HCSC-BLOOD CENTER

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

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INDEPENDENT AUDITORS' REPORT

Board of Directors
HCSC-Blood Center.
Allentown, Pennsylvania

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of HCSC-Blood Center (a nonprofit organization, the Organization), dba Miller Keystone Blood Center, which comprise the statement of financial position as of June 30, 2023, and related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HCSC-Blood Center as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion

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

Other Matter

The financial statements of Hospital Central Services, Inc. as of June 30, 2022 were audited by Concannon Miller & Co., P.C., whose shareholders and professional staff joined CliftonLarsonAllen LLP as of November 1, 2022, and has subsequently ceased operations. Concannon Miller & Co., P.C.'s report, dated October 31, 2022, expressed an unmodified opinion on those financial statements.

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 the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 generally accepted auditing standards 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, including omissions, 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 the Organization'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 the Organization'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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bethlehem, Pennsylvania
December 14, 2023

HCSC-BLOOD CENTER
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash	$ 828,557	$ 1,601,816
Investments, at Fair Value	9,935,685	6,096,310
Accounts Receivable, Trade, Net	3,492,405	2,451,061
Other Receivables	213,849	3,874,180
Inventories:		
Blood Products	464,002	458,282
Supplies	422,506	408,164
Prepaid Expenses	304,868	422,486
Total Current Assets	15,661,872	15,312,299
PROPERTY, PLANT, AND EQUIPMENT, NET	3,158,036	3,044,634
OPERATING LEASE RIGHT-OF-USE ASSETS, NET	1,763,119	-
FINANCE LEASE RIGHT-OF-USE ASSETS, NET	392,892	-
OTHER ASSETS		
Patronage Receivables	585,297	554,856
Security Deposits	12,932	12,932
Investments, at Cost	361,983	361,983
Total Other Assets	960,212	929,771
Total Assets	$ 21,936,131	$ 19,286,704

See accompanying Notes to Financial Statements.

HCSC-BLOOD CENTER
STATEMENTS OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2023 AND 2022

	2023	2022
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Operating Lease Liabilities - Current Portion	$ 501,619	$ -
Finance Lease Liabilities - Current Portion	103,852	-
Current Portion of Capital Lease Obligations	-	99,860
Current Portion of Term Debt	152,759	178,120
Accounts Payable	889,693	682,838
Accrued Expenses	1,209,342	1,452,843
Due to Affiliates, Net	376,327	504,811
Total Current Liabilities	3,233,592	2,918,472
LONG-TERM LIABILITIES		
Operating Lease Liabilities - Long-Term Portion	1,578,612	-
Finance Lease Liabilities - Long-Term Portion	281,312	-
Capital Lease obligations, net of current portion	-	383,425
Term Debt, Net of Current Portion	21,697	174,145
Total Long-Term Liabilities	1,881,621	557,570
Total Liabilities	5,115,213	3,476,042
NET ASSETS		
Without Donor Restrictions:		
Allocated to Patronage Dividends	592,778	592,778
Unallocated	16,101,857	14,995,378
Total Without Donor Restrictions	16,694,635	15,588,156
With Donor Restrictions	126,283	222,506
Total Net Assets	16,820,918	15,810,662
Total Liabilities and Net Assets	$ 21,936,131	$ 19,286,704

See accompanying Notes to Financial Statements.

HCSC-BLOOD CENTER
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Support and Revenues:		
Blood Sales and Services	$ 28,157,147	$ 26,703,894
Contributions and Grants	360,214	345,402
Employee Retention Credits	-	1,197,593
Miscellaneous Income	474,179	207,524
Interest Expense - Affiliate	(37,263)	(4,101)
Interest Income - Other, Net of Fees	240,906	143,688
Realized Loss on Investments	(10,791)	(10,337)
Unrealized (Loss) Gain on Investments	3,583	(506,298)
Gain on Disposal of Property and Equipment	2,400	2,400
Total	29,190,375	28,079,765
Net Assets Released from Restrictions	305,331	472,490
Total Support and Revenues	29,495,706	28,552,255
EXPENSES		
Program Services	23,081,021	21,929,812
General and Administrative	4,910,513	5,354,893
Fundraising	397,693	198,986
Total Expenses	28,389,227	27,483,691
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	1,106,479	1,068,564
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions and Grants	209,108	286,100
Net Assets Released from Restrictions	(305,331)	(472,490)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	(96,223)	(186,390)
CHANGE IN NET ASSETS	1,010,256	882,174
Net Assets - Beginning of Year	15,810,662	14,928,488
NET ASSETS - END OF YEAR	$ 16,820,918	$ 15,810,662

See accompanying Notes to Financial Statements.

HCSC-BLOOD CENTER
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2023
(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2022)

	Program	General and Administrative	Fundraising	Total Expenses 2023	Total Expenses 2022
Salaries	$ 8,960,681	$ 1,734,126	$ 218,117	$ 10,912,924	$ 9,994,657
Employee Benefits and Taxes	1,999,681	34,803	(179)	2,034,305	2,090,995
Blood Purchases and Inventory Adjustment	1,434,373	-	-	1,434,373	1,335,417
Production Supplies and Materials	3,101,070	24,352	56,365	3,181,787	3,072,199
Depreciation	695,390	19,443	6,469	721,302	777,373
Utilities	254,898	-	-	254,898	256,950
Rent	408,220	74,316	14,863	497,399	354,724
Waste Disposal	135,302	-	-	135,302	128,195
Repairs and Maintenance	461,802	4,935	2,111	468,848	421,468
Mileage and Delivery	476,596	1,565	531	478,692	373,284
Technology Equipment and Services	715,422	965,542	16,064	1,697,028	1,598,657
Blood Testing	3,077,130	-	-	3,077,130	3,311,636
Telephone	204,218	18,765	3,273	226,256	209,995
Professional Fees	9,015	1,224,798	-	1,233,813	1,137,066
Insurance	45,578	547,124	-	592,702	905,855
Vehicle Expense	97,881	-	-	97,881	87,191
Advertising	351,732	92,054	74,107	517,893	417,569
Interest	-	29,173	-	29,173	39,538
Miscellaneous	652,030	139,517	5,972	797,519	970,920
Total	$ 23,081,019	$ 4,910,513	$ 397,693	$ 28,389,225	$ 27,483,689

See accompanying Notes to Financial Statements.

HCSC-BLOOD CENTER
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022

	Program	General and Administrative	Fundraising	Total
Salaries	$ 8,217,403	$ 1,697,291	$ 79,963	$ 9,994,657
Employee Benefits and Taxes	2,037,510	43,888	9,597	2,090,995
Blood Purchases and Inventory Adjustment	1,335,417	-	-	1,335,417
Production Supplies and Materials	3,031,400	25,012	15,787	3,072,199
Depreciation	741,873	26,573	8,927	777,373
Utilities	256,950	-	-	256,950
Rent	283,957	56,614	14,153	354,724
Waste Disposal	128,195	-	-	128,195
Repairs and Maintenance	418,934	2,072	462	421,468
Mileage and Delivery	371,292	1,992	-	373,284
Technology Equipment and Services	629,924	954,736	13,997	1,598,657
Blood Testing	3,311,636	-	-	3,311,636
Telephone	189,790	17,207	2,998	209,995
Professional Fees	11,698	1,125,368	-	1,137,066
Insurance	34,453	871,402	-	905,855
Vehicle Expense	87,191	-	-	87,191
Advertising	279,131	87,826	50,612	417,569
Interest	-	39,538	-	39,538
Miscellaneous	563,056	405,374	2,490	970,920
Total	$ 21,929,810	$ 5,354,893	$ 198,986	$ 27,483,689

See accompanying Notes to Financial Statements.

HCSC-BLOOD CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 1,010,256	$ 882,174
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	721,302	777,372
Noncash Operating Lease Expense	317,112	-
Amortization of Financing Right of Use Assets	107,627	-
Realized Loss on Investments	10,791	10,337
Unrealized Loss (Gain) on Investments	(3,583)	506,298
Gain on Sale of Assets	-	(2,401)
(Increase) Decrease in Assets:		
Accounts Receivable, Trade	(1,041,344)	(362,022)
Other Receivables	3,660,331	(1,144,330)
Inventories	(20,062)	(140,564)
Prepaid Expenses	117,618	(136,984)
Patronage Receivables	(30,441)	(168,143)
Increase (Decrease) in Liabilities:		
Accounts Payable	206,855	(132,856)
Accrued Expenses	(243,501)	(294)
Due to Affiliates, Net	(128,484)	35,241
Net Cash Provided by Operating Activities	4,684,477	123,828
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	(4,344,435)	672,145
Purchases of Investments	497,852	(1,770,135)
Proceeds from Disposal of Property, Plant, and Equipment	-	2,401
Purchases of Property, Plant, and Equipment	(1,335,223)	(747,710)
Net Cash Used by Investing Activities	(5,181,806)	(1,843,299)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of Term Debt	(177,809)	(170,218)
Principal Payments on Finance Leases	(98,121)	-
Proceeds from Capital Lease Obligations	-	289,108
Repayments of Capital Lease Obligations	-	(93,117)
Net Cash Provided (Used) by Financing Activities	(275,930)	25,773
NET DECREASE IN CASH	(773,259)	(1,693,698)
Cash - Beginning of Year	1,601,816	3,295,514
CASH - END OF YEAR	$ 828,557	$ 1,601,816
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	$ 29,173	$ 47,592

See accompanying Notes to Financial Statements.

NOTE 1 NATURE OF ACTIVITIES

HCSC – Blood Center (the Organization) serves the healthcare industry, primarily hospitals, by providing blood products in Pennsylvania and surrounding states.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*.

Basis of Presentation

The Organization's net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions or law.

Net Assets with Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Concentration of Credit Risk

The Organization may be subject to credit risk to its cash, which is placed with high credit-quality financial institutions. The Federal Deposit Insurance Corporation (FDIC) coverage is $250,000 for all accounts. From time to time, the Organization may have amounts on deposit in excess of the FDIC limits. The Organization had an at-risk balance of approximately $826,400 and $1,654,800 at June 30, 2023 and 2022, respectively.

Accounts Receivable

Trade accounts receivable are stated at the amount the Organization expects to collect. The Organization maintains allowances for credit losses for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining collectability of specific customer accounts: customer creditworthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. Based on management's assessment, the Organization provides for estimated credit losses through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Organization has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The balance in the allowance for credit losses was $472,589 at June 30, 2023 and 2022.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories consist of blood products and related supplies. Each are stated at the lower of cost or market on a first-in, first-out basis.

Property, Furniture, and Equipment

Donations of property, furniture, and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

Purchased property, furniture, and equipment are carried at cost, less accumulated depreciation. Maintenance and repairs that neither materially add to the value of property nor appreciably prolong its life are charged to expense. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal. Related gains or losses from such transactions are credited or charged to income.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years.

Valuation of Investments in Securities at Fair Value

The Organization complies with the provisions of FASB ASC 820, *Fair Value Measurement and Disclosures*. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

ASC 820 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization’s assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Valuation of Investments at Cost

The Organization carries certain investments under the cost basis of accounting in accordance with FASB ASC 325, *Investments – Other*. The Organization evaluates each cost method investment for impairment on an annual basis and recognizes an impairment loss if a decline in value is determined to be other-than-temporary. If the Organization has not identified events or changes in circumstances that may have a significant adverse effect on the fair value of a cost method investment, then the fair value of such cost method investment is not estimated, as it is impracticable to do so. During the years ended June 30, 2023 and 2022, management concluded that no such impairment was considered necessary.

Revenue Recognition

In accordance with ASC 606, *Revenue from Contracts with Customers*, revenue from the Organization's activities is recognized as the respective services are performed or goods are delivered to the customer. These revenues are comprised primarily of the sale of blood products and the testing and export of blood products.

Service fee revenue is recognized at the point in time when the contract specific performance obligation has been satisfied. Revenue from the sale of blood products, and related exports, are recorded when such products are shipped to customers. Revenues from testing services are recorded when test results are mailed or faxed to customers. Provisions for allowances and other adjustments are provided for in the same period the related sales are recorded.

The following table shows the Organization's revenue disaggregated according to the nature of the goods and services provided:

	2023	2022
Sale of Blood Products	$ 25,791,638	$ 24,411,110
Testing and Exports	2,365,509	2,292,784
Miscellaneous	474,179	207,524
Total	$ 28,631,326	$ 26,911,418

As of June 30, 2023 and 2022, the Organization did not have any contract asset or liability balances.

As identified above, the vast majority of the Organization's revenues are recognized at a point in time when the performance obligations are satisfied based upon transfer of control of the product or service to a customer. For inventory sold, this transfer typically occurs upon shipment of the items to the customer. The Organization assesses the sale or service agreement to determine the proper transfer recognition. Generally, payment is received at the point of sale and contracts do not have any financing components.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

In the sale of inventory, the Organization provides shipping services to deliver some of its products. Shipping and handling costs that occur before the customer obtains control of the goods are deemed to be fulfillment activities and are accounted for as fulfillment costs. The Organization has made an accounting policy election (as permitted under Accounting Standards Update (ASU) 2016-10, *Identifying Performance Obligations and Licensing*) to recognize any shipping and handling costs that are incurred after the customer obtains control of the goods as fulfillment costs which are accrued at the time of revenue recognition.

Revenue Recognition – Contributions

Support revenue is generally recognized at the point in time when the donation is received. The portion of ticket sales for special events that relates to the commensurate value the attendee receives in return is recognized when the related events are held and performance obligations are met. In-kind contributions are recognized as income when the donated assets are physically received.

Contributions, grants, and bequests are recognized as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. Donor-imposed restrictions are released when a restriction expires; that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which support is recognized.

Donated Services

The Organization receives a substantial amount of donated services from unpaid volunteers who assist in fund-raising and blood donor activities. However, these donated services are not reflected in the financial statements since these services are not professional in nature, and, as such, do not meet the criteria for recognition as contributed services.

Contributed professional services are recognized at fair market value if the services received require specialized skills that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Any amounts reflected in the accompanying financial statements as contributions in-kind are offset by like amounts included in expenses.

Allocation of Patronage Dividends

Prior to January 1, 1987, cumulative allocations of earnings totaling $592,778 were made to patronage dividends in compliance with Internal Revenue Code (IRC) Section 501(e). No subsequent allocations have been made because the Organization is now exempt under IRC Section 501(c).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

The Organization expenses advertising costs as incurred. Advertising expense was approximately $517,900 and $417,600 for the years ended June 30, 2023 and 2022, respectively.

Functional Allocation of Expenses

The statements of functional expenses report certain categories of expenses that are attributable to one or more program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include facilities and equipment, depreciation, and operating expenses, which are allocated based on the basis of use at each respective owned or leased property, as well as employment costs and contract services which are allocated on the basis of estimates of time and effort.

Income Taxes

No provision for income taxes has been made in the financial statements since the Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. However, income from activities not directly related to the Organization’s tax-exempt purpose, if any, would be subject to taxation as unrelated business income.

The Organization complies with the guidance for uncertainty in income taxes using the provisions of FASB ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the position will be sustained upon examination by tax authorities.

As of June 30, 2023 and 2022, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of New Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASC 842). The new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Standards (Continued)

The Organization adopted the requirements of the guidance effective July 1, 2022 and has elected to apply the provisions of this standard to the beginning of the period of adoption through a cumulative effect adjustment, with certain practical expedients available.

The Organization elected the available practical expedients to account for existing capital leases and operating leases as financing leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at least commencement.

As a result of the adoption of the new lease accounting guidance, the Organization recognized on July 1, 2022, finance lease liabilities at the carrying amount of the capital lease obligation on June 30, 2022, of $483,285 and finance ROU assets at the carrying amount of the capital lease assets of $497,080. The Organization also recognized on July 1, 2022, operating lease liabilities of $2,509,530, which represents the present value of the remaining operating lease payments of $2,788,451, discounted using a risk-free rate of 3.09%, and an operating ROU asset of $2,509,530, which represents the operating lease liability of $2,509,530.

There was no adjustment to net assets as a result of recording the lease liability and ROU asset. The standard had a material impact on the statement of financial position but did not have a material impact on the statements of activities and statements of cash flows.

Leases

The Organization determines if an arrangement is a lease at inception. Operating leases are included in operating lease ROU assets and lease liabilities on the statement of financial position. ROU assets represent the Organization’s right to use an underlying asset for the lease term and lease liabilities represent the Organization’s obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Organization has elected to recognize payments for short term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the statement of financial position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the Organization has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of all lease liabilities.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

In evaluating contracts to determine if they qualify as a lease, the Organization considers factors such as if they Organization has obtained substantially all of the rights to the underlying asset through exclusivity, if the Organization can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

NOTE 3 LIQUIDITY AND AVAILABILITY

The Organization strives to maintain available financial assets sufficient to cover three months of general expenditures. Financial assets in excess of daily cash requirements are held in money market funds.

The Organization’s cash flows and liquidity are primarily driven by the daily receipts provided by the Organization’s normal operations of providing blood distribution and testing services to surrounding hospitals. Supporting cash flows are provided by donor contributions which are typically available for operations unless the donor has identified a specific restriction on the gift. Due to the ability to predict cash flows from its customers and donors, the organization is able to manage its expenses to maintain positive liquidity throughout the year.

Financial assets available for general expenditure within one year of the statement of financial position date, comprise the following:

	2023	2022
Cash and Cash Equivalents	$ 828,557	$ 1,601,816
Investments, at Fair Value	9,935,685	6,096,310
Accounts Receivable, Net	3,492,405	2,451,061
Total	$ 14,256,647	$ 10,149,187

NOTE 4 INVESTMENTS AT FAIR VALUE

The Organization’s investments are recorded at fair value and have been categorized based upon a fair value hierarchy, in accordance with FASB ASC 820 (see Note 2). Based on that hierarchy, as of June 30, 2023 and 2022, all of the Organization’s investment in cash equivalents and mutual funds were considered to be Level 1 investments and those in the various bonds were considered to be Level 2 investments.

NOTE 4 INVESTMENTS AT FAIR VALUE (CONTINUED)

Investment income is summarized as follows:

	2023	2022
Interest Income, Net of Fees	$ 240,906	$ 143,688
Realized Loss	(10,791)	(10,337)
Unrealized Gain (Loss)	3,583	(506,298)
Total	$ 233,698	$ (372,947)

At June 30, 2023, the cost, estimated fair value and unrealized gains and losses on the Organization's investments are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash Equivalents	$ 354,870	$ -	$ -	$ 354,870
Mutual Funds	2,033,369	-	(135,642)	1,897,727
Corporate Bonds	1,557,523	631	(149,992)	1,408,162
International Bonds	270,140	-	(18,837)	251,303
Government Bonds	6,105,300	8,246	(89,923)	6,023,623
Total	$ 10,321,202	$ 8,877	$ (394,394)	$ 9,935,685

At June 30, 2022, the cost, estimated fair value and unrealized gains and losses on the Organization's investments are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash Equivalents	$ 477,844	$ -	$ -	$ 477,844
Mutual Funds	2,033,369	-	(139,036)	1,894,333
Corporate Bonds	1,512,656	174	(138,173)	1,374,657
International Bonds	289,626	-	(20,314)	269,312
Government Bonds	2,171,913	745	(92,494)	2,080,164
Total	$ 6,485,408	$ 919	$ (390,017)	$ 6,096,310

At June 30, 2023 and 2022, 89 and 90 bonds, respectively, contributed to the unrealized losses disclosed above. No such losses were deemed to be other-than-temporarily impaired.

Contractual maturities for investments at June 30, 2023 are as follows:

	Fair Value
Due in One Year or Less	$ 3,954,414
Due in Two up to Five Years	1,508,269
Due after Five Years	2,220,405
Total	$ 7,683,088

NOTE 4 INVESTMENTS AT FAIR VALUE (CONTINUED)

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of financial position.

NOTE 5 PROPERTY, PLANT, AND EQUIPMENT

	2023	2022
Land and Improvements	$ 365,347	$ 365,347
Buildings and Improvements	6,019,887	5,565,019
Equipment	6,160,453	5,832,980
Furniture and Fixtures	414,860	390,804
Vehicles	1,701,290	2,424,692
Construction in Progress	51,525	49,643
Subtotal	14,713,362	14,628,485
Less: Accumulated Depreciation and Amortization	11,555,326	11,583,851
Total Property, Plant, and Equipment	$ 3,158,036	$ 3,044,634

Total depreciation and amortization expense for the years ended June 30, 2023 and 2022 was $721,302 and $777,372, respectively.

NOTE 6 PATRONAGE RECEIVABLES

In 1993 the Organization provided $50,740 to The Community Blood Centers' Exchange (BCx), which is an insurer of blood and tissue centers. This initial contribution provided the Organization with the right to collect annual dividends and a share of BCx's surplus income. On an annual basis, the difference between any dividends paid and a distribution of BCx's net income for the previous year is added to the original value of the receivable. As of June 30, 2023 and 2022, the carrying value of the receivable was $406,999 and $397,464, respectively.

During the year ended June 30, 2022, the Organization provided $157,392 to The National Blood Testing Cooperative (NBTC), which is a blood testing service organization. This initial contribution provided the Organization with the right to earn a share of NBTC's net proceeds, as defined by their bylaws. On an annual basis, the value of will be adjusted for additional contributions made or distributions received. As of June 30, 2023 and 2022, the carrying value of the receivable was $178,298 and $157,392, respectively.

NOTE 7 LINE OF CREDIT

The Organization has an unsecured, annually renewable, line of credit agreement with the bank in the amount of $1,500,000. Borrowings under the line of credit may be used for working capital and interest is at the bank's prime rate with a floor of 4.00% (8.50% at June 30, 2023).

This line of credit is due on demand with no set expiration date. There were no outstanding advances on the line of credit at June 30, 2023 or 2022.

NOTE 8 TERM DEBT

Description	2023	2022
Mortgage payable to bank, payments of principal and interest of $9,898 including interest at 4.48%; final payment due March 2024; secured by land and buildings.	$ 84,790	$ 196,794
Mortgage payable to bank, two payments of interest at 1.5% above the SOFR rate and then payments of principal and interest of $3,888.68 including interest at 4.160%; final payment due June 2024; secured by accounts receivable, inventory, general intangibles, and machinery and equipment.	44,889	88,578
Note payable to bank, payments of principal and interest of $2,019 including interest at a fixed rate of 3.82% began April 2020; final payment due March 2025; secured by accounts receivable, inventory, general intangibles, and machinery and equipment.	44,777	66,893
Subtotal	174,456	352,265
Less: Current Portion	152,759	178,120
Total	$ 21,697	$ 174,145

At June 30, 2023, term debt maturities are as follows:

Year Ending June 30,	Amount
2024	$ 152,548
2025	21,597
2026	-
Total	$ 174,145

NOTE 8 TERM DEBT (CONTINUED)

Under the terms of certain loan agreements, the Organization is subject to meet certain financial covenants including debt service coverage ratio and debt to tangible net worth ratio. At June 30, 2023, the Organization believes it was in compliance with or had obtained waivers from the lender for all such covenants.

NOTE 9 DEFINED CONTRIBUTION RETIREMENT PLAN

The Organization has a defined contribution retirement plan that covers all full-time eligible employees. Participants may contribute up to 100% of pre-tax and after tax (Roth) compensation, as defined in the plan, subject to certain limitations. The Organization matches 50% of the salary deferral contributions up to a maximum of 4% of the participant's annual compensation. Discretionary profit-sharing contributions are determined annually by the Organization. The Organization's contributions to the plan for 2023 and 2022 were approximately $421,000 and $372,000, respectively. The retirement plan’s investments were self-directed among various mutual funds and a guaranteed income fund.

NOTE 10 ASC 842 – LEASES

The Organization leases facilities and equipment under noncancelable operating leases expiring through August 2027. The Organization is also the lessee of certain equipment under financing leases that expire through August 2028. In the normal course of business, it is expected that these leases will be renewed or replaced by similar leases.

The following table provides quantitative information concerning the Organization’s leases for the year ended June 30, 2023:

Lease Costs	
Finance lease costs:	
Amortization of right-of-use assets	$ 109,447
Interest on lease liabilities	16,610
Operating lease costs	467,931
Total lease costs	$ 593,988
Other information:	
Cash flows from financing leases	116,549
Cash flows from operating leases	500,315
Right-of-use assets obtained in exchange for financing lease liabilities	502,339
Right-of-use assets obtained in exchange for operating lease liabilities	2,173,696
Weighted-average remaining lease term - financing leases	4.26 years
Weighted-average remaining lease term - operating leases	5.46 years
Weighted-average discount rate - financing leases	3.77%
Weighted-average discount rate - operating leases	3.09%

NOTE 10 ASC 842 – LEASES (CONTINUED)

A maturity analysis of annual undiscounted cash flows for lease liabilities as of June 30, 2023 is as follows:

Year Ending June 30,	Financing Leases	Operating Leases
2024	$ 116,549	$ 557,464
2025	92,052	455,135
2026	87,151	331,713
2027	70,388	258,923
2028	46,918	234,798
Thereafter	3,911	425,958
Undiscounted Cash Flows	416,969	2,263,991
(Less) Imputed Interest	(31,805)	(183,760)
Total Present Value	$ 385,164	$ 2,080,231
Current Lease Liabilities	$ 103,852	$ 501,619
Long-Term Lease Liabilities	281,312	1,578,612
Total	$ 385,164	$ 2,080,231

Operating lease assets were $2,173,696 and related accumulated amortization was $410,578 at June 30, 2023.

NOTE 11 ASC 840 – LEASES

The Organization is obligated under capital leases covering certain equipment that expire through August 2028. The gross amount of the equipment and was $729,475 and the related accumulated amortization was $232,395 at June 30, 2022.

The Organization leases facilities and equipment under noncancelable operating leases expiring through August 2027.

NOTE 11 ASC 840 – LEASES (CONTINUED)

Future minimum lease payments under noncancelable operating leases with initial or remaining lease terms in excess of one year and future minimum payments on capital leases as of June 30, 2023 were:

Year Ending June 30,	Capital Leases	Operating Leases
2023	$ 116,549	$ 451,643
2024	116,549	248,602
2025	90,078	194,744
2026	87,151	113,791
2027	70,444	56,598
Thereafter	50,829	-
Total Minimum Lease Payments	531,600	$ 1,065,378
Less: Amount Representing Interest	48,315	
Present Value of Minimum Capital Lease Payments	483,285	
Less: Current Portion of Capital Lease Obligations	99,860	
Capital Lease Obligations, Net of Current Portion	$ 383,425	

Total rent expense for operating leases for the year ended June 30, 2022, was approximately $481,000.

NOTE 12 RELATED PARTY TRANSACTIONS

The Organization shares the cost of management services with its affiliates. The shared costs are for services provided by HCSC-Enterprises, Inc., an affiliate, and include data processing, accounting, human resources, and management. The costs of these services were $2,560,382 and $2,445,053 in 2023 and 2022, respectively.

Amounts due from (to) affiliates are the result of ordinary business activities conducted by the Organization. The balances bear interest at the affiliate's line of credit rate which is the bank's prime rate less 2%. There are no repayment terms.

The Organization had outstanding balances due from (to) affiliates in the following amounts as of June 30, 2023 and 2022:

	2023	2022
Due to Hospital Central Services Cooperative Inc. and Subsidiary	$ (846,852)	$ (693,151)
Due to HCS, Inc.	(37,141)	(5,185)
Due from HSCS Enterprises, Inc.	507,666	193,525
Due To Affiliates, Net	$ (376,327)	$ (504,811)

Interest expense from affiliates for the years ended June 30, 2023 and 2022 amounted to $37,263 and $4,101, respectively.

NOTE 12 RELATED PARTY TRANSACTIONS (CONTINUED)

During 2016, the Organization made an equity investment in Blood Centers of America of $350,000. The asset value of the investment in Blood Centers of America has been recorded at cost and is reviewed annually for impairment in accordance with the policy disclosed in Note 2. No impairment losses were considered necessary for the years ended June 30, 2023 and 2022.

NOTE 13 EMPLOYEE RETENTION CREDITS

The Coronavirus Aid, Relief and Economic Security Act, signed and executed in March 2020, included a provision which permitted employers who retained their labor force to claim a refundable credit on eligible payroll costs. In December 2020, the Taxpayer Certainty and Disaster Tax Relief Act of 2020 extended these provisions to the second calendar quarter of 2021. Further, the American Rescue Plan Act of 2021 extended the provision to the third calendar quarter of 2021. Under the provisions of these Acts, the Organization reviewed its eligible expenses during the years ended June 30, 2022 and 2021, and concluded that they met all eligibility requirements for the first three quarters of 2021. As such, for the years ended June 30, 2022 and 2021, management determined that the Organization had qualified for Employee Retention Credits of $1,197,593 and $2,486,554, respectively, which were recorded as revenue in the statement of operations and were included in other receivables at June 30, 2022.

During the year ended June 30, 2023, the Organization collected the full $3,684,147 balance.

NOTE 14 MAJOR CUSTOMERS

During the year ended June 30, 2023, the Organization had four major customers that accounted for $21,102,506 in revenue (75% of total blood sales and services). During the year ended June 30, 2022, the Organization had four major customers that accounted for $20,640,368 in revenue (77% of blood sales and services). The accounts receivable from these customers was $3,170,566 and $2,149,347 at June 30, 2023 and 2022, respectively.

NOTE 15 SUBSEQUENT EVENTS

The Organization has evaluated events and transactions for potential recognition or disclosure in the financial statements through December 14, 2023, the date the financial statements were available to be issued. No events or transactions have occurred subsequent to year end that require recognition or disclosure in the financial statements.