

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

**FINANCIAL STATEMENTS**

June 30, 2021 and 2020

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

FINANCIAL STATEMENTS  
June 30, 2021 and 2020

CONTENTS

INDEPENDENT AUDITOR'S REPORT .....	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION .....	3
STATEMENTS OF ACTIVITIES.....	4
STATEMENTS OF FUNCTIONAL EXPENSES.....	5
STATEMENTS OF CASH FLOWS.....	7
NOTES TO FINANCIAL STATEMENTS .....	8

## 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, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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, 2021 and 2020, 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

Indianapolis, Indiana  
August 19, 2021

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 249,518	\$ 202,739
Interest receivable	312,000	306,000
Pledges and grants receivable, net (Note 2)	268,349	477,811
Prepays and other assets	54,646	64,031
Investments (Note 6)	46,458,875	39,289,022
Property and equipment, net (Note 5)	<u>442,714</u>	<u>443,203</u>
	<u>\$ 47,786,102</u>	<u>\$ 40,782,806</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 204,171	\$ 156,662
Refundable advance (Note 1)	-	311,200
Deferred revenue	88,950	18,935
Note payable	<u>37,404</u>	<u>-</u>
	330,525	486,797
Net assets		
Without donor restrictions	7,444,392	2,518,129
Without donor restrictions, board designated	<u>2,513,052</u>	<u>2,513,052</u>
Total without donor restrictions	9,957,444	5,031,181
With donor restrictions	<u>37,498,133</u>	<u>35,264,828</u>
	<u>47,455,577</u>	<u>40,296,009</u>
	<u>\$ 47,786,102</u>	<u>\$ 40,782,806</u>

See accompanying notes to financial statements

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
STATEMENTS OF ACTIVITIES  
Years ended June 30, 2021 and 2020

	2021			2020		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>REVENUE</b>						
Contributions	\$ 1,079,997	\$ 5,368,942	\$ 6,448,939	\$ 331,908	\$ 5,368,753	\$ 5,700,661
Other fundraising income	-	-	-	98,613	-	98,613
Interest and dividend income (net of investment expenses of \$169,983 and \$148,326, respectively)	1,516,561	5,432	1,521,993	1,571,388	4,299	1,575,687
Realized and unrealized gains on investments	4,352,066	151,391	4,503,457	1,578,199	11,132	1,589,331
Lease income and other	132,720	-	132,720	126,993	-	126,993
PPP contribution (Note 1)	311,200	-	311,200	-	-	-
Releases from restrictions	<u>3,292,460</u>	<u>(3,292,460)</u>	<u>-</u>	<u>3,803,648</u>	<u>(3,803,648)</u>	<u>-</u>
Total revenue	10,685,004	2,233,305	12,918,309	7,510,749	1,580,536	9,091,285
<b>EXPENSES</b>						
Patient campaign program	4,530,856	-	4,530,856	5,009,736	-	5,009,736
Management and general	765,077	-	765,077	734,535	-	734,535
Fundraising	<u>462,808</u>	<u>-</u>	<u>462,808</u>	<u>462,080</u>	<u>-</u>	<u>462,080</u>
Total expenses	<u>5,758,741</u>	<u>-</u>	<u>5,758,741</u>	<u>6,206,351</u>	<u>-</u>	<u>6,206,351</u>
<b>Changes in net assets</b>	4,926,263	2,233,305	7,159,568	1,304,398	1,580,536	2,884,934
Net assets, beginning of year	<u>5,031,181</u>	<u>35,264,828</u>	<u>40,296,009</u>	<u>3,726,783</u>	<u>33,684,292</u>	<u>37,411,075</u>
<b>Net assets, end of year</b>	<u>\$ 9,957,444</u>	<u>\$ 37,498,133</u>	<u>\$ 47,455,577</u>	<u>\$ 5,031,181</u>	<u>\$ 35,264,828</u>	<u>\$ 40,296,009</u>

See accompanying notes to financial statements

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
Year ended June 30, 2021 (with summary totals for the year ended June 30, 2020)

	<u>Patient Campaign</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2021 Total</u>	<u>2020 Total</u>
Salaries and wages	\$ 810,409	\$ 483,128	\$ 264,941	\$ 1,558,478	\$ 1,473,481
Payroll taxes	56,013	33,583	18,302	107,898	102,120
Employee benefits	204,428	124,201	66,832	395,461	359,923
Professional services and fees	35,072	26,529	47,377	108,978	107,448
Transplant patient-related expenses	3,292,460	-	-	3,292,460	3,803,648
Travel	10,446	11,058	8,190	29,694	90,417
Certification fees	13,704	-	-	13,704	14,166
Advertising	43,247	2,230	30,252	75,729	70,922
Utilities	4,461	2,660	1,458	8,579	8,915
Insurance	11,402	6,797	3,727	21,926	20,329
Repairs and maintenance	7,270	10,550	2,377	20,197	23,642
Depreciation	26,292	15,674	8,596	50,562	50,473
Supplies and office equipment	2,064	23,584	413	26,061	20,653
Postage	5,711	3,512	3,099	12,322	18,348
Telephone	7,386	10,517	1,510	19,413	18,151
Miscellaneous	491	11,054	5,734	17,279	23,715
	<u>\$ 4,530,856</u>	<u>\$ 765,077</u>	<u>\$ 462,808</u>	<u>\$ 5,758,741</u>	<u>\$ 6,206,351</u>

See accompanying notes to financial statements

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
Year ended June 30, 2020

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	<u>Patient Campaign</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2020 Total</u>
Salaries and wages	\$ 766,210	\$ 456,779	\$ 250,492	1,473,481
Payroll taxes	53,363	31,312	17,445	102,120
Employee benefits	185,438	113,861	60,624	359,923
Professional services and fees	33,377	25,364	48,707	107,448
Transplant patient-related expenses	3,803,648	-	-	3,803,648
Travel	42,883	26,126	21,408	90,417
Certification fees	14,166	-	-	14,166
Advertising	35,203	1,924	33,795	70,922
Utilities	4,635	2,764	1,516	8,915
Insurance	10,571	6,302	3,456	20,329
Repairs and maintenance	10,123	10,210	3,309	23,642
Depreciation	26,246	15,647	8,580	50,473
Supplies and office equipment	2,022	18,341	290	20,653
Postage	9,576	5,094	3,678	18,348
Telephone	6,674	9,620	1,857	18,151
Miscellaneous	5,601	11,191	6,923	23,715
	<u>\$5,009,736</u>	<u>\$ 734,535</u>	<u>\$ 462,080</u>	<u>\$ 6,206,351</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Cash flows from operating activities</b>		
Changes in net assets	\$ 7,159,568	\$ 2,884,934
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation	50,562	50,473
Realized and unrealized gains on investments	(4,503,457)	(1,589,331)
Contributions restricted for long term investment	(3,933)	(7,335)
Change in assets and liabilities:		
Interest receivable	(6,000)	44,000
Pledge receivable	209,462	(447,201)
Prepaid and other assets	9,385	(12,512)
Accounts payable and accrued expenses	47,509	(4,440)
Refundable advance	(311,200)	311,200
Deferred revenue	<u>70,015</u>	<u>18,935</u>
Net cash from operating activities	<u>2,721,911</u>	<u>1,248,723</u>
<b>Cash flows from investing activities</b>		
Purchase property and equipment	(50,073)	(8,365)
Proceeds from sale of investments	6,887,611	15,427,723
Purchase of investments	<u>(9,554,007)</u>	<u>(16,399,384)</u>
Net cash from investing activities	<u>(2,716,469)</u>	<u>(980,026)</u>
<b>Cash flows from financing activities</b>		
Proceeds from contributions restricted for long term investment	3,933	7,335
Proceeds from borrowing on note payable	40,120	-
Payments on note payable	(2,716)	-
Payments on line of credit	<u>-</u>	<u>(338,959)</u>
Net cash from financing activities	<u>41,337</u>	<u>(331,624)</u>
<b>Net change in cash and cash equivalents</b>	46,779	(62,927)
Cash and cash equivalents at beginning of year	<u>202,739</u>	<u>265,666</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 249,518</u>	<u>\$ 202,739</u>
Supplemental cash flow information		
Interest paid	\$ 164	\$ 10,527

See accompanying notes to financial statements

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2021 and 2020

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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, 2021 and 2020.

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, 2021 and 2020.

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, based on the actual direct expenditures and cost allocations based upon estimates by COTA, which includes time allocation.

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 12 of months or less to be cash equivalents. From time to time COTA's cash balances exceed federally insured limits.

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CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2021 and 2020

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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. Unit investment trusts and 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, 2021, an allowance for uncollectible pledges was not deemed necessary by management. At June 30, 2020, an allowance for uncollectible pledges was provided in the amount of \$351.

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

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, 2021 and 2020, management believes that no impairments existed.

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CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2021 and 2020

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

Net Assets Without Donor Restrictions: Net assets without donor restrictions 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.

Net Assets Without Donor Restrictions, Board Designated: The Board of Directors has designated certain net assets without donor restrictions as the "Vernon B. Smith Memorial Fund." These funds are to be used at the discretion of the Board of Directors.

Net Assets With Donor Restrictions: Net assets with donor restrictions are those net assets whose use has been limited by donors to later periods or for specified purposes. Net assets with donor restrictions of a temporary nature are restricted by donor-imposed requirements that the funds be used for transplant-related expenses for patients served by COTA. COTA also has 62 accounts with donor restrictions of a temporary nature 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. Net assets with donor restrictions to be kept in perpetuity 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 support with donor restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as with donor restrictions of a temporary nature and released from restrictions.

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, 2021 and 2020, there were no in-kind contributions.

Additionally, contributions of services are recognized if the services received create or enhance nonfinancial 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, 2021 and 2020, there were no donated services.

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

Coronavirus Pandemic and Paycheck Protection Program (PPP): In January 2020, the World Health Organization declared a Public Health Emergency of International Concern due to the spread of the novel coronavirus pandemic. As a result of the economic uncertainty stemming from the impact of the COVID-19 pandemic, in April 2020, COTA received a PPP loan in the principal amount of \$311,200 from the United States Small Business Administration (SBA).

Under the terms of the PPP program, the PPP loan provides for conditional forgiveness if COTA utilizes the loan proceeds on admissible expenses, including qualifying payroll, rent, and utility expenses, and maintains employment and compensation levels over the covered period.

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(Continued)

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2021 and 2020

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

COTA accounted for the PPP loan as a conditional contribution under ASC 958-605. Under Subtopic 958-605, the PPP loan proceeds are initially recorded as a refundable advance liability on the statement of financial position and subsequently recognized as contribution revenue when the organization has substantially met all conditions for forgiveness. COTA substantially met all of the conditions of the PPP loan and recorded PPP contribution revenue of \$311,200 during the year ended June 30, 2021. COTA obtained formal forgiveness from the SBA in February 2021.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2021 to determine the need for any adjustments or disclosures within the financial statements for the year ended June 30, 2021. Management has performed their analysis through August 19, 2021, the date the financial statements were available to be issued.

**NOTE 2 - PLEDGES AND GRANTS RECEIVABLE**

Pledges and grants receivable at June 30, 2021 and 2020 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 March 2020, COTA received a grant for \$648,000, restricted for transplant related expenses for patients in the state of Texas. The grant was receivable in scheduled installments over three years and has an outstanding balance of \$228,000 and \$444,000 at June 30, 2021 and 2020, respectively.

The following is the detail of the pledges and grants receivable balances at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Amounts receivable in:		
Less than one year	\$ 268,349	\$ 248,658
One to five years	-	<u>229,504</u>
Total amounts receivable	<u>268,349</u>	478,162
Less:		
Allowance for uncollectible	<u>-</u>	<u>(351)</u>
Pledges and grants receivable, net	<u>\$ 268,349</u>	<u>\$ 477,811</u>

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### **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 contributions with donor restrictions 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 reallocated 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. For the years ended June 30, 2021 and 2020, transplanted-related expenses were \$3,292,460 and \$3,803,648, respectively. 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, 2021 and 2020, reallocations from the pool of funds from deceased patients were \$222,821 and \$278,686, respectively.

Though COTA is dedicated to ensuring that no child is excluded from a lifesaving 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, 2021 and 2020, COTA had approximately 2,747 and 2,574 active patient accounts, representing \$37,127,739 and \$34,898,367 of net assets with donor restrictions of a temporary nature. For the years ended June 30, 2021 and 2020, COTA had contributions with donor restrictions for transplant-related expenses of \$5,368,942 and \$5,368,753, respectively.

### **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. As of June 30, 2021 and 2020, no significant patient commitments are outstanding.

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, 2021 and 2020, no guarantee liabilities are outstanding.

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CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2021 and 2020

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**NOTE 5 - PROPERTY AND EQUIPMENT**

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

	<u>2021</u>	<u>2020</u>
Land	\$ 80,645	\$ 80,645
Buildings and improvements	895,483	895,483
Office furniture and equipment	<u>367,914</u>	<u>353,302</u>
	1,344,042	1,329,430
Accumulated depreciation	<u>(901,328)</u>	<u>(886,227)</u>
	<u>\$ 442,714</u>	<u>\$ 443,203</u>

**NOTE 6 - INVESTMENTS**

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

	<u>2021</u>	<u>2020</u>
Money market funds	\$ 916,586	\$ 779,458
Municipal bonds	1,092,954	1,305,922
Corporate bonds	32,267,992	28,225,716
Exchange traded funds	2,301,856	919,620
Mutual funds	907,032	755,526
Equities	4,071,257	3,253,556
Preferred equities	2,406,900	2,080,333
Asset-backed securities	211,311	223,540
Unit investment trusts	2,153,097	1,606,405
Limited partnerships	<u>129,890</u>	<u>138,946</u>
	<u>\$ 46,458,875</u>	<u>\$ 39,289,022</u>

Investment return is comprised of the following at June 30:

	<u>2021</u>	<u>2020</u>
Interest and dividend income, net of investment expenses of \$169,983 and \$148,326 for 2021 and 2020, respectively	<u>\$ 1,521,993</u>	<u>\$ 1,575,687</u>
Realized gains on sale of investments	\$ 711,476	\$ 708,927
Unrealized gains on investments	<u>3,791,981</u>	<u>880,404</u>
Realized and unrealized gains on investments	<u>\$ 4,503,457</u>	<u>\$ 1,589,331</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.

(Continued)

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2021 and 2020

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**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% and 4.25% at June 30, 2021 and 2020, respectively. The line of credit expired on December 28, 2020 and was renewed through December 28, 2021. There was no outstanding balance at June 30, 2021 and June 30, 2020. Interest expense was \$164 and \$10,527 for the years ended June 30, 2021 and 2020, respectively.

**NOTE 8 - EMPLOYEE BENEFITS**

For the years ended June 30, 2021 and 2020, 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 \$156,154 and \$145,635 for the years ending June 30, 2021 and 2020.

**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, 2023. The lessee has an option to extend the lease for three 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, 2021 over future fiscal years are:

2022	\$ 125,220
2023	<u>93,915</u>
	<u>\$ 219,135</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.

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(Continued)



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

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 unit investment trusts and 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. 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's investments in unit investment trusts are held as part of their larger portfolio of investments and the investment strategy of the underlying investments vary. The trusts have termination dates ranging through September 2023, however, there are no liquidation restrictions and the investments can be liquidated on a daily basis.

COTA held an investment in one limited partnership as of June 30, 2021 and 2020, which is classified as an energy royalty contract partnership.

- 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.

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, 2021 and 2020

**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, 2021 and 2020:

	Quoted Prices in Active Markets for Identical Assets <u>Level 1</u>	Significant Other Observable Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>	<u>Total</u>
<u>2021</u>				
Money market funds	\$ 916,586	\$ -	\$ -	\$ 916,586
Municipal bonds	-	1,092,954	-	1,092,954
Corporate bonds	-	32,267,992	-	32,267,992
Exchange traded funds	2,301,856	-	-	2,301,856
Mutual funds:				
Fixed income	367,839	-	-	367,839
Equity	163,525	-	-	163,525
REITs	375,668	-	-	375,668
Equities:				
Large cap	4,071,257	-	-	4,071,257
Preferred equities	-	2,406,900	-	2,406,900
Asset-backed securities	-	211,311	-	211,311
	<u>\$ 8,196,731</u>	<u>\$ 35,979,157</u>	<u>\$ -</u>	<u>44,175,888</u>
Investments valued at NAV:				
Unit investment trusts				2,153,097
Limited partnerships:				
Energy royalties				<u>129,890</u>
				<u>\$ 46,458,875</u>

	Quoted Prices in Active Markets for Identical Assets <u>Level 1</u>	Significant Other Observable Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>	<u>Total</u>
<u>2020</u>				
Money market funds	\$ 779,458	\$ -	\$ -	\$ 779,458
Municipal bonds	-	1,305,922	-	1,305,922
Corporate bonds	-	28,225,716	-	28,225,716
Exchange traded funds	919,620	-	-	919,620
Mutual funds:				
Fixed income	352,060	-	-	352,060
Equity	103,331	-	-	103,331
REITs	300,135	-	-	300,135
Equities:				
Large cap	3,253,556	-	-	3,253,556
Preferred equities	-	2,080,333	-	2,080,333
Asset-backed securities	-	223,540	-	223,540
	<u>\$ 5,708,160</u>	<u>\$ 31,835,511</u>	<u>\$ -</u>	<u>37,543,671</u>
Investments valued at NAV:				
Unit investment trusts				1,606,405
Limited partnerships:				
Energy royalties				<u>138,946</u>
				<u>\$ 39,289,022</u>

(Continued)

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2021 and 2020

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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 net assets with donor restrictions to be kept in perpetuity the original value of gifts donated to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions to be kept in perpetuity is classified as net assets with donor restrictions of a temporary nature 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, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restriction	\$ <u>          -</u>	\$ <u>  735,762</u>	\$ <u>  735,762</u>

Endowment net asset composition by type of fund as of June 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restriction	\$ <u>          -</u>	\$ <u>  575,006</u>	\$ <u>  575,006</u>

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(Continued)

CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2021 and 2020

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

Changes in endowment net assets for year ended June 30, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets, beginning of year	\$ -	\$ 575,006	\$ 575,006
Investment income, net of fees	-	5,432	5,432
Net realized and unrealized gains	-	151,391	151,391
Investment gain, net	-	156,823	156,823
Contributions	-	3,933	3,933
Net assets, end of year	<u>\$ -</u>	<u>\$ 735,762</u>	<u>\$ 735,762</u>

Changes in endowment net assets for year ended June 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets, beginning of year	\$ -	\$ 552,240	\$ 552,240
Investment income, net of fees	-	4,299	4,299
Net realized and unrealized gains	-	11,132	11,132
Investment gain, net	-	15,431	15,431
Contributions	-	7,335	7,335
Net assets, end of year	<u>\$ -</u>	<u>\$ 575,006</u>	<u>\$ 575,006</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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CHILDREN'S ORGAN TRANSPLANT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2021 and 2020

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**NOTE 12 - LIQUIDITY AND AVAILABILITY**

COTA's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	<u>2021</u>	<u>2020</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 249,518	\$ 202,739
Interest receivable	312,000	306,000
Pledges receivable	268,349	477,811
Investments	<u>46,458,875</u>	<u>39,289,022</u>
Total financial assets	<u>47,288,742</u>	<u>40,275,572</u>
Less amounts not available for general expenditure within one year:		
Board designated net assets	(2,513,052)	(2,513,052)
Donor restricted funds	<u>(33,867,433)</u>	<u>(31,664,828)</u>
	(36,380,485)	(34,177,880)
Financial assets available to meet general expenditures within one year	<u>\$ 10,908,257</u>	<u>\$ 6,097,692</u>

As part of COTA's liquidity management, COTA invests its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Management only considers the amount budgeted from donor restricted funds for the next year to be available for general operations. For the years ending June 30, 2021 and 2020, COTA budgeted \$3,630,700 and \$3,600,000 of donor restricted funds, respectively, to be available for general operations in the next year. COTA has board designated net assets of \$2,513,052 at June 30, 2021 and 2020. While these funds could be made available for general expenditures within the next year, the amount would first be subject to approval by the board.

In addition, COTA has an unsecured line of credit at a local bank which provides for borrowings of up to \$500,000. Available credit balances at June 30, 2021 and 2020 were \$500,000.