

AMERICAN LIVER FOUNDATION

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

SEPTEMBER 30, 2007

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, 2007, 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.

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, 2007, 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.



August 4, 2008

AMERICAN LIVER FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains, losses and other support				
Contributions, memberships and grants	\$ 3,169,923	\$ 1,503,622	\$ 540	\$ 4,674,085
Donated services	43,721			43,721
Sale of merchandise	28,128			28,128
Investment income (Note 3)	433,533	89,192		522,725
Special events revenues	\$ 7,476,160			
Direct costs of special events	<u>(1,480,378)</u>			5,995,782
Net assets released from restriction (Note 8)	1,254,253	<u>(1,254,253)</u>		
 Total revenues, gains, losses and other support	 <u>10,925,340</u>	 <u>338,561</u>	 <u>540</u>	 <u>11,264,441</u>
Expenses (Exhibit D)				
Program services				
Public education	2,066,939			2,066,939
Research	2,770,541			2,770,541
Professional education	790,931			790,931
Transplant patient support	1,679,855			1,679,855
Community services	<u>1,496,144</u>			<u>1,496,144</u>
 Total program services	 <u>8,804,410</u>			 <u>8,804,410</u>
Supporting services				
Administrative	777,677			777,677
Fund raising	<u>1,926,982</u>			<u>1,926,982</u>
 Total supporting services	 <u>2,704,659</u>			 <u>2,704,659</u>
 Total expenses	 <u>11,509,069</u>			 <u>11,509,069</u>
Change in net assets (Exhibit C)	<u>(583,729)</u>	<u>338,561</u>	<u>540</u>	<u>(244,628)</u>
Net assets (deficit) - beginning of year, as previously stated	(993,822)	4,040,001	992,460	4,038,639
Restatement (Note 9)		<u>(1,396,638)</u>		<u>(1,396,638)</u>
Net assets (deficit) - beginning of year, restated	<u>(993,822)</u>	<u>2,643,363</u>	<u>992,460</u>	<u>2,642,001</u>
Net assets (deficit) - end of year (Exhibit B)	<u>\$ (1,577,551)</u>	<u>\$ 2,981,924</u>	<u>\$ 993,000</u>	<u>\$ 2,397,373</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AMERICAN LIVER FOUNDATION

BALANCE SHEET

SEPTEMBER 30, 2007

ASSETS

Cash and cash equivalents	\$ 377,419
Investments (Note 3)	5,397,990
Contributions receivable - current	1,468,981
Prepaid expenses and other assets	219,019
Fixed assets - net (Note 4)	<u>602,204</u>
Total assets	<u>\$ 8,065,613</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	\$ 494,691
Payroll and related liabilities	595,263
Funds held on behalf of others (Note 5)	1,330,454
Awards and grants payable (Note 6)	2,447,832
Line of credit (Note 7)	<u>800,000</u>
Total liabilities	<u>5,668,240</u>
Net assets (deficit) (Exhibit A)	
Unrestricted	(1,577,551)
Temporarily restricted (Note 8)	2,981,924
Permanently restricted (Note 8)	<u>993,000</u>
Total net assets	<u>2,397,373</u>
Total liabilities and net assets	<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
YEAR ENDED SEPTEMBER 30, 2007

Cash flows from operating activities	
Change in net assets (Exhibit A)	\$ (244,628)
Adjustments to reconcile change in net assets to net cash used by operating activities	
Depreciation and amortization	133,425
Net gain on investments	(297,342)
Increase in assets	
Contributions receivable	(376,119)
Prepaid expenses and other assets	(106,325)
Decrease in liabilities	
Accounts payable and accrued expenses	(42,551)
Payroll and related liabilities	(49,328)
Funds held on behalf of others	(66,184)
Awards and grants payable	<u>(964,668)</u>
Net cash used by operating activities	<u>(2,013,720)</u>
Cash flows from investing activities	
Purchase of investments	(3,388,290)
Sale of investments	4,887,060
Fixed asset acquisitions	<u>(101,274)</u>
Net cash provided by investing activities	<u>1,397,496</u>
Cash flows from financing activities	
Proceeds from line of credit	<u>100,000</u>
Net decrease in cash and cash equivalents	(516,224)
Cash and cash equivalents - beginning of year	<u>893,643</u>
Cash and cash equivalents - end of year	<u>\$ 377,419</u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	<u>\$ 63,684</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AMERICAN LIVER FOUNDATION

EXHIBIT D

STATEMENT OF FUNCTIONAL EXPENSES

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		
Salaries and related expenses	\$ 1,215,383	\$ 1,001,746	\$ 465,076	\$ 997,736	\$ 879,749	\$ 4,559,690	\$ 447,320	\$ 720,524	\$ -	\$ 1,167,844	\$ 5,727,534
Awards and grants	28,313	23,336	10,834	23,243	20,494	1,066,925	10,420	16,785		27,205	1,066,925
Depreciation and amortization	58,659	48,348	22,446	48,155	42,460	220,068	21,589	36,176		57,765	133,425
Equipment maintenance and repair	20,640	17,012	7,898	14,940	14,940	60,490	24,541	90,208		114,749	277,833
Media	45,960	37,881	17,587	37,729	33,268	172,425	16,915	80,407		97,322	175,239
Postage and shipping	70,906	58,442	27,133	58,208	51,325	266,014	26,097	336,882		362,979	269,747
Printing, publishing and copying	260,917	215,054	99,842	214,193	188,864	978,870	123,050	323,825		446,875	628,993
Professional services	154,972	127,731	59,301	127,220	112,175	581,399	57,037	95,155		152,192	1,425,745
Occupancy (Note 11)	18,347	15,122	7,021	15,062	13,281	68,833	6,753	30,947		37,700	733,591
Supplies	45,510	37,510	17,415	37,360	32,942	170,737	16,750	27,469		44,219	106,533
Telephone and internet	29,757	24,527	11,387	24,429	21,540	111,640	10,952	82,257		93,209	214,956
Travel	13,514	11,138	5,171	11,094	9,782	50,699	4,974	8,011	\$ 1,480,378	1,480,378	204,849
Hotel, catering and other event expenses	104,061	85,769	39,820	85,426	75,324	390,400	38,299	78,336		12,985	1,480,378
Interest	2,066,939	2,770,541	790,931	1,679,855	1,496,144	8,804,410	804,697	1,926,982	1,480,378	4,212,057	13,016,467
Other expenses											
Total expenses											
Less expenses deducted directly from revenues											
Direct costs of special events							(27,020)		(1,480,378)		(1,480,378)
Investment fees											(27,020)
Total expenses reported by function on statement of activities (Exhibit A)	\$ 2,066,939	\$ 2,770,541	\$ 790,931	\$ 1,679,855	\$ 1,496,144	\$ 8,804,410	\$ 777,677	\$ 1,926,982	\$ -	\$ 2,704,659	\$ 11,509,069

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AMERICAN LIVER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

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 25 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 private and corporate contributions, grants and special events revenues.

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.

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AMERICAN LIVER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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 based upon quoted market.

Contributions receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. All contributions receivable are due within one year.

Fixed assets - Fixed assets are recorded at cost. Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the assets.

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AMERICAN LIVER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated services - The Foundation received donated professional services relating primarily to media. The donated services reported in the accompanying financial statements total \$43,721. The Foundation also received a substantial amount of donated clerical and other services from volunteers. The associated revenues and expenses are not reflected in these financial statements, since the services provided do not meet the criteria for recognition under FASB Statement No. 116.

NOTE 3 - INVESTMENTS

Money market funds	\$ 137,879
Government obligations	1,738,724
Corporate obligations	2,460,577
Common stocks	<u>1,060,810</u>
	<u>\$ 5,397,990</u>

Investment income consists of the following:

Interest and dividends	\$ 252,403
Realized gains	641,503
Unrealized losses	(344,161)
Investment fees	<u>(27,020)</u>
	<u>\$ 522,725</u>

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.

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AMERICAN LIVER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 4 - FIXED ASSETS

		<u>Estimated Useful Lives</u>
Building and improvements	\$ 456,782	40 years
Leasehold improvements	68,706	4 - 10 years
Office equipment	214,002	5 years
Computers and peripherals	<u>309,507</u>	3 years
	1,048,997	
Less accumulated depreciation and amortization	<u>(446,793)</u>	
	<u>\$ 602,204</u>	

NOTE 5 - 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 expense.

NOTE 6 - 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%.

The amounts of awards and grants payable at September 30, 2007 are payable as follows:

<u>Year Ending September 30</u>	
2008	\$ 1,618,750
2009	656,250
2010	<u>225,000</u>
	2,500,000
Less discount to present value	<u>(52,168)</u>
Present value of grants payable	<u>\$ 2,447,832</u>

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AMERICAN LIVER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 7 - 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 5.72%, plus 200 Basis Points as of September 30, 2007. The balance due as of September 30, 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, 2007, the Foundation has breached certain covenants relating to the Credit Agreement. This technical default was acknowledged and waived by the Bank.

NOTE 8 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Research program	\$ 2,320,830
Community services	<u>661,094</u>
	<u>\$ 2,981,924</u>

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is restricted for various research projects as stipulated by donors.

During 2007, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes specified by donors:

Research program	\$ 1,066,925
Community services	<u>187,328</u>
	<u>\$ 1,254,253</u>

The Foundation's unrestricted fund has borrowed a total of \$1,577,551 for operating expenses in 2007 from restricted funds. The Foundation intends to repay these funds from operations and fund raising in 2008.

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AMERICAN LIVER FOUNDATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 9 - RESTATEMENT

In prior years audited financial statements, the Foundation recorded monies received on behalf of account participants as temporarily restricted contributions and amounts disbursed on their behalf as expenses. The net balance was reflected as a temporarily restricted net asset balance. This was not the proper treatment. To correct this, a restatement of \$1,396,638 was recorded to re-class the net asset to a liability.

NOTE 10 - PENSION PLAN

The Foundation has a defined contribution retirement plan providing benefits limited to annuity coverage purchased through contributions. Substantially all employees are covered by the plan. The Foundation's contribution is equal to 4.3% of compensation up to \$25,000 and 8.6% of compensation in excess of \$25,000 up to \$220,000. Pension expense for the year ended September 30, 2007 was \$136,265.

NOTE 11 - LEASE COMMITMENTS

The Foundation rents space under several noncancelable operating leases with expiration dates beginning in fiscal year 2008 through fiscal year 2011. 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>	
2008	\$ 600,886
2009	366,057
2010	115,172
2011	31,809

Rent expense for the year was \$595,233.

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. These financial institutions have strong credit ratings and management believes that credit risk related to these accounts is minimal.