Mississippi Valley Regional Blood Center

Consolidated Financial Report
December 31, 2017

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Independent Auditor's Report

RSM US LLP

To the Board of Directors
Mississippi Valley Regional Blood Center
Davenport, Iowa

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Mississippi Valley Regional Blood Center which comprise the consolidated balance sheets as of December 31, 2017 and January 1, 2017, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended and the related notes to consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mississippi Valley Regional Blood Center as of December 31, 2017 and January 1, 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Davenport, Iowa
February 19, 2018

Mississippi Valley Regional Blood Center

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended December 31, 2017	Year Ended January 1, 2017
Unrestricted net assets:		
Operating revenue	$ 62,916,742	$ 61,630,272
Operating expenses	63,914,153	61,095,463
Operating income (loss)	(997,411)	534,809
Nonoperating income (expense):		
Investment income	15,253	10,844
Contribution revenue	32,825	12,484
Income (loss) from partnerships	(46,903)	3,225
Gain (loss) on sale of property and equipment	93,934	(39,429)
Interest (expense), including swap settlements	(90,063)	(103,720)
Change in fair value of interest rate swap agreement	33,459	52,262
Total nonoperating income (expense)	38,505	(64,334)
Change in net assets	(958,906)	470,475
Net assets:		
Beginning of year	36,083,820	35,613,345
End of year	$ 35,124,914	$ 36,083,820

See Notes to Consolidated Financial Statements.

Mississippi Valley Regional Blood Center

Consolidated Balance Sheets

Assets	**December 31, 2017**	January 1, 2017
Current Assets:		
Cash and cash equivalents	**$ 3,041,021**	$ 4,698,206
Receivables, primarily trade, less allowance for doubtful accounts 2017 and 2016 $10,000	**7,402,320**	7,389,759
Inventories	**3,053,350**	2,648,920
Other current assets, primarily prepaid expenses	**975,576**	903,198
Total current assets	**14,472,267**	15,640,083
Property and Equipment, net	**28,986,356**	30,195,023
Other Assets	**346,989**	344,684
	$ 43,805,612	$ 46,179,790
Liabilities and Net Assets		
Current Liabilities:		
Current maturities of long-term debt and capital lease obligations	**$ 500,000**	$ 991,568
Accounts payable	**2,273,218**	2,623,536
Accrued expenses	**2,383,136**	2,313,295
Deferred revenue	**107,143**	107,143
Total current liabilities	**5,263,497**	6,035,542
Long-Term Liabilities:		
Long-term debt and capital lease obligations, less current portion	**2,199,348**	2,701,973
Interest rate swap agreement	**40,791**	74,250
Accrued expenses	**748,491**	748,491
Deferred revenue	**428,571**	535,714
	3,417,201	4,060,428
Total liabilities	**8,680,698**	10,095,970
Net Assets, unrestricted	**35,124,914**	36,083,820
	$ 43,805,612	$ 46,179,790

See Notes to Consolidated Financial Statements.

Mississippi Valley Regional Blood Center

Consolidated Statements of Cash Flows

	Year Ended December 31, 2017	Year Ended January 1, 2017
Cash Flows from Operating Activities:		
Change in net assets	**$ (958,906)**	$ 470,475
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**3,156,985**	3,027,140
Amortization	**8,625**	13,070
(Gain) loss on disposition of property and equipment	**(93,934)**	39,429
(Income) loss from partnerships	**46,903**	(3,225)
Change in fair value of interest rate swap agreement	**(33,459)**	(52,262)
Changes in assets and liabilities:		
(Increase) in receivables	**(12,561)**	(1,043,894)
(Increase) decrease in inventories	**(404,430)**	375,679
(Increase) decrease in other assets	**(81,586)**	39,399
Increase in accounts payable	**107,560**	445,794
Increase in accrued expenses	**69,841**	94,559
Increase (decrease) in deferred revenue	**(107,143)**	642,857
Net cash provided by operating activities	**1,697,895**	4,049,021
Cash Flows from Investing Activities:		
Proceeds from disposition of property, equipment and other assets	**93,934**	176,023
Purchase of property and equipment	**(2,406,196)**	(1,835,202)
Investment in partnership	**(40,000)**	(60,000)
Net cash (used in) investing activities	**(2,352,262)**	(1,719,179)
Cash Flows from Financing Activities:		
Principal payments on long-term debt and capital lease obligations	**(1,002,818)**	(808,562)
Other	**-**	(3,248)
Net cash (used in) financing activities	**(1,002,818)**	(811,810)
Net increase (decrease) in cash and cash equivalents	**(1,657,185)**	1,518,032
Cash and cash equivalents:		
Beginning	**4,698,206**	3,180,174
Ending	**$ 3,041,021**	$ 4,698,206

(Continued)

Mississippi Valley Regional Blood Center

Consolidated Statements of Cash Flows (Continued)

		Year Ended December 31, 2017		Year Ended January 1, 2017
Supplemental Disclosure of Cash Flow Information, cash payments for interest on long-term debt and capital lease obligations, including interest rate swap settlements	**$**	**90,383**	$	103,797
Supplemental Disclosure of Noncash Investing Activities, accounts payable and long-term debt incurred for the acquisition of property and equipment		**-**		1,178,278

See Notes to Consolidated Financial Statements.

Note 1. Nature of Business and Significant Accounting Policies

Nature of business:

The Mississippi Valley Regional Blood Center (Center) provides for the recruitment, collection, processing and distribution of blood and blood components in eastern Iowa, western and central Illinois, southwestern Wisconsin and the St. Louis metropolitan area. In addition, the Center is significantly involved in resource sharing of blood and blood components throughout the United States.

Midwest Regional Blood Testing Services, LLC (MRBTS) provides blood testing services for the Center and other blood centers. The Center is the sole member of MRBTS.

Significant accounting policies:

<u>Principles of consolidation</u>: The accompanying consolidated financial statements include the accounts of Center and MRBTS. All significant intercompany accounts and transactions have been eliminated in consolidation.

<u>Use of estimates</u>: The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

<u>Revenue recognition</u>: The Center recognizes revenue upon shipment of its products or when services are performed.

<u>Cash and cash equivalents</u>*:* Cash and cash equivalents include cash and temporary investments. The temporary investments have maturities of three months or less at date of acquisition.

<u>Derivative financial instruments</u>: All derivative financial instruments are recognized as either assets or liabilities at their fair value in the consolidated balance sheets with the changes in the fair value reported in current period earnings. The Center's derivatives consist of an interest rate swap agreement.

<u>Trade receivables</u>: Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. The net provisions for bad debts were none for each of the years ended December 31, 2017 and January 1, 2017.

A trade receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days.

<u>Bond issue costs</u>: Bond issue costs are being amortized by the straight-line method, which approximates the effective interest method, over the life of the bonds. Bond issue costs are presented in the balance sheet as a reduction of the carrying amount of long-term debt.

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

Inventories: Blood components, which approximate 56% and 51% of inventories as of December 31, 2017 and January 1, 2017, respectively, are carried at current customer pricing, which approximates cost. All other inventories are priced at the lower of cost or net realizable value with cost being determined by the first-in, first-out method.

Property and equipment: Property and equipment is carried at cost or, if donated, at fair market value at date of donation. Gifts of long-lived assets, such as equipment, are recorded as nonoperating revenue in the year donated.

Depreciation is computed by the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	10 - 30
Scientific equipment	5 - 10
Office equipment	3 - 10
Vehicles	2 - 7

The depreciation expense on assets acquired under capital leases is included with depreciation expense on owned assets.

Interest expense related to construction of property and equipment is capitalized.

Investment in partnerships: The Center has investments in partnerships which are accounted for using the equity method of accounting whereby the Center's proportionate share of the net income or loss of the partnerships is recognized as income or loss in the Center's statement of operations and added or subtracted from the investment account. Additional capital contributions paid to the partnerships or distributions received from the partnerships are added or subtracted from the investment account. The investment in partnerships is $118,477 and $125,380 as of December 31, 2017 and January 1, 2017, respectively, which is included in other assets on the accompanying consolidated financial statements.

In addition, the Center is a co-owner of Blood Centers of America, Inc. (BCA), a voluntary alliance of independent community blood centers. BCA is a for-profit cooperative corporation operating for the benefit of its members as patrons with programs such as group purchasing, resource sharing of blood products and sharing of operational data. The Center receives annual patronage dividends from BCA.

Income tax matters: The Center is exempt from federal income taxes on business related income under Section 501(c)(3) of the Internal Revenue Code. The Center is also exempt from state income taxes.

The Center files a Form 990 (Return of Organization Exempt from Income Tax) annually. MRBTS is included in the Center’s Form 990. When these returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the tax position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to nonprofit organizations include such matters as the following: the tax exempt status of each entity and various positions relative to potential sources of unrelated business income (UBI). UBI is reported on Form 990-T, as appropriate. The benefit of tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes that it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

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

Tax positions are not offset or aggregated with other positions. Tax positions that meet the “more likely than not” recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for uncertain tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. As of December 31, 2017 and January 1, 2017, there were no unrecognized tax benefits identified and recorded as a liability.

Forms 990 and 990-T filed by the Center are subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of each return. Forms 990 and 990-T filed by the Center are no longer subject to examination for the fiscal years ended December 29, 2013 and prior.

Classification of net assets: The Center’s net assets, its revenue and expenses, and gains and losses must be classified based on the existence or absence of donor-imposed restrictions. Amounts for each of the three classes of net assets (permanently restricted, temporarily restricted and unrestricted) are required to be displayed in the consolidated balance sheets. The amounts of the change in each of the three classes of net assets must be displayed in the consolidated statements of operations and changes in net assets. The Center has no permanently restricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions on the accompanying financial statements.

Donated services: The value of donated services is not reflected in the financial statements, as no objective basis is available to measure the value of these services. However, a significant number of volunteers have donated their time providing valuable services to the Center.

Advertising: The Center expenses the costs of advertising as incurred. Advertising costs for the years ended December 31, 2017 and January 1, 2017 were $592,637 and $642,961, respectively.

New and pending accounting guidance: In May 2014, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which provides a robust framework for addressing revenue recognition issues and replaces most of the existing revenue recognition guidance, including industry-specific guidance, in current U.S. GAAP. The standard is effective for periods beginning after December 15, 2017 for public entities and for years beginning after December 15, 2018 for all other entities. Management is currently evaluating the potential impact that the adoption of this update will have on its financial reporting.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases.* Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public entities, and for years beginning after December 15, 2019 for all other entities. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Management is currently evaluating the impact of the pending adoption of the new ASU on the Center’s consolidated financial statements.

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

In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which changes presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes, investment return, expenses, liquidity and availability of resources and presentation of operating cash flows. The standard is effective for not-for-profit organizations for periods beginning after December 15, 2017. Management is currently evaluating the impact that the adoption of this ASU will have to the presentation and disclosures on its consolidated financial statements.

Reclassifications: Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation, with no effect on the change in net assets and total net assets.

Subsequent events: The Center has evaluated subsequent events through February 19, 2018, the date on which the financial statements were issued.

Fiscal year: The Center's fiscal year is a 52/53 week year and ends on the Sunday nearest December 31. The Center's fiscal years ended December 31, 2017 and January 1, 2017 are referred to as fiscal 2017 and 2016, respectively. Fiscal years 2017 and 2016 each consisted of 52 weeks.

Note 2. Major Customer

Revenue from a major customer and related trade receivables as of and for the years ended December 31, 2017 and January 1, 2017 are as follows:

	December 31, 2017		January 1, 2017	
	Revenue	Trade Receivable Balance	Revenue	Trade Receivable Balance
Customer A	$ 6,622,748	$ 785,683	$ 6,407,982	$ 746,745

Note 3. Property and Equipment

Property and equipment consists of the following as of December 31, 2017 and January 1, 2017:

	December 31, 2017	January 1, 2017
Land and land improvements	$ 4,998,322	$ 4,998,322
Buildings and improvements	27,108,745	26,908,555
Scientific equipment	6,839,556	6,256,538
Office equipment	6,650,280	6,558,445
Vehicles	6,143,051	5,488,987
Construction in progress	302,052	506,931
	52,042,006	50,717,778
Less accumulated depreciation	23,055,650	20,522,755
	$ 28,986,356	$ 30,195,023

Note 4. Notes Payable, Long-Term Debt, Capital Lease Obligations and Interest Rate Swap Agreement

The Center had a $2,000,000 line of credit which expired June 2017. Outstanding borrowings under this agreement had interest at a variable interest rate, and were secured by certain assets of the Center. There were no borrowings under this agreement.

The Center had a $300,000 line of credit which expired June 2017. Outstanding borrowings under this agreement had interest at a variable interest rate, and were secured by certain assets of the Center. There were no borrowings under this agreement.

The Center's long-term debt as of December 31, 2017 and January 1, 2017 is as follows:

	December 31, 2017	January 1, 2017
Revenue bonds, Series 2003 (A)	$ 2,750,000	$ 3,250,000
Note payable to a vendor, payable in monthly installments of $26,875 through December 2017	-	483,750
Capital lease obligation with monthly charge of $7,478 through March 2017	-	19,068
	2,750,000	3,752,818
Less bond issue costs	50,652	59,277
Less current maturities	500,000	991,568
	$ 2,199,348	$ 2,701,973

(A) In February 2003, $10,000,000 of Series 2003 variable rate demand purchase revenue bonds (2003 bonds) were issued by the Iowa Finance Authority on behalf of the Center for the construction of a facility in Davenport, Iowa. The bonds mature in semiannual amounts of $250,000 through February 2023 and bear interest at a variable rate (1.22% at December 31, 2017). The bonds are secured by all real estate of the Center, and require the Center to maintain certain financial ratios, including minimum levels of debt service coverage and a leverage covenant.

The bonds are secured by a letter of credit with Wells Fargo equal to the principal amount of the bonds of $2,750,000 as of December 31, 2017 and an amount not to exceed $43,397, which shall be available to pay up to 45 days' accrued interest on the bonds. The letter of credit is secured by the revenues of the Center. The Center has an irrevocable transferrable letter of credit to allow for a situation where the remarketing agent is unable to remarket the bonds and the bonds are put back to the issuer. As of December 31, 2017, none of the bonds had been put back to the issuer and the letter of credit had not been drawn upon.

The letter of credit, which expires February 6, 2018 and is renewed automatically each calendar year on February 6, requires the Center to comply with certain restrictive covenants, including minimum insurance coverage and maintenance of certain leverage and debt service ratios.

Note 4. Notes Payable, Long-Term Debt, Capital Lease Obligations and Interest Rate Swap Agreement (Continued)

The following are scheduled maturities on the long-term debt and capital lease obligations as of December 31, 2017, assuming the letter of credit described above is renewed annually over the remaining term of the Series 2003 bonds:

Year ending December/January:	
2018	$ 500,000
2019	500,000
2020	500,000
2021	500,000
2022	500,000
Thereafter	250,000
Total	$ 2,750,000

The Center has entered into a declining balance interest rate swap agreement with its bank to reduce the impact of changes in interest rates on its floating-rate long-term debt without exchanging the underlying principal amounts. As of December 31, 2017, the Center had one outstanding interest rate swap agreement having a total notional principal amount of $875,000. This agreement effectively changes the Center's interest rate exposure risk on a portion of the floating rate bonds to a fixed rate for a specified period of time as described below:

		To	From	Fair Value (Liability) of Swap	
Notional Amount	Termination Date	Fixed Rate	Floating Rate	December 31, 2017	January 1, 2017
$ 875,000	January 1, 2021	4.20%	1.22%	$ (40,791)	$ (74,250)

The floating rate received is based on the Securities Industry and Financial Markets Association Municipal Swap Index. Changes in this index would affect the floating rate information. The Center is also exposed to a risk that the counterparty cannot meet their obligations under the interest rate swap agreement. However, the Center does not anticipate nonperformance by the counterparty.

As discussed, the Center has entered into an interest rate swap agreement to hedge the Center's exposure to interest rate risk related to their variable rate bonds. The Center's specific goal is to lower (where possible) the cost of its borrowed funds over borrowing term. Although the Center believes its interest rate swap agreement is an economic hedge, it has not been designated as a hedge for accounting purposes and it is recorded on the consolidated balance sheet at its fair market value, with changes in fair value recognized in current period change in unrestricted net assets. The following amounts have been included in the consolidated statements of operations for the years ended December 31, 2017 and January 1, 2017.

	Year Ended December 31, 2017	Year Ended January 1, 2017
Swap settlements, included in interest expense	$ (32,828)	$ (46,489)
Change in fair value of interest rate swap agreements	33,459	52,262
	$ 631	$ 5,773

Note 5. Retirement Plan

The Center has a 401(k) plan covering substantially all employees who have completed one month of service and who are 21 years of age or older. Employees who have met the eligibility requirements can enter the Plan on the first day of the next month for elective deferral and matching contributions. A participant must also have completed one year of service with at least 1,000 hours of service of work, reached the age of 21 years and be employed on the last day of the plan year to receive an allocation of employer discretionary contribution. Each eligible employee is permitted to defer up to 85% of his or her annual compensation on a pre-income tax basis subject to the statutory dollar limit. The Center matches 100% of the employees' contributions up to a maximum of 4% of an employee's annual salary. The Center also has the option to contribute a discretionary amount each year. These contributions amounted to $777,590 and $596,724 for the years ended December 31, 2017 and January 1, 2017, respectively.

Note 6. Lease Commitments and Total Rental Expense

The Center has leased donor centers in Dubuque, Muscatine, Iowa City, Cedar Rapids and Ottumwa, Iowa, in Springfield, Galesburg, Maryville, Macomb, Danville and, Mattoon, Illinois and in Crestwood, Maryland Heights and St. Peters, Missouri, under agreements, which expire through June 2026. The total minimum rental commitment as of December 31, 2017 under these leases is approximately $2,332,000 and is due as follows:

Year ending December/January:	
2018	$ 743,000
2019	459,000
2020	358,000
2021	286,000
2022	183,000
Thereafter	303,000
	$ 2,332,000

Rent expense under these leases and other operating leases, including property taxes, was approximately $1,025,000 and $988,000 for the years ended December 31, 2017 and January 1, 2017, respectively.

Note 7. Contingencies

Self-insured health: The Center provides medical and other healthcare benefits to its employees and covered dependents through a self-insured health care plan. Reinsurance covering costs above $100,000 per individual per plan year is maintained through a commercial policy. Estimated claims incurred but not yet reported totaled approximately $450,000 and $400,000 as of December 31, 2017 and January 1, 2017, respectively.

Professional and general liability: The Center is from time-to-time involved in litigation arising in the ordinary course of business. Losses from asserted and unasserted claims identified under the Center's incident reporting system are accrued based on estimates that include past experience as well as the nature of the claim and other relevant factors. The Center has not accrued for any losses as of December 31, 2017 and January 1, 2017. Management believes insurance coverage is adequate to provide for potential losses resulting from asserted and unasserted claims.

Note 7. Contingencies (Continued)

Effective July 1, 2015, the Center is a member of a shared-risk pool for its general and professional liability insurance coverage. The Center contributes an annual premium into the shared-risk pool. The Center may be assessed an amount equal to a certain portion of its premium if the shared-risk pool's expected losses exceed its contributions for the year. There were no assessments in the current year. Claims that exceed the plan's annual aggregates are covered by other re-insurance. The Center's investment in the shared-risk pool company is approximately $223,000 as of December 31, 2017, which is included in other assets on the accompanying consolidated financial statements.

Workers' compensation: The Center is, from time to time, subject to workers' compensation claims from its employees. The Center maintains occurrence-based workers' compensation coverage to cover the costs related to these claims. In the opinion of management, the ultimate resolution of pending claims will not have a material effect on the Center.

Note 8. Fair Value Measurements

The FASB guidance for fair value measurements defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The FASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below:

Interest rate swap agreement: The fair value of $(40,791) and $(74,250) as of December 31, 2017 and January 1, 2017, respectively, is estimated by a third party using inputs that are observable or that can be corroborated by observable market data, and therefore, are classified within level 2 of the valuation hierarchy. There have been no changes in valuation techniques used for the interest rate swap agreement measured at fair value during the years ended December 31, 2017 and January 1, 2017.

Note 9. Functional Expenses

The Center provides services related to the recruitment, collection, processing and distribution of blood and blood components to residents from its geographic area. Expenses related to providing these services for the years ended December 31, 2017 and January 1, 2017 are as follows:

	Year Ended December 31, 2017	Year Ended January 1, 2017
Program services	$ 59,353,103	$ 55,974,574
General and administrative	4,561,050	5,120,889
	$ 63,914,153	$ 61,095,463