

UNITED NETWORK FOR ORGAN SHARING

CONSOLIDATED FINANCIAL STATEMENTS

***As of and for the Year Ended September 30, 2012
(with summarized comparative totals for September
30, 2011)***

And Report of Independent Auditors

UNITED NETWORK FOR ORGAN SHARING
TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITORS 1

FINANCIAL STATEMENTS

Consolidated Statements of Financial Position 2

Consolidated Statements of Activities..... 3

Consolidated Statements of Cash Flows 4

Notes to Consolidated Financial Statements 5 - 15

SUPPLEMENTAL INFORMATION

Schedule of Expenditures of Federal Awards..... 16

Notes to Schedule of Expenditures of Federal Awards 17

COMPLIANCE REPORTS

Report of Independent Auditors 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* 18-19

Report of Independent Auditors 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 20-21

Schedule of Findings and Questioned Costs and Corrective Actions Plans 22

Schedule of Prior Year Findings 23

Report of Independent Auditors

To the Board of Directors of
United Network for Organ Sharing

We have audited the accompanying consolidated statements of financial position of United Network for Organ Sharing (the "Organization") as of September 30, 2012, 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 information has been derived from the Organization's 2011 consolidated financial statements and, in our report dated February 27, 2012, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit 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, 2012, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Organization's primary source of revenue is one contract with a department of the United States. Non-renewal of the contract would materially affect the activities and financial position of the Organization.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2013, 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 statements 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 statements. 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.



Richmond, Virginia
January 30, 2013

UNITED NETWORK FOR ORGAN SHARING
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2012

(with summarized comparative totals as of September 30, 2011)

	2012	2011
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,928,238	\$ 2,449,822
Restricted cash	2,703,717	3,013,308
Investments	1,424,992	1,078,429
Restricted investments	503,583	505,342
Accounts receivable	9,104,290	10,066,927
Prepaid expenses	988,768	993,088
Total Current Assets	<u>16,653,588</u>	<u>18,106,916</u>
Property and equipment, net	22,810,848	23,143,851
Investments	1,850,681	2,129,949
Restricted investments	704,233	708,966
Other assets	820,568	650,518
Total Assets	<u>\$ 42,839,918</u>	<u>\$ 44,740,200</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Line of credit	\$ 250,000	\$ -
Current maturities of bonds payable debt	460,000	445,000
Current portion of notes payable	90,919	88,850
Account payable and accrued expenses	3,909,095	3,628,984
Due to National Organ Procurement Transplantation Network	<u>5,203,143</u>	<u>9,289,598</u>
Total Current Liabilities	9,913,157	13,452,432
Bonds payable, less current portion	8,385,000	8,845,000
Notes payable, less current portion	2,822,889	2,904,142
Other liabilities	453,219	388,973
Total Liabilities	<u>21,574,265</u>	<u>25,590,547</u>
Net Assets:		
Unrestricted	20,470,260	18,585,458
Temporarily restricted	795,393	564,195
Total Net Assets	<u>21,265,653</u>	<u>19,149,653</u>
Total Liabilities and Net Assets	<u>\$ 42,839,918</u>	<u>\$ 44,740,200</u>

UNITED NETWORK FOR ORGAN SHARING

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2012

(with summarized comparative totals for September 30, 2011)

	OPTN	Network and Member Services	Management and General	Fundraising	2012 Total	2011 Total
Change in unrestricted assets:						
Revenue and other support:						
Registration fees	\$ 35,440,830	\$ -	\$ -	\$ -	\$ 35,440,830	\$ 28,885,542
Government contracts - OPTN	2,500,000	-	-	-	2,500,000	4,153,699
UNOS registration fee	-	6,349,368	-	-	6,349,368	6,195,422
Contributions	-	-	-	72,551	72,551	126,619
Interest income	-	65,966	-	2,151	68,117	102,426
Scientific and data analysis services	-	2,048,192	-	-	2,048,192	1,625,779
Regional and transplant forums	-	351,764	-	-	351,764	360,087
Miscellaneous	-	825,090	-	-	825,090	526,764
In-kind donations	-	-	-	68,675	68,675	37,500
Satisfaction of program restrictions	-	415,079	-	-	415,079	377,066
Total unrestricted revenues	37,940,830	10,055,459	-	143,377	48,139,666	42,390,904
Expenses:						
Salaries	16,982,112	2,350,926	1,972,739	90,141	21,395,918	20,864,011
Employee benefits and payroll taxes	7,862,172	588,109	493,185	22,535	8,966,001	8,214,346
Temporary help	1,856,145	-	22,953	1,189	1,880,287	804,668
Meetings and travel	1,833,001	807,182	81,696	1,322	2,723,201	2,474,368
Professional education programs and projects	-	155,839	-	-	155,839	139,101
Other purchased services	1,753,270	1,550,641	768,374	43,669	4,115,954	4,003,485
Telephone, telecommunications and utilities	170,131	93,878	342,005	114	606,128	529,900
Equipment leases	121,733	49,050	60,000	-	230,783	202,095
Repairs and maintenance	1,430,162	120,267	172,416	-	1,722,845	1,701,567
Postage	46,760	10,754	6,093	3,314	66,921	71,354
Depreciations and amortization	825,780	500,975	580,954	-	1,907,709	1,805,890
Donated services	-	29,594	-	-	29,594	46,193
In-kind donations	-	-	-	68,675	68,675	37,500
Indirect costs	4,889,564	(4,889,564)	-	-	-	-
Other	170,000	1,168,182	1,077,783	1,389	2,417,354	1,857,559
Total expenses	37,940,830	2,535,833	5,578,198	232,348	46,287,209	42,752,037
Revenues over (under) expenses	\$ -	\$ 7,519,626	\$ (5,578,198)	\$ (88,971)	1,852,457	(361,133)
Unrealized loss on investments					(2,332)	(47,329)
Gain in the fair value of interest rate swap					38,714	22,990
Unrealized gain on insurance					55,086	-
Loss on disposal of property and equipment					(59,123)	(3,412)
Change in unrestricted assets					1,884,802	(388,884)
Change in temporarily restricted net assets:						
Contributions					646,277	409,031
Net assets released from restrictions					(415,079)	(377,066)
Change in temporarily restricted net assets					231,198	31,965
Change in net assets					2,116,000	(356,919)
Net assets, beginning of the year					19,149,653	19,506,572
Net assets, end of the year					\$ 21,265,653	\$ 19,149,653

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

UNITED NETWORK FOR ORGAN SHARING

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2012

(with summarized comparative totals for the year ended September 30, 2011)

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ 2,116,000	\$ (356,919)
Adjustments to reconcile changes in net assets to net cash:		
Depreciation and amortization	1,907,709	1,805,890
Loss on disposal of property and equipment	59,123	3,412
Gain on interest rate swap	(38,714)	(22,990)
Unrealized loss on investments, net	2,332	47,329
Change in operating assets and liabilities:		
Accounts receivable	962,637	(1,635,469)
Prepaid expenses	4,320	(181,992)
Other assets	(170,050)	26,969
Accounts payable and accrued expenses	318,825	755,052
Due to OPTN	(4,086,455)	1,496,400
Other liabilities	64,246	60,448
Net cash provided by operating activities	1,139,973	1,998,130
Cash flows from investing activities:		
Purchases of property and equipment	(1,633,829)	(4,908,864)
Purchases of investments	(1,200,000)	(1,315,714)
Proceeds from sales of investments	1,136,865	1,014,254
Net cash used in investing activities	(1,696,964)	(5,210,324)
Cash flows from financing activities:		
Proceeds from line of credit	500,000	-
Repayments of line of credit	(250,000)	-
Proceeds from long-term debt	-	3,000,000
Repayments of long-term debt	(524,184)	(437,008)
Net cash provided by (used in) financing activities	(274,184)	2,562,992
Increase (decrease) in cash and cash equivalents	(831,175)	(649,202)
Cash and cash equivalents, beginning of year	5,463,130	6,112,332
Cash and cash equivalents, end of year	\$ 4,631,955	\$ 5,463,130
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 464,352	\$ 253,461
Cash paid during the year for income taxes	\$ 265,208	\$ 71,000
Supplemental information - cash and cash equivalents		
Cash and cash equivalents	\$ 1,928,238	\$ 2,449,822
Restricted cash	2,703,717	3,013,308
Cash and cash equivalents, end of year	\$ 4,631,955	\$ 5,463,130

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

UNITED NETWORK FOR ORGAN SHARING

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

(with summarized comparative totals for September 30, 2011)

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”) established 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 42 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 2012. 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. Currently, HRSA and UNOS have agreed to a six month extension to continue to operate the OPTN contract through March 29, 2013. As of January 30, 2013, UNOS has not received the latest bid proposal from HRSA for the next OPTN contract term. 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’s capital campaign and ongoing operations. UNOS appoints the members to the Foundation’s Board of Directors. 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 functional category. 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, 2011, from which the summarized information was derived.

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.

UNITED NETWORK FOR ORGAN SHARING

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

(with summarized comparative totals for September 30, 2011)

Note 2—Summary of significant accounting policies (continued)

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 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. The satisfaction of the temporary restrictions 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.

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, 2012 and 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 2012.

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.

UNITED NETWORK FOR ORGAN SHARING

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

(with summarized comparative totals for September 30, 2011)

Note 2—Summary of significant accounting policies (continued)

Concentrations of Credit Risk - Financial instruments that potentially expose the Organization to concentrations of credit risk consist primarily of cash and cash equivalents. Credit risk is mitigated by the Organization placing its cash and cash equivalents on deposit in what it believes to be highly credited financial institutions. The Organization believes that there is little risk in any losses and has not experienced any losses in such accounts.

The Company places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers \$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 Company from time to time may have amounts on deposit in excess of the insured limits.

UNOS derived approximately 79% and 78% of its unrestricted revenue from government contracts for the years ended September 30, 2012 and 2011, respectively.

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.

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 2012.

Income Taxes - The Organization 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 \$265,208 and \$30,223 for the years ended September 30, 2012 and 2011, respectively.

Income Tax Uncertainties - The Organization applies 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.

UNITED NETWORK FOR ORGAN SHARING

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

(with summarized comparative totals for September 30, 2011)

Note 2—Summary of significant accounting policies (continued)

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.

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.

Interest Rate Swap - 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. 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.

Note 3—Investments

Investments at fair market value as of September 30, 2012 and 2011 consist of the following:

	2012	2011
Short-term investments:		
Money markets	\$ 618,053	\$ 318,896
Equity securities	-	103,440
Corporate notes and bonds	102,538	-
Certificates of deposit	1,207,984	1,161,435
Total short-term investments	<u>1,928,575</u>	<u>1,583,771</u>
Long-term investments:		
Equity securities	19,931	-
Corporate notes and bonds	105,000	307,661
Certificates of deposit	2,429,983	2,531,254
Total long-term investments	<u>2,554,914</u>	<u>2,838,915</u>
Total investments	<u>\$ 4,483,489</u>	<u>\$ 4,422,686</u>

Interest income related to investments for the years ended September 30, 2012 and 2011 were \$68,117 and \$102,246, respectively.

UNITED NETWORK FOR ORGAN SHARING

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

(with summarized comparative totals for September 30, 2011)

Note 4—Accounts receivable

Accounts receivable as shown in the accompanying consolidated statement of financial position as of September 30, 2012 and 2011 consist of the following:

	2012	2011
OPTN registration fees	\$ 6,273,515	\$ 6,026,862
UNOS membership fees	1,260,108	1,229,606
Government contracts	582,989	1,921,750
Other	987,678	888,709
	<u>\$ 9,104,290</u>	<u>\$ 10,066,927</u>

The allowance for uncollectible amounts as of September 30, 2012 and 2011 was \$0 and \$73,895, respectively. 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, 2012 and 2011 are summarized as follows:

	2012	2011
Land	\$ 1,113,000	\$ 1,113,000
Building	19,938,583	19,820,036
Donor Memorial	1,714,512	1,714,512
Computer hardware	8,847,757	9,288,494
OPTN System	2,362,882	2,362,882
Furniture and other equipment	3,477,752	3,111,862
Leasehold improvements	21,065	23,365
Other fixed assets	1,665,833	1,934,451
	<u>39,141,384</u>	<u>39,368,602</u>
Less accumulated depreciation	<u>(16,330,536)</u>	<u>(16,224,751)</u>
Property and equipment, net	<u>\$ 22,810,848</u>	<u>\$ 23,143,851</u>

Depreciation expense related to property and equipment for the years ended September 30, 2012 and 2011 were \$1,907,709 and \$1,805,890, respectively.

UNITED NETWORK FOR ORGAN SHARING

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

(with summarized comparative totals for September 30, 2011)

Note 6—Accounts payable and other accrued expenses

As of September 30, 2012 and 2011 accounts payable and other accrued expenses consist of the following:

	2012	2011
Trade	\$ 1,381,064	\$ 878,885
Accrued operating expenses	40,994	350,271
Interest rate swap	574,236	612,950
Accrued benefit contributions	224,984	217,367
Accrued compensation absences	1,687,817	1,569,511
	<u>\$ 3,909,095</u>	<u>\$ 3,628,984</u>

Note 7—Lines of credit

UNOS has two revolving lines of credit (LOC) available up to a total of \$2,000,000. The original LOC of \$1,000,000 was renewed on June 12, 2012, with an interest rate of 3.78%. This line of credit calls for monthly payments of accrued interest only, in addition to, one payment of all outstanding principal when the line of credit expires on May 31, 2013. There was no outstanding balance on this LOC as of September 30, 2012. A second line of credit, also available for \$1,000,000, has a variable interest rate which is based on the Prime Rate (3.25% as of September 30, 2012). As of September 30, 2012, the outstanding balance on this LOC was \$250,000. This line of credit expires on September 30, 2014.

Note 8—Long-term debt

In December 2010, UNOS paid off the 2002 Bonds originally issued in the amount of \$12,000,000 and obtained \$9,720,000 from the issuance of the 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, 2012 and 2011 was 1.462% and 1.456%.

Bonds payable and long-term obligations as of September 30, 2012 and 2011 consist of the following amounts:

	2012	2011
2010 bonds	\$ 8,845,000	\$ 9,290,000
Less: current maturities	(460,000)	(445,000)
	<u>\$ 8,385,000</u>	<u>\$ 8,845,000</u>

UNITED NETWORK FOR ORGAN SHARING

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

(with summarized comparative totals for September 30, 2011)

Note 8—Long-term debt (continued)

Future maturities on bonds payable at September 30, 2012, are as follows:

<u>Year Ending September 30,</u>	
2013	\$ 460,000
2014	475,000
2015	490,000
2016	510,000
2017	525,000
Thereafter	6,385,000
Total	<u>\$ 8,845,000</u>

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. 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. 4th Street Richmond, Va.

Notes payable consist of the following at September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Jackson Center loan	\$ 2,913,808	\$ 2,992,992
Less current maturities	(90,919)	(88,850)
	<u>\$ 2,822,889</u>	<u>\$ 2,904,142</u>

Future maturities on notes payable at September 30, 2012, are as follows:

<u>Year Ending September 30,</u>	
2013	\$ 90,919
2014	96,331
2015	101,613
2016	107,185
2017	113,062
Thereafter	2,404,698
Total	<u>\$ 2,913,808</u>

UNOS incurred approximately \$464,000 and \$288,000 of interest expense for the years ended September 30, 2012 and 2011, 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, 2012, UNOS was in compliance with those covenants. Management is reserving cash to meet the required principal and interest payment deadlines.

UNITED NETWORK FOR ORGAN SHARING

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

(with summarized comparative totals for September 30, 2011)

Note 8—Long-term debt (continued)

UNOS entered into an interest rate swap agreement in February 2006, which was amended in December 2010. As of September 30, 2012 the interest rate swap has a notional amount of \$4,422,500, whereby UNOS pays a fixed rate of interest of 3.55% and receives a variable rate of 65.7% of LIBOR – BBA Index (.14% at September 30, 2012). The change in the fair value of the interest rate swap is recognized as a yield adjustment in the current year of operations. The effect of gains and losses on the Organization's consolidated financial statements related to derivative instruments designated as cash flow hedges amounted to a gain in the fair value of the interest rate swap of \$38,714 and \$22,990 as of September 30, 2012 and 2011, respectively. Accordingly, the accompanying consolidated statements of financial position includes \$574,236 and \$612,950 in accounts payable and other accrued expenses to reflect the fair value of the interest rate swap for the years ended September 30, 2012 and 2011, respectively.

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.

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.

UNITED NETWORK FOR ORGAN SHARING

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

(with summarized comparative totals for September 30, 2011)

Note 9—Fair value measurements (continued)

Certificates of Deposit - Valued at face value, which approximately fair value 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 different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of September 30, 2012.

	Fair Value Using			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Money Markets	\$ 618,053	\$ -	\$ -	\$ 618,053
Equity Securities	19,931	-	-	19,931
Corporate Bonds	-	207,538	-	207,538
Certificates of Deposit	-	3,637,967	-	3,637,967
Total assets at fair value	<u>\$ 637,984</u>	<u>\$ 3,845,505</u>	<u>\$ -</u>	<u>\$ 4,483,489</u>
Liabilities:				
Interest rate swap	<u>\$ -</u>	<u>\$ 574,236</u>	<u>\$ -</u>	<u>\$ 574,236</u>

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>

UNITED NETWORK FOR ORGAN SHARING

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

(with summarized comparative totals for September 30, 2011)

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 years ended September 30, 2012 and 2011. 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 years ended September 30, 2012 and 2011 amounted to approximately \$2,070,000 and \$2,036,000, respectively.

UNOS has a deferred compensation agreement providing for payments to its current executive director at retirement. Expenses relating to this agreement amount to approximately \$43,248 and \$40,800 for the years ended September 30, 2012 and 2011, respectively. Other liabilities as of September 30, 2012 and 2011 included approximately \$387,600 and \$344,000, respectively, related to this agreement.

Note 11—Operating leases

UNOS leases certain office equipment under non-cancelable operating leases. Equipment lease expense was approximately \$230,800 for the year ended September 30, 2012. Scheduled future minimum lease payments under the remaining portion of non-cancelable operating leases are as follows:

<u>Year Ending September 30,</u>	
2013	\$ 149,316
2014	149,316
	<u>\$ 298,632</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 \$100,000 and \$110,000, is included in accounts receivable at September 30, 2012 and 2011, respectively, related to unreimbursed operating expenses due from Donate Life. UNOS donated \$29,594 and \$46,193 in services to Donate Life for the years ending September 30, 2012 and 2011, 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.

UNITED NETWORK FOR ORGAN SHARING

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

(with summarized comparative totals for September 30, 2011)

Note 13—Contingencies (continued)

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.

Note 14—Subsequent events

Management has evaluated subsequent events through January 30, 2013, 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
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED SEPTEMBER 30, 2012

<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 Administration	Organ Procurement and Transplantation Network (93.231-00-0115)	\$ 2,500,000
		<u>\$ 2,500,000</u>

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

UNITED NETWORK FOR ORGAN SHARING
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED SEPTEMBER 30, 2012

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 of Independent Auditors 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, 2012, and have issued our report thereon dated January 30, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit 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 statements, 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.

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 or other matters 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 January 30, 2013.

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 cursive script that reads "Cheryl Beckert LLC".

Richmond, Virginia
January 30, 2013

**Report of Independent Auditors 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, 2012. 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 audit 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, 2012.

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.

A handwritten signature in cursive script, reading "Cheryl Beckert LLC".

Richmond, Virginia
January 30, 2013

UNITED NETWORK FOR ORGAN SHARING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND CORRECTIVE ACTIONS PLANS

YEAR ENDED SEPTEMBER 30, 2012

Section I – Summary of Auditors’ Results

Type of auditors’ report issued: *Unqualified*

Internal control over financial reporting:

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

Federal Award

Internal control over major federal programs:

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

Identification of major programs:

Federal Project/ CFDA Number

Program Name

Department of Human Services
93.231-00-0115

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?

_____ X yes _____ no

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

None reported

Section III - Findings and Questioned Costs Relating to Federal Awards

None reported

UNITED NETWORK FOR ORGAN SHARING

SCHEDULE OF PRIOR YEAR FINDINGS

YEAR ENDED SEPTEMBER 30, 2012

2011-01 Accounts Payable:

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

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.

Resolution – Management has assessed the cutoff procedures over accounts payable and accrued expenses and addressed the findings with staff. The corrective action requires staff to review all vendor Accounts Payable files prior to year end and include in Accounts Payable, all invoices with a period of performance prior to year end.