

**AMERICAN LIVER FOUNDATION**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**SEPTEMBER 30, 2009**

**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, 2009, 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 2008 financial statements and, in our report dated May 22, 2009, 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, 2009, 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.

*Loeb + Troper LLP*

May 26, 2010

## AMERICAN LIVER FOUNDATION

## BALANCE SHEET

SEPTEMBER 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 294,929	\$ 520,145
Investments (Note 3)	3,534,230	4,192,812
Contributions receivable - current	931,435	442,026
Prepaid expenses and other assets	173,404	307,801
Fixed assets - net (Note 4)	<u>424,622</u>	<u>487,960</u>
Total assets	<u>\$ 5,358,620</u>	<u>\$ 5,950,744</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 553,744	\$ 992,435
Accrued payroll and related liabilities	266,874	336,930
Funds held on behalf of others	1,140,174	1,232,897
Awards and grants payable (Note 5)	1,232,755	1,570,791
Loans payable (Note 6)	<u>980,000</u>	<u>800,000</u>
Total liabilities	<u>4,173,547</u>	<u>4,933,053</u>
<b>Net assets (deficit) (Exhibit B)</b>		
Unrestricted	(1,510,006)	(2,478,943)
Temporarily restricted (Note 7)	1,703,044	2,501,286
Permanently restricted (Note 8)	<u>992,035</u>	<u>995,348</u>
Total net assets	<u>1,185,073</u>	<u>1,017,691</u>
Total liabilities and net assets	<u>\$ 5,358,620</u>	<u>\$ 5,950,744</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2009  
(With Summarized Financial Information  
for the Year Ended September 30, 2008)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2009	2008
Revenues, gains, losses and other support					
Contributions, memberships and grants	\$ 2,675,783	\$ 677,915		\$ 3,353,698	\$ 3,637,621
In-kind donations (Note 2)	6,712			6,712	30,007
Sale of merchandise	4,279			4,279	9,187
Investment income (Note 3)	97,697	41,868		139,565	(57,078)
Special events revenues	\$ 6,421,705				
Direct costs of special events	(1,050,776)			5,370,929	5,095,247
Net assets released from restrictions (Note 7)	894,884	(894,884)			
Total revenues, gains, losses and other support	9,050,284	(175,101)		8,875,183	8,714,984
Expenses (Exhibit C)					
Program services					
Public education	1,009,730			1,009,730	1,201,358
Research	2,198,879			2,198,879	2,744,150
Professional education	673,153			673,153	806,197
Patient support	1,869,871			1,869,871	2,211,216
Community services	1,062,085			1,062,085	1,262,828
Total program services	6,813,718			6,813,718	8,225,749
Supporting services					
Management and general	564,210			564,210	615,382
Fund raising	1,329,873			1,329,873	1,253,535
Total supporting services	1,894,083			1,894,083	1,868,917
Total expenses	8,707,801			8,707,801	10,094,666
Change in net assets before reclassifications	342,483	(175,101)		167,382	(1,379,682)
Reclassifications (Note 12)	626,454	(623,141)	\$ (3,313)		
Change in net assets (Exhibit D)	968,937	(798,242)	(3,313)	167,382	(1,379,682)
Net assets (deficit) - beginning of year	(2,478,943)	2,501,286	995,348	1,017,691	2,397,373
Net assets (deficit) - end of year (Exhibit A)	\$ (1,510,006)	\$ 1,703,044	\$ 992,035	\$ 1,185,073	\$ 1,017,691

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2009  
(With Summarized Financial Information  
for the Year Ended September 30, 2008)

	Program Services					Supporting Services					Total	
	Public Education	Research	Professional Education	Patient Support	Community Services	Total	Management and General	Fund Raising	Direct Costs of Special Events	Total	2009	2008
	Salaries and related expenses	\$ 623,519	\$ 951,444	\$ 415,679	\$ 1,154,665	\$ 655,850	\$ 3,801,157	\$ 249,407	\$ 568,095	\$ 817,502	\$ 4,618,659	\$ 5,132,259
Awards and grants		658,106				658,106				658,106	919,314	
Depreciation and amortization	20,252	30,903	13,501	37,504	21,302	123,462	8,102	18,452	26,554	150,016	162,020	
Equipment maintenance and repair	36,078	55,052	24,052	66,811	37,948	219,941	14,430	32,871	47,301	267,242	248,758	
Media	20,022	30,552	13,348	37,078	21,060	122,060	1,117	28,177	29,294	151,354	74,843	
Postage and shipping	19,577	29,874	13,052	36,254	20,592	119,349	6,923	57,792	64,715	184,064	212,513	
Printing, publishing and copying	19,146	29,215	12,764	35,455	20,139	116,719	5,173	201,513	206,686	323,405	475,437	
Professional services	62,854	95,911	41,903	116,397	66,113	383,178	37,670	178,063	215,733	598,911	786,415	
Occupancy (Note 10)	100,568	153,459	67,045	186,237	105,782	613,091	40,228	91,628	131,856	744,947	807,602	
Supplies	13,729	20,949	9,152	25,423	14,440	83,693	1,969	34,844	36,813	120,506	150,164	
Telephone and internet	19,778	30,179	13,185	36,626	20,803	120,571	7,911	18,020	25,931	146,502	183,675	
Travel	40,497	61,795	26,998	74,994	42,597	246,881	13,954	83,591	97,545	344,426	409,653	
Hotel, catering and other event expenses	12,783	19,507	8,523	23,674	13,447	77,934			\$ 1,050,776	1,050,776	1,336,507	
Interest							39,558		39,558	39,558	48,544	
Bank and credit card fees							122,613		122,613	122,613	67,535	
Other expenses	20,927	31,933	13,951	38,753	22,012	127,576	30,242	16,827	47,069	174,645	289,551	
<b>Total expenses</b>	<b>1,009,730</b>	<b>2,198,879</b>	<b>673,153</b>	<b>1,869,871</b>	<b>1,062,085</b>	<b>6,813,718</b>	<b>579,297</b>	<b>1,329,873</b>	<b>1,050,776</b>	<b>2,959,946</b>	<b>9,773,664</b>	<b>11,304,790</b>
Less expenses deducted directly from revenues												
Direct costs of special events									(1,050,776)	(1,050,776)	(1,050,776)	(1,190,353)
Investment fees							(15,087)		(15,087)	(15,087)	(15,087)	(19,771)
<b>Total expenses reported by function on statement of activities (Exhibit B)</b>	<b>\$ 1,009,730</b>	<b>\$ 2,198,879</b>	<b>\$ 673,153</b>	<b>\$ 1,869,871</b>	<b>\$ 1,062,085</b>	<b>\$ 6,813,718</b>	<b>\$ 564,210</b>	<b>\$ 1,329,873</b>	<b>\$ -</b>	<b>\$ 1,894,083</b>	<b>\$ 8,707,801</b>	<b>\$ 10,094,666</b>

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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 167,382	\$ (1,379,682)
Adjustments to reconcile change in net assets to net to net cash used by operating activities		
Depreciation and amortization	150,016	162,020
Loss on investments	95,202	204,690
Decrease (increase) in assets		
Contributions receivable	(489,409)	1,026,955
Prepaid expenses and other assets	134,397	(88,782)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(438,691)	497,744
Accrued payroll and related liabilities	(70,056)	(258,333)
Funds held on behalf of others	(92,723)	(97,557)
Awards and grants payable	(338,036)	(877,041)
Net cash used by operating activities	<u>(881,918)</u>	<u>(809,986)</u>
Cash flows from investing activities		
Purchase of investments	(4,941,982)	(1,338,730)
Proceed from sale of investments	5,505,362	2,339,218
Fixed asset acquisitions	(86,678)	(47,776)
Net cash provided by investing activities	<u>476,702</u>	<u>952,712</u>
Cash flows from financing activities		
Proceeds from loan	230,000	
Principle payments on line of credit	(50,000)	
Net cash provided by financing activities	<u>180,000</u>	
Net increase (decrease) in cash and cash equivalents	(225,216)	142,726
Cash and cash equivalents - beginning of year	<u>520,145</u>	<u>377,419</u>
Cash and cash equivalents - end of year	<u>\$ 294,929</u>	<u>\$ 520,145</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 39,558</u>	<u>\$ 48,544</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**AMERICAN LIVER FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

**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 16 divisions throughout the United States. The divisions 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 of accounting.

*FASB Accounting Standards Codification*

In July 2009, the FASB launched FASB Accounting Standards Codification as the single source of authoritative nongovernmental U.S. Generally Accepted Accounting Principles (GAAP). The Codification is effective for interim and annual periods ending after September 15, 2009. All existing accounting standards documents are superseded as described in FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. All other accounting literature not included in the Codification is nonauthoritative.

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AMERICAN LIVER FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009

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

*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.

*Investments* - Investments are stated at fair value. 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. The Foundation does not charge interest on outstanding receivables.

*Allowance for doubtful accounts* - The Foundation has determined that no allowance for uncollectible accounts for contributions receivable is necessary as of September 30, 2009. 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, subsequent collections and historical information.

*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 more than one year 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 expenses.

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AMERICAN LIVER FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009

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

*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%.

*In-kind donation* - The Foundation received donated interest from a loan from a Board member. The interest reported in the accompanying financial statements total \$6,712. 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 generally accepted accounting principles.

*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 net assets 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.

*Rent expense* - The Foundation leases space at various locations. All leases are operating 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.

*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, 2009

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

*Fair Value Measurements*

*Fair Value Measurements* establishes a framework for measuring fair value in accordance with generally accepted accounting principles. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under Section 820 are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2009.

*Money market mutual funds* - Valued at the closing price reported on the active market on which the individual securities are traded.

*Mutual funds* - Valued at the net asset value (NAV) of shares held at year end.

*Corporate bonds* - Valued at the closing price reported on the active market on which the individual securities are traded.

*U.S. Government obligations* - Valued at the closing price reported on the active market on which the individual securities are traded.

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AMERICAN LIVER FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009

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

*Fair Value Measurements (continued)*

*Common stocks* - Valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The investments at September 30, 2009 are shown in Note 3 by level within the fair value hierarchy.

Generally accepted accounting principles permit but do 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 these provisions, the adoption did not have an impact on the financial statements.

*Accounting for Uncertainty in Income Taxes*

*Accounting for Uncertainty in Income Taxes* (AUIT) 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. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition and is effective for nonpublic companies and not-for-profits for periods beginning after December 15, 2008.

As AUIT has not been adopted, the Foundation is continuing to use *Accounting for Contingencies* to evaluate uncertain tax positions. The Foundation is currently evaluating the impact on the financial statements of adopting AUIT.

*Subsequent events* - Subsequent events have been evaluated through May 26, 2010 which is the date the financial statements were available to be issued.

*Summarized financial information for 2008* - 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, 2008, from which the summarized information was derived.

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**AMERICAN LIVER FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

**NOTE 3 - INVESTMENTS**

	<u>2009</u> <u>Level 1</u>	<u>2008</u> <u>Level 1</u>
Money market mutual funds	\$ 337,676	\$ 276,355
Mutual funds	3,094,057	
Corporate bonds	102,497	1,276,438
U.S. Government obligations		1,753,153
Common stocks	<u>                    </u>	<u>886,866</u>
	<u>\$ 3,534,230</u>	<u>\$ 4,192,812</u>

Investment income (loss) consists of the following:

	<u>2009</u>	<u>2008</u>
Interest and dividends	\$ 249,854	\$ 167,383
Realized gains (losses)	(122,902)	12,722
Unrealized gains (losses)	27,700	(217,412)
Investment fees	<u>(15,087)</u>	<u>(19,771)</u>
	<u>\$ 139,565</u>	<u>\$ (57,078)</u>

**NOTE 4 - FIXED ASSETS**

	<u>2009</u>	<u>2008</u>	<u>Estimated</u> <u>Useful Lives</u>
Building and improvements	\$ 456,782	\$ 456,782	40 years
Leasehold improvements	68,706	68,706	4 - 10 years
Office equipment	266,954	240,601	5 years
Computers and peripherals	<u>391,009</u>	<u>330,684</u>	3 years
	1,183,451	1,096,773	
Less accumulated depreciation and amortization	<u>(758,829)</u>	<u>(608,813)</u>	
	<u>\$ 424,622</u>	<u>\$ 487,960</u>	

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**AMERICAN LIVER FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

**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, 2009 are payable as follows:

<u>Year Ending September 30</u>	
2010	\$ 845,000
2011	300,000
2012	<u>112,500</u>
	1,257,500
Less discount to present value	<u>(24,745)</u>
Present value of grants payable	<u>\$ 1,232,755</u>

**NOTE 6 - LOANS PAYABLE**

In 2009, the Foundation received a loan from a Board member in the amount of \$230,000 bearing interest at 4% per annum. No payments were made to repay the loan as of September 30, 2009. The loan is due on demand and is unsecured. Accrued interest earned on the loan of \$6,517 was forgiven in 2009.

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 an \$800,000 revolving line of credit that expired September 30, 2009. The borrowing rate was based on 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, 2009 and 2008 was 2.32% and 4.81%, respectively. The balance due as of September 30, 2009 and 2008 was \$750,000 and \$800,000, respectively. 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, 2009 and 2008, the Foundation has breached certain covenants relating to the Credit Agreement. This technical default was acknowledged and waived by the Bank. The line of credit was repaid as of February 10, 2010.

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**AMERICAN LIVER FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

**NOTE 6 - LOANS PAYABLE (continued)**

On February 10, 2010, the Foundation obtained a new loan from a Board member to repay the aforementioned line of credit. The new loan is for \$880,000, and bears interest at 5.75% per annum. Monthly payments are based on a 20-year amortization. The term is 1 year with two options to extend the loan for an additional year. The loan is secured by an office condominium owned by the Foundation.

**NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Research program	\$ 1,278,497	\$ 2,133,907
Community services	<u>424,547</u>	<u>367,379</u>
	<u>\$ 1,703,044</u>	<u>\$ 2,501,286</u>

During 2009, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes specified by donors:

	<u>2009</u>	<u>2008</u>
Research program	\$ 628,536	\$ 895,541
Community services	<u>266,348</u>	<u>406,256</u>
	<u>\$ 894,884</u>	<u>\$ 1,301,797</u>

**NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS**

**General**

Permanently restricted net assets of \$992,035 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, 2009

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

**Interpretation of Relevant Law**

The Uniform Management of Institutional Funds Act (UMIFA) has been interpreted as being the relevant sections of the New York State Not-for-Profit Corporations Law (N-PCL) requiring preservation of the fair value of a gift as of the gift date of donor-restricted endowment funds (historic dollar value), absent explicit donor stipulations to the contrary. As a result, and in accordance with the direction of the original donor gift instrument, the Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of any subsequent gifts to the permanent endowment, and 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. Any interest, dividends or other revenue generated by donor-restricted endowment funds is used by the organization in a manner consistent with the standard of prudence required by law, absent explicit donor stipulations.

**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, 2009**

Permanently restricted net asset composition of \$992,035 consists of permanently donor-restricted funds.

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

***Changes in Endowment Net Assets for the Year Ended September 30, 2009***

	<u>Temporarily Restricted*</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 20,387	\$ 995,348	\$ 1,015,735
Investment gain	9,235		9,235
Appropriation of endowment assets for expenditure	(29,622)		(29,622)
Reclassification (Note 12)	<u>                    </u>	<u>(3,313)</u>	<u>(3,313)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 992,035</u>	<u>\$ 992,035</u>

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

**NOTE 9 - PENSION PLAN**

The Foundation has a defined contribution retirement plan. Substantially all employees are covered by the plan. The Foundation suspended all contributions to the pension plan in 2009 and 2008.

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**NOTE 10 - LEASE COMMITMENTS**

The Foundation rents space under several noncancelable operating leases with expiration dates beginning in fiscal year 2010 through fiscal year 2017. 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>	
2010	\$ 468,550
2011	362,419
2012	242,408
2013	77,104
2014	52,024
Thereafter	<u>112,276</u>
	<u>\$ 1,314,781</u>

Rent expense for the year was \$579,255.

**NOTE 11 - 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.

**NOTE 12 - RECLASSIFICATION**

In 2009, the Foundation reviewed its temporarily and permanently restricted net asset balances and, based upon further review and inquiry, \$3,313 of permanently restricted net assets was misclassified and reclassified to temporarily restricted net assets and \$626,454 of temporarily restricted net assets was reclassified to unrestricted net assets.