

American Liver Foundation

Independent Auditor's Report and Financial Statements

December 31, 2019 and 2018



American Liver Foundation

December 31, 2019 and 2018

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Financial Statements

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Independent Auditor's Report

Board of Directors
American Liver Foundation
New York, New York

We have audited the accompanying financial statements of American Liver Foundation, which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 American Liver Foundation as of December 31, 2019 and 2018 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As further disclosed in *Note 2* to the financial statements, American Liver Foundation adopted the Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers* (Topic 606) and Account Standards Updated (ASU) 2018-08, *Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

BKD, LLP

New York, New York
October 8, 2020

American Liver Foundation
Statements of Financial Position
December 31, 2019 and 2018

| | 2019 | 2018 |
|---|--------------|--------------|
| Assets | | |
| Cash and cash equivalents | \$ 1,791,670 | \$ 1,570,520 |
| Investments | 3,039,894 | 2,274,611 |
| Contributions receivable | 196,618 | 1,117,480 |
| Prepaid expenses and other assets | 191,894 | 219,161 |
| Property and equipment, net | 47,121 | 78,556 |
| Total assets | \$ 5,267,197 | \$ 5,260,328 |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 264,817 | \$ 364,152 |
| Accrued payroll and related liabilities | 308,085 | 304,462 |
| Funds held on behalf of others | 774,204 | 793,980 |
| Awards and grants payable | 137,500 | 237,500 |
| Line of credit | - | 99,509 |
| Deferred rent payable | 81,638 | 133,507 |
| Total liabilities | 1,566,244 | 1,933,110 |
| Net Assets | | |
| Without donor restrictions | 614,131 | (474,617) |
| With donor restrictions | | |
| Perpetual in nature | 992,035 | 992,035 |
| Purpose restrictions | 2,024,555 | 2,082,157 |
| Time restricted for future periods | 70,232 | 727,643 |
| | 3,086,822 | 3,801,835 |
| Total net assets | 3,700,953 | 3,327,218 |
| Total liabilities and net assets | \$ 5,267,197 | \$ 5,260,328 |

American Liver Foundation
Statements of Activities
Years Ended December 31, 2019 and 2018

| | 2019 | | |
|--|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Revenues, Gains and Other Support | | | |
| Contributions and grants | \$ 2,811,131 | \$ 1,330,163 | \$ 4,141,294 |
| Contributed services | 525,462 | - | 525,462 |
| Investment return, net | 133,776 | 215,529 | 349,305 |
| Special events revenues | \$ 5,497,486 | | |
| Direct costs of special events | <u>(927,166)</u> | 4,570,320 | 4,570,320 |
| Other income | 35,890 | - | 35,890 |
| Net assets released from restrictions | <u>2,260,705</u> | <u>(2,260,705)</u> | <u>-</u> |
| Total revenues, gains and other support | <u>10,337,284</u> | <u>(715,013)</u> | <u>9,622,271</u> |
| Expenses | | | |
| Program services | | | |
| Public education | 1,790,670 | - | 1,790,670 |
| Research | 377,122 | - | 377,122 |
| Professional education | 1,507,357 | - | 1,507,357 |
| Patient support | 1,677,847 | - | 1,677,847 |
| Community services | <u>1,480,641</u> | <u>-</u> | <u>1,480,641</u> |
| Total program services | <u>6,833,637</u> | <u>-</u> | <u>6,833,637</u> |
| Supporting services | | | |
| Management and general | 1,334,229 | - | 1,334,229 |
| Fundraising | <u>1,080,670</u> | <u>-</u> | <u>1,080,670</u> |
| Total supporting services | <u>2,414,899</u> | <u>-</u> | <u>2,414,899</u> |
| Total expenses | <u>9,248,536</u> | <u>-</u> | <u>9,248,536</u> |
| Change in Net Assets | 1,088,748 | (715,013) | 373,735 |
| Net Assets, Beginning of Year | <u>(474,617)</u> | <u>3,801,835</u> | <u>3,327,218</u> |
| Net Assets, End of Year | <u>\$ 614,131</u> | <u>\$ 3,086,822</u> | <u>\$ 3,700,953</u> |

American Liver Foundation
Statements of Activities (Continued)
Years Ended December 31, 2019 and 2018

| | 2018 | | |
|--|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Revenues, Gains and Other Support | | | |
| Contributions and grants | \$ 1,882,751 | \$ 2,435,024 | \$ 4,317,775 |
| Contributed services | 268,000 | - | 268,000 |
| Investment return, net | (45,866) | (75,351) | (121,217) |
| Special events revenues | \$ 5,637,249 | | |
| Direct costs of special events | <u>(897,707)</u> | 4,739,542 | 4,739,542 |
| Other income | 25,653 | - | 25,653 |
| Net assets released from restrictions | <u>2,503,504</u> | <u>(2,503,504)</u> | <u>-</u> |
| Total revenues, gains and other support | <u>9,373,584</u> | <u>(143,831)</u> | <u>9,229,753</u> |
| Expenses | | | |
| Program services | | | |
| Public education | 1,859,566 | - | 1,859,566 |
| Research | 587,528 | - | 587,528 |
| Professional education | 1,374,807 | - | 1,374,807 |
| Patient support | 1,725,794 | - | 1,725,794 |
| Community services | <u>1,844,091</u> | <u>-</u> | <u>1,844,091</u> |
| Total program services | <u>7,391,786</u> | <u>-</u> | <u>7,391,786</u> |
| Supporting services | | | |
| Management and general | 1,197,107 | - | 1,197,107 |
| Fundraising | <u>959,680</u> | <u>-</u> | <u>959,680</u> |
| Total supporting services | <u>2,156,787</u> | <u>-</u> | <u>2,156,787</u> |
| Total expenses | <u>9,548,573</u> | <u>-</u> | <u>9,548,573</u> |
| Change in Net Assets | (174,989) | (143,831) | (318,820) |
| Net Assets, Beginning of Year | <u>(299,628)</u> | <u>3,945,666</u> | <u>3,646,038</u> |
| Net Assets, End of Year | <u>\$ (474,617)</u> | <u>\$ 3,801,835</u> | <u>\$ 3,327,218</u> |

American Liver Foundation
Statements of Functional Expenses
Years Ended December 31, 2019 and 2018

| | 2019 | | | | | | | | | | |
|---|---------------------|-------------------|------------------------|---------------------|---------------------|---------------------|------------------------|---------------------|--------------------------------|---------------------|---------------------|
| | Program Services | | | | | Total | Supporting Services | | | | Total |
| | Public Education | Research | Professional Education | Patient Support | Community Services | | Management and General | Fundraising | Direct Costs of Special Events | Total | |
| Salaries | \$ 891,173 | \$ 56,008 | \$ 710,051 | \$ 1,087,335 | \$ 894,428 | \$ 3,638,995 | \$ 434,398 | \$ 504,145 | \$ - | \$ 938,543 | \$ 4,577,538 |
| Payroll taxes and benefits | 158,458 | 9,959 | 126,253 | 193,338 | 159,037 | 647,045 | 77,240 | 89,641 | - | 166,881 | 813,926 |
| Awards and grants | - | 275,000 | - | - | - | 275,000 | - | - | - | - | 275,000 |
| Depreciation and amortization | 6,735 | 423 | 5,367 | 8,219 | 6,760 | 27,504 | 3,283 | 3,811 | - | 7,094 | 34,598 |
| Computer support services | 55,541 | 3,489 | 44,227 | 67,727 | 55,711 | 226,695 | 27,057 | 31,973 | - | 59,030 | 285,725 |
| Media | 47,173 | 63 | 2,626 | 1,224 | 3,602 | 54,688 | 489 | 8,595 | - | 9,084 | 63,772 |
| Postage and shipping | 6,115 | 161 | 11,547 | 3,124 | 3,347 | 24,294 | 1,248 | 24,332 | - | 25,580 | 49,874 |
| Printing, publishing and copying | 29,029 | 125 | 7,148 | 2,412 | 7,644 | 46,358 | 964 | 57,679 | - | 58,643 | 105,001 |
| Professional services | 217,077 | 18,949 | 43,327 | 66,188 | 73,644 | 419,185 | 26,443 | 105,308 | - | 131,751 | 550,936 |
| Contributed services - professional services | - | - | - | - | - | - | 525,462 | - | - | 525,462 | 525,462 |
| Occupancy | 128,697 | 8,088 | 102,564 | 157,025 | 129,167 | 525,541 | 62,732 | 73,692 | - | 136,424 | 661,965 |
| Insurance | 4,063 | 255 | 3,238 | 4,957 | 4,078 | 16,591 | 1,981 | 2,299 | - | 4,280 | 20,871 |
| Supplies | 14,782 | 218 | 4,319 | 4,226 | 33,057 | 56,602 | 1,688 | 12,547 | - | 14,235 | 70,837 |
| Telephone and internet | 12,672 | 796 | 10,096 | 15,461 | 12,718 | 51,743 | 6,177 | 7,193 | - | 13,370 | 65,113 |
| Travel | 142,392 | 2,377 | 78,656 | 45,437 | 59,165 | 328,027 | 18,153 | 36,670 | - | 54,823 | 382,850 |
| Hotel, catering and other event expenses | 27,599 | 289 | 326,381 | 5,605 | 25,477 | 385,351 | 2,239 | 85,964 | 927,166 | 1,015,369 | 1,400,720 |
| Interest and bank fees | - | - | - | - | - | - | 5,348 | - | - | 5,348 | 5,348 |
| Credit card fees | - | - | - | - | - | - | 133,107 | - | - | 133,107 | 133,107 |
| Other expenses | 49,164 | 922 | 31,557 | 15,569 | 12,806 | 110,018 | 6,220 | 36,821 | - | 43,041 | 153,059 |
| Total expenses | 1,790,670 | 377,122 | 1,507,357 | 1,677,847 | 1,480,641 | 6,833,637 | 1,334,229 | 1,080,670 | 927,166 | 3,342,065 | 10,175,702 |
| Less expenses deducted directly from revenues | | | | | | | | | | | |
| Direct costs of special events | - | - | - | - | - | - | - | - | (927,166) | (927,166) | (927,166) |
| Total expenses included in the expense section on the statements of activities | \$ 1,790,670 | \$ 377,122 | \$ 1,507,357 | \$ 1,677,847 | \$ 1,480,641 | \$ 6,833,637 | \$ 1,334,229 | \$ 1,080,670 | \$ - | \$ 2,414,899 | \$ 9,248,536 |

American Liver Foundation

Statements of Functional Expenses (Continued)

Years Ended December 31, 2019 and 2018

| | 2018 | | | | | | | | | | |
|---|---------------------|-------------------|---------------------------|---------------------|-----------------------|---------------------|------------------------------|-------------------|--------------------------------------|---------------------|---------------------|
| | Program Services | | | | | | Supporting Services | | | | |
| | Public Education | Research | Professional Education | Patient Support | Community Services | Total | Management and General | Fundraising | Direct Costs of Special Events | Total | Total |
| Salaries | \$ 987,929 | \$ 60,868 | \$ 655,498 | \$ 1,114,346 | \$ 922,380 | \$ 3,741,021 | \$ 505,670 | \$ 435,438 | \$ - | \$ 941,108 | \$ 4,682,129 |
| Payroll taxes and benefits | 169,319 | 10,432 | 112,345 | 190,986 | 158,084 | 641,166 | 86,666 | 74,629 | - | 161,295 | 802,461 |
| Awards and grants | - | 475,000 | - | - | - | 475,000 | - | - | - | - | 475,000 |
| Depreciation and amortization | 8,783 | 541 | 5,828 | 9,907 | 8,200 | 33,259 | 4,495 | 3,871 | - | 8,366 | 41,625 |
| Computer support services | 42,324 | 2,601 | 28,118 | 47,622 | 39,418 | 160,083 | 21,610 | 18,608 | - | 40,218 | 200,301 |
| Media | 67,303 | 103 | 73,347 | 1,893 | 4,986 | 147,632 | 859 | 13,139 | - | 13,998 | 161,630 |
| Postage and shipping | 4,409 | 146 | 3,965 | 2,681 | 6,323 | 17,524 | 1,217 | 23,914 | - | 25,131 | 42,655 |
| Printing, publishing and copying | 18,530 | 97 | 9,674 | 1,768 | 41,765 | 71,834 | 802 | 62,984 | - | 63,786 | 135,620 |
| Professional services | 171,940 | 21,762 | 61,798 | 99,532 | 298,664 | 653,696 | 45,166 | 92,384 | - | 137,550 | 791,246 |
| Contributed services - professional services | - | - | - | - | - | - | 268,000 | - | - | 268,000 | 268,000 |
| Occupancy | 140,580 | 8,661 | 93,276 | 158,568 | 131,252 | 532,337 | 71,955 | 62,612 | - | 134,567 | 666,904 |
| Insurance | 6,571 | 405 | 4,360 | 7,412 | 6,135 | 24,883 | 3,363 | 2,896 | - | 6,259 | 31,142 |
| Supplies | 10,854 | 227 | 4,552 | 4,153 | 73,576 | 93,362 | 1,884 | 20,397 | - | 22,281 | 115,643 |
| Telephone and internet | 14,857 | 905 | 9,741 | 16,561 | 13,708 | 55,772 | 7,515 | 6,471 | - | 13,986 | 69,758 |
| Travel | 161,020 | 4,047 | 65,525 | 46,625 | 59,588 | 336,805 | 21,157 | 38,131 | - | 59,288 | 396,093 |
| Hotel, catering and other event expenses | 29,946 | 409 | 222,479 | 7,177 | 66,302 | 326,313 | 3,257 | 71,916 | 897,707 | 972,880 | 1,299,193 |
| Interest and bank fees | - | - | - | - | - | - | 3,066 | - | - | 3,066 | 3,066 |
| Credit card fees | - | - | - | - | - | - | 142,911 | - | - | 142,911 | 142,911 |
| Other expenses | 25,201 | 1,324 | 24,301 | 16,563 | 13,710 | 81,099 | 7,514 | 32,290 | - | 39,804 | 120,903 |
| Total expenses | 1,859,566 | 587,528 | 1,374,807 | 1,725,794 | 1,844,091 | 7,391,786 | 1,197,107 | 959,680 | 897,707 | 3,054,494 | 10,446,280 |
| Less expenses deducted directly from revenues | | | | | | | | | | | |
| Direct costs of special events | - | - | - | - | - | - | - | - | (897,707) | (897,707) | (897,707) |
| Total expenses included in the expense section on the statements of activities | \$ 1,859,566 | \$ 587,528 | \$ 1,374,807 | \$ 1,725,794 | \$ 1,844,091 | \$ 7,391,786 | \$ 1,197,107 | \$ 959,680 | \$ - | \$ 2,156,787 | \$ 9,548,573 |

American Liver Foundation
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Operating Activities | | |
| Change in net assets | \$ 373,735 | \$ (318,820) |
| Items not requiring (providing) operating cash flows | | |
| Depreciation and amortization | 34,598 | 41,625 |
| Net realized and unrealized (gains) losses on investments | (290,023) | 164,780 |
| Changes in | | |
| Contributions receivable | 920,862 | (182,995) |
| Prepaid expenses and other assets | 27,267 | 69,068 |
| Accounts payable and accrued expenses | (99,335) | 100,946 |
| Accrued payroll and related liabilities | 3,623 | 38,977 |
| Funds held on behalf of others | (19,776) | (7,254) |
| Awards and grants payable | (100,000) | 62,500 |
| Deferred rent payable | (51,869) | (36,321) |
| | <u>799,082</u> | <u>(67,494)</u> |
| Net cash provided by (used in) operating activities | | |
| Investing Activities | | |
| Purchase of investments | (779,612) | (705,834) |
| Proceeds from sale of investments | 304,354 | 789,715 |
| Property and equipment acquisitions | (3,165) | (3,759) |
| | <u>(478,423)</u> | <u>80,122</u> |
| Net cash provided by (used in) investing activities | | |
| Financing Activities | | |
| Proceed from short-term borrowing | 280,500 | 99,509 |
| Principal payment on short-term borrowing | (380,009) | - |
| | <u>(99,509)</u> | <u>99,509</u> |
| Net cash provided by (used in) financing activities | | |
| Change in Cash and Cash Equivalents | 221,150 | 112,137 |
| Cash and Cash Equivalents, Beginning of Year | <u>1,570,520</u> | <u>1,458,383</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 1,791,670</u> | <u>\$ 1,570,520</u> |
| Supplemental Cash Flows Information | | |
| Interest paid | \$ 5,297 | \$ 2,904 |

American Liver Foundation

Notes to Financial Statements

December 31, 2019 and 2018

Note 1: Nature of Organization

Nature of Operations

American Liver Foundation (the Foundation) is a national nonprofit organization supporting liver health education, advocacy 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 18 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 that 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 national helpline providing basic disease information in English and most foreign languages.

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consisted primarily of money market accounts.

At December 31, 2019, the Foundation's cash accounts exceeded federally insured limits by \$1,542,944.

Investments and Net Investment Return

The Foundation measures securities at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

American Liver Foundation

Notes to Financial Statements

December 31, 2019 and 2018

Allowance for Doubtful Accounts

The Foundation has determined that no allowance for uncollectible accounts for contributions receivable is necessary as of December 31, 2019 and 2018. 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.

Property and Equipment

Property and equipment acquisitions are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are charged to expense on the straight-line basis over the estimated useful life of each asset. Leasehold improvements are amortized over the shorter of the lease term or respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

| | |
|---------------------------|--------------|
| Leasehold improvements | 4 - 10 years |
| Office equipment | 5 years |
| Computers and peripherals | 3 years |

Long-Lived Asset Impairment

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2019 and 2018.

Funds 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.

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 awards and grants payable are current as of December 31, 2019 and 2018.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

American Liver Foundation

Notes to Financial Statements

December 31, 2019 and 2018

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Contributions

Contributions are provided to the Foundation either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

| Nature of the Gift | Value Recognized |
|--|---|
| <i>Conditional gifts, with or without restriction</i> | |
| Gifts that depend on a future and uncertain event | Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed condition is substantially met |
| <i>Unconditional gifts, with or without restriction</i> | |
| Received at date of gift – cash and other assets | Fair value |
| Received at date of gift – property, equipment and long-lived assets | Estimated fair value |
| Expected to be collected within one year | Net realizable value |
| Collected in future years | Initially reported at fair value determined using the discounted present value of estimated future cash flows technique |

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as revenue with donor restrictions and then released from restriction.

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December 31, 2019 and 2018

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions. As of December 31, 2019 and 2018, all contributions receivable are due within one year.

Special Events

The Foundation conducts special events in which a portion of the gross proceeds paid by the participants represents payment for the direct cost of the benefits received by the participants at the events. All proceeds received are recorded as special events revenues in the accompanying statements of activities.

Contributed Services

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. Contribution revenue recognized from contributed services consisted of donated professional fees.

Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income. The Foundation files tax returns in the U.S. federal jurisdiction.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses presents the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general and fundraising categories based on salaries and other methods.

Rent Expense

The Foundation leases space at various locations. All leases are operating leases and are reflected on the straight-line basis. Deferred rent represents the difference between the fixed payments and the rent expense.

Reclassifications

Reclassifications of payroll taxes and benefits from salaries and related expenses have been made to the 2018 functional expenses to conform to the 2019 functional expenses presentation. These reclassifications had no effect on the change in net assets.

American Liver Foundation

Notes to Financial Statements

December 31, 2019 and 2018

Revisions

Certain revisions have been made to the 2018 financial statements to adjust the disclosure of fair value measurements in *Note 5* to remove \$184,950 of cash and cash equivalents from Level 1 investments. These revisions did not have a significant impact on the financial statement line items.

Note 2: Changes in Accounting Principles

ASU 2014-09, Revenue from Contracts with Customers (Topic 606)

On January 1, 2019, the Foundation adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), using a modified retrospective method of adoption to all contracts not completed at January 1, 2019.

The core guidance in Topic 606 is to recognize revenue to depict the transfer of promised goods or services to special event attendees in amounts that reflect the consideration to which the Foundation expects to be entitled in exchange for those goods or services.

The amount to which the Foundation expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing services.

Adoption of Topic 606 did not result in changes in presentation of financial statements or timing of revenue recognition, but it did result in related disclosures in the notes to the financial statements.

FASB Releases Not-for-Profit Accounting Standard for Grants and Contributions

On June 21, 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-08. This standard clarifies existing guidance on determining whether a transaction with a resource provider, *e.g.*, the receipt of funds under a government grant or contract, is a contribution or an exchange transaction. The guidance requires all organizations to evaluate whether the resource provider is receiving commensurate value in a transfer of assets transaction, and whether contributions are conditional or unconditional.

If commensurate value is received by the resource provider, the transaction would be accounted for as an exchange transaction by applying Topic 606 or other topics. The standard clarifies that a resource provider is not synonymous with the general public. Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider. If commensurate value is not received by the resource provider, *i.e.*, the transaction is nonexchange, the recipient organization would record the transaction as a contribution under Topic 958 and determine whether the contribution is conditional or unconditional.

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Note 3: Revenue from Contracts with Special Event Attendees

Special Events Revenue

Revenue from special events is reported at the amount that reflects the consideration to which the Foundation expects to be entitled in exchange for the direct cost of the benefits received by the participant at the event.

Performance Obligations and Transaction Price Allocated to Remaining Performance Obligations

Performance obligations are determined based on the nature of the services provided by the Foundation. Revenue for performance obligations satisfied over a period of time is generally recognized when goods are provided to donors over a period of time and the Foundation does not believe it is required to provide additional goods or services related to that sale.

Transaction Price

The Foundation determines the transaction price based on standard charges for goods and services provided. For the year ended December 31, 2019, the Organization recognized revenue of \$703,552 from goods and services that transfer to the attendee over a period of time.

Note 4: Conditional Gifts

The Foundation has received \$869,700 of conditional promises to give at December 31, 2019 that are not recognized in the financial statements. These conditional promise will be recognized upon the occurrence of future special events.

Note 5: Investments and Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

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Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018:

| | Total | Fair Value Measurements at Report Date Using | | |
|-----------------------------|---------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| December 31, 2019 | | | | |
| Equity securities, domestic | \$ 708,113 | \$ 708,113 | \$ - | \$ - |
| Mutual funds | | | | |
| International equity | 409,643 | 409,643 | - | - |
| Emerging markets | 32,729 | 32,729 | - | - |
| Real asset securities | 120,576 | 120,576 | - | - |
| Fixed income | 1,120,296 | 1,120,296 | - | - |
| Total investments | 2,391,357 | <u>\$ 2,391,357</u> | <u>\$ -</u> | <u>\$ -</u> |
| Cash and cash equivalents | <u>648,537</u> | | | |
| Total | <u>\$ 3,039,894</u> | | | |

| | Total | Fair Value Measurements at Report Date Using | | |
|-----------------------------|---------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| December 31, 2018 | | | | |
| Equity securities, domestic | \$ 587,476 | \$ 587,476 | \$ - | \$ - |
| Mutual funds | | | | |
| International equity | 321,896 | 321,896 | - | - |
| Emerging markets | 23,328 | 23,328 | - | - |
| Real asset securities | 104,899 | 104,899 | - | - |
| Fixed income | 1,052,062 | 1,052,062 | - | - |
| Total investments | 2,089,661 | <u>\$ 2,089,661</u> | <u>\$ -</u> | <u>\$ -</u> |
| Cash and cash equivalents | <u>184,950</u> | | | |
| Total | <u>\$ 2,274,611</u> | | | |

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The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2019.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Note 6: Property and Equipment

| | <u>2019</u> | <u>2018</u> |
|--|--------------------|--------------------|
| Leasehold improvements | \$ 97,448 | \$ 97,448 |
| Office equipment | 465,745 | 464,782 |
| Computers and peripherals | <u>751,440</u> | <u>749,240</u> |
| | 1,314,633 | 1,311,470 |
| Less accumulated depreciation and amortization | <u>(1,267,512)</u> | <u>(1,232,914)</u> |
| | <u>\$ 47,121</u> | <u>\$ 78,556</u> |

Note 7: Line of Credit

In 2017, the Foundation obtained a \$300,000 revolving line of credit from TD Bank. During 2018, the line was increased to \$500,000. The line is collateralized by the Foundation's assets. The interest rate is prime plus 74 basis points, which was 5.49 percent and 6.24 percent at December 31, 2019 and 2018, respectively. The balance due at December 31, 2018 is \$99,509. No funds were due as of December 31, 2019 under this line of credit. The availability of the credit line is re-evaluated annually by TD Bank.

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Note 8: Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31 are restricted for the following purposes or periods:

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Subject to expenditure for specified purpose | | |
| Research program | \$ 633,762 | \$ 631,145 |
| Community services | <u>1,160,622</u> | <u>1,330,459</u> |
| | <u>1,794,384</u> | <u>1,961,604</u> |
| Subject to the passage of time | | |
| Promises to give that are not restricted by donors but which are unavailable for expenditure until due | <u>70,232</u> | <u>727,643</u> |
| Endowments | | |
| Subject to appropriation and expenditure when a specified event occurs | | |
| Restricted by donors for research program | 230,171 | 120,553 |
| Subject to NFP endowment spending policy and appropriation | | |
| Research program | <u>992,035</u> | <u>992,035</u> |
| Total endowments | <u>1,222,206</u> | <u>1,112,588</u> |
| | <u>\$ 3,086,822</u> | <u>\$ 3,801,835</u> |

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Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| Expiration of time restrictions | \$ 716,156 | \$ 765,603 |
| Satisfaction of purpose restrictions | | |
| Research program | 18,872 | 209,024 |
| Community services | <u>1,413,177</u> | <u>1,500,934</u> |
| | <u>2,148,205</u> | <u>2,475,561</u> |
| | | |
| Restricted purpose spending-rate distributions and appropriations | | |
| Research program | <u>112,500</u> | <u>27,943</u> |
| | <u>\$ 2,260,705</u> | <u>\$ 2,503,504</u> |

Note 9: Endowment

The Foundation's governing body is subject to the *State of New York Prudent Management of Institutional Funds Act* (NYPMIFA). As a result, the Foundation classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the governing body appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before being reclassified as net assets without donor restrictions.

Additionally, in accordance with NYPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

The Foundation's endowment consists of six individual funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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The composition of net assets by type of endowment fund at December 31, 2019 and 2018, were:

| | 2019 | | Total |
|--|---|--|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | |
| Donor-restricted endowment funds | | | |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | \$ - | \$ 992,035 | \$ 992,035 |
| Accumulated investment gains | - | 230,171 | 230,171 |
| | <u>\$ -</u> | <u>\$ 1,222,206</u> | <u>\$ 1,222,206</u> |

| | 2018 | | Total |
|--|---|--|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | |
| Donor-restricted endowment funds | | | |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | \$ - | \$ 992,035 | \$ 992,035 |
| Accumulated investment gains | - | 120,553 | 120,553 |
| | <u>\$ -</u> | <u>\$ 1,112,588</u> | <u>\$ 1,112,588</u> |

Change in endowment net assets for the years ended December 31, 2019 and 2018 were:

| | 2019 | | Total |
|---|---|--|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | |
| Endowment net assets, beginning of year | \$ - | \$ 1,112,588 | \$ 1,112,588 |
| Investment return, net | - | 222,118 | 222,118 |
| Appropriation of endowment assets for expenditures | - | (112,500) | (112,500) |
| | <u>\$ -</u> | <u>\$ 1,222,206</u> | <u>\$ 1,222,206</u> |

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| | 2018 | | |
|---|----------------------------------|-------------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Endowment net assets, beginning of year | \$ - | \$ 1,215,883 | \$ 1,215,883 |
| Investment return, net | - | (75,352) | (75,352) |
| Appropriation of endowment assets for expenditures | - | (27,943) | (27,943) |
| Endowment net assets, end of year | <u>\$ -</u> | <u>\$ 1,112,588</u> | <u>\$ 1,112,588</u> |

Investment and Spending Policies

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Foundation must hold in perpetuity or for donor-specified periods. Under the Foundation's policies, endowment assets are invested in equities and mutual funds.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation 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. The Foundation evaluates the needs of the programs and the board annually approves the spending.

Underwater Endowments

The Foundation does not have any underwater endowments.

Note 10: Pension Plan

The Foundation has a 403(b) defined contribution pension plan. The employer matches 50 percent of the first 2 percent of salary contributed to the plan by eligible participants. All active employees are covered by the plan. Pension expense was \$28,722 and \$30,131 for the years ended December 31, 2019 and 2018, respectively.

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Note 11: Lease Commitments

The Foundation rents space under several noncancelable operating leases that have expiration dates ranging from 2019 through 2024. Rent is being expensed on the straight-line method over the term of the lease. 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:

| | | |
|------|----|------------------|
| 2020 | \$ | 569,223 |
| 2021 | | 340,337 |
| 2022 | | 90,218 |
| 2023 | | 28,538 |
| 2024 | | 24,275 |
| | | <hr/> |
| | \$ | <u>1,052,591</u> |

Rent expense for the years ended December 31, 2019 and 2018 was \$607,799 and \$617,642, respectively. Deferred rent payable as of December 31, 2019 and 2018 was \$81,638 and \$133,507, respectively.

Note 12: Significant Estimates and Concentrations

GAAP require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Contribution Revenue

During 2019, the Foundation received approximately 48 percent of total contributions from three donors. No concentrations existed in 2018.

General Litigation

The Foundation is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the Foundation. Events could occur that would change this estimate materially in the near-term.

Investments

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 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 accompanying statement of financial position.

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Note 13: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position note, comprise the following:

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|--------------------|
| Financial assets at year-end | | |
| Cash and cash equivalents | \$ 1,791,670 | \$ 1,570,520 |
| Investments | 3,039,894 | 2,274,611 |
| Contributions receivable | 196,618 | 1,117,480 |
| | <u>5,028,182</u> | <u>4,962,611</u> |
| Less amounts not available to be used within one year | | |
| Perpetual in nature | (992,035) | (992,035) |
| Purpose restrictions | (2,024,555) | (2,182,157) |
| Funds held on behalf of others | (774,204) | (793,980) |
| | <u>(3,790,794)</u> | <u>(3,968,172)</u> |
| Net financial assets after donor-imposed restrictions | <u>(3,790,794)</u> | <u>(3,968,172)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 1,237,388</u> | <u>\$ 994,439</u> |

The Foundation's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The Foundation manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Foundation has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 90 days operating expenses. The Foundation has a policy to target a year-end balance of reserves without donor restriction and which are undesignated by the board to meet 30 to 90 days of expected expenditures. To achieve these targets, the Foundation forecasts its future cash flows and monitors its liquidity monthly and monitors its reserves monthly. During the year ended December 31, 2019 and 2018, the level of liquidity and reserves was managed within the policy requirements.

The Foundation acknowledges the likelihood that there may be future conditions or events, when considered in the aggregate, that could raise doubts about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are issued. The Foundation's financial statements have been prepared on the basis of continuity of operations, receipt of receivables and the satisfaction of liabilities, in the ordinary course of business. The Foundation has historically funded its operations primarily with net proceeds from grants and special events revenue, contributions and contributed services.

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The Foundation expects that, based on its current operating plans, its cash and cash equivalents on hand along with cash generated from future grants, special event revenue and contributions will be sufficient to fund its ongoing operating expenses and capital expenditure requirements; however its viability is dependent on its ability to obtain this funding. Although the Foundation has been successful in obtaining grants and donations in the past, COVID-19 has caused the cancellation of the Foundation's in person special events, such as Flavors, walks and other events. In response, the Foundation has substantially eliminated expenses by restructuring its operations, reducing its workforce and centralizing its operations through the elimination of its divisional structure (see subsequent events *Note 14*), and has shifted to online fundraising events.

Given these risks and uncertainties, there can be no assurance that the Foundation will be successful in fundraising at the levels needed to sustain its operations. If the Foundation is unable to obtain funding on a timely basis or in the amounts needed, it may be required to restructure its operations or curtail, delay or discontinue some of its programs.

Note 14: Subsequent Events

Subsequent events have been evaluated through October 8, 2020, which is the date the financial statements were available to be issued.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, changes in net assets and cash flows of the Foundation. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

The Foundation restructured its operations as of July 1, 2020. The Foundation reduced the number of staff by 45 percent, created cross functional national teams and eliminated its division structure. The Foundation has successfully terminated 10 of its 14 division office leases and continues to negotiate with landlords to terminate the remaining leases. The Foundation remains committed to providing nationally: patient and professional programming, liver disease education, advocacy and support services.

On March 27, 2020, President Trump signed into law the *Coronavirus Aid, Relief, and Economic Security Act*. On April 10, 2020, the Foundation received a loan from SBA in the amount of \$737,979 pursuant to the Paycheck Protection Program. The loan is due two years from the date of the first disbursement under the loan and has a fixed interest rate of 1 percent per year. A portion of the loan may be forgiven; however, as of the date of this report any amount of forgiveness is unable to be determined.

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Note 15: Future Changes in Accounting Principles

Accounting for Leases

FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the statements of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statements of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021 and any interim periods within annual reporting periods that begin after December 15, 2022. The organization is evaluating the effect the standard will have on the financial statements; however, the standard is expected to have a material effect on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Accounting for Financial Instruments – Credit Losses

FASB amended its standards related to the accounting for credit losses on financial instruments. This amendment introduces new guidance for accounting for credit losses on instruments including trade receivables and finance receivables. The new standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those years. The Foundation is in the process of evaluating the effect the amendment will have on the financial statements.