LIFECENTER NORTHWEST

Financial Statements

For the Years Ended December 31, 2017 and 2016

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Clark Nuber PS

Independent Auditor's Report

To the Board of Directors
LifeCenter Northwest
Bellevue, Washington

We have audited the accompanying financial statements of LifeCenter Northwest (the Organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2017 and 2016, 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.

Clark Nuber P.S.

Certified Public Accountants
March 28, 2018

LIFECENTER NORTHWEST

Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
Assets		
Current Assets:		
Cash and cash equivalents	$ 8,451,380	$ 6,700,926
Accounts receivable	3,578,926	4,232,260
Medicare receivable	1,706,517	1,445,679
Other receivables	88,500	80,079
Short-term investments	200,802	201,785
Prepaid expenses and other current assets	547,911	443,894
Total Current Assets	**14,574,036**	**13,104,623**
Property and Equipment:		
Furniture and equipment	1,555,771	1,523,119
Leasehold improvements	1,370,181	1,370,181
	2,925,952	2,893,300
Accumulated depreciation and amortization	(1,451,556)	(1,142,989)
Total Property and Equipment, Net	**1,474,396**	**1,750,311**
Long-term investments	2,705,188	2,831,815
Long-term Medicare receivable	990,979	481,893
Other long-term assets	186,869	168,519
Total Assets	**$ 19,931,468**	**$ 18,337,161**
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	$ 1,636,293	$ 1,554,607
Accrued medical liabilities	995,631	1,207,228
Accrued salaries and related benefits	1,667,767	1,539,544
Capital lease obligations, current portion	24,382	28,323
Deferred tenant improvement allowance, current portion	86,404	86,404
Total Current Liabilities	**4,410,477**	**4,416,106**
Deferred rent	368,183	348,616
Deferred tenant improvement allowance, net of current portion	576,029	662,434
Medicare payable	468,826	468,826
Capital lease obligations, net of current portion		24,396
Other liabilities	119,573	101,573
Total Liabilities	**5,943,088**	**6,021,951**
Net Assets:		
Unrestricted	13,988,380	12,315,210
Total Net Assets	**13,988,380**	**12,315,210**
Total Liabilities and Net Assets	**$ 19,931,468**	**$ 18,337,161**

See accompanying notes.

LIFECENTER NORTHWEST

Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted Activities		
Revenue and Support:		
Procurement revenue	$ 31,725,768	$ 29,513,282
Due from Medicare	2,275,356	1,788,325
Import revenue	982,000	1,072,000
Contributions	356,068	339,886
Research and other revenue	86,101	106,637
Investment income	88,764	73,303
Total Revenue and Support	**35,514,057**	**32,893,433**
Expenses:		
Procurement services	28,025,646	24,702,634
Public education	895,964	767,781
Total program services	28,921,610	25,470,415
Management and general	4,923,430	4,721,825
Total Expenses	**33,845,040**	**30,192,240**
Change in Net Assets Before Other Changes	**1,669,017**	**2,701,193**
Other Changes in Net Assets:		
Unrealized gain on investments	4,153	3,240
Total Change in Net Assets	**1,673,170**	**2,704,433**
Net assets, beginning of year	12,315,210	9,610,777
Net Assets, End of Year	**$ 13,988,380**	**$ 12,315,210**

See accompanying notes.

LIFECENTER NORTHWEST

Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities:		
Change in net assets	$ 1,673,170	$ 2,704,433
Adjustments to reconcile change in net assets to		
net cash provided by operating activities-		
Depreciation and amortization	381,575	393,318
Unrealized gain on investments	(4,153)	(3,240)
(Gain) loss on disposal of property and equipment	(13,500)	2,847
Changes in operating assets and liabilities:		
Accounts receivable and other receivables	644,913	(1,150,255)
Medicare receivable	(769,924)	(1,645,939)
Prepaid expenses and other assets	(122,367)	(50,302)
Accounts payable, accrued liabilities and other liabilities	16,312	1,159,865
Deferred rent and tenant improvement allowance	(66,838)	(52,435)
Net Cash Provided by Operating Activities	**1,739,188**	**1,358,292**
Cash Flows From Investing Activities:		
Purchase of property and equipment	(105,660)	(32,129)
Proceeds from sales of property and equipment	13,500	
Purchase of investments	(68,237)	(293,848)
Proceeds from sales of investments	200,000	257,393
Net Cash Provided by (Used in) Investing Activities	**39,603**	**(68,584)**
Cash Flows From Financing Activities:		
Payments on capital lease	(28,337)	(24,679)
Net Cash Used in Financing Activities	**(28,337)**	**(24,679)**
Net Change in Cash and Cash Equivalents	**1,750,454**	**1,265,029**
Cash and cash equivalents balance, beginning of year	6,700,926	5,435,897
Cash and Cash Equivalents Balance, End of Year	**$ 8,451,380**	**$ 6,700,926**
Supplementary Disclosure of Cash Flow Information:		
Property and equipment acquired through capital lease	$ -	$ 77,398

See accompanying notes.

Note 1 - Organization and Significant Accounting Policies

Organization - LifeCenter Northwest (the Organization), a nonprofit corporation, is the certified organ procurement organization (OPO) for Montana, Alaska, Northern Idaho and most of Washington that began operations January 1, 1997. It is the mission of the Organization to provide the bridge between the loss of life and the gift of life through organ and tissue donation and transplantation. The Organization is dedicated to promoting organ and tissue donations to benefit the greatest number of people through transplantation.

Basis of Presentation - Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

> Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.
>
> Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. As of December 31, 2017 and 2016, the Organization had no temporarily restricted net assets.
>
> Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they will be maintained permanently by the Organization. Generally the donors of these assets permit the use of all or part of the income earned on related investments for general or specific purposes. As of December 31, 2017 and 2016, the Organization had no permanently restricted net assets.

Contributions with donor-imposed restrictions that are met in the same year as received are reported as revenues within unrestricted net assets.

Cash and Cash Equivalents - The Organization defines cash and cash equivalents to include demand deposits, savings accounts and investments with an original maturity of three months or less, excluding assets whose use is limited or included in its investment portfolio. The Organization maintains its cash and cash equivalent accounts at financial institutions in amounts, which at times, may exceed federally insured limits.

Accounts Receivable, Other Receivables and Revenue - Accounts receivable and revenue are reported at the estimated net realizable amounts from third-party payers for services rendered; there is no interest on past due accounts. Other receivable amounts include contributions made to the Organization and collected by the Department of Licensing and other receivables. There was no allowance for uncollectible amounts at December 31, 2017 and 2016. The Organization has established credit policies and, historically, the losses related to customer nonpayment have been very low as a percentage of revenues. Management regularly monitors its accounts receivable and establishes an allowance for those deemed uncollectible as needed.

Approximately 56% of the accounts receivable balance at December 31, 2017, is due from three customers. Approximately 41% of the accounts receivable balance at December 31, 2016, was due from two customers. Additionally, approximately 63% of procurement revenue was from three customers for the year ended December 31, 2017 and 54% of procurement revenues was from three customers for the year ended December 31, 2016.

Note 1 - Continued

Medicare Receivable and Payable - Medicare receivables and payables are reported at the estimated net realizable value based on cost reports and past experience with the Medicare Administration, and are classified as current or noncurrent based on management's best estimate of when funds will be received or paid. Medicare revenue is expected to be audited approximately one to three years after year end by a Medicare fiscal intermediary, which may result in adjustments to amounts previously recorded. The adjustments are recorded at the time that such amounts can first be reasonably determined, normally upon notification by Medicare.

Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could materially change.

Investments - Investments consist of certificates of deposits (CDs) and close ended mutual funds. The CD terms range of one to five years and are reported at fair value. CDs that will mature within one year are classified as short-term investments and all other certificates of deposit are classified as long-term investments. The Organization's investments in close ended mutual funds are carried at fair value and classified as long-term. Unrealized and realized gains and losses are reflected in the statement of activities and changes in net assets. Securities are generally held in custodial investment accounts administered by certain financial institutions.

Property and Equipment - Furniture and equipment, and leasehold improvements are stated at cost. The Organization capitalizes all fixed assets with a total cost greater than $5,000. Furniture and equipment are depreciated using the straight-line method over estimated useful lives of three to twenty years. Leasehold improvements are amortized using the straight-line method over the shorter of the useful life or the term of the lease.

Depreciation and amortization expense during 2017 and 2016, totaled $381,575 and $393,318, respectively.

Deferred Rent - Deferred rent consists of the liability for office rent due to the cumulative difference between the total lease payments through December 31, 2017, based on the terms of the lease agreement and what the expense would be based on a straight-line basis over the life of the lease. See Note 7 for a schedule of future required lease payments.

Deferred Tenant Improvement Allowance - Deferred tenant improvement allowance represents amounts paid by the landlord for tenant improvements in association with an operating lease for office space. The total deferred tenant improvement allowance was $921,647. The deferred tenant improvement allowance is amortized over the ten years and eight months life of the lease, effective January 1, 2015. See Note 7.

Procurement and Import Revenue - Procurement and import revenue consists of fees charged to medical facilities and other OPOs for costs incurred in the procurement of organs and tissues. The revenue is recognized after the procurement services have been completed and the organ or tissue has been accepted by the receiving facility.

Contributions - The Organization records contributions according to accounting principles generally accepted in the United States of America (U.S. GAAP) for contributions received and contributions made. Accordingly, contributions including unconditional promises to give, are recorded in the period made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-adjusted interest rates applicable to the years in which the promises are to be received.

Note 1 - Continued

Federal Income Taxes - The IRS has determined the Organization is exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) and not as a private foundation. Accordingly no provision for income taxes has been made in these financial statements.

Use of Estimates - The preparation of financial statements in conformity with U.S. 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.

Accrued medical liabilities totaling $995,631 and $1,207,228 as of December 31, 2017 and 2016, respectively, have been recorded based on management's estimates of actual costs incurred for which invoices had not been received. While costs based on actual vendor invoices may differ from the estimates, management believes that any differences would not have a material impact on the Organization’s financial position. Due to uncertainties in the estimation process, however, it is at least reasonably possible that management's estimate of accrued medical liabilities will change during the following year. That amount, if any, cannot be estimated.

The Medicare receivable and payable discussed earlier in Note 1 is also a significant estimate.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated between the program and supporting services benefited.

Procurement services represents the coordination of the entire organ and tissue recovery process, including working with potential donor families and donor hospitals, evaluating donors, transportation of Organization staff and organs, assisting with the placement of organs, arranging for transportation of recovered tissue to nationally recognized tissue bank and coordinating hospital facilities during organ recovery and placement.

Public education represents costs incurred to expand public awareness of organ and tissue donation.

Management and general encompass the expenditures associated with the leadership and articulation of the Organization’s program strategy, as well as the functions necessary to support operations including accounting, finance, human resources, quality and information technology.

Reclassifications - Certain accounts in the 2016 financial statements have been reclassified for comparative purposes to conform to the presentation in the 2017 financial statements. The reclassifications have no effect on previously reported total assets, liabilities, net assets, or changes in net assets.

Subsequent Events - The Organization has evaluated subsequent events through March 28, 2018, the date on which the financial statements were available to be issued.

Note 2 - Investments

Investments are comprised of the following at December 31:

	2017	2016
Certificates of deposit - short term	$ 200,802	$ 201,785
Certificates of deposit - long term	608,322	818,744
Close ended mutual funds	2,096,866	2,013,071
Total Investments	**$ 2,905,990**	**$ 3,033,600**

Investment return is comprised of the following for the years ended December 31:

	2017	2016
Interest and dividends	$ 88,764	$ 73,303
Unrealized gain	4,153	3,240
Total Investment Return	**$ 92,917**	**$ 76,543**

Note 3 - Fair Value Measurements

U.S. GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are described as follows:

Level 1 - Unadjusted quoted prices available in active markets for identical assets or liabilities;

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

Level 3 - Unobservable inputs that are significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Note 3 - Continued

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

Certificates of Deposit - Valued at fair value based on quoted market prices for similar investments.

Close Ended Mutual Funds - Valued at fair value based on quoted market prices for similar investments.

Fair Values Measured on a Recurring Basis - Fair values of assets and liabilities measured on a recurring basis at December 31 were as follows:

	Fair Value Measurements as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ -	$ 809,124	$ -	$ 809,124
Close ended mutual funds		2,096,866		2,096,866
Investments at Fair Value	**$ -**	**$ 2,905,990**	**$ -**	**$ 2,905,990**

	Fair Value Measurements as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ -	$ 1,020,529	$ -	$ 1,020,529
Close ended mutual funds		2,013,071		2,013,071
Investments at Fair Value	**$ -**	**$ 3,033,600**	**$ -**	**$ 3,033,600**

Note 4 - Medicare Receivable and Payable

	2017	2016
Current Receivable:		
Due from Medicare - 2017 cost report	$ 1,706,517	$ -
Due from Medicare - 2016 cost report	$ -	$ 1,445,679
Noncurrent Receivable:		
Due from Medicare - 2017 cost report	$ 568,839	$ -
Due from Medicare - 2016 cost report	$ 282,893	$ 342,646
Due from Medicare - 2015 cost report	$ 139,247	$ 139,247
Noncurrent Liability:		
Due to Medicare - allowance for 2014 cost report	$ 168,826	$ 168,826
Due to Medicare - allowance for 2013 cost report	$ 300,000	$ 300,000

Note 4 - Continued

The current and noncurrent receivable of $1,706,517 and $568,839 as of December 31, 2017, respectively, represents the estimated amount due from Medicare based on the 2017 cost report, anticipated to be filed in May 2018.

The current and noncurrent receivable of $1,445,679 and $342,646 as of December 31, 2016, respectively, represented the estimated amount due from Medicare based on the 2016 cost report, which was filed in May 2017. During the year ending December 31, 2017, $1,505,432 was received on this receivable. The remaining balance of $282,893 is reported as a noncurrent receivable as of December 31, 2017.

The noncurrent receivable of $139,247 as of December 31, 2017 and 2016, represented the estimated amount due based on the 2015 cost report that had not been fully paid in prior years.

Recorded as a noncurrent liability as of December 31, 2016 is $168,826 and $300,000 related to management's best estimate of the potential remaining amount due upon the audit of the 2014 and 2013 audit report, respectively.

As of December 31, 2017, no audit of the 2013, 2014, 2015 and 2016 cost reports had been performed.

Note 5 - Bank Debt

There were no bank borrowings at December 31, 2017 or 2016.

Note 6 - Qualified Employee Benefit Plan

The Organization sponsors a 403(b) qualified retirement benefit plan (the Plan). All employees may make elective deferrals under the Plan. After completing one year of service, employees are eligible for employer matching contributions in amounts determined by the Plan document that is approved by the Board of Directors. The Organization recognized expense of $599,458 and $577,474 related to matching contributions to the Plan during the years ended December 31, 2017 and 2016, respectively.

The Organization also maintains a nonqualified deferred compensation plan covered under Section 457(b) of the Internal Revenue Code. Only employees specifically designated by the Governing Board are eligible. The maximum salary deferral under the 457(b) plan for the years ended December 31, 2016 and 2015 was $18,000. There are no matching provisions. The nonqualified deferred compensation plan is administered by the Organization. As of December 31, 2017 and 2016, there was one participant in the 457(b) plan. Total assets in the plan were $119,573 and $101,573 as of December 31, 2017 and 2016, respectively, which has been included in other long-term assets with an offsetting amount in other liabilities. Assets in the plan are held by the Organization on a non-trust basis and are subject to the claims of its creditors.

Note 7 - Commitments and Contingencies

At December 31, 2017, the Organization had a number of noncancelable operating leases for office spaces and a surgical recovery suite, which expire through 2025. Rental expenses for these leases totaled $795,094 and $808,581 for the years ended December 31, 2017 and 2016, respectively.

Note 7 - Continued

During the year ended December 31, 2014, the Organization signed an operating lease for a new office space that was effective January 1, 2015. The lease is a ten year and eight-month lease that expires on August 31, 2025. The lease agreement included a total leasehold improvement allowance of $921,647. The leasehold improvements are amortized beginning January 1, 2015 over the term of the lease period and will offset rent expense. Future lease payments are escalated over the life of the lease and are included in the minimum lease payments schedule.

Future minimum lease payments under these leases are as follows:

For the Year Ending December 31,		
2018	$	556,050
2019		514,185
2020		499,842
2021		489,912
2022		505,222
Thereafter		1,423,807
	$	**3,989,018**

During the year ending December 31, 2016, the Organization recorded a capital lease for equipment that goes through October 1, 2018. The capital lease requires monthly payments of interest and principal totaling $2,478.

Future minimum lease payments under this lease are as follows:

For the Year Ending December 31,		
2018	$	24,382
	$	**24,382**

As of December 31, 2017, the capital lease included in property and equipment totaled $136,585 and has accumulated amortization of $113,821.

The Organization has elected to be self-insured for unemployment compensation. The costs of claims under this program are expensed as claims arise. Management has not accrued a provision for incurred-but-not-reported claims as it has been deemed to not be material.

In the normal course of business, the Organization is sometimes involved in litigation, including matters that may have existed at December 31, 2017. At December 31, 2017, management is not aware of any such matters. The Organization maintains professional liability insurance coverage through a “claims made” policy. Should the “claims made” policy not be renewed or replaced with equivalent insurance, claims related to occurrences during their terms, but reported subsequent to their termination, may be uninsured.