

**CHILDREN'S ORGAN  
TRANSPLANT ASSOCIATION, INC.**

**FINANCIAL STATEMENTS**

June 30, 2016 and 2015

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
Bloomington, Indiana

FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Children's Organ Transplant Association, Inc.  
Bloomington, Indiana

**Report on the Financial Statements**

We have audited the accompanying financial statements of Children's Organ Transplant Association, Inc. (COTA), which comprise the statements of financial position as of June 30, 2016 and 2015, 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 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 opinion.

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(Continued)

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Organ Transplant Association, Inc. as of June 30, 2016 and 2015, 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.

*Crowe Horwath LLP*

Crowe Horwath LLP

Indianapolis, Indiana  
October 10, 2016

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 287,995	\$ 437,817
Interest receivable	310,000	310,503
Pledges receivable, net (Note 2)	24,506	52,199
Prepays and other assets	52,085	29,013
Investments (Note 6)	31,488,690	29,139,831
Property and equipment, net (Note 5)	<u>475,713</u>	<u>524,147</u>
	<u>\$ 32,638,989</u>	<u>\$ 30,493,510</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 196,367	\$ 235,019
Line of credit (Note 7)	60,000	34,456
Note payable (Note 8)	<u>3,690</u>	<u>14,494</u>
	260,057	283,969
Net assets		
Unrestricted	481,033	(241,729)
Unrestricted, board designated	<u>2,513,052</u>	<u>2,513,052</u>
Total unrestricted	2,994,085	2,271,323
Temporarily restricted	29,041,641	27,601,287
Permanently restricted	<u>343,206</u>	<u>336,931</u>
	<u>32,378,932</u>	<u>30,209,541</u>
	<u>\$ 32,638,989</u>	<u>\$ 30,493,510</u>

See accompanying notes to financial statements.

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
STATEMENTS OF ACTIVITIES  
Years ended June 30, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE</b>								
Contributions	\$ 337,963	\$ 5,058,645	\$ 6,275	\$ 5,402,883	\$ 321,746	\$ 5,041,751	\$ 1,100	\$ 5,364,597
Other fundraising income	138,843	-	-	138,843	122,179	-	-	122,179
Interest and dividend income (net of investment expenses of \$113,632 and \$109,930)	1,389,358	2,813	-	1,392,171	1,490,609	1,905	-	1,492,514
Realized and unrealized gain (loss) on investments	963,515	(12,155)	-	951,360	(760,230)	(18,686)	-	(778,916)
Lease income and other	118,991	-	-	118,991	118,800	-	-	118,800
Releases from restrictions	<u>3,608,949</u>	<u>(3,608,949)</u>	<u>-</u>	<u>-</u>	<u>3,469,404</u>	<u>(3,469,404)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>6,557,619</u>	<u>1,440,354</u>	<u>6,275</u>	<u>8,004,248</u>	<u>4,762,508</u>	<u>1,555,566</u>	<u>1,100</u>	<u>6,319,174</u>
<b>EXPENSES</b>								
Patient campaign program	4,730,426	-	-	4,730,426	4,575,315	-	-	4,575,315
Management and general	710,119	-	-	710,119	658,279	-	-	658,279
Fundraising	<u>394,312</u>	<u>-</u>	<u>-</u>	<u>394,312</u>	<u>368,290</u>	<u>-</u>	<u>-</u>	<u>368,290</u>
Total expenses	<u>5,834,857</u>	<u>-</u>	<u>-</u>	<u>5,834,857</u>	<u>5,601,884</u>	<u>-</u>	<u>-</u>	<u>5,601,884</u>
<b>Change in net assets</b>	722,762	1,440,354	6,275	2,169,391	(839,376)	1,555,566	1,100	717,290
Net assets, beginning of year	<u>2,271,323</u>	<u>27,601,287</u>	<u>336,931</u>	<u>30,209,541</u>	<u>3,110,699</u>	<u>26,045,721</u>	<u>335,831</u>	<u>29,492,251</u>
<b>Net assets, end of year</b>	<u>\$ 2,994,085</u>	<u>\$ 29,041,641</u>	<u>\$ 343,206</u>	<u>\$ 32,378,932</u>	<u>\$ 2,271,323</u>	<u>\$ 27,601,287</u>	<u>\$ 336,931</u>	<u>\$ 30,209,541</u>

See accompanying notes to financial statements.

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
Year ended June 30, 2016 (with summary totals for the year ended June 30, 2015)

	<u>Patient Campaign</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2016 Total</u>	<u>2015 Total</u>
Salaries and wages	\$ 684,852	\$ 412,507	\$ 150,935	\$ 1,248,294	\$ 1,178,778
Payroll taxes	46,310	29,770	10,218	86,298	81,422
Employee benefits	145,443	91,923	31,849	269,215	253,002
Professional services and fees	29,635	24,535	27,299	81,469	83,551
Transplant patient-related expenses	3,608,949	-	-	3,608,949	3,469,404
Travel	86,848	49,269	26,757	162,874	156,375
Certification fees	18,334	-	-	18,334	14,608
Advertising	34,042	16,104	29,320	79,466	85,726
Utilities	4,195	2,517	6	6,718	8,201
Insurance	10,668	5,530	2,011	18,209	19,366
Repairs and maintenance	9,455	6,674	2,062	18,191	17,091
Depreciation	31,282	18,769	6,826	56,877	53,805
Supplies and office equipment	1,702	25,530	510	27,742	22,417
Postage	15,341	8,009	5,006	28,356	29,937
Telephone	952	7,469	374	8,795	8,773
Miscellaneous	2,418	11,513	101,139	115,070	119,428
	<u>\$ 4,730,426</u>	<u>\$ 710,119</u>	<u>\$ 394,312</u>	<u>\$ 5,834,857</u>	<u>\$ 5,601,884</u>

See accompanying notes to financial statements.

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
Year ended June 30, 2015

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	<u>Patient Campaign</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2015 Total</u>
Salaries and wages	\$ 663,525	\$ 383,931	\$ 131,322	\$ 1,178,778
Payroll taxes	45,214	27,204	9,004	81,422
Employee benefits	140,877	83,684	28,441	253,002
Professional services and fees	30,249	25,523	27,779	83,551
Transplant patient-related expenses	3,469,404	-	-	3,469,404
Travel	71,112	56,925	28,338	156,375
Certification fees	14,608	-	-	14,608
Advertising	53,778	11,226	20,722	85,726
Utilities	4,604	2,675	922	8,201
Insurance	10,883	6,314	2,169	19,366
Repairs and maintenance	8,396	7,087	1,608	17,091
Depreciation	30,196	17,554	6,055	53,805
Supplies and office equipment	6,125	14,262	2,030	22,417
Postage	20,254	5,351	4,332	29,937
Telephone	5,020	3,025	728	8,773
Miscellaneous	<u>1,070</u>	<u>13,518</u>	<u>104,840</u>	<u>119,428</u>
	<u>\$ 4,575,315</u>	<u>\$ 658,279</u>	<u>\$ 368,290</u>	<u>\$ 5,601,884</u>

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See accompanying notes to financial statements.



CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
 STATEMENTS OF CASH FLOWS  
 Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 2,169,391	\$ 717,290
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	56,877	53,805
Realized and unrealized (gains) losses on investments	(951,360)	778,916
Contributions restricted for long term investment	(6,275)	(1,100)
Change in assets and liabilities:		
Interest receivable	503	(12,503)
Pledge receivable	27,693	(2,240)
Prepaid and other assets	(23,072)	(741)
Accounts payable and accrued expenses	<u>(38,652)</u>	<u>98,680</u>
Net cash from operating activities	1,235,105	1,632,107
 <b>Cash flows from investing activities</b>		
Purchase property and equipment	(8,443)	(40,758)
Proceeds from sale of investments	12,241,355	8,925,703
Purchase of investments	<u>(13,638,854)</u>	<u>(10,360,955)</u>
Net cash from investing activities	(1,405,942)	(1,476,010)
 <b>Cash flows from financing activities</b>		
Proceeds from contributions restricted for long term investment	6,275	1,100
Proceeds from line of credit	381,491	240,000
Payment of line of credit	(355,947)	(275,544)
Payment on note payable	<u>(10,804)</u>	<u>(13,079)</u>
Net cash from financing activities	<u>21,015</u>	<u>(47,523)</u>
 Net change in cash and cash equivalents	(149,822)	108,574
 Cash and cash equivalents at beginning of year	<u>437,817</u>	<u>329,243</u>
 <b>Cash and cash equivalents at end of year</b>	<u>\$ 287,995</u>	<u>\$ 437,817</u>
 <b>Supplemental cash flow information</b>		
Interest paid	\$ 3,980	\$ 2,763

See accompanying notes to financial statements.

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization: Children's Organ Transplant Association, Inc. (COTA) was incorporated as a not-for-profit organization in 1986 under the laws of the State of Indiana. Throughout the United States, COTA assists families with children in need of organ transplants in fundraising efforts. COTA also educates the public regarding the need for organ and tissue donations.

COTA is made up of a Board of Directors, a dedicated staff, and volunteer campaign coordinators. The Board sets the direction of COTA, makes policies, and reviews the status of the organization on a regular basis. The staff implements the direction and policy set by the Board and runs the day-to-day operations of COTA. Staff duties include the management of the national headquarters; the organization and development of new campaigns; continuing support of existing campaigns; financial accounting and reporting for patient accounts; the recruitment, training and support of volunteer corps; promotions and public relations of COTA; and the development of national fundraising programs to run the organization.

Basis of Presentation: The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Income Taxes: COTA is exempt from income taxes on income from related activities under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes. Additionally, COTA has been determined not to be a private foundation under Section 509(a) of the Internal Revenue Code.

COTA is subject to income taxes on income generated from activities that are unrelated to its exempt purpose. COTA did not pay any unrelated business income taxes for the years ended June 30, 2016 and 2015.

Financial Accounting Standards Board (FASB) guidance states that a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit will be recorded.

COTA does not expect the total amount of unrecorded tax benefits to significantly change in the next 12 months. COTA recognizes interest and/or penalties related to income tax matters in income tax expense. COTA did not have any amounts accrued for interest and penalties at June 30, 2016 and 2015.

Functional Allocation of Expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates in Preparation of Financial Statements: The preparation of financial statements in conformity with 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 and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents consist of bank deposits in accounts that are federally insured up to \$250,000 per financial institution. Additionally, for purposes of the statement of cash flows, COTA considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. From time to time COTA's cash balances exceed federally insured limits.

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(Continued)

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Investments: Investments are recorded at fair value based on estimates made by the investment trust administrators using current quoted market prices or the market prices of similar securities. Alternative investments, such as limited partnerships, are valued based upon net asset values or other unobservable inputs, as independent market valuations are not available. COTA believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Alternative investments are not readily marketable and their estimated value is subject to uncertainty. Therefore, there may be a material difference between their estimated value and the value that would have been used had a readily determinable fair value for such investments existed.

Investments are initially recorded at cost if they were purchased or at their fair value on the date of the gift if they were received as a donation. Unrealized gains and losses on investments are included in the statements of activities.

COTA's Board of Directors has approved an investment policy statement which the Board intends to preserve investment capital and meet the cash flow needs of the organization.

Pledges Receivable: Pledges receivable represent the remaining balance of unconditional promises to give that have not yet been paid. Pledges that are expected to be collected within one year or less are recorded at net realizable value. Pledges that are expected to be collected beyond one year are recorded at the present value of their estimated future cash flows. The pledges have been discounted using a risk-weighted interest rate applicable during the time the pledge was made. Changes in the pledge discounts are recognized as contribution revenue each year until the pledge is paid in full. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Allowance for Uncollectible Pledges: The allowance for uncollectible pledges is determined by management based upon COTA's historical losses, specific circumstances and general economic conditions. Periodically, management reviews receivables and records an allowance based on current circumstances, and charges off the receivable against the allowance when all attempts to collect the receivable are deemed to have failed in accordance with COTA's collection policy. At June 30, 2016 and 2015, an allowance for uncollectible pledges was provided in the amount of \$1,850 and \$12,800, respectively.

Property and Equipment: Property and equipment are stated at cost or, if donated to COTA, at fair value on the date of acquisition. Additions and improvements are capitalized; expenditures for routine maintenance are charged to operations. Depreciation is provided over the estimated useful lives of the various classes of assets on the straight-line method. COTA has a capitalization policy that states that all property and equipment in excess of \$1,000 are to be capitalized and depreciated. The estimated useful lives are as follows:

	<u>Years</u>
Building and improvements	10-40
Office furniture and equipment	3-10

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(Continued)

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Impairment of Long-Lived Assets: On an ongoing basis, COTA reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. COTA recognizes impairment losses if the undiscounted cash flows expected to be generated by the asset are less than the carrying value of the related asset. The impairment loss adjusts the assets to fair value. As of June 30, 2016 and 2015, management believes that no impairments existed.

Unrestricted Net Assets: Unrestricted net assets represents contributions by donors and other revenues and all related expenses that the Board of Directors has discretionary control to use in carrying on the operations of COTA.

Unrestricted Net Assets, Board Designated: The Board of Directors has designated certain unrestricted net assets as the "Vernon B. Smith Memorial Fund." These funds are to be used for transplant-related expenses for the benefit of transplant patients using COTA's services.

Temporarily Restricted Net Assets: Temporarily restricted net assets are those net assets whose use has been limited by donors to later periods or to specified purposes. The majority of the temporarily restricted net assets are restricted by donor-imposed requirements that the funds be used for transplant-related expenses for patients served by COTA. COTA also has two temporarily restricted net asset accounts that require that the funds be used for transplant and transplant-related expenses for patients who reside within specific geographic areas. Net assets are released from restrictions when used for the satisfaction of program restrictions.

Permanently Restricted Net Assets: Permanently restricted net assets are those net assets for which the donor has stipulated that the contribution be maintained in perpetuity as an endowment to support future operations and program activities. Donor-imposed restrictions limiting the use of assets or their economic benefit neither expire with the passage of time nor can be removed by satisfying a specific purpose.

Revenue Recognition: In accordance with GAAP, revenues are recognized when earned. All contributions are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. If a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as temporarily restricted and released from restriction.

In-Kind Contributions and Donated Services: In addition to receiving cash contributions, COTA on occasion receives in-kind contributions from various donors. It is the policy of COTA to record the estimated fair value of certain in-kind contributions as both revenue and expense for the programs or activities benefited. For the years ended June 30, 2016 and 2015, there were no in-kind contributions.

Additionally, contributions of services are recognized if the services received create or enhance non-financial assets or require specialized skills, that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the years ended June 30, 2016 and 2015, there were no donated services.

Advertising: Advertising costs are expensed during the period in which the advertising first took place.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2016 to determine the need for any adjustments or disclosures within the financial statements for the year ended June 30, 2016. Management has performed their analysis through October 10, 2016, the date the financial statements were available to be issued.

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(Continued)

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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**NOTE 2 - PLEDGES RECEIVABLE**

Pledges receivable at June 30, 2016 and 2015 are unconditional promises to give from various donors. The pledges that are expected to be collected beyond one year have been discounted using a discount rate of 3.0%.

The following is the detail of the pledges receivable balances at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Amounts receivable in:		
Less than one year	\$ 23,631	\$ 55,660
One to five years	<u>3,226</u>	<u>9,840</u>
Total amounts receivable	26,857	65,500
Less:		
Present value discount	(501)	(501)
Allowance for uncollectibles	<u>(1,850)</u>	<u>(12,800)</u>
Pledges receivable, net	<u>\$ 24,506</u>	<u>\$ 52,199</u>

**NOTE 3 - PATIENT ACCOUNTS**

A patient relationship is initiated by a family requesting assistance from COTA to help organize a fundraising campaign. The family signs a contract (patient agreement) which gives COTA the right to raise funds on behalf of the patient and use the patient's picture and story as promotional material. COTA works with the family to set up the campaign's initial organization prior to COTA's on-site visit. From there, volunteers, family, and COTA work as a team to raise the necessary funds to cover the costs of transplant and related costs.

At the start of the campaign, COTA sets up a Corporate Depository Account (field bank account) for the campaign, and all previous fundraising accounts are transferred to the field account. COTA assumes responsibility and control of these funds upon deposit in the field accounts. A volunteer designated by the family coordinates local fundraising efforts and the collections from local fundraising events and makes deposits to the field account. In addition, some donors send contributions directly to COTA's office. The funds are recorded as temporarily restricted contributions in COTA's accounting system when deposited.

Contributions received from donors with a restriction that they be used for patient transplant related expenses are allocated to specific patient accounts according to set procedures approved and reviewed by COTA's Allocation Committee, a standing committee of the Board of Directors, on a quarterly basis. The allocations are based upon the estimated cost of the transplant that is needed by the patient. As transplant-related expenses are incurred by the patients, the funds are released from restriction.

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(Continued)

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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**NOTE 3 - PATIENT ACCOUNTS** (Continued)

When the patient has a successful transplant procedure, subsequent transplant-related expenses will continue to be reviewed for payment by COTA or if money remains, it will be re-allocated to a pool that is available for meeting approved expenses of other patient accounts. When a patient passes away and after all transplant-related expenses are considered, the money remaining is also re-allocated to a pool that is available for meeting approved expenses of other patient accounts. In addition to transplant expenses, these funds also pay for patient websites, merchant fees, and general emergency grants for patients. The Allocations Committee reviews the funding needs of patients on a quarterly basis, and reallocates funds to patient accounts as the needs arise. On an annual basis the needs of all past patients are reviewed for possible allocations. For the years ended June 30, 2016 and 2015, reallocations from the pool of funds from deceased patients were \$202,986 and \$318,373, respectively.

Though COTA is dedicated to ensuring that no child is excluded from a life saving organ transplant because of a lack of funds, COTA is not legally required by contract to cover all transplant-related expenses. When COTA provides additional funding to a patient's campaign, COTA may utilize funds from the patient reallocation fund and the Vernon B. Smith Memorial Fund at its discretion.

At June 30, 2016 and 2015, COTA had approximately 1,797 and 1,660 active patient accounts, representing \$29,041,641 and \$27,601,287 of temporarily restricted net assets. For the years ended June 30, 2016 and 2015, COTA had temporarily restricted contributions for transplant-related expenses of \$5,058,645 and \$5,041,751.

**NOTE 4 - PATIENT COMMITMENTS AND GUARANTEES**

Some health care providers may require a commitment from COTA to cover the transplant expense for an individual so that if a transplant organ becomes available, the hospital is assured that it will be paid for its services. After COTA has made a commitment to a health care provider for an individual patient, they continue to work with the family to raise money to cover the commitment made by COTA and other costs.

When an organ is available and a transplant has taken place, but the family has not raised enough money to cover COTA's commitment, then COTA records a contribution expense and guarantee liability on the statement of financial position. As of June 30, 2016 and 2015, no guarantee liabilities are outstanding.

**NOTE 5 - PROPERTY AND EQUIPMENT**

COTA's property and equipment are as follows at June 30:

	<u>2016</u>	<u>2015</u>
Land	\$ 80,645	\$ 80,645
Buildings and improvements	799,870	799,870
Office furniture and equipment	<u>318,442</u>	<u>404,051</u>
	1,198,957	1,284,566
Accumulated depreciation	<u>(723,244)</u>	<u>(760,419)</u>
	<u>\$ 475,713</u>	<u>\$ 524,147</u>

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(Continued)

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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**NOTE 6 - INVESTMENTS**

COTA's investments at fair value consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Money market funds	\$ 1,184,983	\$ 1,793,460
Municipal bonds	3,751,487	4,878,641
Corporate bonds	17,776,312	14,636,254
Exchange traded funds	532,689	243,669
Mutual funds	2,299,926	1,926,702
Equities	2,783,292	2,131,825
Preferred equities	2,415,449	2,000,162
Asset-backed securities	369,213	402,300
Limited partnerships	<u>375,339</u>	<u>1,126,818</u>
	<u>\$ 31,488,690</u>	<u>\$ 29,139,831</u>

Investment return is comprised of the following at June 30:

	<u>2016</u>	<u>2015</u>
Interest and dividend income, net of investment expenses of \$113,632 and \$109,930 for 2016 and 2015	<u>\$ 1,392,172</u>	<u>\$ 1,492,514</u>
Realized gains on sale of investments	76,110	513,105
Unrealized gains (losses) on investments	<u>875,250</u>	<u>(1,292,021)</u>
Realized and unrealized gain (loss) on investments	<u>\$ 951,360</u>	<u>\$ (778,916)</u>

The various investments in bonds, exchange traded funds, mutual funds, equities and other investments are exposed to a variety of uncertainties, including interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of these investments could occur in the near term. Such changes could materially affect the amounts reported in COTA's financial statements.

**NOTE 7 - LINE OF CREDIT**

COTA has an unsecured line of credit at a local bank which provides for borrowings of up to \$200,000. Interest is charged on amounts borrowed at a rate of 4.00% at June 30, 2016 and 2015. The line of credit expires on December 28, 2016. Outstanding balances at June 30, 2016 and 2015 were \$60,000 and \$34,456, respectively. Interest expense was \$3,630 and \$2,027 for the years ended June 30, 2016 and 2015, respectively.

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(Continued)

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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**NOTE 8 - NOTE PAYABLE**

COTA entered into a 36 month loan agreement for the purchase of a vehicle in November 2013. The total loan amount is \$31,843 with a fixed interest rate of 3.24% and monthly principal and interest payments of \$929. For the years ended June 30, 2016 and 2015, interest expense was \$350 and \$736, respectively. Future maturities as of June 30, 2016 are as follows:

2017	<u>\$ 3,690</u>
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**NOTE 9 - EMPLOYEE BENEFITS**

For the years ended June 30, 2016 and 2015, COTA sponsored two defined contribution retirement plans. Contributions to both plans are made for all employees with at least one year of service. The first plan requires mandatory employer contributions of 7% of each eligible employee's total compensation. Contributions under the second plan are a matching contribution by COTA. Each eligible employee may contribute up to the IRS limits of his or her salary and COTA will match 4% of their contribution. Considering both defined contribution plans, the maximum amount contributed by COTA cannot exceed 11% of each eligible employee's compensation. Employee benefit expense under these plans was \$117,466 and \$115,090 for the years ending June 30, 2016 and 2015.

**NOTE 10 - OPERATING LEASE AS LESSOR**

COTA has entered into a lease agreement as the lessor of a portion of their headquarters building beginning September 13, 2013, through September 12, 2018. The lessee has an option to extend the lease for four additional terms of five years each. The cost of insurance, taxes, and maintenance are paid by the lessee. Other expenses related to the lease are included in COTA's general and administrative expense. Total minimum rentals to be collected under the operating lease with noncancelable lease terms as of June 30, 2016 over future fiscal years are:

2017	\$ 118,800
2018	118,800
2019	<u>24,750</u>
	<u>\$ 262,350</u>

**NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in COTA's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

GAAP establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

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(Continued)



**NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS** (Continued)

Level 2: Significant other 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.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The fair values of equities, mutual funds, money market funds, and exchange traded funds are based on quoted prices on nationally recognized securities exchanges. (Level 1 inputs)

The fair value of corporate and municipal bonds, preferred equities, and asset-backed securities are based on inputs that are observable, but not active using the market approach. These inputs include matrix pricing models and comparison to prices of similar assets. (Level 2 inputs)

The fair value of alternative investments, such as limited partnerships, is based upon the net asset value or its equivalent using the market method, as reported by the entities, with additional analysis performed by management, as such investments have significant unobservable valuation inputs. To the extent that a legal or contractual restriction is specific to (and an attribute of) the investment and, therefore, would transfer with the investment upon sale to another market participant, it is considered as part of the investment's fair value determination. (Level 3 inputs)

COTA held investments in three and seven limited partnerships, as of June 30, 2016 and 2015, respectively, which implement various investment strategies. The limited partnerships can be classified into three different types: real estate investment trust (REIT), energy royalties, and venture capital.

- REIT limited partnerships are comprised of one limited partnership as of June 30, 2016 and five different limited partnerships as of June 30, 2015, that operate similarly by acquiring, developing, and operating various types of industrial or commercial real estate properties. These REIT limited partnerships operate similarly to a REIT, but without the legal obligation to follow REIT specific regulations. Due to the investment strategy and life cycle of the REITs these investments have the potential to be illiquid. None of the REITs have any planned liquidations at this time and management has estimated that there will be no liquidations for 10 to 15 years.
- Energy royalties are comprised of one limited partnership whose strategy is to purchase energy related royalty rights contracts (primarily oil and gas). No liquidation date has been set for this limited partnership; however, management has estimated that it will be liquidated in 10 to 15 years.
- Venture capital is comprised of one limited partnership with the purpose of equipment financing and acquisition to engage in equipment lending and sales activities. No liquidation date has been set for this limited partnership; however, management has estimated that it will be liquidated in 10 to 15 years.

Currently there are no unfunded commitments to any of the limited partnerships in which COTA is invested.

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(Continued)

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

**NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

The following table summarizes COTA's investments that are measured at fair value on a recurring basis as of June 30, 2016 and 2015:

<u>June 30, 2016</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	<u>Total</u>
Money market funds	\$ 1,184,983	\$ -	\$ -	\$ 1,184,983
Municipal bonds	-	3,751,487	-	3,751,487
Corporate bonds	-	17,776,312	-	17,776,312
Exchange traded funds	532,689	-	-	532,689
Mutual funds:				
Fixed income	1,877,379	-	-	1,877,379
Equity	345,273	-	-	345,273
REITs	77,274	-	-	77,274
Equities:				
Large cap	2,700,680	-	-	2,700,680
Mid cap	82,612	-	-	82,612
Preferred equities	-	2,415,449	-	2,415,449
Asset-backed securities	-	369,213	-	369,213
Limited partnerships:				
REITs	-	-	42,883	42,883
Energy royalties	-	-	188,715	188,715
Venture capital	-	-	143,741	143,741
	<u>\$ 6,800,890</u>	<u>\$ 24,312,461</u>	<u>\$ 375,339</u>	<u>\$ 31,488,690</u>
<u>June 30, 2015</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	<u>Total</u>
Money market funds	\$ 1,793,460	\$ -	\$ -	\$ 1,793,460
Municipal bonds	-	4,878,641	-	4,878,641
Corporate bonds	-	14,636,254	-	14,636,254
Exchange traded funds	243,669	-	-	243,669
Mutual funds:				
Fixed income	1,530,043	-	-	1,530,043
Equity	188,845	-	-	188,845
REITs	207,814	-	-	207,814
Equities:				
Large cap	1,934,782	-	-	1,934,782
Mid cap	117,013	-	-	117,013
Small cap	80,030	-	-	80,030
Preferred equities	-	2,000,162	-	2,000,162
Asset-backed securities	-	402,300	-	402,300
Limited partnerships:				
REITs	-	-	765,677	765,677
Energy royalties	-	-	197,400	197,400
Venture capital	-	-	163,741	163,741
	<u>\$ 6,095,656</u>	<u>\$ 21,917,357</u>	<u>\$ 1,126,818</u>	<u>\$ 29,139,831</u>

(Continued)

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

**NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS** (Continued)

The tables below presents a reconciliation and statement of activities classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2016 and 2015:

	<u>REITs</u>	<u>Energy Royalties</u>	<u>Venture Capital</u>	<u>Total</u>
Beginning balance, July 1, 2015	\$ 765,677	\$ 197,400	\$ 163,741	\$ 1,126,818
Unrealized losses	(5,250)	(4,505)	(503)	(10,258)
Realized gains	194,121	-	-	194,121
Withdrawals	(911,665)	(4,180)	(19,497)	(935,342)
Ending balance, June 30, 2016	<u>\$ 42,883</u>	<u>\$ 188,715</u>	<u>\$ 143,741</u>	<u>\$ 375,339</u>

	<u>REITs</u>	<u>Energy Royalties</u>	<u>Venture Capital</u>	<u>Total</u>
Beginning balance, July 1, 2014	\$ 995,751	\$ 212,662	\$ 213,992	\$ 1,422,405
Unrealized gains (losses)	(33,255)	6,212	4,749	(22,294)
Withdrawals	(196,819)	(21,474)	(55,000)	(273,293)
Ending balance, June 30, 2015	<u>\$ 765,677</u>	<u>\$ 197,400</u>	<u>\$ 163,741</u>	<u>\$ 1,126,818</u>

For the years ending June 30, 2016 and 2015, COTA had unrealized losses of approximately \$937,000 and \$61,000, respectively, on investments that were still held as of the end of the year.

**NOTE 12 - ENDOWMENT COMPOSITION**

The COTA's endowment consists of donor-restricted funds for operational or patient-related needs.

Interpretation of Relevant Law: The Board of Directors of COTA have interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, COTA classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Board of Directors considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of COTA and the donor-restricted endowment fund
- (3) General economic conditions and the possible effect of inflation and deflation
- (4) The expected total return from income and the appreciation of investments
- (5) The investment policies of COTA and other resources of COTA

(Continued)

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

**NOTE 12 - ENDOWMENT COMPOSITION** (Continued)

Endowment net asset composition by type of fund as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$ -	\$ 83,750	\$ 343,206	\$ 426,956

Endowment net asset composition by type of fund as of June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$ -	\$ 93,092	\$ 336,931	\$ 430,023

Changes in endowment net assets for year ended June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ -	\$ 93,092	\$ 336,931	\$ 430,023
Investment income, net of fees	-	2,813	-	2,813
Net realized and unrealized losses	-	(12,155)	-	(12,155)
Investment loss, net	-	(9,342)	-	(9,342)
Contributions	-	-	6,275	6,275
Net assets, end of year	<u>\$ -</u>	<u>\$ 83,750</u>	<u>\$ 343,206</u>	<u>\$ 426,956</u>

Changes in endowment net assets for year ended June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ -	\$ 109,873	\$ 335,831	\$ 445,704
Investment income, net of fees	-	1,905	-	1,905
Net realized and unrealized losses	-	(18,686)	-	(18,686)
Investment loss, net	-	(16,781)	-	(16,781)
Contributions	-	-	1,100	1,100
Net assets, end of year	<u>\$ -</u>	<u>\$ 93,092</u>	<u>\$ 336,931</u>	<u>\$ 430,023</u>

Return Objectives and Risk Parameters: COTA has adopted investment and spending policies for endowment assets that attempt to preserve and enhance the purchasing and earning value of the funds being invested, seek competitive investment performance, produce annual income, and produce growth to hedge inflation over time. COTA expects its endowment funds, over time, to provide an average rate of return of at least 5% plus CPI. Actual returns in any given year may vary from this amount.

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CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

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**NOTE 12 - ENDOWMENT COMPOSITION** (Continued)

Strategies Employed for Achieving Objectives: To satisfy its objectives, COTA relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). COTA targets a diversified asset allocation of fixed income, U.S. equities, real estate, and international equities to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy: COTA has a policy of appropriating for distribution each year up to 5% of the endowment fund's average fair value of the three fiscal year ends preceding the fiscal year in which the distribution is planned. If the fair value of the assets falls below the principal, no amounts will be appropriated unless approved by the Board. This is consistent with COTA's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. Endowment fund principal, unless otherwise directed by the donor, shall not be expended.