

**UNITED NETWORK FOR ORGAN SHARING**

**CONSOLIDATED FINANCIAL STATEMENTS**

**As of and for the Years Ended September 30, 2011 and 2010**

**And**

**Independent Auditors' Report**

# UNITED NETWORK FOR ORGAN SHARING

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## **Independent Auditors' Report**

To the Board of Directors of  
United Network for Organ Sharing

We have audited the accompanying consolidated statement of financial position of United Network for Organ Sharing (the "Organization") as of September 30, 2011, and the related consolidated statements of activities, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative consolidated statement of activities has been derived from the Organization's 2010 consolidated financial statement. The consolidated financial statements of United Network for Organ Sharing as of September 30, 2010 were audited by other auditors. Those auditors expressed an unqualified opinion on those consolidated financial statements in their report dated January 27, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2012, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statement as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Cheng Beckert + Holland, L.L.P.*

Richmond, Virginia  
February 27, 2012

# UNITED NETWORK FOR ORGAN SHARING AND UNOS FOUNDATION

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2011 AND 2010

	2011	2010
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 2,449,822	\$ 2,811,257
Restricted cash	3,013,308	3,301,075
Investments	1,078,429	1,031,337
Restricted investments	505,342	201,340
Accounts receivable	10,066,927	8,431,458
Prepaid expenses	993,088	811,096
Total Current Assets	<u>18,106,916</u>	<u>16,587,563</u>
Property and equipment, net	23,143,851	20,044,289
Investments	2,129,949	1,908,441
Restricted investments, at fair market value	708,966	1,027,437
Other assets	650,518	677,487
<b>Total Assets</b>	<b><u>\$ 44,740,200</u></b>	<b><u>\$ 40,245,217</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Current portion of bonds payable	\$ 445,000	\$ 430,000
Current portion of notes payable	88,850	-
Account payable and accrued expenses	3,628,984	2,896,922
Due to National Organ Procurement Transplantation Network	<u>9,289,598</u>	<u>7,793,198</u>
Total Current Liabilities	13,452,432	11,120,120
Bonds payable, less current portion	8,845,000	9,290,000
Notes payable, less current portion	2,904,142	-
Other liabilities	388,973	328,525
<b>Total Liabilities</b>	<b><u>25,590,547</u></b>	<b><u>20,738,645</u></b>
Net Assets:		
Unrestricted	18,585,458	18,974,342
Temporarily restricted	564,195	532,230
Total Net Assets	<u>19,149,653</u>	<u>19,506,572</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 44,740,200</u></b>	<b><u>\$ 40,245,217</u></b>

The accompanying notes to the consolidated financial statements are an integral part of this statement.

# UNITED NETWORK FOR ORGAN SHARING AND UNOS FOUNDATION

## CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2011  
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2010)

	OPTN	Network and Member Services	Management and General	Fundraising	2011 Total	2010 Total
Change in unrestricted assets:						
Revenue and other support:						
Registration fees	\$ 28,885,542	\$ -	\$ -	\$ -	\$ 28,885,542	\$ 27,408,894
Government contracts - OPTN	4,153,699	-	-	-	4,153,699	2,500,000
UNOS registraion fee	-	6,195,422	-	-	6,195,422	6,040,832
Contributions	-	-	-	126,619	126,619	326,490
Interest income	-	102,426	-	-	102,426	82,665
Scientific and data analysis services	-	1,625,779	-	-	1,625,779	1,572,575
Regional and transplant forums	-	360,087	-	-	360,087	337,047
Miscellaneous	-	526,764	-	-	526,764	832,352
In-kind donations	-	-	-	37,500	37,500	-
Satisfaction of program restrictions	-	377,066	-	-	377,066	49,380
Total unrestricted revenues	33,039,241	9,187,544	-	164,119	42,390,904	39,150,235
Expenses:						
Salaries	15,328,447	3,884,508	1,587,885	63,171	20,864,011	18,774,042
Employee benefits and payroll taxes	7,001,582	849,531	349,335	13,898	8,214,346	7,540,374
Temporary help	779,277	20,475	4,916	-	804,668	326,143
Meetings and travel	1,753,111	645,337	74,231	1,689	2,474,368	2,375,505
Professional education programs and projects	-	139,101	-	-	139,101	214,294
Other purchased services	1,330,644	1,775,096	803,618	94,127	4,003,485	2,921,656
Telephone, telecommunications and utilities	179,480	152,728	197,624	68	529,900	447,877
Equipment leases	109,514	32,581	60,000	-	202,095	188,116
Repairs and maintenance	1,404,006	18,386	279,175	-	1,701,567	1,465,303
Postage	44,193	15,327	10,806	1,028	71,354	69,055
Depreciations and amortization	650,271	623,915	531,704	-	1,805,890	1,549,854
Donated services	-	46,193	-	-	46,193	48,745
In-Kind Donations	-	-	-	37,500	37,500	-
Indirect Costs	4,314,665	(4,314,665)	-	-	-	-
Other	144,051	832,282	879,442	1,784	1,857,559	1,458,757
Total expenses	33,039,241	4,720,795	4,778,736	213,265	42,752,037	37,379,721
Revenues over (under) expenses	-	4,466,749	(4,778,736)	(49,146)	(361,133)	1,770,514
Unrealized gain (loss) on investments					(47,329)	80,369
Gain (loss) in the fair value of interest rate swap					22,990	(185,237)
Gain (loss) on disposal of property and equipment					(3,412)	11,122
Change in unrestricted assets					(388,884)	1,676,768
Change in temporarily restricted net assets:						
Contributions					409,031	45,045
Net assets released from restrictions					(377,066)	(49,380)
Change in temporarily restricted net assets					31,965	(4,335)
Change in net assets					(356,919)	1,672,433
Net assets, beginning of the year					19,506,572	17,834,139
Net assets, end of the year					\$ 19,149,653	\$ 19,506,572

The accompanying notes to the consolidated financial statements are an integral part of this statement.

# UNITED NETWORK FOR ORGAN SHARING AND UNOS FOUNDATION

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (356,919)	\$ 1,672,433
Adjustments to reconcile changes in net assets to net cash		
Depreciation and amortization	1,805,890	1,549,854
Loss (gain) on disposal of property and equipment	3,412	(11,122)
Loss (gain) on interest rate swap	(22,990)	185,237
Unrealized loss (gain) on investments, net	47,329	(80,369)
Change in operating assets and liabilities:		
Accounts receivable	(1,635,469)	(333,233)
Prepaid expenses	(181,992)	(177,213)
Other assets	26,969	195,434
Accounts payable and accrued expenses	755,052	(135,806)
Due to OPTN	1,496,400	2,098,629
Other liabilities	60,448	52,105
Net cash provided by operating activities	<u>1,998,130</u>	<u>5,015,949</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(4,908,864)	(1,475,511)
Proceeds from sales of property and equipment	-	15,297
Purchases of investments	(1,315,714)	(2,170,775)
Proceeds from sales of investments	<u>1,014,254</u>	<u>1,032,131</u>
Net cash used in investing activities	<u>(5,210,324)</u>	<u>(2,598,858)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from long-term debt	3,000,000	-
Repayments of long-term debt	<u>(437,008)</u>	<u>(430,000)</u>
Net cash provided by (used in) financing activities	2,562,992	(430,000)
Increase (decrease) in cash and cash equivalents	(649,202)	1,987,091
Cash and cash equivalents, beginning of year	<u>6,112,332</u>	<u>4,125,241</u>
Cash and cash equivalents, end of year	<u><u>\$ 5,463,130</u></u>	<u><u>\$ 6,112,332</u></u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the year for interest	<u>\$ 253,461</u>	<u>\$ 210,825</u>
Cash paid during the year for income taxes	<u>\$ 71,000</u>	<u>\$ 149,685</u>

The accompanying notes to the consolidated financial statements are an integral part of this statement.

# UNITED NETWORK FOR ORGAN SHARING AND UNOS FOUNDATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

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### **Note 1—Organization and nature of operations**

United Network for Organ Sharing (“UNOS”), a Virginia non-stock, not-for-profit corporation, operates the National Organ Procurement and Transplantation Network (“OPTN”) envisioned by the National Organ Transplantation Act passed by the U.S. Congress in 1984. Through a contract with the Health Resources and Services Administration (“HRSA”) of the Department of Health and Human Services (“DHHS”) (the “OPTN Contract”), UNOS functions as the sole national network whose mission is to improve the effectiveness of the U.S. organ procurement and transplantation system and to provide for the fair and equitable distribution of all donated organs. To carry out this mission, UNOS maintains a computerized database to identify potential transplant recipients and to provide for the systematic matching of donated organs with such recipients. UNOS is staffed 24 hours a day, 7 days a week, with specialists trained in assisting transplant centers and in administering Board of Directors-approved organ allocation policies. All organ procurement organizations (“OPOs”) and transplant facilities in the United States are required to be members of OPTN. UNOS’ Board of Directors is currently made up of 44 voting members elected from UNOS’ membership and the general public.

The OPTN Contract was renewed by HRSA for the period from October 1, 2005 through September 30, 2007, with five, one-year options to extend the OPTN Contract to September 28, 2008, 2009, 2010, 2011, and 2012, respectively. The one-year option was exercised for 2011. UNOS must submit a bid to perform the new OPTN Contract upon expiration of option years and/or if HRSA does not exercise option years. The OPTN Contract is the primary source of revenue for UNOS. If UNOS were not awarded the new OPTN Contract, its future operations would be materially adversely affected.

The accompanying consolidated financial statements include the financial position and results of operation of the UNOS Foundation (the “Foundation”). The Foundation is a 501(c)(3) corporation that was incorporated in 1993 to hold the exclusive rights to all software developed and used by UNOS, and to solicit contributions to support UNOS’ capital campaign and ongoing operations. UNOS exercises control of the Foundation as a two-thirds (2/3) majority of the Foundation’s Board of Directors is composed of members of UNOS’ Executive Committee. All intercompany amounts have been eliminated in consolidation.

### **Note 2—Summary of significant accounting policies**

*Basis of Accounting* - The accompanying consolidated financial statements of UNOS and the Foundation (collectively, the “Organization”) have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

*Basis of Presentation* - The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the consolidated financial statements as of and for the year ended September 30, 2010, from which the summarized information was derived.



# UNITED NETWORK FOR ORGAN SHARING AND UNOS FOUNDATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

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### **Note 2—Summary of significant accounting policies (Continued)**

*Functional Allocation of Expenses* - The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statement of activities. Costs that are billed under the provisions of the OPTN contract are reflected as costs of the program. Network and member services include items such as UNOS' support of Donate Life America, educational initiatives to increase organ donation, and other non-contract expenses. Costs that cannot be specifically identified with a particular function and benefit more than one functional category are allocated on the basis of hours worked between network and member services and management and general.

*Use of Estimates* - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

*Revenue Recognition* - UNOS member organizations consist of OPOs, tissue typing laboratories, and organ transplant centers throughout the United States. UNOS bills OPTN members an OPTN registration fee for listing members' patients on UNOS' computerized database. These fees are recognized as a receivable for OPTN registration fees and a payable due to the OPTN. UNOS recognizes revenue as it submits cost reimbursement vouchers to DHHS. UNOS' registration fees are recognized as revenue in the month a member lists a patient in UNOS' database.

UNOS derived approximately 78% and 76% of its unrestricted revenue from government contracts for the years ended September 30, 2011 and 2010, respectively.

UNOS earns unrestricted revenue from services performed under scientific and data analysis contracts with nongovernmental entities, which is considered unrelated business income. UNOS recognizes the revenue as it is earned under the contract, which generally occurs over a specified period of time that services are provided, or as deliverables are provided to the respective clients.

Temporarily restricted revenue represents funds received through a gift or grant that are restricted by the donor to be expended for a specific purpose and are recognized as revenue when received. Expirations of temporary restrictions recognized on net assets are reported as increases to unrestricted revenue and decreases to temporarily restricted revenue under assets released from restrictions. If the expiration of temporary restrictions occurs in the same period that the contributions are received, the contributions are shown as unrestricted revenue. Expenses are reported as decreases in unrestricted net assets.

# UNITED NETWORK FOR ORGAN SHARING AND UNOS FOUNDATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

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### **Note 2—Summary of significant accounting policies (Continued)**

*Net Assets* - The Organization's net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the organization are classified and reported as follows:

*Unrestricted* - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets that may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

*Temporarily Restricted* - Net assets, whose use by the Organization is subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations, or that expire by the passage of time. At September 30, 2011, temporarily restricted net assets consisted of the specific purpose fund.

*Permanently Restricted* - Net assets subject to donor-imposed stipulations should be maintained permanently by the Organization. There were no permanently restricted net assets during 2011.

*Cash and Cash Equivalents* - Cash and cash equivalents include cash on hand, cash in banks, and highly liquid cash management funds with an original maturity of three months or less.

*Restricted Cash and Investments* - Restricted cash and investments represent those funds that have been collected from OPTN members on behalf of the OPTN, for which cost reimbursement vouchers have not been submitted to the DHHS, or contributions received subject to donor-imposed stipulations.

*Concentrations of Credit Risk* - The Organization maintains deposit accounts at an institution that is insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 for substantially all depository accounts and temporarily provides unlimited coverage, through December 31, 2012, for certain qualifying and participating non-interest bearing transaction accounts. The Organization periodically has funds in excess of the federally insured limits.

*Investments* - UNOS accounts for investments in accordance with Financial Accounting Standards Board ("FASB") guidance on accounting for investments held by not-for-profit organizations. The guidance requires certain investments to be reflected at fair value in the consolidated statement of financial position. The fair value of investments is determined by an independent market valuation service using quoted closing prices at the end of the period. Interest income and dividends are recorded on the accrual basis. Investments are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the risks in the near term could materially affect amounts reported in the consolidated financial statement.

# UNITED NETWORK FOR ORGAN SHARING AND UNOS FOUNDATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

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### **Note 2—Summary of significant accounting policies (Continued)**

*Property and Equipment* - Property and equipment are carried at historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the assets' estimated useful lives of 39 years for the building, three to fifteen years for furniture and non-computer equipment, and five years for computer equipment. Expenditures of less than \$5,000 for property and equipment are expensed as incurred. The cost and accumulated depreciation applicable to assets retired or sold are removed from the respective accounts, and gains or losses thereon are included in changes in net assets.

The carrying value of property and equipment is evaluated when certain events or changes in circumstances indicate that the carrying amount may exceed fair value. Fair value is calculated by estimating cash flows produced by the assets over their remaining useful lives. If undiscounted projected cash flows are less than the carrying amount, an impairment would be recognized. No impairments were identified during 2011.

*Income Taxes* - UNOS has been granted an exemption from federal income taxes under Internal Revenue Code Section 501(c)(3) except for income generated from unrelated business activities. Unrelated business activities include services performed under scientific and data analysis contracts with nongovernmental entities. Income tax expense on unrestricted income from these activities was \$30,223 and \$82,943 for the years ended September 30, 2011 and 2010, respectively.

*Income Tax Uncertainties* - During 2010, the Organization adopted FASB guidance related to accounting for uncertainty in income taxes, which clarifies the accounting for income taxes by prescribing the minimum recognition threshold that a tax position is required to meet before being recognized in the Organization's consolidated financial statement. The interpretation also provides guidance on derecognition, classification, interest and penalties, disclosure and transition.

In accordance with the interpretation, the Organization discloses the expected future tax consequences of the uncertain tax positions presuming the taxing authorities' full knowledge of the facts and the Organization's position and records unrecognized tax benefits or liabilities for known, or anticipated tax issues based on the Organization's analysis of whether additional taxes would be due to the authority given their full knowledge of the tax position. The Organization has completed its assessment and determined that there were no tax positions, which would require recognition under the interpretation. The Organization's income tax returns for years since 2008 remain open for examination by tax authorities.

*Due to OPTN* - Due to OPTN represents total OPTN registrations billed to OPTN members, less total funding claimed by UNOS on the OPTN vouchers submitted to DHHS.

*Compensated Absences* - UNOS accrues a provision for vacation and holiday pay due to employees, which is reflected in compensated absences (see Note 6).

# UNITED NETWORK FOR ORGAN SHARING AND UNOS FOUNDATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

### Note 2—Summary of significant accounting policies (Continued)

*Donated services* - The Organization recognizes donated services as contributions in accordance with guidance issued by the FASB. Under this guidance, such services are recorded if the services create or enhance nonfinancial assets, or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

*Reclassification* - Certain reclassifications have been made to the fiscal year 2010 consolidated financial statements to conform to the current year presentation. There was no change to previously reported net assets as a result of these reclassifications.

### Note 3—Investments

Investments at fair market value as of September 30, 2011 and 2010 consist of the following:

	2011	2010
Short-term investments:		
Money Markets	\$ 318,896	\$ 220,436
Equity Securities	103,440	103,280
Total short-term investments	<u>422,336</u>	<u>323,716</u>
Long-term investments:		
Corporate notes and bonds	307,661	323,880
Certificates of deposit	3,692,689	3,520,959
Total long-term investments	<u>4,000,350</u>	<u>3,844,839</u>
Total investments	<u>\$ 4,422,686</u>	<u>\$ 4,168,555</u>

Interest income related to investments for the years ended September 30, 2011 and 2010 were \$102,246 and \$82,665, respectively.

### Note 4—Accounts receivable

Accounts receivable as shown in the accompanying consolidated statement of financial position as of September 30, 2011 and 2010 consist of the following:

	2011	2010
OPTN registration fees	\$ 6,026,862	\$ 5,484,280
UNOS membership fees	1,229,606	1,090,966
Government contracts	1,921,750	1,185,898
Other	888,709	670,314
	<u>\$ 10,066,927</u>	<u>\$ 8,431,458</u>

# UNITED NETWORK FOR ORGAN SHARING AND UNOS FOUNDATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

### Note 4—Accounts receivable (Continued)

The allowance for uncollectible amounts as of September 30, 2011 was \$73,895. There was no allowance for uncollectible amounts as of September 30, 2010. OPTN members are required by federal regulation to pay the OPTN registration fee.

### Note 5—Property and equipment

Cost and accumulated depreciation as of September 30, 2011 and 2010 are summarized as follows:

	2011	2010
Land	\$ 1,113,000	\$ 1,113,000
Building	19,820,036	16,895,791
Donor Memorial	1,714,512	1,714,512
Computer hardware	9,288,494	7,434,036
OPTN System	2,362,882	2,362,882
Furniture and other equipment	3,111,862	3,054,096
Leasehold improvements	23,365	23,365
Other fixed assets	1,934,451	1,930,293
	<u>39,368,602</u>	<u>34,527,975</u>
Less accumulated depreciation	(16,224,751)	(14,483,686)
Property and equipment, net	<u>\$ 23,143,851</u>	<u>\$ 20,044,289</u>

Depreciation expense related to property and equipment for the years ended September 30, 2011 and 2010 were \$1,805,890 and \$1,549,854, respectively.

### Note 6—Accounts payable and other accrued expenses

As of September 30, 2011 and 2010 accounts payable and other accrued expenses consist of the following:

	2011	2010
Trade	\$878,885	\$525,356
Accrued operating expenses	963,221	731,188
Accrued benefit contributions	217,367	166,048
Accrued compensation absences	1,569,511	1,429,003
Other	-	45,327
	<u>\$ 3,628,984</u>	<u>\$ 2,896,922</u>

# UNITED NETWORK FOR ORGAN SHARING AND UNOS FOUNDATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

### Note 7—Line of credit

UNOS has available a revolving line of credit up to \$1,000,000 with an interest rate of LIBOR plus 3.5% (3.73% at September 30, 2011). The line of credit calls for monthly payments of accrued interest only. The line of credit expires on April 30, 2012. There were no outstanding borrowings on the line of credit at September 30, 2011 and 2010, respectively.

### Note 8—Long-term debt

In 2002, UNOS completed the sale of \$12,000,000 Revenue Bonds (the “2002 Bonds”), the proceeds from which, with the funds received from the Capital Campaign, were used for the construction of UNOS’ new corporate headquarters facility in Richmond, Virginia. Principal payments are due on April 1 of each year, beginning in 2005, through April 1, 2027. Management is reserving cash to meet the required principal and interest payment deadlines.

In December 2010, UNOS refinanced and paid off the 2002 Bonds originally issued in the amount of \$12,000,000 and obtained \$9,720,000 in 2010 Bonds. Interest is payable on the 2010 Bonds on the first day of each month. Interest rates were initially determined on the 2010 Bonds based on a weekly rate as determined by the bank serving as agent for the bond issuance. UNOS has the option to convert the rate to a term rate, as defined, for two or more semiannual periods, which is determined by the bank such that there is no premium or discount on conversion. UNOS also has the option to convert the rate to a fixed rate to maturity, as defined, which is determined by the bank, provided that there is no discount or premium on conversion. At no time may the interest rate exceed 12%. The applicable interest rate as of September 30, 2011 was 1.456%. The 2010 Bonds are collateralized by the land, building and all improvements.

Bonds payable and long-term obligations as of September 30, 2011 and 2010 consist of the following amounts:

	<u>2011</u>	<u>2010</u>
Bonds, dated December 30, 2010	\$9,290,000	\$9,720,000
Less: current maturities	<u>(445,000)</u>	<u>(430,000)</u>
	<u>\$8,845,000</u>	<u>\$9,290,000</u>

Future maturities on bonds payable at September 30, 2011, are as follows:

<u>Year Ending September 30,</u>	
2012	\$ 445,000
2013	460,000
2014	475,000
2015	490,000
2016	510,000
Thereafter	<u>6,910,000</u>
Total	<u>\$ 9,290,000</u>

# UNITED NETWORK FOR ORGAN SHARING AND UNOS FOUNDATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

### Note 8—Long-term debt (Continued)

In 2011, UNOS entered into a \$3,000,000 promissory note to purchase the building known as the “Jackson Center” near its headquarters in Richmond, Virginia. This purchase was intended to give UNOS the additional office space it needs to continue to expand. UNOS plans to use the space for operations as needed and rent the additional unused office space. Principal payments are due at the beginning of each month, beginning October 1, 2011, through September 1, 2031. Management is reserving cash to meet the required principal and interest payment deadlines. Interest is payable on the Jackson Center loan on the first day of each month at a rate of 5.35%. The Jackson Center loan is collateralized by the equity in the UNOS headquarters building at 700 N. 4<sup>th</sup> Street.

Notes payable consist of the following at September 30, 2011 and 2010:

	2011	2010
Jackson Center Loan, dated September 1, 2011, and issued in the original amount of \$3,000,000	\$ 2,992,992	\$ -
Less current maturities	(88,850)	-
	<u>\$ 2,904,142</u>	<u>\$ -</u>

Future maturities on notes payable at September 30, 2011, are as follows:

<u>Year Ending September 30,</u>	
2012	\$ 88,850
2013	90,919
2014	95,904
2015	101,162
2016	106,709
Thereafter	2,509,448
Total	<u>\$ 2,992,992</u>

UNOS incurred approximately \$288,000 and \$209,000 of interest expense for the years ended September 30, 2011 and 2010, respectively. The bonds payable contain restrictive covenants, including the requirement to maintain a minimum debt service coverage ratio and a minimum level of unrestricted liquidity. As of September 30, 2011, UNOS was in compliance with those covenants.

*Interest rate swap* – UNOS entered into an interest rate swap agreement in February 2006, which was amended in December 2010. As of September 30, 2011, the notional amount was \$4,645,000. Under this swap agreement expiring on April 1, 2017, UNOS pays a fixed rate of 3.55% and receives a variable rate of the 65.7% of LIBOR - BBA Index (.16% on September 30, 2011). The change in the fair value of the interest rate swap is recognized as a yield adjustment. For the year ended September 30, 2011, \$22,990 is included for the gain in the fair value of the interest rate swap in the accompanying consolidated statement of activities and \$612,950 is included in accounts payable and other accrued expenses in the accompanying consolidated statement of financial position to reflect the fair value of the interest rate swap.

# UNITED NETWORK FOR ORGAN SHARING AND UNOS FOUNDATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

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### Note 8—Long-term debt (Continued)

FASB guidance requires organizations to recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. In accordance with FASB guidance, the Organization designates interest rate swaps as cash flow hedges of forecasted purchases of commodities of variable-rate borrowings.

*Cash Flow Hedge* - For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other income in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are also recognized in current change in net assets.

During 2011, the range of notional volumes associated with open derivative instruments designated in cash flow hedging relationships was as follows:

	Balance as of <u>September 30, 2011</u>
Commodities:	
Interest rate swap - \$4.86M at 3.55%	<u>\$ 9,290,000</u>

The effect on the Organization's consolidated financial statement of gains and losses on derivative instruments designated in cash flow hedging relationships amounted to a gain of \$22,990 for the year ended September 30, 2011. During 2011, the interest rate swap contract was determined to be effective.

### Note 9—Fair value measurements

The Organization has adopted FASB guidance on fair value measurements. The provisions of the guidance provides a framework for measuring fair value under GAAP and defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This guidance requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. This guidance also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. Based on the underlying inputs, each fair value measurement in its entirety is reported in one of three levels.



# UNITED NETWORK FOR ORGAN SHARING AND UNOS FOUNDATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

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### Note 9—Fair value measurements (Continued)

The Organization's assets recorded at fair value on a recurring basis are categorized based on the priority of the inputs used to measure fair value. The inputs used in measuring fair value are categorized into three levels, as follows:

- **Level 1** - Inputs that are based upon quoted prices for identical instruments traded in active markets.
- **Level 2** - Inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar investments in markets that are not active, or models based on valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full item of the investment.
- **Level 3** - Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques. The Organization has no Level 3 investments.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used to maximize the use of observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value.

*Money Market Funds* - Valued at the net asset value of shares held by the Organization at year-end.

*Equity Securities and Corporate Bonds* - Valued at the closing price reported on the active market on which the individual securities are traded.

*Certificates of Deposit* - Valued at the net asset value of shares held by the Organization at year-end.

*Interest Rate Swap* - Valued using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows. This analysis reflects the contractual terms of the interest rate swap, including the period to maturity, and uses observable market-based inputs, including LIBOR rate curves.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of difference methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

# UNITED NETWORK FOR ORGAN SHARING AND UNOS FOUNDATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

### Note 9—Fair value measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of September 30, 2011.

	Fair Value Using			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Money Markets	\$ 318,896	\$ -	\$ -	\$ 318,896
Equity Securities	103,440	-	-	103,440
Corporate Bonds	-	307,661	-	307,661
Certificates of Deposit	-	3,692,689	-	3,692,689
Total assets at fair value	<u>\$ 422,336</u>	<u>\$ 4,000,350</u>	<u>\$ -</u>	<u>\$ 4,422,686</u>
Liabilities:				
Interest rate swap	<u>\$ -</u>	<u>\$ 612,950</u>	<u>\$ -</u>	<u>\$ 612,950</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of September 30, 2010.

	Fair Value Using			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Money Markets	\$ 220,436	\$ -	\$ -	\$ 220,436
Equity Securities	103,280	-	-	103,280
Corporate Bonds	-	323,880	-	323,880
Certificates of Deposit	-	3,520,959	-	3,520,959
Total assets at fair value	<u>\$ 323,716</u>	<u>\$ 3,844,839</u>	<u>\$ -</u>	<u>\$ 4,168,555</u>
Liabilities:				
Interest rate swap	<u>\$ -</u>	<u>\$ 635,145</u>	<u>\$ -</u>	<u>\$ 635,145</u>

### Note 10—Employee benefit plans

Retirement benefits for all full-time employees are provided through a qualified defined contribution pension plan. Under the terms of the plan, all employees of UNOS who have completed 1,000 hours of continuous employment earn a year of vesting for plan purposes. All UNOS employees are eligible for participation coincident with employment. UNOS contributed an amount equal to four percent of each participant's compensation and matched participant deferrals dollar for dollar up to six percent of employee compensation for the year ended September 30, 2011 and 2010. Employees become fully vested after six years of vesting service, as defined in the plan. Forfeitures serve to reduce the total contribution required of UNOS. Contributions made by UNOS for the year ended September 30, 2011 and 2010 amounted to approximately \$2,036,000 and \$1,921,000, respectively.

# UNITED NETWORK FOR ORGAN SHARING AND UNOS FOUNDATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

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### Note 10—Employee benefit plans (Continued)

UNOS has a deferred compensation agreement providing for payments to its current executive director at retirement. Expenses relating to this agreement amount to approximately \$40,800 for the year ended September 30, 2011. Other liabilities as of September 30, 2011 included approximately \$344,000 related to this agreement.

### Note 11—Operating leases

UNOS leases certain office equipment under non-cancelable operating leases. Equipment lease expense was approximately \$202,000 for the year ended September 30, 2011. Scheduled future minimum lease payments under the remaining portion of non-cancelable operating leases are as follows:

<u>Year Ending September 30,</u>	
2012	\$ 149,316
2013	149,316
2014	149,316
	<u>\$ 447,948</u>

### Note 12—Related-party transactions

Donate Life America (“Donate Life”) is a separate legal entity founded to raise awareness about organ donation. Donate Life has a separate and independent Board of Directors. UNOS incurs some operating expenses on behalf of Donate Life and then is reimbursed. Approximately \$110,000 and \$68,000, is included in accounts receivable at September 30, 2011 and 2010, respectively related unreimbursed operated expenses due from Donate Life. UNOS donated \$46,193 and \$48,745 in services to Donate Life for the years ending September 30, 2011 and 201, respectively.

### Note 13—Contingencies

DHHS and the General Accounting Office (“GAO”) are entitled to review the accounting and other records of UNOS. DHHS is primarily responsible for determining the acceptability of estimated or incurred costs as allowable contract costs under the OPTN contract. GAO is responsible for determining that procurement actions are made in conformity with applicable laws and regulations. Management is of the opinion that UNOS is in compliance with applicable provisions of the OPTN contract.

UNOS, in the ordinary course of its business to provide for the fair and equitable distribution of donated organs, is sometimes named as a defendant in litigation involving claims related to its operation of the OPTN. While it is UNOS’ policy to handle all claims promptly, efficiently, fairly, and in accordance with the provisions of the OPTN contract and applicable laws, UNOS may be subjected to a plaintiff’s allegations seeking damages. On the basis of information provided by in-house and external counsel and others, UNOS believes there are no contingencies that will materially affect the consolidated financial statements.

UNOS maintains medical, professional and general liability coverage under various insurance policies.

**UNITED NETWORK FOR ORGAN SHARING AND UNOS FOUNDATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2011 AND 2010**

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**Note 14—Subsequent events**

Management has evaluated subsequent events through February 27, 2012, the date the consolidated financial statements were available to be issued, and has determined there are no subsequent events to be reported in the accompanying consolidated financial statements.

## **SUPPLEMENTAL INFORMATION**

**UNITED NETWORK FOR ORGAN SHARING AND UNOS FOUNDATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED SEPTEMBER 30, 2011**

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<u>Federal Grantor</u>	<u>Identifying Number (CFDA Number Not Available)</u>	<u>Federal Expenditures</u>
Department of Health and Human Services		
Direct Payments		
Health Resources and Services	Organ Procurement and Transplantation	
Administration	Network (93.231-00-0115)	<u>\$ 4,153,699</u>
		<u><u>\$ 4,153,699</u></u>

The accompanying notes to the schedule of expenditures of federal awards are an integral part of this statement.

**UNITED NETWORK FOR ORGAN SHARING AND UNOS FOUNDATION**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED SEPTEMBER 30, 2011**

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**Note 1—Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the United Network for Organ Sharing (“UNOS”) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic consolidated financial statements.

**Note 2—Subrecipients**

There were no amounts of federal expenditures presented in the schedule that were provided to subrecipients.

## **COMPLIANCE REPORTS**





**Report On Internal Control Over Financial Reporting And On Compliance And Other Matters  
Based On An Audit Of Financial Statements Performed In Accordance With  
*Government Auditing Standards***

To the Board of Directors of  
United Network for Organ Sharing

We have audited the consolidated financial statements of United Network for Organ Sharing (the "Organization") as of and for the year-ended September 30, 2011, and have issued our report thereon dated February 27, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

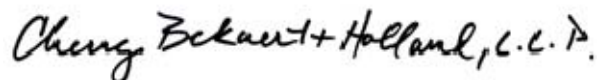
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. 2011 -01 Accounts Payable. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Organization in a separate letter dated February 27, 2012.

This report is intended solely for the information and use of management, the Board of Directors, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Cheng Beckett + Holland, C.C.P.".

Richmond, Virginia  
February 27, 2012



**Independent Auditors' Report On Compliance With Requirements  
That Could Have A Direct And Material Effect On Each Major Program And On  
Internal Control Over Compliance In Accordance With OMB Circular A-133**

To the Board of Directors of  
United Network for Organ Sharing

**Compliance**

We have audited United Network for Organ Sharing's (the "Organization") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year September 30, 2011. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

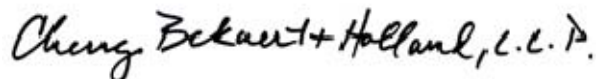
## Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Richmond, Virginia  
February 27, 2012

UNITED NETWORK FOR ORGAN SHARING AND UNOS FOUNDATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED SEPTEMBER 30, 2011

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**Section I – Summary of Auditors' Results**

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☒ yes ☐ no
- Noncompliance material to consolidated financial statements noted? ☐ yes ☒ no

*Federal Award*

Internal control over major federal programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ yes ☒ none reported
- Noncompliance material to consolidated financial statements noted? ☐ yes ☒ no

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Circular A-133? ☐ yes ☒ no

Identification of major programs:

Federal Project/ CFDA Number

Department of Human Services  
93.231-00-0115

Program Name

Organ Procurement and Transplantation  
Network

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

☒ yes ☐ no

# UNITED NETWORK FOR ORGAN SHARING AND UNOS FOUNDATION

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND CORRECTIVE ACTIONS PLANS

YEAR ENDED SEPTEMBER 30, 2011

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### **Section II – Findings Relating to the Consolidated Financial Statements Which Are Required to be Reported in Accordance with Government Auditing Standards**

#### **2011-01 Accounts Payable:**

**Condition** – While performing audit cutoff procedures over accounts payable and accrued expenses, we identified \$326,614 of unrecorded liabilities relating to the year ended September 30, 2011.

**Criteria** – Annual financial statements are to be prepared in accordance with generally accepted accounting principles.

**Cause** – As indicated by the significant deficiency noted, liabilities related to the year ended September 30, 2011 were not properly recorded as a result of improper internal control procedures.

**Effect** – Increased possibility of errors in financial accounting and reporting.

**Recommendation** – We suggest that accounting personnel review unpaid invoices at the balance sheet date and subsequent payments after year-end to ensure the completeness of accounts payable at the balance sheet date.

#### **Views of Responsible Officials and Planned Corrective Actions –**

- Management intends to implement the above recommendation immediately.

### **Section III – Findings and Questioned Costs for Federal Awards**

None.

### **Section IV – Summary Schedule of Prior Year Audit Findings**

None