	Public Education	Research	Professional Education	Transplant Patient Support	Community Services	Total	Management and General	Fund Raising	Direct Costs of Special Events	Total	2008	2007
	Salaries and related expenses	\$ 692,855	\$ 1,057,245	\$ 461,903	\$ 1,283,065	\$ 728,781	\$ 4,223,849	\$ 277,142	\$ 631,268	\$ 908,410	\$ 5,132,259	\$ 5,727,534
Awards and grants		919,314				919,314				919,314	1,066,925	
Depreciation and amortization	21,873	33,376	14,582	40,505	23,007	133,343	8,749	19,928	28,677	162,020	133,425	
Equipment maintenance and repair	33,582	51,244	22,388	62,190	35,324	204,728	13,433	30,597	44,030	248,758	277,833	
Media	6,972	10,155	4,955	12,128	7,286	41,496	3,340	30,007	33,347	74,843	175,239	
Postage and shipping	28,689	43,778	19,126	53,128	30,177	174,898	11,476	26,139	37,615	212,513	269,747	
Printing, publishing and copying	64,184	97,940	42,789	118,859	67,512	391,284	25,674	58,479	84,153	475,437	628,993	
Professional services	71,984	101,977	52,974	120,564	74,940	422,439	163,081	200,895	363,976	786,415	1,425,745	
Occupancy (Note 11)	109,026	166,366	72,684	201,901	114,679	664,656	43,611	99,335	142,946	807,602	733,591	
Supplies	20,272	30,934	13,515	37,541	21,323	123,585	8,109	18,470	26,579	150,164	106,533	
Telephone and internet	24,796	37,837	16,531	45,919	26,082	151,165	9,918	22,592	32,510	183,675	214,956	
Travel	55,303	84,389	36,869	102,413	58,171	337,145	22,121	50,387	72,508	409,653	204,849	
Hotel, catering and other event expenses	19,731	30,108	13,154	36,538	20,754	120,285	7,892	17,977	\$ 1,190,353	1,216,222	1,480,378	
Interest	6,554	10,000	4,369	12,136	6,893	39,952	2,621	5,971	8,592	48,544	63,684	
Bank and credit card fees	9,117	13,912	6,078	16,884	9,590	55,581	3,647	8,307	11,954	67,535	63,737	
Other expenses	36,420	55,575	24,280	67,445	38,309	222,029	34,339	33,183	67,522	289,551	443,298	
<b>Total expenses</b>	<b>1,201,358</b>	<b>2,744,150</b>	<b>806,197</b>	<b>2,211,216</b>	<b>1,262,828</b>	<b>8,225,749</b>	<b>635,153</b>	<b>1,253,535</b>	<b>1,190,353</b>	<b>3,079,041</b>	<b>11,304,790</b>	<b>13,016,467</b>
Less expenses deducted directly from revenues												
Direct costs of special events									(1,190,353)	(1,190,353)	(1,190,353)	(1,480,378)
Investment fees							(19,771)		(19,771)	(19,771)	(19,771)	(27,020)
<b>Total expenses reported by function on statement of activities (Exhibit A)</b>	<b>\$ 1,201,358</b>	<b>\$ 2,744,150</b>	<b>\$ 806,197</b>	<b>\$ 2,211,216</b>	<b>\$ 1,262,828</b>	<b>\$ 8,225,749</b>	<b>\$ 615,382</b>	<b>\$ 1,253,535</b>	<b>\$ -</b>	<b>\$ 1,868,917</b>	<b>\$ 10,094,666</b>	<b>\$ 11,509,069</b>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AMERICAN LIVER FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

**NOTE 1 - NATURE OF ORGANIZATION**

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

The Foundation has 21 chapters throughout the United States. The chapters conduct community-based programs that provide the most up-to-date information on disease-specific and treatment issues, address the trends in hepatology research and connect individuals and groups to information and services they need. The Foundation's programmatic efforts address the needs of liver patients and their families; the general public; health care and social service professionals; health care institutions; local, state and federal legislators and policy makers; and advocacy groups and community-based organizations. The Foundation operates a helpline providing basic disease information in Spanish and English. The results of these activities are reflected in the accompanying financial statements.

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

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

***Use of estimates*** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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AMERICAN LIVER FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

*Contributions receivable* - Contributions receivable are recorded at present value. All contributions receivable are due within one year.

*Allowance for doubtful accounts* - The Foundation has determined that no allowance for uncollectible accounts for pledges is necessary as of September 30, 2008. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions and historical information. The Foundation does not charge interest on outstanding receivables.

*Prepaid expenses* - Payments made to vendors for contracts that overlap more than one fiscal year are recorded as prepaid expenses.

*Fixed assets* - Fixed assets are capitalized at cost. Items with a cost in excess of \$500 and an estimated useful life of two years or more are capitalized. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the term of the lease or the useful lives of the assets, whichever is shorter.

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

*Awards and grants payable* - Liver scholars awards, Special Research Initiative Awards, Seed Grant Awards and post-doctoral research fellowships are expensed in the year granted and are subject to an annual review and renewal process. All grants payable have been recorded at present value using an average discount rate of 5%.

*Donated services* - The Foundation received donated professional services relating primarily to media. The donated services reported in the accompanying financial statements total \$30,007. The Foundation also received a substantial amount of donated clerical and other services from volunteers. Revenue and expense is not reflected in these financial statements, since the services provided do not meet the criteria for recognition under FASB Statement No. 116.

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AMERICAN LIVER FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Rent expense* - The Foundation leases space at various locations. All leases are operating leases and are driven by Statement of Financial Accounting Standards (SFAS) No. 13, *Accounting for Leases*. Rent expense is recognized on the first day of each month for the current month's rent. All leases are reflected on the straight-line basis.

*Net assets* - Unrestricted net assets represent funds which are fully available at the discretion of management and the Board of Directors. Temporarily restricted net assets are those funds restricted by donors, to be used for a specified time period or purpose. Permanently restricted funds are to be maintained in perpetuity at the behest of the donor and the income generated by such funds is utilized for operating purposes, except if otherwise indicated by the donor.

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

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

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AMERICAN LIVER FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Fair Value Measurements*

SFAS No. 157, *Fair Value Measurements* (SFAS No. 157) defines fair value, establishes a framework for measuring fair value and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. SFAS No. 157 also expands financial statement disclosures about fair value measurements. On February 12, 2008, the Financial Accounting Standards Board (FASB) issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), which delays the effective date of SFAS No. 157 for one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. A partial deferral of SFAS No. 157 was elected under the provisions of FSP 157-2 related to the measurement of fair value used when evaluating intangible assets and other long-lived assets for impairment and valuing asset retirement obligations and liabilities for exit or disposal activities. Furthermore, the impact of implementing FSP 157-2 is not expected to be material on the financial statements. The impact of partially adopting SFAS No. 157 effective January 1, 2008 was not material on the financial statements.

On October 10, 2008, the FASB issued FSP 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP 157-3), which clarifies application of SFAS No. 157 in a market that is not active. FSP 157-3 was effective upon issuance, including prior periods for which financial statements have not been issued. The adoption of this FSP had no impact on the financial statements.

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**AMERICAN LIVER FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2008**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Fair Value Measurements on a Recurring Basis***

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. Our assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy. The following table presents the asset balances measured at fair value on a recurring basis as of December 31, 2008:

	<u>Level 1 <sup>(1)</sup></u>	<u>Level 2 <sup>(2)</sup></u>	<u>Level 3 <sup>(3)</sup></u>	<u>Total</u>
Investments				
Money market funds	\$ 276,355	\$ -	\$ -	\$ 276,355
U.S. Government obligations	1,753,153	-	-	1,753,153
Corporate obligations	1,276,438	-	-	1,276,438
Common stocks	<u>886,866</u>	<u>-</u>	<u>-</u>	<u>886,866</u>
Total	<u>\$ 4,192,812</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,192,812</u>

(1) Quoted prices in active markets for identical assets or liabilities

(2) Observable inputs other than quoted prices in active markets for identical assets and liabilities

(3) No observable pricing inputs in the market

***Fair Value Measurements on a Nonrecurring Basis***

As permitted by FSP 157-2, the fair value measurement disclosure was deferred for any (a) long-lived assets and finite-lived intangible assets in the determination of impairment under SFAS No. 142 or SFAS No. 144, (b) asset retirement obligations initially measured at fair value under SFAS No. 143, *Accounting for Asset Retirement Obligations*, and (c) nonfinancial liabilities for exit or disposal activities initially measured at fair value under SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*.

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of SFAS No. 115* (SFAS No. 159) permits but does not require measurement of financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. As the Foundation did not elect to fair value any of the financial instruments under the provisions of SFAS No. 159, the adoption of this statement effective January 1, 2008 did not have an impact on the financial statements.

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**AMERICAN LIVER FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***FASB Interpretation No. 48 - Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 (FIN 48)***

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 (FIN 48)*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 was effective for fiscal years beginning after December 15, 2006. On November 7, 2007, the FASB voted to defer FIN 48 for one year until fiscal years beginning after December 15, 2007. On October 15, 2008, the FASB voted to continue the deferral of FIN 48 for non-public companies and not-for-profits for an additional year until fiscal years beginning after December 15, 2008.

As FIN 48 has not yet been adopted, the Foundation is continuing to use FASB Statement No. 5, *Accounting for Contingencies (FAS 5)* to evaluate uncertain tax positions. The Foundation is currently evaluating the impact on the financial statements of adopting FIN 48.

***Summarized financial information for 2007*** - 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended September 30, 2007, from which the summarized information was derived. Certain 2007 amounts have been reclassified to conform with the current year's presentation.

**NOTE 3 - INVESTMENTS**

	<u>2008</u>	<u>2007</u>
Money market funds	\$ 276,355	\$ 137,879
U.S. Government obligations	1,753,153	1,738,724
Corporate obligations	1,276,438	2,460,577
Common stocks	<u>886,866</u>	<u>1,060,810</u>
	<u>\$ 4,192,812</u>	<u>\$ 5,397,990</u>

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**AMERICAN LIVER FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2008**

**NOTE 3 - INVESTMENTS (continued)**

Investment income (loss) consists of the following:

	<u>2008</u>	<u>2007</u>
Interest and dividends	\$ 167,383	\$ 252,403
Realized gains	12,722	641,503
Unrealized losses	(217,412)	(344,161)
Investment fees	<u>(19,771)</u>	<u>(27,020)</u>
	<u>\$ (57,078)</u>	<u>\$ 522,725</u>

**NOTE 4 - FIXED ASSETS**

	<u>2008</u>	<u>2007</u>	<b>Estimated Useful Lives</b>
Building and improvements	\$ 456,782	\$ 456,782	40 years
Leasehold improvements	68,706	68,706	4 - 10 years
Office equipment	240,601	214,002	5 years
Computers and peripherals	<u>330,684</u>	<u>309,507</u>	3 years
	1,096,773	1,048,997	
Less accumulated depreciation and amortization	<u>(608,813)</u>	<u>(446,793)</u>	
	<u>\$ 487,960</u>	<u>\$ 602,204</u>	

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**AMERICAN LIVER FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 5 - AWARDS AND GRANTS PAYABLE**

Liver Scholars Awards, Special Research Initiative Awards, Seed Grant Awards and post-doctoral research fellowships are expensed in the year granted and are subject to an annual review and renewal process. All grants payable have been recorded at present value using a discount rate of 5%.

The amount of awards and grants payable at September 30, 2008 are payable as follows:

<u>Year Ending September 30</u>	
2009	\$ 968,750
2010	525,000
2011	<u>112,500</u>
	1,606,250
Less discount to present value	<u>(35,459)</u>
Present value of grants payable	<u>\$ 1,570,791</u>

**NOTE 6 - LINE OF CREDIT**

On August 7, 2007, 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 May 31, 2009 pursuant to which the Foundation can borrow up to \$800,000 at the Bank's Base Rate (as defined in the Credit Agreement) of 90 Day LIBOR plus 200 Basis Points. The interest rate at September 30, 2008 and 2007 was 4.81% and 7.72%, respectively. The balance due as of September 30, 2008 and 2007 is \$800,000. The line of credit is collateralized by all of the assets of the Foundation. The Credit Agreement provides for certain financial covenants that shall be tested as of the end of any fiscal year. As of September 30, 2008 and 2007, the Foundation has breached certain covenants relating to the Credit Agreement. This technical default was acknowledged and waived by the Bank.

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AMERICAN LIVER FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

**NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

	<u>2008</u>	<u>2007</u>
Research program	\$ 2,133,907	\$ 2,320,830
Community services	<u>367,379</u>	<u>661,094</u>
	\$ <u>2,501,286</u>	\$ <u>2,981,924</u>

During 2008, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes specified by donors:

	<u>2008</u>	<u>2007</u>
Research program	\$ 895,541	\$ 1,066,925
Community services	<u>406,256</u>	<u>187,328</u>
	\$ <u>1,301,797</u>	\$ <u>1,254,253</u>

The Foundation's unrestricted fund has borrowed a total of \$2,478,943 for operating expenses in 2008 from the temporarily restricted funds. The Foundation intends to repay these funds from operations and fund raising in 2009.

**NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS**

***General***

Permanently restricted net assets of \$995,348 are for investment in perpetuity, the income from which is restricted for various research projects as stipulated by donors. As required by GAAP, net assets associated with permanently restricted funds are classified and reported based on the existence of donor-imposed restrictions.

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AMERICAN LIVER FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

**NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS (continued)**

**Interpretation of Relevant Law**

The State Prudent Management Institutional Funds Act (SPMIFA) has been interpreted 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 Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

**Return Objectives, Strategies Employed and Spending Policy**

The objective is to maintain the principal endowment funds at the original amount designated by the donor. The investment policy to achieve this objective is to invest in low-risk securities. Interest earned in relation to the endowment funds is recorded as unrestricted income.

**Funds with Deficiencies**

The Foundation does not have any funds with deficiencies.

**Endowment Net Asset Composition by Type of Fund as of September 30, 2008**

Permanently restricted net asset composition of \$995,348 consists of permanently donor-restricted funds.

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AMERICAN LIVER FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

**NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS (continued)**

*Changes in Endowment Net Assets for the Year Ended September 30, 2008*

	<u>Temporarily Restricted*</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 89,192	\$ 993,000	\$ 1,082,192
Contributions		2,348	2,348
Investment loss	(12,590)		(12,590)
Appropriation of endowment assets for expenditure	<u>(56,215)</u>		<u>(56,215)</u>
Endowment net assets, end of year	<u>\$ 20,387</u>	<u>\$ 995,348</u>	<u>\$ 1,015,735</u>

\* Temporarily restricted net assets reflected here are amounts associated with the permanently restricted net assets.

**NOTE 9 - RESTATEMENT**

The Foundation erroneously recorded contributions raised on behalf of others as contribution revenues in prior years. In 2007, a restatement was recorded to correct this error for \$1,396,638.

**NOTE 10 - PENSION PLAN**

The Foundation has a defined contribution retirement plan. Substantially all employees are covered by the plan. From October 1, 2007 through December 31, 2007, the Foundation made contributions equaling 4.3% of compensation up to \$25,000 and 8.6% of compensation in excess of \$25,000 up to \$220,000, with total pension expense of \$22,297. The Foundation will not be making any contributions to the pension plan for January 1, 2008 through September 30, 2008.

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**AMERICAN LIVER FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 11 - LEASE COMMITMENTS**

The Foundation rents space under several noncancelable operating leases with expiration dates beginning in fiscal year 2009 through fiscal year 2013. The following are the total future minimum rental payments required under operating leases that have initial or remaining lease terms in excess of one year:

<u>Year Ending</u> <u>September 30</u>		
2009	\$	468,736
2010		169,929
2011		90,627
2012		32,059
2013		<u>22,407</u>
	\$	<u>783,758</u>

Rent expense for the year was \$607,340.

**NOTE 12 - CONCENTRATIONS**

Financial instruments which potentially subject the Foundation to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. Management believes that credit risk related to these accounts is minimal.