

**OPTN Finance Committee
Meeting Summary
February 16, 2023
WebEx**

**Brad Kornfeld, Chair
Dale Smith, Chief Financial Officer**

Introduction

The OPTN Finance Committee met via WebEx teleconference on 2/16/2023 to discuss the following agenda items:

1. Fiscal Year 2022 OPTN Audit Report
2. OPTN Financial Review
3. Fiscal Year 2023 OPTN Budget Update
4. Fiscal Year 2024 Budget Timeline

The following is a summary of the Committee's discussions.

Brad Kornfeld started the meeting by welcoming everyone in attendance and went through the agenda. He stated that the discussion would involve the fiscal year 2023 OPTN Registration Fee that has still not been approved. Mr. Kornfeld turned the time over to Renee Pendleton and Katie Strader from Cherry Bekaert, LLP.

1. Fiscal Year 2022 OPTN Audit Update

Ms. Pendleton introduced themselves. Cherry Bekaert performed a compliance audit under Governmental Auditing Standards and Uniform Grant Guidance. Ms. Pendleton shared that they issued an unmodified or "clean" opinion. They found no compliance findings, material weaknesses, or significant deficiencies in internal control. Cherry Bekaert issues two reports related to compliance. One is a report on internal control over financial reporting and the second is compliance over the major programs and the internal control over the compliance requirements. Those reports were both "clean" opinions and did not have any issues.

Ms. Pendleton turned the time over to Ms. Strader to discuss the testing that was performed. Ms. Strader explained that they focused their procedures on the OPTN funds received and costs incurred which totaled approximately \$6.8M. They reviewed the processes in place and controls over the program. Their testing focused on three areas: activities and costs allowed or unallowed and period of performance, cash management, and reporting. Ms. Strader asked if there were any questions or concerns.

Mr. Dale Smith, UNOS Chief Financial Officer, clarified that the audit was required under the Uniform Guidance for organizations that receive more than \$750,000 in federal funds. This is being presented to the OPTN Finance Committee because these are required reports. Mr. Smith indicated that he had recently received the official audited OPTN contractor financial statements and they will be posted on the website.

Mr. Chris McLaughlin (HRSA) stated that he thought it was appropriate for the audited UNOS financial statements to be distributed to the finance committee and HRSA would like a copy as well. He had no other specific questions at that time.

2. OPTN Financial Review

Mr. Kornfeld reminded the committee that the OPTN Registration Fee was denied for a second time by HRSA. He explained that the OPTN continues to bill members at the approved fiscal year 2022 fee of \$868 as opposed to the fiscal year 2023 proposed fee of \$944. Mr. Kornfeld emphasized that as the FY23 fee and budget are discussed, the focus of the conversation needs to be on how to get resolution and move forward so that the OPTN can stay committed to members and the transplant community. Mr. Kornfeld noted that the delay in approval has a financial impact on the OPTN and is hampering the OPTN's ability to serve patients.

Mr. Smith walked through the Statement of Financial Position, noting that the cash balance is in a strong position. He explained that accounts receivable has gone up slightly but overall, net resources (assets minus liabilities) puts the organization in a strong financial position.

Mr. McLaughlin asked for an update on the overage from the prior year. Because the OPTN contractor came in under budget the previous year, there was approximately \$4-5M of excess funds. Mr. Smith said that he would discuss in further detail on the cash analysis slide.

A committee member asked about the increase in the OPTN Reserve Brokerage Account between September 2022 and January 2023. Mr. Smith explained that it was a combination of shifts in investment allocations that the investment advisor is authorized to make as well as overall growth in the market. No additional deposits have been made.

Mr. Smith walked through the operating expenses. He explained that wages and employee benefits are under budget by almost \$500,000, which is an improvement over last year when the budget ended with personnel costs approximately \$4M under budget. The improvement this year is due to adjustments made to the assumptions in the budget. Meetings and travel is under budget primarily because at the time that the budget was prepared last year, inflation was high and that carried over into the budget. The OPTN is seeing lower actual expenses this year. Purchased Services is down \$1.8M to budget due primarily to timing. Accenture projects that were budgeted to begin earlier in the year will begin later than expected.

A committee member asked whether underruns in the budget remain in the OPTN operating account unless they are transferred to another account. Mr. Smith confirmed that OPTN funds received from OPTN Registration Fees remain in the operating account until the contractor performs work on behalf of the OPTN and receives a cost reimbursement. If the contractor incurs expenses lower than expected, the unused money continues to sit in the OPTN operating account. A committee member asked whether Mr. Smith has an estimate of what the actual versus budget expenses will be at the end of the fiscal year. Mr. Smith stated that the finance department was going to do an in-depth reforecast for the remainder of the fiscal year and would share those results with the Finance Committee.

A committee member stated that he agreed that a forecast was important and suggested that the forecast have a worst case scenario in which the fiscal year 2023 fee is not approved but the expenses are forecast to come in close to budget and a best case scenario where expenses could be reduced. A forecast range would be helpful for the committee to consider rather than a single number. The committee member also stated that he did not think it was realistic to count on travel savings due to various seasonal and economic factors that would drive costs up.

Mr. Smith walked through the Accounts Receivable Aging summary. He explained that the aging balance has increased a little since September 2022, which is potentially due to delays in paying invoices during the holiday season. He shared that some of the recent collections have been in the older aging categories. The finance department is focused on collecting the older balances and getting the receivables current. A committee member asked about the change that took place recently where the bills were being sent securely to the member hospitals, and whether the change in delivery method has contributed to some of the delay. Mr. Smith replied that when bills were sent via USPS and payment was sent to the contractor headquarters, the transit time was a couple of weeks. When the bills began being sent via secure email and paid to a lockbox, the receivable aging decreased; however, a number of hospitals declined to use the secure method and had to switch back to the previous process of sending bills via USPS. The committee member clarified that she was referring to potential issues accessing the secure invoices which were contributing to the delay. There might be invoices received but not opened due to difficulties accessing the secure files.

A committee member asked whether there were interest charges on the outstanding receivables and what has been the historic write-offs of accounts receivable. Mr. Smith replied that he has no concerns about write-offs. Looking back over the past 10 years or so there might have been a small write-off, but write-offs have historically been very small and very rare. Mr. Smith replied that the OPTN does not incur any interest charges on the uncollected balances. The costs associated with aging receivables are potential loss of interest earned on funds not in the OPTN bank account as well as the time that the Accounts Receivable Accountant has to spend following up with hospitals.

Mr. Smith walked through the OPTN cash position and emphasized that the OPTN is in a good position with the cash balances. Mr. McLaughlin (HRSA) asked for additional information on the two months of operating expenses in the operating account and three months in the reserve account. Mr. Smith replied that he can send additional documentation to Mr. McLaughlin. A committee member asked Mr. McLaughlin for clarification if he was looking only for the documentation but not suggesting changes to the policy. Mr. McLaughlin stated that he is asking the committee to revisit the decision. It would be useful to document the committee's position on maintaining the thresholds. A committee member stated that most non-profits have the policy of keeping a similar level of reserves for operating expenses. Mr. Kornfeld stated that it was an important discussion to have but the FY 2023 budget and fee is very pressing and needed to be discussed.

Mr. Smith summarized some parts of the OPTN bylaws that dictated the rules around how funds could be withdrawn as something to be aware of for future discussions around the use of reserve funds to cover operating expenses.

3. Fiscal Year 2023 OPTN Budget Update

Mr. Smith walked through three options to resolve the issue with the unapproved OPTN Registration Fee. Option 1 was to reduce the OPTN budget, present to the Board of Directors for approval, and submit the recalculated OPTN fee to HRSA. Option 2 was to maintain the budget, bill the registration fee of \$944, use excess funds from the OPTN operating account to cover the shortfall, and find a way to get the \$4.6M of forgiven PPP funds to be credited back to the OPTN operating account. Option 3 was to maintain the budget, use the fiscal year 2023 budgeted registration fee of \$944, use excess funds from the OPTN operating account, and potentially use funds from the OPTN reserve account.

Mr. Kornfeld explained that leadership has discussed this issue. He asked for committee members' thoughts on whether they preferred scaling back or maintaining the commitment to the community. He also asked for HRSA to provide their thoughts on what would be acceptable options to them. Mr.

McLaughlin explained that the original rejection was based on HRSA's concerns that the increase in the budget had not been adequately considered and whether the increase was entirely necessary. The Finance Committee and the Board decided to maintain the budget. If the decision is to maintain the budget, the question for the committee is how to calculate a fee to cover the budget. Mr. McLaughlin stated that it was highly unlikely that HRSA would allow the PPP funds to be credited to the OPTN operating account. He asked whether there was an Option 4 in which the PPP funds would be removed from consideration and the registration fee would remain at the fiscal year 2022 amount.

A committee member asked for clarification if we were operating under the original, approved fiscal year 2023 budget. Since it is already 4 months into the fiscal year, and there is a deficit, that will factor into the decision for how to proceed. Mr. Smith replied that we have been operating under the approved budget with the goal of fulfilling the commitment to the transplant community. A committee member said that based on the timing, it could be a couple more months into the fiscal year before the budget and fee issues are resolved and the deficit will continue to grow during that time. The committee will need to come up with a way to cover that budget deficit. A committee member stated that so far this year, the registration fees are down \$2M and he is under the assumption that the deficit is being covered by excess funds in the operating fund. Mr. Smith confirmed that the assumption was correct. If the registration fee continues to be billed at the previous fiscal year amount, then the deficit could grow to be \$10M by the end of the year. Mr. McLaughlin stated that once a budget is approved or reaffirmed and the new fee is approved, then the deficit would stop growing.

A committee member stated that he was not in favor of Option 1, which would require a reduction in the budget and reducing services to the transplant community. He stated that a reforecast was needed in order to have a better sense of what the best option would be. He reiterated that scaling back on services to the transplant community was not acceptable.

Another committee member agreed that scaling back was not the right option. He said that in order for the process to be sufficiently transparent, it would take some time to get everyone on the committee convened and the Board to convene and vote. He also stated that he was frustrated with Mr. McLaughlin's inference that the committee had not sufficiently considered the budget options, didn't thoroughly analyze the budget either of the first two times, and that they need to carefully analyze something that they had carefully analyzed twice before. He stated that the committee members commit a lot of time to the committee and carefully considered the budget.

A committee member asked whether there were any restrictions on spending excess funds in the OPTN operating account or could they commit that to the 2023 budget. Mr. Smith replied that it was a Finance Committee decision and he was not aware of any restrictions preventing leadership and the committee from authorizing the use of excess funds in the OPTN operating account. A committee member stated that it sounds like they are all committed to the original budget, which they have affirmed twice, and it is not likely that their perspective would change based on the feedback heard in the meeting. So the decision is how to make up the deficit that they will be faced with based on the upcoming reforecast and the registration fee currently being used. The excess funds in the operating account can be used and it was his impression that HRSA would consider another request for revision to the registration fee to help cover the remaining shortfall. Mr. Smith agreed that the committee member's summary was accurate.

Mr. Kornfeld stated that he wanted to synthesize what he was hearing. Based on what committee members had said, it sounded like there was more support for Option 2 or 3, depending on the resolution of the PPP loan. He asked the committee members to speak up with their feedback. A committee member explained that Mr. McLaughlin had indicated that another fee request was an

option. The Executive Committee could approve the fee and it could be resubmitted to HRSA. Mr. Kornfeld stated that in his opinion this approach was not transparent and was not in the spirit of the governance of the OPTN. Mr. Kornfeld expressed his opinion that Option 3 would maintain the budget and fee and would therefore not require the approval of the Board. Mr. McLaughlin stated that if the committee thinks the registration fee should remain at the fiscal year 2022 amount, and then it would need to go to the Board because that is not the fee they approved, they approved the fiscal year 2023 fee. Mr. Smith said that there could be a change to the proposed fee. A combination of using the excess funds in the operating account and a change in the registration fee together cover the shortfall. UNOS staff explained the process that would be followed would be consistent with the normal budget process where the Finance Committee makes a recommendation to the Board and the Board votes.

4. Fiscal Year 2024 OPTN Budget Timeline

Mr. Smith stated that he would like to have a monthly working session with the committee during the budget process.

Conclusion

Mr. Kornfeld asked for any remaining questions or comments. He stated that the committee would regroup in an upcoming meeting and vote on how to proceed for the remainder of the fiscal year. He then thanked everyone for the participation and concluded the meeting.

Attendance

- Committee Members
 - Andrea Tietjen
 - Barry Massa
 - Bradley Kornfeld (Chair)
 - Jeffrey Orłowski
 - Renee Bennett
 - Robert Goodman
 - Stuart Sweet
- HRSA Representatives
 - Christopher McLaughlin
 - Adrienne Goodrich-Doctor
- UNOS Staff
 - Anna Messmer
 - Dale Smith
 - David Klassen
 - Jason Livingston
 - Liz Robbins Callahan
 - Matt Rowland
 - Maureen McBride
 - Mike Letson
 - Morgan Jupe
 - Susie Sprinson