Upper Midwest Organ Procurement Organization, Inc. (Operating as LifeSource)

Financial Statements
With Independent Auditor's Report Thereon
December 31, 2023

Contents

Independent Auditor's Report

Board of Directors
Upper Midwest Organ Procurement Organization, Inc.
(Operating as LifeSource)

Opinion
We have audited the financial statements of Upper Midwest Organ Procurement Organization, Inc. (operating as LifeSource), which comprise the statements of financial position as of December 31, 2023 and 2022, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of LifeSource as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of LifeSource and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about LifeSource's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LifeSource's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about LifeSource's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

RSM US LLP

Minneapolis, Minnesota
March 15, 2024

Upper Midwest Organ Procurement Organization, Inc.
(Operating as LifeSource)

Statements of Financial Position
December 31, 2023 and 2022

		2023		2022
Assets				
Current assets:				
Cash and cash equivalents	**$**	**5,997,987**	$	9,530,369
Accounts receivable		**16,737,138**		11,170,202
Pledges receivable, net		**6,655**		17,950
Due from third-party payor		**5,595,472**		4,634,939
Prepaid expenses and other		**770,235**		845,937
Current portion of investments		**2,974,306**		3,270,456
Total current assets		**32,081,793**		29,469,853
Pledges receivable, net, less current portion		**30,000**		40,000
Restricted cash		**1,434,402**		1,260,322
Investments, less current portion		**25,652,672**		24,142,473
		27,117,074		25,442,795
Property and equipment:				
Land		**2,136,289**		2,136,289
Building		**17,211,417**		17,176,786
Equipment, furnishings and right-of-use assets		**3,627,346**		3,560,057
		22,975,052		22,873,132
Less accumulated depreciation and amortization		**8,991,321**		8,168,804
Net property and equipment		**13,983,731**		14,704,328
Total assets	**$**	**73,182,598**	$	69,616,976
Liabilities and Net Assets				
Current liabilities:				
Current portion of finance lease obligations	**$**	**438,750**	$	421,667
Current portion of operating lease obligations		**71,772**		60,792
Accounts payable		**6,876,219**		3,964,736
Accrued liabilities and other		**3,805,608**		3,157,863
Total current liabilities		**11,192,349**		7,605,058
Finance lease obligations, net of current portion		**8,902,815**		9,343,667
Operating lease obligations, net of current portion		**78,628**		140,265
Other long-term liabilities		**1,434,402**		1,260,322
Total liabilities		**21,608,194**		18,349,312
Commitments and contingencies				
Net assets:				
Without donor restrictions		**51,570,816**		51,253,731
With donor restrictions		**3,588**		13,933
Total net assets		**51,574,404**		51,267,664
Total liabilities and net assets	**$**	**73,182,598**	$	69,616,976

See notes to financial statements.

Upper Midwest Organ Procurement Organization, Inc.
(Operating as LifeSource)

Statements of Activities
Years Ended December 31, 2023 and 2022

	2023	2022
Changes in net assets without donor restrictions:		
Revenue:		
Net service revenues	**$ 96,018,454**	$ 81,030,461
Expenses:		
Program	**94,459,645**	73,853,082
General and administrative	**7,300,896**	6,676,401
Fundraising	**191,833**	177,046
Total expenses	**101,952,374**	80,706,529
Operating (loss) income	**(5,933,920)**	323,932
Other income:		
Investment return, net	**2,483,471**	(2,864,384)
Contributions	**395,326**	481,605
Grants	**324,150**	68,384
Employee Retention Credit	**2,480,327**	-
Other	**550,731**	454,989
Net assets released from restrictions	**17,000**	17,000
Total other income (loss)	**6,251,005**	(1,842,406)
Increase (decrease) in net assets without donor restrictions	**317,085**	(1,518,474)
Changes in net assets with donor restrictions:		
Contributions	**6,655**	10,950
Net assets released from restrictions	**(17,000)**	(17,000)
Decrease in net assets with donor restrictions	**(10,345)**	(6,050)
Increase (decrease) in net assets	**306,740**	(1,524,524)
Net assets, beginning of year	**51,267,664**	52,792,188
Net assets, end of year	**$ 51,574,404**	$ 51,267,664

See notes to financial statements.

Upper Midwest Organ Procurement Organization, Inc.
(Operating as LifeSource)

Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Increase (decrease) in net assets	**$ 306,740**	$ (1,524,524)
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) provided by operating activities:		
Depreciation	**868,996**	881,994
Net unrealized and realized (gains) losses on investments	**(1,604,814)**	3,454,574
Gain on disposal of equipment	**-**	10,447
Changes in assets and liabilities:		
Receivables	**(5,545,641)**	(3,253,865)
Amounts due from third-party payor	**(960,533)**	(352,078)
Prepaid expenses and other	**75,702**	323,089
Accounts payable, accrued liabilities and other, and other long-term liabilities	**3,733,308**	1,701,063
Net cash (used in) provided by operating activities	**(3,126,242)**	1,240,700
Cash flows from investing activities:		
Acquisition of property and equipment	**(199,056)**	(147,684)
Purchases of investments	**(6,607,297)**	(14,389,882)
Proceeds from sales and maturities of investments	**6,998,062**	7,311,531
Net cash provided by (used in) investing activities	**191,709**	(7,226,035)
Cash flows from financing activities:		
Principal payments on finance lease liability	**(423,769)**	(405,849)
Net cash used in financing activities	**(423,769)**	(405,849)
Net decrease in cash and cash equivalents and restricted cash	**(3,358,302)**	(6,391,184)
Cash and cash equivalents and restricted cash at beginning of year	**10,790,691**	17,181,875
Cash and cash equivalents and restricted cash at end of year	**$ 7,432,389**	$ 10,790,691
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 419,542**	$ 436,408

(Continued)

Upper Midwest Organ Procurement Organization, Inc.
(Operating as LifeSource)

Statements of Cash Flows (Continued)
Years Ended December 31, 2023 and 2022

	2023	2022
The following table reconciles cash and cash equivalents and restricted cash from the statements of financial position:		
Cash and cash equivalents	**$ 5,997,987**	$ 9,530,369
Restricted cash	**1,434,402**	1,260,322
Total cash and cash equivalents and restricted cash	**$ 7,432,389**	$ 10,790,691

See notes to financial statements.

Note 1. Nature of Business and Summary of Significant Accounting Policies

Nature of business: Upper Midwest Organ Procurement Organization, Inc. (operating as LifeSource) is a Minnesota nonprofit corporation dedicated to serving the transplant programs in Minnesota, North Dakota and South Dakota as the sole federally designated organ procurement organization for the region. LifeSource's mission is to promote organ donation to benefit the greatest number of people through transplant. LifeSource performs all aspects of donor management, including identifying potential organ donors, arranging surgical recovery teams and equitably placing organs with waiting recipients.

LifeSource also provides tissue and eye recovery services through community hospitals, regional medical centers and medical examiners' offices in Minnesota, North Dakota and South Dakota. LifeSource performs all aspects of tissue and eye recovery for transplantation, providing lifesaving cornea, bone, heart valve, connective tissue, skin or vein grafts for waiting recipients.

LifeSource's primary sources of revenue are service fees from the supporting transplant programs and tissue processing organizations and cost reimbursements under the Medicare program. The transplant program centers include University of Minnesota Medical Center, Mayo Clinic, Hennepin Healthcare, Abbott Northwestern Hospital, Children's Minnesota, Sanford Medical Center—Fargo, Sanford Medical Center—Bismarck, Avera McKennan Transplant Institute and Sanford Medical Center—Sioux Falls.

The board of directors is composed of 15 members. New members of the board of directors are first nominated by LifeSource's Governance Committee and then approved by current members of the board of directors. Three members are physicians representing the fields of cardiothoracic transplantation, liver transplantation and kidney or pancreas transplantation, respectively. The remaining members are independent directors.

Management estimates: The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

An accrual for expenses incurred but not yet billed is determined based on the number of organ donors at standard costs and is included in the statements of financial position in accrued liabilities. Although the accrual is based on management's reasonable estimates, it is possible that actual expenses may differ from the current estimates.

Basis of presentation: Net assets and revenues, expenses, other income and other changes in net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

With donor restrictions: Net assets with donor restrictions are subject to donor-imposed stipulations that require they be maintained permanently or that may or will be met by actions of LifeSource and/or the passage of time. Generally, the donors of these assets permit use of all or part of the income earned on related investments for general or specific purposes.

Without donor restrictions: Net assets without donor restrictions are not subject to donor-imposed stipulations.

Cash and cash equivalents: LifeSource includes all cash, money market accounts, money market funds and other short-term interest-bearing accounts with maturities at the date of purchase of three months or less as cash and cash equivalents.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

LifeSource maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. LifeSource has not experienced any losses in such accounts as a result of this practice.

Investments: Investments in negotiable certificates of deposit and exchange-traded funds are accounted for at fair value under Accounting Standards Codification (ASC) 825. Under the fair value option, net investment return, including realized and unrealized gains and losses, interest income and dividends, are included within the change in net assets without donor restrictions as nonoperating income. Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is generally determined by quoted market prices. Investments in nonnegotiable certificates of deposit are carried at cost.

LifeSource held cash restricted for their executive 457(b) defined contribution retirement plan totaling $1,434,402 and $1,260,322 as of December 31, 2023 and 2022, respectively. Cash balances restricted for the long-term plan liabilities are reported as restricted cash in the statements of financial position. A related liability for the same amount is reported in the statements of financial position as other long-term liabilities as of December 31, 2023 and 2022.

Accounts receivable: Net service revenue is billed when the service is provided and accounts receivable are carried at the original charge for the services provided less an estimated allowance for doubtful receivables. Payment terms generally require payment within a range of 30 to 120 days and are based on the terms of the payor contract. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. As LifeSource's accounts receivable have an original term of less than one year, LifeSource does not consider the time value of money in valuing accounts receivable. LifeSource also considers the impact of government programs on credit risk.

At December 31, 2023 and 2022, accounts receivable primarily consisted of amounts due from providers of health care services and other organ procurement organizations, and management determined that no allowance for doubtful accounts was necessary. Accounts receivable are written off as bad-debt expense when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad-debt expense when received.

Liquidity: The following reflects LifeSource's financial assets as of December 31, 2023 and 2022, available to meet cash needs for general expenditures within one year of December 31, 2023 and 2022:

	2023	2022
Cash and cash equivalents	$ 5,997,987	$ 9,530,369
Accounts receivable	16,737,138	11,170,202
Pledges receivable	6,655	17,950
Due from third-party payor	5,595,472	4,634,939
Current portion of investments	2,974,306	3,270,456
Financial assets available as of December 31	$ 31,311,558	$ 28,623,916

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

LifeSource is supported in part by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, LifeSource must maintain sufficient resources to meet those responsibilities to its donors. However, as LifeSource's net assets with donor restriction are only restricted for time, the amount of current pledges receivable has been included in the liquidity table above. LifeSource has a goal to maintain cash on hand to meet 127 days of normal operating expenses. LifeSource maintained an average balance of cash on hand of approximately 153 days during 2023. As part of LifeSource's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. LifeSource invests cash in excess of daily requirements in short-term investments. In the event of an unanticipated liquidity need, LifeSource could also draw upon $750,000 of available line of credit (see Note 5).

Property and equipment: Property and equipment consists of land, building, equipment and furnishings, which are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets (ranging from three to 40 years). Depreciation and amortization expense on assets acquired under finance leases is included with depreciation expense on owned assets.

Leases: LifeSource determines if an arrangement is a lease at inception. Operating leases are included in property and equipment—equipment, furnishings and right-of-use assets, current portion of operating lease obligations and operating lease obligations, net of current portion in the statements of financial position. Finance leases are included in property and equipment—building, current portion of finance lease obligations and finance lease obligations, net of current portion in the statements of financial position.

ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the commencement date, based on the present value of lease payments over the lease term. LifeSource uses an incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments.

LifeSource defines a short-term lease as any lease arrangement with a lease term of 12 months or less that does not include an option to purchase the underlying asset. Short-term lease payments are recognized as expense on a straight-line basis over the lease term and variable lease payments in the period in which the obligation is incurred.

LifeSource has lease arrangements with lease and nonlease components, which are generally accounted for separately, except LifeSource has elected the practical expedient to not separate nonlease components for real estate leases.

Leases at December 31, 2023 and 2022, are presented in accordance with Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842).*

Net service revenues: LifeSource's five-step model defined by ASU 2014-09 applies to the various components of net service revenue detailed further below is as follows: (1) identify the contracts with customer, (2) identify the performance obligations under those contracts, (3) determine the transaction prices of those contracts, (4) allocate the transaction price to the performance obligations in those contracts and (5) recognize revenue when each performance obligation under those contracts is satisfied. Revenue is recognized when promised goods or services are transferred to the customers in an amount that reflects the consideration expected in exchange for those goods or services.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

LifeSource reports net service revenue at amounts that reflect the consideration to which LifeSource expects to be entitled to in exchange for providing services. These amounts are primarily due from customers based on established contract terms, which includes variable consideration for certain retroactive adjustments. Revenue is recognized as performance obligations are satisfied. Significant components of LifeSource's net service revenues consist of the following:

Organ procurement services: Organ procurement services revenues are primarily derived from contracts with transplant centers and other organ procurement organizations (OPOs), under which LifeSource provides organ procurement services and is reimbursed at rates established within the individual contracts. LifeSource has determined that the organ procurement services are the performance obligation in these contracts and that the performance obligation is satisfied when the organs have been accepted by the transplant centers or OPOs. Accordingly, revenue is recognized at the time the procurement services have been completed and the organs have been accepted by the transplant centers or OPOs. Under a Centers for Medicare & Medicaid Services (CMS) program, LifeSource is reimbursed for kidney procurement based on reasonable costs related to these services. LifeSource is required to submit a cost report to CMS annually to determine its actual costs for these services. The difference between the actual costs reported to CMS and the initially established rates under these contracts is recorded as an adjustment to the kidney procurement services revenue in the year the services are provided.

Tissue recovery: Revenues relating to tissue recovery contracts are derived from the transfer of procured tissues to individual tissue banks throughout the country based on the criteria established under the contracts and contractually established rates. The performance obligation under these contracts is considered satisfied when the tissue bank accepts control over the tissue and revenue is recognized when control is transferred. Tissue recovery revenues are subject to an element of variable consideration, as the contracts provide for the tissue banks to reject certain tissue that does not meet their stated specifications once they have completed their testing. LifeSource estimates adjustments to revenues for this variable consideration based on historical experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to revenues in the period of the change.

As LifeSource's performance obligations relate to contracts with a duration of less than one year, LifeSource has elected to apply the optional exemption provided in ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to procurement services in process at the end of the reporting period. The performance obligations for these contracts are generally completed when organs or tissue are accepted or delivered, which generally occurs within days of the end of the reporting period.

LifeSource has elected the practical expedient allowed under ASC 606-10-32-18 and does not adjust the promised amount of consideration from customers for the effects of a significant financing component due to LifeSource's expectation that the period between the time the services are provided to a customer and the time that the customer pays for that service will be one year or less.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

As of and for the years ended December 31, 2023 and 2022, major customers as a percent of net service revenues and related receivables were as follows:

	Net Service Revenues		Accounts Receivable	
	2023	2022	2023	2022
Health care service customer A	28%	25%	28%	18%
Health care service customer B	30%	31%	20%	25%
Health care service customer C	4%	3%	7%	9%
Health care service customer D	4%	6%	5%	9%

Due to the nature of LifeSource's operations, major customers may vary between years.

LifeSource is a provider of kidney procurement services under the Medicare program, which provides reimbursement of reasonable costs related to kidney procurement. A standard interim rate (determined by Medicare based on LifeSource's estimated cost of operations) is charged by LifeSource for each kidney procured. LifeSource submits a cost report to Medicare annually to determine its actual costs. The difference between the actual costs reported to Medicare and the interim payments received is recorded as a contractual adjustment, which is a component of net service revenue. Variable consideration is included in the contractual adjustment to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Provisions for estimated and actual retroactive adjustments to Medicare reimbursements are recognized as contractual adjustments in the periods in which the adjustments can be reasonably estimated. The estimated amounts expected to be received from or paid to Medicare in settlement of all open cost reports are reported in the statements of financial position as amounts due to/from third-party payor. As of December 31, 2023, LifeSource had open cost reports for the years ended December 31, 2023, 2022, 2021 and 2020.

Net service revenues for the years ended December 31, 2023 and 2022, including Medicare contractual adjustments, are as follows:

	2023	2022
Gross service revenue from all providers	$ 91,654,758	$ 77,022,589
Contractual adjustments from Medicare cost report	4,363,696	4,007,872
Net service revenues	$ 96,018,454	$ 81,030,461

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

For the years ended December 31, 2023 and 2022, net service revenue disaggregated by type of procurement were as follows:

	2023	2022
Organ procurement type:		
Kidney	$ 31,786,400	$ 25,269,800
Liver	22,152,500	18,911,500
Heart	13,178,300	11,323,350
Lung	11,735,520	8,759,010
Pancreas	3,589,800	2,771,500
Small bowel	68,600	65,000
Tissue recovery	9,143,638	9,922,429
Total procurement service revenue	91,654,758	77,022,589
Other revenue	4,363,696	4,007,872
Total net service revenue	$ 96,018,454	$ 81,030,461

Contributions and pledges receivable: LifeSource records contributions at fair value when it has been determined that there is a legal right to the contribution and the amount is subject to reasonable estimation. Unconditional promises are recorded, at fair value, as contributions revenue and pledges receivable at the time the promise is made. Conditional promises are recorded when the condition has been satisfied and all barriers have been overcome.

Funds without donor restrictions are those presently available for use by or on behalf of LifeSource.

Contributions and pledges receivable recorded are for general operating purposes. Contributions are reported without donor restrictions unless there are donor-purpose or time restrictions, which would then be reported as with donor restrictions. When time or donor-purpose restrictions are met, amounts are reported as net assets released from restrictions on the statements of activities. At December 31, 2023, net assets with donor restrictions of $3,588 are subject to the passage of time and were restricted to use in periods after December 31, 2023. At December 31, 2022, net assets with donor restrictions of $13,933 are subject to the passage of time and were restricted to use in periods after December 31, 2022.

Unpaid volunteers have made significant contributions of their time to LifeSource’s activities. No amounts have been reflected in the financial statements for donated services, because the services do not meet the established criteria for recognition.

Grants: Reciprocal grants revenue is recognized when the expenditures have been incurred for the purpose specified and approved for reimbursement by the grantor.

Allocation of functional expenses: The financial statements report certain categories of expenses that are attributable to more than one function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. These expenses that are allocated include personnel expenses, which are allocated on the basis of estimated time expended by employees, as well as certain office equipment and supplies, subcontract services, office rent and utilities, insurance, depreciation and maintenance, which are allocated by square footage.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Performance indicator: The statements of activities include a line entitled "(Decrease) increase in net assets without donor restrictions," which is the performance indicator.

Income tax status: LifeSource is exempt from income taxes under Section 509(a)(2) of the Internal Revenue Code and applicable Minnesota statutes.

LifeSource has adopted certain provisions of ASC 740, Income Taxes. The provisions clarify the accounting for uncertainty in income taxes recognized in an organization's financial statements and prescribe a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken on a tax return. LifeSource reviewed its tax position for all open tax years and concluded the provisions of ASC 740 did not have an impact on its financial statement presentation. Generally, LifeSource is no longer subject to income tax examinations by the U.S. federal, state and local tax authorities for the years before 2020.

Accounting pronouncement: In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loads, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct writedown. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. ASU 2016-13 is effective for LifeSource as of January 1, 2023. LifeSource has evaluated this standard and notes that it does not have a material impact on the financial statements.

Subsequent events: All of the effects of subsequent events that provide additional evidence about conditions that existed at the statement of financial position date, including the estimates inherent in the process of preparing the financial statements, are recognized in the financial statements. LifeSource does not recognize subsequent events that provide evidence about conditions that did not exist at the statement of financial position date but arose after, but before the financial statements are available to be issued. In some cases, nonrecognized subsequent events are disclosed to keep the financial statements from being misleading.

LifeSource evaluated all activity through March 15, 2024, the date the financial statements were available to be issued and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the consolidated financial statements other than the following:

Note 2. Investments

The composition of investments held as of December 31, 2023 and 2022, is as follows:

	2023	2022
Nonnegotiable certificates of deposit	$ -	$ 102,603
Negotiable certificates of deposit	5,410,496	7,030,404
Exchange-traded funds:		
Alternative funds	899,708	745,093
Fixed-income funds	13,375,561	11,663,331
International equity funds	3,283,568	3,350,981
U.S. equity funds	5,657,645	4,520,517
	$ 28,626,978	$ 27,412,929

LifeSource holds certain financial instruments that are required to be measured at fair value on a recurring basis. The valuation techniques used to measure fair value under the provisions of ASC 820, Fair Value Measurements and Disclosure, are based upon observable and unobservable inputs. Input levels as defined by ASC 820, are as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

Fair values of negotiable certificates of deposit are based on quoted prices for similar instruments in active markets or quoted prices for similar instruments in markets that are not active (Level 2 under ASC 820). Fair values of exchange-traded funds are based on quoted prices for identical instruments in active markets (Level 1 under ASC 820).

The carrying amounts for cash and cash equivalents, accounts receivable, nonnegotiable certificates of deposit and accounts payable approximate their fair value due to the short-term nature of these accounts.

The following table summarizes total investment return for the years ended December 31, 2023 and 2022:

	2023	2022
Net investment return (loss):		
Dividend and interest income	$ 987,328	$ 691,859
Investment advisor fees	(108,671)	(101,669)
Net realized and unrealized losses (gains)	1,604,814	(3,454,574)
	$ 2,483,471	$ (2,864,384)

Note 3. Employee Retention Credit

The Employee Retention Credit (ERC) is a refundable tax credit for certain organizations that had employees and experienced an economic hardship due to COVID-19. LifeSource determined the Organization qualified for the ERC during 2023 and applied for the ERC in March 2023. LifeSource's ERC was related to wages paid during the first and second quarters of 2021. Because the ERC is accounted for as a conditional contribution, the full credit filing amount and cash receipt of $2,480,327 was recognized as other income in the year ended December 31, 2023. No ERC amounts were recognized in 2022.

Note 4. Lease Obligations and Debt Service Requirements

At December 31, 2023 and 2022, LifeSource had operating and finance leases for facilities and certain equipment with lease terms ranging from three to 20 years.

The total lease expense for the year ended December 31, 2023 and 2022, consisted of the following:

	2023	2022
Operating lease expense	$ 143,292	$ 164,059
Finance lease expense:		
Amortization of right-of-use assets	$ 421,667	$ 403,750
Interest on lease liabilities	436,408	452,558
Total finance lease expense	$ 858,075	$ 856,308

Supplemental cash flow information related to leases as of December 31, 2023 and 2022, consisted of the following:

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 143,292	$ 164,059
Financing cash flows from finance leases	860,177	858,407
Weighted-average remaining lease term—finance leases	15.5 years	16.5 years
Weighted-average remaining lease term—operating leases	4.84 years	5.07 years
Weighted-average discount rate—finance leases	4.62%	4.60%
Weighted-average discount rate—operating leases	2.33%	2.36%

Note 4. Lease Obligations and Debt Service Requirements (Continued)

Maturities of lease liabilities for the next five years and thereafter consist of the following:

	Operating	Financing
Years ending December 31:		
2024	$ 71,772	$ 858,292
2025	39,273	858,658
2026	39,273	857,475
2027	39,273	856,442
2028	32,728	856,775
Thereafter	-	8,969,100
Minimum lease payments	222,319	13,256,742
Less amount representing interest	(71,919)	(3,915,177)
Net minimum lease payments	$ 150,400	$ 9,341,565

Effective October 17, 2013, the City of Minneapolis (the City) issued $12,595,000 of Limited Tax Supported Development Revenue Bonds, Common Bond Fund Series 2013-1, on behalf of LifeSource for the purpose of providing funds to acquire, construct and equip a new office and recovery facility. Bonds mature in varying installments from 2028 to 2039. Bonds bear interest rate coupons from 4.00% to 4.75% with an average coupon rate of 4.38%, and interest payments are payable semiannually on June 1 and December 1.

LifeSource is obligated to make monthly payments to the City through a finance lease agreement. The terms of the lease approximate the terms of the bond issued by the City. The City has title to the facility during the entirety of the lease term. The term of the lease commenced on October 1, 2013, and ends on June 1, 2039. LifeSource has a bargain purchase option to acquire the facility upon payment of all interest and principal amounts.

The costs of the land, building and equipment leased under the agreement at December 31, 2023 and 2022, are as follows:

	2023		2022	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	$ 2,136,289	$ -	$ 2,136,289	$ -
Building	17,078,807	(6,146,103)	17,028,897	(5,483,593)
Equipment and furnishings	404,789	(229,884)	404,789	(206,247)
Computer equipment	557,026	(540,206)	570,686	(522,425)
	$ 20,176,911	$ (6,916,193)	$ 20,140,661	$ (6,212,265)

Under the terms of the bond issuance and lease agreement, LifeSource is required to have a reserve deposit for the bonds in the form of a letter of credit. LifeSource has an $856,000 standby letter of credit with a bank that expires in August 2024. At December 31, 2023 and 2022, there was no outstanding debt related to the letter of credit.

Note 4. Lease Obligations and Debt Service Requirements (Continued)

The lease contains certain financial and nonfinancial covenants pertaining to certain operational requirements. Financial covenants include a minimum debt service coverage ratio, a minimum number of days' cash on hand, and a maximum ratio of total liabilities to net assets without donor restrictions. LifeSource was not in compliance with the minimum debt service coverage ratio financial covenant for the year ended December 31, 2023. As a result, LifeSource is required to hire a management consultant, mutually agreed upon by the Common Bond Fund and LifeSource to provide a workplan outlining corrective actions.

The aggregate maturities of the long-term debt to be paid by LifeSource to the City under the terms of the lease agreement referred to above as of December 31, 2023, are shown previously in the financing portion of the previous table of maturities of lease liabilities for the next five years and thereafter.

Note 5. Commitments and Contingencies

Administrative fee: Under the terms of the finance lease agreement as disclosed in Note 4, LifeSource is required to pay an administrative fee totaling approximately $47,000 annually to the City over the lease term. The total fees approximate $1,208,000 over the term of the lease agreement.

Line of credit: LifeSource has a $750,000 revolving line of credit with a bank that expires in August 2024 Interest on the line of credit is variable and adjustable based on the prime rate. Receivables, inventories, equipment and intangibles of LifeSource are pledged as collateral. At December 31, 2023 and 2022, there were no outstanding borrowings under the line of credit.

Employee benefit plans: LifeSource offers a 401(k) plan covering all eligible employees. During 2023 and 2022, LifeSource contributed an elective contribution of 4.5% of eligible employees' gross salaries. LifeSource had an additional match of 100% of the first 1% of employee salary deferral and 0.5% for each percent contributed for the next 2% to 6%. The maximum match by LifeSource, excluding the elective contribution, was 3.5%.

Elective contributions are vested as follows based on each employee's respective years of employment with LifeSource: one year of service, 0%; two years of service, 20%; three years of service, 60%; four years of service, 80%; and five years of service, 100%. Vesting on the matching portion of the contribution is 100% after two years of service.

LifeSource also sponsors a 457 defined contribution retirement plan covering certain key employees. During 2023 and 2022, LifeSource contributed 2% to 6%, as applicable, of eligible employees' gross salaries.

LifeSource's cumulative contributions totaled approximately $1,862,000 and $1,446,000 to the benefit plans for the years ended December 31, 2023 and 2022, respectively.

Claims-made coverage: LifeSource is covered by professional liability insurance on a claims-made basis through December 31, 2023. For the years ended December 31, 2023 and 2022, per-claim occurrence was $1,000,000. Aggregate maximum annual coverage was $6,000,000 for each of the years ended December 31, 2023 and 2022. Management estimates that insurance coverage is adequate to cover any anticipated losses from current claims. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured. Based on historical claims activity and management's knowledge of current claims, no amounts for losses have been recognized in the financial statements during the years ended December 31, 2023 and 2022.

Note 5. Commitments and Contingencies (Continued)

Regulatory matters: Laws and regulations governing LifeSource are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretations as well as significant regulatory action, including fines, penalties and exclusion from government programs. As a result, there is at least a possibility that recorded estimates could change by a material amount in the near term. LifeSource believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on its financial statements.

Note 6. Functional Expenses

The following reflects the classification of LifeSource's expenses, by both the underlying nature of the expense and function, for the years ended December 31, 2023 and 2022:

	2023			
	Program	General and Administrative	Fundraising	Total Expenses
Donor hospital charges	$ 4,795,961	$ -	$ -	$ 4,795,961
Other hospital charges	152,839	-	-	152,839
Surgeon fees	261,775	-	-	261,775
Donor tissue typing	270,158	-	-	270,158
Import organ expense	38,551,849	-	-	38,551,849
Transportation	11,376,256	-	-	11,376,256
Serologies	1,713,921	-	-	1,713,921
Tissue and ocular	2,090,273	-	-	2,090,273
Preservation	1,936,474	-	-	1,936,474
Personnel	27,069,999	3,769,614	90,927	30,930,540
Other acquisition and coordination	45,920	-	-	45,920
Public and professional education and program	2,745,869	-	100,906	2,846,775
Office equipment, supplies and other	334,801	1,385,917	-	1,720,718
Subcontracted services	760,116	1,467,976	-	2,228,092
Office rent and utilities	1,018,033	163,020	-	1,181,053
Insurance	577,190	134,506	-	711,696
Trainings, seminars, meetings and travel	-	186,009	-	186,009
Depreciation and maintenance	758,211	193,854	-	952,065
Total expenses	$ 94,459,645	$ 7,300,896	$ 191,833	$ 101,952,374

Note 6. Functional Expenses (Continued)

	2022			
	Program	General and Administrative	Fundraising	Total Expenses
Donor hospital charges	$ 4,640,953	$ -	$ -	$ 4,640,953
Other hospital charges	58,519	-	-	58,519
Surgeon fees	275,750	-	-	275,750
Donor tissue typing	219,930	-	-	219,930
Import organ expense	27,383,089	-	-	27,383,089
Transportation	6,723,449	-	-	6,723,449
Serologies	1,760,259	-	-	1,760,259
Tissue and ocular	2,008,792	-	-	2,008,792
Preservation	1,592,936	-	-	1,592,936
Personnel	23,480,181	3,066,372	66,852	26,613,405
Other acquisition and coordination	74,253	-	-	74,253
Public and professional education and program	2,443,365	-	110,194	2,553,559
Office equipment, supplies and other	440,150	1,069,251	-	1,509,401
Subcontracted services	582,700	1,757,722	-	2,340,422
Office rent and utilities	938,590	183,240	-	1,121,830
Insurance	492,256	132,355	-	624,611
Trainings, seminars, meetings and travel	-	178,151	-	178,151
Depreciation and maintenance	737,910	289,310	-	1,027,220
Total expenses	$ 73,853,082	$ 6,676,401	$ 177,046	$ 80,706,529