Hoxworth Blood Center

Financial Statements for the Years Ended June 30, 2004 and 2003 and Independent Auditors' Report

Auditor of State
Betty Montgomery

Community Advisory Board
Hoxworth Blood Center
PO Box 210157
Cincinnati, Ohio 45221-0157

We have reviewed the Independent Auditor's Report of the Hoxworth Blood Center, Hamilton County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2003 to June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Hoxworth Blood Center is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

November 29, 2004

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HOXWORTH BLOOD CENTER

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INDEPENDENT AUDITORS' REPORT

Ms. Betty Montgomery, Auditor of State of Ohio;
Board of Trustees of the University of
Cincinnati; and The Community Advisory
Board of Hoxworth Blood Center

We have audited the accompanying statements of net assets of Hoxworth Blood Center ("Hoxworth"), a division of the University of Cincinnati which is a component unit of the State of Ohio, as of June 30, 2004 and 2003 and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of Hoxworth's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Hoxworth at June 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 2-3 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. The supplementary information is the responsibility of Hoxworth's management. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we did not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2004, on our consideration of Hoxworth's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

September 15, 2004

HOXWORTH BLOOD CENTER

MANAGEMENT DISCUSSION AND ANALYSIS

Hoxworth Blood Center is the community blood center for the Greater Cincinnati area. Serving a 15-county area in Ohio, Kentucky and Indiana, Hoxworth collects, tests, processes and distributes blood and blood components to 25 hospitals. Our purpose is to enhance the well being of patients in our service area by assuring a reliable and economical supply of the safest possible blood. To help us meet this goal, Hoxworth is governed by the University of Cincinnati Board of Trustees and is considered a component unit of the State of Ohio. Hoxworth also has its own community advisory board and a medical/technical advisory committee. Hoxworth is licensed and regulated by the U.S. Food and Drug Administration and accredited by the American Association of Blood Banks, the American Society for Histocompatibility and Immunogenetics, and the Foundation for the Accreditation of Cellular Therapy. Hoxworth is also a member of America's Blood Centers and BCA/hemerica.

We receive whole units of blood and apheresis products from individual donors. We then process and test the blood and distribute various blood products to hospitals and other users for patient care purposes. Fees are charged to cover the cost of acquiring, processing, testing, and distributing blood components and other blood services. These fees are recorded as revenue at the time such products and services are provided. In the past year, blood units donated have increased from 82,594 in fiscal year 2003 to 87,913 in fiscal year 2004.

Hoxworth Blood Center implemented a new requirement from the American Association of Blood Banks and the College of American Pathologists to limit and detect bacteria in all platelet components. This began in March 2004 and was fully implemented in May 2004. Hoxworth also implemented testing for West Nile Virus in July 2003 using nucleic acid technology, which detects the genetic material of the virus in donated blood.

An analysis and discussion of specific financial information for fiscal years 2003 and 2004 is below.

Operating Revenues: Operating revenues increased from $24,370,141 at June 30, 2003 to $29,552,430 at June 30, 2004. This increase of $5,182,289, or 21.3% is primarily attributable to several factors. Blood and Blood Components revenue increased $2,799,621 due to volume and price increases. Compatibility and Reference revenue increased $170,980 due to an increase in activity in the bone marrow transplant program at Cincinnati Children's Hospital Medical Center. Transplantation Immunology revenue increased $594,940 due to a volume increase of 2,330 procedures. Apheresis Components and Therapeutics revenue increased $1,070,913 due to an increase in demand for therapeutic apheresis procedures. Cellular Therapies revenue increased $116,234 due to an increase in demand by Cincinnati Children's Hospital Medical Center and the Jewish Hospital of the Health Alliance of Greater Cincinnati for services to support their bone marrow transplant programs.

Operating Expenses: Operating expenses increased $3,072,738 or 12.3%, from $24,922,782 at June 30, 2003 to $27,995,520 at June 30, 2004. Salaries and employee benefits increased $1,377,955, or 10.8% due to a 2.44% increase in benefits, the annual pay increase, and positions filled. Routine supplies and facilities maintenance increased $1,487,961, or 16.2% due to sales volume increases, bacterial detection supplies, West Nile Virus testing, automated collections supplies, and an increase in blood collections. Blood component inventory support decreased $93,944, or 36%, due to a reduction in the need for imported blood. General and administrative expenses increased $256,007 or 15.8%, due to increases in information systems costs, advertising, and insurance charges.

Non-Operating Revenues and Expenses: Due to an increase in the stock market over the past year, the unrealized gain on our quasi-endowment fund was $347,972, compared to an unrealized loss of $191,680 in 2003. Other revenue increased $172,234 due to organized fundraising efforts.

Increase in Net Assets: For the year ended June 30, 2004, our net assets increased $2,178,275 compared with a decrease in net assets of $679,029 for the year ended June 30, 2003. Net assets invested in capital assets, net of related debt, increased $455,755 from $11,413,520 as of June 30, 2003 to $11,869,275 as of June 30, 2004. This increase is primarily due to our bonds payable liability decreasing due to our payment made during 2004, as well as fixed asset purchases of $817,555 offset by depreciation expense. Net assets unrestricted increased $1,713,672 from $8,194,097 as of June 30, 2003 to $9,907,769 as of June 30, 2004. This increase is primarily due to the net asset increase of $2,178,275 offset by activity in net assets invested in capital assets.

Assets: Total assets of the organization increased $1,180,140 to $27,327,263 as of June 30, 2004 from $26,147,123 as of June 30, 2003. Current assets increased $1,468,494 from $10,458,528 as of June 30, 2003 to $11,927,022 as of June 30, 2004. Cash and cash equivalents increased $26,074 from $7,145,611 as of June 30, 2003 to $7,171,685 as of June 30, 2004. The increase in cash is explained in our discussion of cash flows below. Net accounts receivable increased $1,105,923 due to timing of payments and increase in revenue. Blood and supplies inventories increased $270,413. Capital assets, net, decreased $296,913 from $14,633,028 as of June 30, 2003 to $14,336,115 as of June 30, 2004. This decrease is the result of depreciation expense exceeding capital purchases during the year. Capital purchases were $817,555 for the year. Last year capital purchases were $1,469,871.

Liabilities: Total liabilities decreased $998,135 to $4,473,520 as of June 30, 2004. As of June 30, 2003, total liabilities were $5,471,655. Current liabilities decreased $215,749 from $3,004,523 at June 30, 2003 to $2,788,774 at June 30, 2004. Bonds payable, net of current portion, decreased $782,386 from $2,467,132 as of June 30, 2003 to $1,684,746 as of June 30, 2004 primarily due to payment of bond principal.

Cash Flows: For the year ended June 30, 2004, cash and cash equivalents increased $26,074. Cash provided by operations was $979,587 and consisted primarily of cash received from customers and cash paid to suppliers and employees. Cash received through contributions was $175,091. Cash used for capital and financing activities was $1,776,802 and consisted primarily of cash paid for capital purchases and cash paid for bond interest and principal. Unrealized investment gain of $347,972 and cash received from interest on investments of $300,226 provided a net investment gain of $648,198.

HOXWORTH BLOOD CENTER

STATEMENTS OF NET ASSETS
JUNE 30, 2004 AND 2003

ASSETS	2004	2003
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,171,685	$ 7,145,611
Restricted cash and cash equivalents	12,573	12,284
Accounts receivable, net of allowance for doubtful accounts of approximately $44,000 at June 30, 2004 and 2003, respectively	3,806,440	2,700,517
Inventories	867,004	596,591
Prepaid expenses and other assets	69,320	3,525
Total current assets	11,927,022	10,458,528
NONCURRENT ASSETS:		
Assets whose use is limited by bond indentures	1,064,126	1,055,567
Capital assets:		
Land and buildings	15,361,464	15,182,239
Furniture and equipment	8,852,391	8,424,922
Leasehold improvements	390,781	371,523
	24,604,636	23,978,684
Less accumulated depreciation	10,268,521	9,345,656
Capital assets—net	14,336,115	14,633,028
Total noncurrent assets	15,400,241	15,688,595
TOTAL ASSETS	27,327,263	26,147,123
LIABILITIES		
CURRENT LIABILITIES:		
Current portion of bond payable	782,376	752,376
Accounts payable	863,469	1,080,354
Accrued salaries and benefits	1,132,477	1,158,449
Accrued interest payable	10,452	13,344
Total current liabilities	2,788,774	3,004,523
BOND PAYABLE—Net of current portion	1,684,746	2,467,132
TOTAL LIABILITIES	4,473,520	5,471,655
NET ASSETS		
Invested in capital assets—net of related debt	11,869,275	11,413,520
Expendable—restricted	1,076,699	1,067,851
Unrestricted	9,907,769	8,194,097
TOTAL NET ASSETS	$ 22,853,743	$ 20,675,468

See notes to financial statements.

HOXWORTH BLOOD CENTER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
OPERATING REVENUES:		
Patient and community service	$29,030,435	$24,066,767
Other	521,995	303,374
Total operating revenues	29,552,430	24,370,141
OPERATING EXPENSES:		
Salaries and employee benefits	14,190,317	12,812,362
Routine supplies and facility maintenance	10,653,863	9,165,902
Blood component inventory support	167,221	261,165
General and administrative	1,876,454	1,620,447
Depreciation	1,107,665	1,062,906
Total operating expenses	27,995,520	24,922,782
OPERATING INCOME (LOSS)	1,556,910	(552,641)
NON-OPERATING REVENUES (EXPENSES):		
Net increase (decrease) in the fair value of investments	347,972	(191,680)
Interest income	300,226	316,647
Interest expense	(206,886)	(259,174)
Other	180,053	7,819
Total non-operating revenues (expenses)—net	621,365	(126,388)
INCREASE (DECREASE) IN NET ASSETS	2,178,275	(679,029)
NET ASSETS:		
Beginning of year	20,675,468	21,354,497
End of year	$22,853,743	$20,675,468

See notes to financial statements.

HOXWORTH BLOOD CENTER

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 27,922,995	$ 24,336,404
Cash payments to suppliers for goods and services	(13,249,114)	(10,950,417)
Cash payments to employees for services	(14,216,289)	(12,770,997)
Other operating revenues	521,995	303,374
Net cash provided by operating activities	979,587	918,364
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES—		
Contributions received	175,091	3,331
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(817,555)	(1,469,871)
Principal paid on bonds	(795,000)	(760,000)
Interest paid on bonds	(167,161)	(219,224)
Proceeds from sale of equipment	11,473	10,627
(Increase) decrease in value of bond deposit with trustees	(8,559)	1,753
Net cash used for capital and related financing activities	(1,776,802)	(2,436,715)
CASH FLOWS FROM INVESTING ACTIVITIES—		
Net investment gain from cash in the University's pooled cash account	648,198	124,967
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	26,074	(1,390,053)
CASH AND CASH EQUIVALENTS—Beginning of year	7,145,611	8,535,664
CASH AND CASH EQUIVALENTS—End of year	$ 7,171,685	$ 7,145,611
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	$ 1,556,910	$ (552,641)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,107,665	1,062,906
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(1,105,923)	269,637
Increase in inventories	(270,413)	(54,608)
(Decrease) increase in accrued salaries and benefits	(25,972)	41,365
(Increase) decrease in prepaid expenses	(65,795)	16,928
(Decrease) increase in accounts payable	(216,885)	134,777
Total adjustments	(577,323)	1,471,005
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 979,587	$ 918,364

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—Hoxworth Blood Center ("Hoxworth"), a division of the University of Cincinnati (the "University"), a state of Ohio assisted governmental institution, provides blood components, cellular and aphaeresis therapies, transplantation immunology, and compatibility and reference laboratory services to area hospitals, health care facilities and patients.

Financial Statements—The accompanying financial statements have been prepared in accordance with the principles contained in *Health Care Organizations* published by the American Institute of Certified Public Accountants. As a governmental institution, Hoxworth applies standards applicable to governmental units as prescribed in statements issued by the Governmental Accounting Standards Board ("GASB") and other recognized authoritative sources. Hoxworth also applies the Financial Accounting Standards Board's Statements and Interpretations issued prior to November 30, 1989, unless those pronouncements conflict with GASB pronouncements. The statements of cash flows have been prepared in accordance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, which was amended by GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

Cash and Cash Equivalents—Hoxworth considers its unrestricted portion of the University's pooled cash account to be cash and cash equivalents. The University's pooled cash account includes investments in U.S. government agency issues; U.S. Treasury bonds, notes and bills; corporate notes and bonds; preferred and common stocks; and other marketable securities. In addition, Hoxworth maintains an unrestricted quasi-endowment fund consisting of cash and cash equivalents amounting to approximately $3,381,000 and $2,975,000 at June 30, 2004 and 2003, respectively.

Inventories—Blood components inventory is stated at net realizable value, which is defined as sales price (net of an allowance for spoilage) less distribution costs. Such valuation treatment approximates the lower of cost or market. Blood bags, accessories, and other supplies are stated at cost, which is determined by the first-in, first-out method.

Capital Assets—Capital assets are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the assets, ranging from 3 to 30 years for furniture and equipment and 25 to 39 years for buildings. Leasehold improvements are amortized on a straight-line basis over the estimated remaining period of occupancy. Maintenance, repairs, and minor renewals are charged to expense as incurred, while major renewals and betterments are capitalized. The cost and related accumulated depreciation for assets retired or otherwise disposed of are removed from the related accounts, and any resulting gains or losses are reflected in income.

Assets Whose Use is Limited—At June 30, 2004 and 2003, assets whose use is limited consists principally of debt securities, the use of which is limited by bond indenture. These securities are carried at amortized cost which approximates market value. Gains or losses on sales of securities are based on average cost.

Restricted Net Assets—Restricted net assets consist of assets whose use is restricted by bond indentures and externally restricted donations for use in bone marrow registry testing.

Revenue Recognition—Hoxworth has arrangements with organized groups and individuals under which it receives whole units of blood donated for processing and ultimate distribution in various forms to hospitals and other users for patient care purposes. Fees are charged to cover the cost of acquiring, processing, and distributing blood components and other blood services. These fees are recorded as revenue at the time such products and services are provided.

Contributed Service—A substantial number of unpaid volunteers have made significant contributions of their time to develop and sustain Hoxworth's programs. The value of this contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

Income Taxes—Through its affiliation with the University, Hoxworth is a tax-exempt organization under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the accompanying financial statements.

Estimates—The preparation of the 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.

Reclassifications-Certain 2003 balances have been reclassified to be consistent with the classification used in 2004.

2. CONCENTRATIONS AND CREDIT RISK

In the normal course of business, Hoxworth extends credit to various area hospitals. At June 30, 2004, one hospital group accounted for approximately 60% and another for approximately 9% of accounts receivable. At June 30, 2003, one hospital group accounted for approximately 27% and another for approximately 19% of accounts receivable.

3. INVENTORIES

Inventories at June 30 consist of the following:

	2004	2003
Blood components	$ 390,859	$ 469,123
Blood bags and accessories	442,794	100,505
Other supplies	33,351	26,963
Total	$ 867,004	$ 596,591

4. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited consist of amounts held on deposit with an independent trustee, in the name of the University, under an indenture agreement in connection with the $4,415,000 University of Cincinnati General Receipts Bonds, Series R-11 (see Note 6).

At June 30, the carrying amount and market value of assets whose use is limited are as follows:

	2004		2003	
	Carrying Amount	Market Value	Carrying Amount	Market Value
By Bond Indenture:				
Cash and cash equivalents			$ 10	$ 10
U.S. Government Agency obligations	$1,055,087	$1,055,839	1,048,802	1,117,482
Accrued interest	9,039	9,039	6,755	6,755
	$1,064,126	$1,064,878	$1,055,567	$1,124,247

5. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2004 and 2003 was as follows:

	Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004
Land and buildings	$15,182,239	$ 179,225		$15,361,464
Furniture and equipment	8,424,922	619,072	$191,603	8,852,391
Leasehold improvements	371,523	19,258		390,781
Total	23,978,684	817,555	191,603	24,604,636
Less accumulated depreciation:				
Buildings	3,362,929	404,526		3,767,455
Furniture and equipment	5,641,668	696,650	184,800	6,153,518
Leasehold improvements	341,059	6,489		347,548
Total accumulated depreciation	9,345,656	1,107,665	184,800	10,268,521
Capital assets—net	$14,633,028	$ (290,110)	$ 6,803	$14,336,115

	Balance July 1, 2002	Additions	Retirements	Balance June 30, 2003
Land and buildings	$14,831,751	$ 350,488		$15,182,239
Furniture and equipment	7,674,773	1,095,512	$345,363	8,424,922
Leasehold improvements	347,652	23,871		371,523
Total	22,854,176	1,469,871	345,363	23,978,684
Less accumulated depreciation:				
Buildings	2,978,643	384,286		3,362,929
Furniture and equipment	5,305,833	675,058	339,223	5,641,668
Leasehold improvements	337,497	3,562		341,059
Total accumulated depreciation	8,621,973	1,062,906	339,223	9,345,656
Capital assets—net	$14,232,203	$ 406,965	$ 6,140	$14,633,028

6. BOND PAYABLE

Bond payable at June 30 consists of the following:

	2004	2003
Series R-11 General Receipts Bonds; with interest ranging from 4.25% to 5%; with various maturities through 2007; net of unamortized deferred loss on bond refunding of approximately $130,000 and $174,000, unamortized premium of approximately $8,000 and $11,000, and unamortized issuance costs of approximately $6,000 and $8,000 at June 30, 2004 and 2003, respectively	$2,467,122	$3,219,508
Less current portion	782,376	752,376
	$1,684,746	$2,467,132

On February 1, 1998, the University issued $4.415 million in Series R-11 General Obligation Bonds with interest rates ranging from 3.7% to 5.0% to advance refund a portion of the outstanding 1991 Series K bonds. The net proceeds of $4.422 million (after payment of approximately $26,000 of issuance costs and accrued interest) were used to purchase U.S. Treasury obligations. Those securities were deposited in an escrow fund to provide for future debt service payments for the advance refunded portion of the 1991 Series K bonds. As a result, this portion of the 1991 Series K bonds are considered to be defeased and the liability for those bonds has been removed from long-term debt. On June 30, 2004 $4.045 million of bonds outstanding are considered defeased.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $434,000. The difference, reported in the accompanying financial statements as a deduction from bonds payable, is being reported in interest expense through 2007 using the straight-line method. The advance refunding reduced Hoxworth's total debt service payments through 2007 by approximately $302,000 and caused an economic gain (difference between the present values of the old and new debt service payments) of approximately $246,000.

The bonds are collateralized by the general receipts of the University. Interest expense related to the bonds was approximately $207,000 and $259,000 for 2004 and 2003, respectively.

Cash payments due on the debt outstanding at June 30, 2004, are as follows:

	Principal	Interest	Total
2005	$ 825,000	$ 125,425	$ 950,425
2006	865,000	84,175	949,175
2007	905,000	45,250	950,250
	$2,595,000	$254,850	$2,849,850

7. OPERATING LEASES

Hoxworth is obligated under a number of operating leases, principally for neighborhood donor centers, expiring at various dates through 2007. Total operating lease expense under non-cancelable leases was approximately $285,000 and $222,000 in 2004 and 2003, respectively.

At June 30, 2004 estimated future lease payments under non-cancelable leases approximate the following:

2005	$ 300,000
2006	242,000
2007	222,000
2008	208,000
2009	201,000
Total	$1,173,000

8. RELATED PARTY TRANSACTIONS

The relationship between Hoxworth and the University requires that common resources, such as facilities, computing services, and other administrative services, be shared at a cost to Hoxworth. In 2004 and 2003, costs for such resources, including indirect overhead charges from the University, were approximately $1,376,000 and $1,284,000, respectively.

Additionally, cash receipts of Hoxworth are deposited into the University's pooled cash account. Disbursements are made from this account as required. Hoxworth's share of the University's pooled cash account was approximately $2,655,000 and $3,088,000 at June 30, 2004 and 2003, respectively, and is included in cash and cash equivalents in the accompanying balance sheets. Interest of approximately $14,000 in 2004 and $40,000 in 2003 was earned by Hoxworth on the pooled cash account. In addition, the University maintains a quasi-endowment fund for Hoxworth. This quasi-endowment fund consisted of cash and cash equivalents amounting to approximately $3,381,000 and $2,975,000 at June 30, 2004 and 2003, respectively. The unrealized gain (loss) on this fund was approximately $346,000 and ($192,000) for the years ended June 30, 2004 and 2003, respectively. The fund also had interest income of $220,000 and $218,000 for the years ended June 30, 2004 and 2003, respectively.

9. SELF-INSURANCE FUNDS

Hoxworth currently provides for medical professional and general liability insurance, along with the University, through a combination of self-insurance funds and purchased commercial insurance in excess of the self-insurance amount. Additionally, several Physician Practice Plans are covered under the medical professional insurance program. Medical professional liability self-insurance retention limits were $2.5 million per occurrence for 2003, and $10.5 million in the aggregate for 2003 and $4 million per occurrence with no aggregate retention for 2004. Excess commercial professional liability coverage in the amount of $15 million existed at June 30, 2004 and 2003. Excess commercial general liability coverage in the amount of $100 million existed at June 30, 2004 and 2003.

Funding for Hoxworth, the University, and the Physician Practice Plans is determined by independent actuaries and is made directly to a Self-Insurance Trust Fund ("Trust"), which is administered by an independent trustee.

The Trust is divided into two separate funds, one for professional liability and one for general liability. Separate amounts by participating entities are not maintained since the assets of each fund are available for claims of all participants. The assets of the Trust and related reserves are not included in the accompanying Hoxworth balance sheets. In the opinion of management, Trust assets are adequate to cover estimated ultimate costs resulting from known and unknown claims and incidents, at June 30, 2004. Hoxworth paid $183,067 and $134,554 to the University for such medical professional and general liability in 2004 and 2003, respectively. These amounts are included in the overheard charges from the University discussed in Note 8 above. There were no claims outstanding against Hoxworth as of June 30, 2004 and 2003 that required a reserve to be reported on Hoxworth's balance sheet.

Trust assets and funds at June 30 approximate the following:

	2004		2003	
	Cost	Market Value	Cost	Market Value
Cash and short-term investments	$ 1,963,000	$ 1,963,000	$ 2,445,000	$ 2,445,000
U.S. Treasury bonds and notes	1,552,000	1,495,000	1,086,000	1,158,000
Federal agency bonds and notes	3,935,000	3,890,000	1,949,000	2,005,000
State agency bonds and notes			185,000	234,000
Corporate obligations	6,012,000	6,047,000	5,394,000	5,560,000
Mutual funds	10,000	10,000	15,000	13,000
Total	$ 13,472,000	$ 13,405,000	$ 11,074,000	$ 11,415,000

10. EMPLOYEE RETIREMENT PLANS AND OTHER POST EMPLOYMENT BENEFITS

Public Employee Retirement Plans

Retirement benefits are available for substantially all employees under one of several contributory retirement plans. Prior to July 1, 1977, when the University became a state institution, employees were covered by either the City of Cincinnati Retirement System ("CRS") or the Teachers' Insurance and Annuity Association - College Retirement Equities Fund ("TIAA-CREF"). Certified teachers appointed on or after July 1, 1977, are covered by the State Teachers' Retirement System ("STRS"). Non-certified employees appointed on or after that date are covered by the Public Employees Retirement System ("PERS"). Both STRS and PERS are statewide systems.

The PERS, STRS and CRS plans are cost-sharing, multiple-employer, defined-benefit, public-employee retirement systems. Each provides retirement, disability and death benefits to plan members and beneficiaries. These plans also provide health-care benefits to vested retirees. Benefits provided under the plans are established by State statute or the Cincinnati Municipal Code.

All three plans issue separate, publicly available financial reports that include financial statements and required supplementary information. These reports may be obtained by contacting each system as follows: Public Employee Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215, Telephone (614) 466 - 2085; State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215, Telephone (614) 227 - 4090; and City of Cincinnati Retirement System, 801 Plum Street, Cincinnati, Ohio 45202, Telephone (513) 352 - 3227.

The Ohio Revised Code and the Cincinnati Municipal Code provide PERS, STRS and CRS statutory authority, respectively, over employer and employee contributions. The required, actuarially determined contribution rates for the University and for employees are 13.31% (5% relating to health care benefits) and 8.50% of covered payroll, respectively, for PERS; 14% (1% relating to health care benefits) and 9.3%, respectively, for STRS; 7% and 7%, respectively, for CRS. The University's contributions, representing 100% of employer contributions for the year ended June 30, 2004, and for each of the two preceding years, approximate the following:

Fiscal Year	PERS	STRS	CRS
2002	$ 14,856,000	$ 12,643,000	$ 351,000
2003	15,686,000	13,981,000	330,000
2004	16,769,000	14,686,000	408,000

Hoxworth's contributions to PERS for the years ended June 30, 2004 and 2003 were $1,273,233 and $1,157,324, respectively. Hoxworth's contributions to STRS for the years ended June 30, 2004 and 2003 were $158,394 and $136,730, respectively.

PERS and STRS provide postretirement and postemployment health care benefits in addition to the retirement benefits described above. PERS Other Post Employment Benefits ("OPEB") is advance-funded on an actuarially determined basis. The assumptions and calculation below were based on the system's latest actuarial review performed as of December 31, 2002. An entry age normal actuarial cost method of valuation is used in determining the present value. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The actuaries' assumptions were as follows: investment return 8%, annual wage increase (compounded annually) 4%, and health care costs 4%. At December 31, 2002 the actuarial value of the Retirement System's net assets available for OPEB was $10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $18.7 billion and $8.7 billion, respectively. There are 364,881 active contributing participants. Of the $16,769,000 University employer contributions to PERS for 2004, $6,299,000 were to fund OPEB.

STRS has discretionary authority, pursuant to the Revised Code, over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium. The balance in the Health Care Reserve Fund was $2.8 billion at June 30, 2003 (the latest information available). For the year ended June 30, 2003, the net health care costs paid by STRS were $352,301,000. There were 108,294 eligible benefit recipients.

In addition to the pension benefits described above, the University provides postretirement healthcare and dental benefits (under its labor agreement with the American Association of University Professors) to all who are participants of TIAA-CREF when they retire. During 2004, 2003 and 2002, the net cost of these benefits recorded on a pay-as-you-go basis totaled approximately $2,906,000, $2,706,000 and $2,402,000, respectively.

Ohio Alternative Retirement Plan

On June 23, 1998, pursuant to Ohio House Bill 586, the University created an Ohio Alternative Retirement Plan ("ARP") which is designed to aid the University in recruiting and retaining employees by offering a portable retirement option. The ARP is a defined contribution plan that provides full and immediate vesting of all contributions made on behalf of the participant. Contributions are directed to one of eight investment management companies that allows the participant to manage the investment of all retirement funds. New employees who qualify for the ARP have 90 days from the date of hire to elect the ARP option. Once this window has passed, the employee will not have the option to elect into the ARP.

At June 30, 2004, there were 1,632 members of the plan. During fiscal year 2004 and 2003, the employer contributions were $9,194,000 and $7,677,000. The employer contribution rates were 12% for participants electing out of PERS during fiscal year 2003 and 2002, and the rate for participants electing out of STRs was 8.62% for fiscal year 2002 and the first 11 months of fiscal year 2003. Effective June 1, 2003, the employer contribution rate for participants electing out of STRS increased to 10.5%.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Ms. Betty Montgomery, Auditor of State of Ohio;
Board of Trustees of the University of
Cincinnati; and The Community Advisory
Board of Hoxworth Blood Center

We have audited the financial statements of Hoxworth Blood Center ("Hoxworth"), as of and for the year ended June 30, 2004, and have issued our report thereon dated September 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Hoxworth's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Hoxworth's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees of the University of Cincinnati, the Community Advisory Board of Hoxworth Blood Center, management and the Auditor of State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

September 15, 2004

Auditor of State
Betty Montgomery

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HOXWORTH BLOOD CENTER

HAMILTON COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 9, 2004