

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

**FINANCIAL STATEMENTS**

June 30, 2018 and 2017

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

FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 LLP*  
Crowe LLP

Indianapolis, Indiana  
September 11, 2018

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 57,896	\$ 314,230
Interest receivable	410,000	366,000
Pledges and grants receivable, net (Note 2)	197,769	369,139
Prepays and other assets	44,842	64,934
Investments (Note 6)	33,695,069	33,501,285
Property and equipment, net (Note 5)	<u>539,084</u>	<u>463,155</u>
	<u>\$ 34,944,660</u>	<u>\$ 35,078,743</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 214,022	\$ 220,846
Line of credit (Note 7)	<u>157,274</u>	<u>47,274</u>
	371,296	268,120
 Net assets		
Unrestricted	(397,458)	854,228
Unrestricted, board designated	<u>2,513,052</u>	<u>2,513,052</u>
Total unrestricted	2,115,594	3,367,280
Temporarily restricted	32,105,769	31,095,687
Permanently restricted	<u>352,001</u>	<u>347,656</u>
	<u>34,573,364</u>	<u>34,810,623</u>
	<u>\$ 34,944,660</u>	<u>\$ 35,078,743</u>

See accompanying notes to financial statements.

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
STATEMENTS OF ACTIVITIES  
Years ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE</b>								
Contributions	\$ 361,197	\$ 4,978,145	\$ 4,345	\$ 5,343,687	\$ 346,613	\$ 6,014,087	\$ 4,450	\$ 6,365,150
Other fundraising income	155,869	-	-	155,869	170,394	-	-	170,394
Interest and dividend income (net of investment expenses of \$137,439 and \$128,418	1,566,129	3,582	-	1,569,711	1,504,238	2,964	-	1,507,202
Realized and unrealized gain (loss) on investments	(1,080,758)	77,067	-	(1,003,691)	564,036	63,097	-	627,133
Lease income and other	120,616	-	-	120,616	118,800	-	-	118,800
Releases from restrictions	4,048,712	(4,048,712)	-	-	4,026,102	(4,026,102)	-	-
<b>Total revenue</b>	<u>5,171,765</u>	<u>1,010,082</u>	<u>4,345</u>	<u>6,186,192</u>	<u>6,730,183</u>	<u>2,054,046</u>	<u>4,450</u>	<u>8,788,679</u>
<b>EXPENSES</b>								
Patient campaign program	5,186,251	-	-	5,186,251	5,238,341	-	-	5,238,341
Management and general	700,094	-	-	700,094	705,862	-	-	705,862
Fundraising	537,106	-	-	537,106	412,785	-	-	412,785
<b>Total expenses</b>	<u>6,423,451</u>	<u>-</u>	<u>-</u>	<u>6,423,451</u>	<u>6,356,988</u>	<u>-</u>	<u>-</u>	<u>6,356,988</u>
<b>Changes in net assets</b>	(1,251,686)	1,010,082	4,345	(237,259)	373,195	2,054,046	4,450	2,431,691
Net assets, beginning of year	<u>3,367,280</u>	<u>31,095,687</u>	<u>347,656</u>	<u>34,810,623</u>	<u>2,994,085</u>	<u>29,041,641</u>	<u>343,206</u>	<u>32,378,932</u>
<b>Net assets, end of year</b>	<u>\$ 2,115,594</u>	<u>\$ 32,105,769</u>	<u>\$ 352,001</u>	<u>\$ 34,573,364</u>	<u>\$ 3,367,280</u>	<u>\$ 31,095,687</u>	<u>\$ 347,656</u>	<u>\$ 34,810,623</u>

See accompanying notes to financial statements.

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
Year ended June 30, 2018 (with summary totals for the year ended June 30, 2017)

	<u>Patient Campaign</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2018 Total</u>	<u>2017 Total</u>
Salaries and wages	\$ 711,970	\$ 424,628	\$ 227,548	\$ 1,364,146	\$ 1,320,625
Payroll taxes	48,775	31,078	15,658	95,511	90,826
Employee benefits	170,042	105,235	53,167	328,444	278,697
Professional services and fees	26,857	26,960	43,983	97,800	86,974
Transplant patient-related expenses	3,992,712	-	-	3,992,712	4,026,102
Travel	88,979	24,076	25,354	138,409	170,841
Certification fees	18,395	-	-	18,395	14,880
Advertising	51,791	3,248	43,843	98,882	97,608
Utilities	4,673	2,787	1,484	8,944	8,024
Insurance	12,229	7,296	3,854	23,379	22,477
Repairs and maintenance	6,705	10,401	2,104	19,210	27,027
Depreciation	25,451	15,188	7,892	48,531	47,457
Supplies and office equipment	3,664	19,102	649	23,415	17,622
Postage	14,840	7,868	7,469	30,177	28,004
Telephone	5,086	10,355	1,371	16,812	16,987
Miscellaneous	4,082	11,872	102,730	118,684	102,837
	<u>\$ 5,186,251</u>	<u>\$ 700,094</u>	<u>\$ 537,106</u>	<u>\$ 6,423,451</u>	<u>\$ 6,356,988</u>

See accompanying notes to financial statements.

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
Year ended June 30, 2017

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	<u>Patient Campaign</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2017 Total</u>
Salaries and wages	\$ 726,344	\$ 435,806	\$ 158,475	\$ 1,320,625
Payroll taxes	49,152	30,950	10,724	90,826
Employee benefits	152,457	92,976	33,264	278,697
Professional services and fees	27,573	26,137	33,264	86,974
Transplant patient-related expenses	4,026,102	-	-	4,026,102
Travel	120,086	24,150	26,605	170,841
Certification fees	14,880	-	-	14,880
Advertising	45,599	8,244	43,765	97,608
Utilities	4,413	2,648	963	8,024
Insurance	12,315	7,475	2,687	22,477
Repairs and maintenance	8,352	16,853	1,822	27,027
Depreciation	26,101	15,661	5,695	47,457
Supplies and office equipment	548	17,210	(136)	17,622
Postage	13,929	7,643	6,432	28,004
Telephone	5,692	10,289	1,006	16,987
Miscellaneous	<u>4,798</u>	<u>9,820</u>	<u>88,219</u>	<u>102,837</u>
	<u>\$ 5,238,341</u>	<u>\$ 705,862</u>	<u>\$ 412,785</u>	<u>\$ 6,356,988</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities</b>		
Changes in net assets	\$ (237,259)	\$ 2,431,691
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation	48,531	47,457
Realized and unrealized (gains) losses on investments	1,003,691	(627,133)
Contributions restricted for long term investment	(4,345)	(4,450)
Change in assets and liabilities:		
Interest receivable	(44,000)	(56,000)
Pledge receivable	171,370	(344,633)
Prepaid and other assets	20,092	(12,849)
Accounts payable and accrued expenses	<u>(6,824)</u>	<u>24,479</u>
Net cash from operating activities	951,256	1,458,562
 <b>Cash flows from investing activities</b>		
Purchase property and equipment	(124,460)	(34,899)
Proceeds from sale of investments	8,099,280	11,391,403
Purchase of investments	<u>(9,296,755)</u>	<u>(12,776,865)</u>
Net cash from investing activities	(1,321,935)	(1,420,361)
 <b>Cash flows from financing activities</b>		
Proceeds from contributions restricted for long term investment	4,345	4,450
Proceeds from line of credit	110,000	-
Payments on line of credit	-	(12,726)
Payments on note payable	<u>-</u>	<u>(3,690)</u>
Net cash from financing activities	<u>114,345</u>	<u>(11,966)</u>
 Net change in cash and cash equivalents	(256,334)	26,235
 Cash and cash equivalents at beginning of year	<u>314,230</u>	<u>287,995</u>
 <b>Cash and cash equivalents at end of year</b>	<u>\$ 57,896</u>	<u>\$ 314,230</u>
 <b>Supplemental cash flow information</b>		
Interest paid	\$ 6,301	\$ 3,202

See accompanying notes to financial statements.

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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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 helps families with children in need of organ and bone marrow transplants by providing fundraising assistance and family support. 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 community campaigns; the 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, 2018 and 2017.

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, 2018 and 2017.

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 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, 2018 and 2017

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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 quoted market prices or the market prices of similar securities. Alternative investments, such as limited partnerships, are valued based upon net asset values (NAV) as reported by the investment manager 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 with 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, 2018 and 2017, an allowance for uncollectible pledges was provided in the amount of \$1,850 each year.

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, 2018 and 2017

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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, 2018 and 2017, 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 at the discretion of the Board of Directors.

Temporarily Restricted Net Assets: Temporarily restricted net assets are those net assets whose use has been limited by donors to later periods or for specified purposes. 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 32 temporarily restricted accounts that require that the funds be used for transplant and transplant-related expenses for patients who reside within specific geographic areas or for patients who suffer from specific illnesses. 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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 to determine the need for any adjustments or disclosures within the financial statements for the year ended June 30, 2018. Management has performed their analysis through September 11, 2018, the date the financial statements were available to be issued.

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

Recent Accounting Pronouncements: In May 2014, the FASB issued (ASU) 2014-09, Revenue from Contracts with Customers: Topic 606. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective retrospectively for fiscal years beginning after December 15, 2018. COTA has not yet implemented this ASU or determined the impact of adoption.

In February 2016, the FASB issued ASU 2016-02 (Topic 842): Leases. The amendment requires any entity that enters into a lease agreement to recognize a lease right-of-use asset along with a lease liability for the lease payments in the statement of financial position. When measuring assets and liabilities arising from a lease, a lease should include payments to be made in the optional periods only if the lessee is reasonable certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election to not recognize lease assets and lease liabilities. The amendment is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. COTA has not yet implemented this ASU or determined the impact of adoption.

In August 2016, the FASB issued ASU 2016-14 (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities. The amendment requires entities to present two classes of net assets, rather than the current three classes on the statement of financial position and on the face of the statement of activities the amount of the change in each of the two classes, provide enhanced disclosures about the amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions and composition of net assets with donor restrictions and how the restrictions affect the use of the resources, qualitative information that communicates how a not-for-profit manages its liquid resources, quantitative information that communicates the availability of financial assets at the balance sheet date to meet cash needs, amounts of expenses by both their natural classification and their functional classification, and the method(s) used to allocate costs among program and support functions. This amendment is effective for annual financial statements issued for fiscal years beginning after December 15, 2017 with early adoption permitted. COTA has not yet implemented this ASU or determined the impact of adoption.

**NOTE 2 - PLEDGES AND GRANTS RECEIVABLE**

Pledges and grants receivable at June 30, 2018 and 2017 are unconditional promises to give from various donors. The pledges and grants that are expected to be collected beyond one year have been discounted using a discount rate of 3.0%.

In June 2017, COTA received and recorded an unconditional grant for \$490,000, to be used for transplant related expenses for patients in the state of Texas. The grant is payable in scheduled installments over three years and has an outstanding balance at June 30, 2018 and 2017 of \$180,000 and \$340,000, respectively.

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(Continued)

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**NOTE 2 - PLEDGES AND GRANTS RECEIVABLE** (Continued)

The following is the detail of the pledges and grants receivable balances at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Amounts receivable in:		
Less than one year	\$ 16,749	\$ 28,181
One to five years	<u>183,371</u>	<u>343,309</u>
Total amounts receivable	200,120	371,490
Less:		
Present value discount	(501)	(501)
Allowance for uncollectibles	<u>(1,850)</u>	<u>(1,850)</u>
Pledges and grants receivable, net	<u>\$ 197,769</u>	<u>\$ 369,139</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 community volunteers to organize a campaign to raise funds to cover the costs of transplant and related costs.

At the start of the campaign, a volunteer designated by the family coordinates community fundraising efforts and sends proceeds to the COTA corporate office. 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, three times each year. 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.

As patients are treated, transplant-related expenses will be reviewed for payment by COTA. If 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 COTA staff and Allocations Committee reviews the funding needs of patients regularly, and allocates funds to patient accounts as the needs arise. On an annual basis the needs of past patients are reviewed for possible allocations. For the years ended June 30, 2018 and 2017, reallocations from the pool of funds from deceased patients were \$206,325 and \$194,480, respectively.

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(Continued)

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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

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, 2018 and 2017, COTA had approximately 2,172 and 1,990 active patient accounts, representing \$32,161,769 and \$31,095,687 of temporarily restricted net assets. For the years ended June 30, 2018 and 2017, COTA had temporarily restricted contributions for transplant-related expenses of \$4,978,145 and \$6,014,087.

**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 community volunteers 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 community volunteers 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, 2018 and 2017, no guarantee liabilities are outstanding.

**NOTE 5 - PROPERTY AND EQUIPMENT**

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

	<u>2018</u>	<u>2017</u>
Land	\$ 80,645	\$ 80,645
Buildings and improvements	884,993	799,870
Office furniture and equipment	<u>392,678</u>	<u>353,341</u>
	1,358,316	1,233,856
Accumulated depreciation	<u>(819,232)</u>	<u>(770,701)</u>
	<u>\$ 539,084</u>	<u>\$ 463,155</u>

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(Continued)

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2018 and 2017

**NOTE 6 - INVESTMENTS**

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

	<u>2018</u>	<u>2017</u>
Money market funds	\$ 705,683	\$ 533,561
Municipal bonds	2,290,247	2,945,591
Corporate bonds	22,162,935	21,376,866
Exchange traded funds	690,132	643,600
Mutual funds	859,188	884,160
Equities	3,431,198	3,318,989
Preferred equities	1,475,292	1,500,690
Asset-backed securities	263,262	348,623
Unit investment trusts	1,658,498	1,605,973
Limited partnerships	<u>158,634</u>	<u>343,232</u>
	<u>\$ 33,695,069</u>	<u>\$ 33,501,285</u>

Investment return is comprised of the following at June 30:

	<u>2018</u>	<u>2017</u>
Interest and dividend income, net of investment expenses of \$137,439 and \$128,418 for 2018 and 2017	<u>\$ 1,569,711</u>	<u>\$ 1,507,202</u>
Realized gains on sale of investments	292,873	400,024
Unrealized gains (losses) on investments	<u>(1,296,564)</u>	<u>227,109</u>
Realized and unrealized gain on investments	<u>\$ (1,003,691)</u>	<u>\$ 627,133</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 \$500,000. Interest is charged on amounts borrowed at a rate of 4.25% and 4.00% at June 30, 2018 and 2017. The line of credit expires on December 28, 2018. Outstanding balances at June 30, 2018 and 2017 were \$157,274 and \$47,274, respectively. Interest expense was \$6,301 and \$3,202 for the years ended June 30, 2018 and 2017, respectively.

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CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 8 - EMPLOYEE BENEFITS**

For the years ended June 30, 2018 and 2017, 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 \$131,909 and \$107,462 for the years ending June 30, 2018 and 2017.

**NOTE 9 - 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, 2018 over future fiscal years are:

2019	<u>\$ 24,750</u>
	<u>\$ 24,750</u>

**NOTE 10 - 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.

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)

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**NOTE 10 - FAIR VALUE OF FINANCIAL INSTRUMENTS** (Continued)

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 NAV or its equivalent using the market method, as reported by the investment manager, with additional analysis performed by management, as such investments have significant unobservable valuation inputs and are excluded from the valuations hierarchy, pursuant to the adoption of ASU 2015-07, *Fair Value Measurement* in 2017. Due to current market conditions as well as limited trading activity of these securities, the fair value of the securities is highly sensitive to assumption changes and market volatility. The market approach is used to determine fair value.

COTA held an investment in one limited partnership as of June 30, 2018 and three as of June 30, 2017, 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 is comprised of one limited partnerships, that acquires, develops, and operates various types of industrial or commercial real estate properties. This REIT limited partnership 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 is investment has the potential to be illiquid. This investent was liquidated during fiscal year 2018.
- Energy royalties is 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. This investment was liquidated during fiscal year 2018.

Currently there are no unfunded commitments to the one limited partnership in which COTA is invested.

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(Continued)

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

**NOTE 10 - 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, 2018 and 2017:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>June 30, 2018</b>				
Money market funds	\$ 705,683	\$ -	\$ -	\$ 705,683
Municipal bonds	-	2,290,247	-	2,290,247
Corporate bonds	-	22,162,935	-	22,162,935
Exchange traded funds	690,132	-	-	690,132
Mutual funds:				
Fixed income	110,324	-	-	110,324
Equity	400,446	-	-	400,446
REITs	348,418	-	-	348,418
Equities:				
Large cap	3,319,821	-	-	3,319,821
Mid cap	111,377	-	-	111,377
Preferred equities	-	1,475,292	-	1,475,292
Asset-backed securities	-	263,262	-	263,262
Unit investment trusts	1,658,498	-	-	1,658,498
	<u>7,344,699</u>	<u>26,191,736</u>	<u>-</u>	<u>33,536,435</u>
Investments valued at NAV:				
Limited partnerships:				
Energy royalties				<u>158,634</u>
				<u>\$ 33,695,069</u>
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>June 30, 2017</b>				
Money market funds	\$ 533,561	\$ -	\$ -	\$ 533,561
Municipal bonds	-	2,945,591	-	2,945,591
Corporate bonds	-	21,376,866	-	21,376,866
Exchange traded funds	643,600	-	-	643,600
Mutual funds:				
Equity	459,267	-	-	459,267
REITs	424,893	-	-	424,893
Equities:				
Large cap	3,207,612	-	-	3,207,612
Mid cap	111,377	-	-	111,377
Preferred equities	-	1,500,690	-	1,500,690
Asset-backed securities	-	348,623	-	348,623
Unit investment trusts	1,605,973	-	-	1,605,973
	<u>6,986,283</u>	<u>26,171,770</u>	<u>-</u>	<u>33,158,053</u>
Investments valued at NAV:				
Limited partnerships:				
REITs				37,200
Energy royalties				169,791
Venture capital				<u>136,241</u>
				<u>\$ 33,501,285</u>

(Continued)

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
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**NOTE 11 - ENDOWMENT COMPOSITION**

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 adopted in the State of Indiana, 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

Endowment net asset composition by type of fund as of June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$ -	\$ 230,461	\$ 352,001	\$ 582,462

Endowment net asset composition by type of fund as of June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$ -	\$ 149,811	\$ 347,656	\$ 497,467

Changes in endowment net assets for year ended June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ -	\$ 149,811	\$ 347,656	\$ 497,467
Investment income, net of fees	-	3,582	-	3,582
Net realized and unrealized gains	-	77,067	-	77,067
Investment gain, net	-	80,649	-	80,649
Contributions	-	-	4,345	4,345
Appropriation for expenditure	-	(56,000)	-	-
Net assets, end of year	\$ -	\$ 174,460	\$ 352,001	\$ 526,461

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**NOTE 11 - ENDOWMENT COMPOSITION** (Continued)

Changes in endowment net assets for year ended June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ -	\$ 83,750	\$ 343,206	\$ 426,956
Investment income, net of fees	-	2,964	-	2,964
Net realized and unrealized gains	-	<u>63,097</u>	-	<u>63,097</u>
Investment gain, net	-	66,061	-	66,061
Contributions	-	-	<u>4,450</u>	<u>4,450</u>
Net assets, end of year	<u>\$ -</u>	<u>\$ 149,811</u>	<u>\$ 347,656</u>	<u>\$ 497,467</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.

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.

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