Hoxworth Blood Center

Auditor's Reports and Financial Statements

June 30, 2013 and 2012

BKD LLP
CPAs & Advisors

Dave Yost • Auditor of State

Board of Trustees
Hoxworth Blood Center
PO Box 210637
Cincinnati, Ohio 45221

We have reviewed the *Independent Auditors' Report* of the Hoxworth Blood Center, Hamilton County, prepared by BKD, LLP, for the audit period July 1, 2012 through June 30, 2013. 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.

Dave Yost
Auditor of State

November 6, 2013

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Hoxworth Blood Center

June 30, 2013 and 2012

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BKD LLP
CPAs & Advisors

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Independent Auditor's Report on Financial Statements and Supplementary Information

To Mr. David Yost, Auditor of State of Ohio;
Board of Trustees of the University of
Cincinnati and the Community Advisory
Board of Hoxworth Blood Center:

Report on the Financial Statements

We have audited the accompanying basic financial statements of Hoxworth Blood Center ("Hoxworth"), a department of the University of Cincinnati, which are comprised of statements of net position as of June 30, 2013 and 2012, and statements of revenues, expenses and changes in net position and statements of cash flows for the years ended June 30, 2013 and 2012 and the related notes to the financial statements, as listed in the table of contents.

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 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hoxworth as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2013, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hoxworth's internal control over financial reporting and compliance.

BKD, LLP

Cincinnati, Ohio
October 14, 2013

Hoxworth Blood Center
Management's Discussion and Analysis
June 30, 2013 and 2012

Introduction

Hoxworth Blood Center ("Hoxworth") is the community blood center for the Greater Cincinnati area. Serving a 17-county area in Ohio, Kentucky, and Indiana, Hoxworth collects, tests, processes, and distributes blood and blood components to 31 health care facilities. 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, by providing innovative hemotherapy services, and by promoting research and education programs in transfusion medicine. To help us meet this goal, Hoxworth is governed by the University of Cincinnati Board of Trustees. The University of Cincinnati 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 Blood Centers of America.

Hoxworth receives whole units of blood and apheresis products from individual donors. Hoxworth processes and tests the blood and distributes 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 three years, blood units donated have totaled 91,580 in fiscal year 2013, 96,719 in fiscal year 2012, and 93,483 in fiscal year 2011.

Using the Financial Statements

Hoxworth Blood Center's financial report includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). These principles establish standards for external financial reporting for public colleges and universities. These apply to Hoxworth Blood Center because Hoxworth is governed by the University of Cincinnati Board of Trustees. The University of Cincinnati is considered a component unit of the State of Ohio.

Revenues and expenses are categorized as either operating or nonoperating. Certain sources of Hoxworth's revenues, including interest income, contributions, and the net increase in the fair value of investments, are considered nonoperating.

Financial Position

Hoxworth's financial position remained strong at June 30, 2013, with total assets of $40,307,138 and liabilities of $4,545,518. Net position, which represents the residual interest in Hoxworth's assets after liabilities are deducted, increased by $2,378,734 to $35,761,620.

Hoxworth Blood Center
Management's Discussion and Analysis
June 30, 2013 and 2012

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position presents Hoxworth's results of operations. A comparison for the years ended June 30 follows:

	2013	2012	2011
OPERATING REVENUES:			
Patient and community service	$ 46,119,750	$ 42,079,027	$ 41,826,268
Other	813,237	527,964	346,157
Total operating revenues	46,932,987	42,606,991	42,172,425
OPERATING EXPENSES:			
Salaries and employee benefits	20,819,227	19,477,610	19,460,920
Routine supplies and facility maintenance	18,233,820	16,684,796	16,362,793
Blood component inventory support	998,658	835,026	1,383,436
General and administrative	3,889,474	3,429,049	2,996,575
Depreciation	1,414,791	1,342,084	1,181,264
Total operating expenses	45,355,970	41,768,565	41,384,988
OPERATING INCOME	1,577,017	838,426	787,437
NONOPERATING REVENUES (EXPENSES):			
Net increase (decrease) in fair value of cash equivalents	159,285	(320,231)	337,674
Interest income	335,860	325,454	387,917
Other	306,572	208,698	302,593
Total nonoperating revenues	801,717	213,921	1,028,184
INCREASE IN NET POSITION	$ 2,378,734	$ 1,052,347	$ 1,815,621

Operating Revenues

Operating revenues increased from $42,606,991 for the year ended June 30, 2012, to $46,932,987 for the year ended June 30, 2013. This increase of $4,325,996 or 10% is primarily attributable to several factors. Blood and Blood Components revenue increased $648,945 primarily due to a price increase and an increase in fresh frozen plasma and platelet usage. Plasma for fractionation decreased $157,224 due to a higher transfusable demand for fresh frozen plasma from the hospitals leaving less for the manufacturing of recovered plasma. Transplantation Immunology Division revenue increased by $301,923 due to the addition of testing for Diagnostic Laboratories of Oklahoma and Children's Hospital. There was also an increase in testing for University Transplant. The Apheresis revenue increased by $3,104,553 in FY13. This is primarily due to a $2,706,435 increase in Photopheresis procedures and $457,517 increase in Therapeutic Pheresis procedures.

Operating revenues increased from $42,172,425 for the year ended June 30, 2011, to $42,606,991 for the year ended June 30, 2012. This increase of $434,566 or 1% is primarily attributable to several factors. Blood and Blood Components revenue increased $265,619 primarily due to an increase in red blood cell, platelet, and plasma usage. Also, plasma for fractionation increased $181,721 due to Hoxworth collecting more units this year which allowed us to make more recovered fresh frozen plasma. The transfusable components demand for plasma was down which contributed to selling as salvage.

Operating Expenses

Operating expenses increased $3,587,405 or 8.6%, from $41,768,565 for the year ended June 30, 2012, to $45,355,970 for the year ended June 30, 2013. Salaries and employee benefits increased $1,341,617, or 6.9% due to the annual pay increase, fringe benefit rate increase, and an increase in overall full time equivalents. Routine supplies and facilities maintenance increased $1,549,024, or 9.3% due to an increase in medical supplies, and antisera & reagents expenses, and overall volume increases. Blood component inventory support increased $163,632, or 19.6% due to an increase in the need for imported blood. General and administrative expenses increased $460,425, or 13.4% due to an increase in insurance expense, promotional items, and computer services.

Operating expenses increased $383,577 or 1%, from $41,384,988 for the year ended June 30, 2011, to $41,768,565 for the year ended June 30, 2012. Salaries and employee benefits increased $16,690, or 0.1% due to the annual pay increase, fringe benefit rate increase, and a decrease in overall full time equivalents. Routine supplies and facilities maintenance increased $322,003, or 2% due to an increase in blood bag and antisera & reagents expenses. Blood component inventory support decreased $548,410, or 40% due to a decrease in the need for imported blood due to increased collections. General and administrative expenses increased $432,474, or 14% due to an increase in our blood inventory expense resulting from a lower blood inventory balance at year-end, as well as an increase in advertising expense.

Nonoperating Revenues and Expenses

The fair value adjustment gain on our quasi-endowment fund in 2013 was $159,285 compared to a fair value adjustment loss of $320,231 in 2012. The increase in the fair value adjustment relates to favorable market conditions for the assets being held in a pooled investment account managed by the University of Cincinnati, as disclosed in Note 1. Interest income increased $10,406 due to market performance fluctuations. Other nonoperating revenue increased $97,874.

In 2012, the fair value adjustment loss on our quasi-endowment fund in 2012 was $320,231 compared to a fair value adjustment gain of $337,674 in 2011. The decrease in the fair value adjustment relates to unfavorable market conditions for the assets being held in a pooled investment account managed by the University of Cincinnati, as disclosed in Note 1. Interest income decreased $62,463 due to market performance fluctuations. Other nonoperating revenue decreased $93,895.

Increase in Net Position

For the year ended June 30, 2013, our net position increased $2,378,734 compared with an increase in net position of $1,052,347 for the year ended June 30, 2012. Net position increased $1,815,621 for the year ended June 30, 2011.

Statement of Net Position

The statement of net position represents the financial position of Hoxworth at the end of the fiscal year. Net position represents the difference between total assets, liabilities and deferred inflows and outflows of resources. Net position is one indicator of the overall financial condition of Hoxworth, while the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year. Assets, liabilities and deferred inflows and outflows of resources are generally measured using current values. One exception is capital assets, which are stated at historical cost less an allowance for depreciation. Hoxworth did not have any deferred outflows or inflows of resources as of June 30, 2013, 2012 and 2011. A summarized comparison of Hoxworth's assets, liabilities, and net position at June 30 follows:

	2013	2012	2011
Current assets	$ 28,328,436	$ 25,236,913	$ 23,551,647
Noncurrent assets - net	11,978,702	12,349,366	12,617,876
Total assets	40,307,138	37,586,279	36,169,523
Current and total liabilities	4,545,518	4,203,393	3,838,984
Net position	$ 35,761,620	$ 33,382,886	$ 32,330,539

Hoxworth Blood Center

Management's Discussion and Analysis

June 30, 2013 and 2012

Assets

Total assets of the organization increased $2,720,859 to $40,307,138 as of June 30, 2013, from $37,586,279 as of June 30, 2012. Current assets increased $3,091,523, from $25,236,913 as of June 30, 2012, to $28,328,436 as of June 30, 2013. Cash and cash equivalents increased $3,229,605, from $17,588,122 as of June 30, 2012, to $20,817,727 as of June 30, 2013. The increase in cash is explained in the discussion of cash flows below. Net accounts receivable decreased $258,873, due to timing of payments.

In 2012, total assets of the organization increased $1,416,756 to $37,586,279 as of June 30, 2012, from $36,169,523 as of June 30, 2011. Current assets increased $1,685,266, from $23,551,647 as of June 30, 2011, to $25,236,913 as of June 30, 2012. Cash and cash equivalents increased $1,231,297, from $16,356,825 as of June 30, 2011, to $17,588,122 as of June 30, 2012. The increase in cash is explained in the discussion of cash flows below. Net accounts receivable increased $376,556, due to timing of payments.

Capital Assets

Capital assets, net, decreased $394,315, from $12,240,376 as of June 30, 2012, to $11,846,061 as of June 30, 2013. This decrease is the result of capital purchases being less than depreciation expense during the year and a net gain on disposals. Capital purchases in 2013 were $1,046,417 and the net gain on disposals was $6,802. Significant capital purchases made during fiscal year 2013 include improvements to leased space, automated blood collection machines, lab equipment for our Transplantation Immunology Department, instruments for our Therapeutic Apheresis Department, and new security cameras.

Capital assets, net, decreased $377,500, from $12,617,876 as of June 30, 2011, to $12,240,376 as of June 30, 2012. This decrease is the result of capital purchases being less than depreciation expense during the year and a loss on disposal. Capital purchases in 2012 were $968,484 and the loss on disposal was $3,900. Significant capital purchases made during fiscal year 2012 include automated blood collection scales, the DRM Touch system for donor recruitment, a hematology analyzer, and a low speed centrifuge.

Liabilities

Total liabilities increased $342,125, to $4,545,518 as of June 30, 2013 due to the timing of payments to vendors, an increase in accrued salaries and benefits, and a decrease in deferred revenue. Total liabilities increased $364,409, to $4,203,393 as of June 30, 2012 due to the timing of payments to vendors, the establishment of a self-insurance liability and a decrease in deferred revenue. As of June 30, 2011, total liabilities were $3,838,984.

Net Position

Net position represents the residual interest in Hoxworth's assets, deferred outflows of resources, net of deferred inflows of resources and liabilities. Hoxworth's net position is summarized below:

	2013	2012	2011
Net investment in capital assets	$ 11,846,061	$ 12,240,376	$ 12,617,876
Restricted-expendable	22,661	22,651	5,868
Unrestricted	23,892,898	21,119,859	19,706,795
Total net position	$ 35,761,620	$ 33,382,886	$ 32,330,539

Investment in capital assets, net of depreciated and related debt, decreased $394,315, from $12,240,376 as of June 30, 2012, to $11,846,061 as of June 30, 2013. This decrease is due to depreciation expense exceeding fixed asset purchases of $1,046,417. Net position restricted-expendable was $22,651 as of June 30, 2012 and $22,661 at June 30, 2013. Net position unrestricted increased $2,773,039 from $21,119,859 as of June 30, 2012, to $23,892,898 as of June 30, 2013.

Investment in capital assets, net of depreciation and related debt, decreased $377,500, from $12,617,876 as of June 30, 2011, to $12,240,376 as of June 30, 2012. This decrease is due to depreciation expense exceeding fixed asset purchases of $968,484. Net position restricted-expendable was $5,868 as of June 30, 2011 and $22,651 at June 30, 2012. Net position unrestricted increased $1,413,064 from $19,706,795 as of June 30, 2011, to $21,119,859 as of June 30, 2012.

Statement of Cash Flows

The statement of cash flows provides additional information about Hoxworth's financial results by reporting the major sources and uses of cash. A comparative summary of the statement of cash flows for the years ended June 30 follows:

	2013	2012	2011
Cash received from operations	$ 47,084,739	$ 42,227,115	$ 42,093,975
Cash expended for operations	43,510,127	39,920,908	41,075,379
Net cash provided by operating activities	3,574,612	2,306,207	1,018,596
Net cash provided by non-capital financing activities	173,522	28,106	79,563
Net cash used for capital and related financing activities	(1,013,674)	(1,108,239)	(1,374,542)
Cash provided by investing activities	495,145	5,223	725,591
Net increase in cash and cash equivalents	$ 3,229,605	$ 1,231,297	$ 449,208

Cash Flows

For the year ended June 30, 2013, cash and cash equivalents increased $3,229,605. Cash provided by operations was $3,574,612 and consisted primarily of cash received from customers offset by cash paid to suppliers and employees. Cash provided by non-capital financing activities was primarily from increased contributions, and a decrease in unearned revenue of $173,522. Cash used for capital and financing activities was $1,013,674 and consisted of cash paid for capital purchases. A fair value adjustment gain of $159,285 and cash received from interest on investments of $335,860 provided a net investment gain of $495,145.

For the year ended June 30, 2012, cash and cash equivalents increased $1,231,297. Cash provided by operations was $2,306,207 and consisted primarily of cash received from customers offset by cash paid to suppliers and employees. Cash provided by non-capital financing activities was primarily from increased contributions, a decrease in unearned revenue and recognition of a self-insurance asset and liability of $28,106. Cash used for capital and financing activities was $1,108,239 and consisted of cash paid for capital purchases. A fair value adjustment loss of $320,231 and cash received from interest on investments of $325,454 provided a net investment gain of $5,223.

Economic Factors Affecting the Future

Hoxworth Blood Center is reliant on blood donors from the community to continue to donate blood. Hoxworth would be adversely affected if we were to see a decrease in our donor base. This would result in Hoxworth having to share resources with other blood centers to meet the local demand in this community. The financial impact of this could be significant.

Hoxworth Blood Center

Statements of Net Position

June 30, 2013 and 2012

	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	$ 20,817,727	$ 17,588,122
Accounts receivable — net of allowance for doubtful accounts of approximately $152,500 and $44,500 at June 30, 2013 and 2012, respectively	6,136,494	6,395,367
Inventories	1,263,743	1,110,731
Prepaid expenses and other assets	110,472	142,693
Total current assets	28,328,436	25,236,913
CAPITAL ASSETS		
Land	816,197	816,197
Building	15,068,383	15,068,383
Furniture and equipment	14,507,938	14,012,760
Leashold improvements	1,318,806	1,002,806
Total capital assets	31,711,324	30,900,146
Less accumulated depreciation	19,865,263	18,659,770
Capital assets — net	11,846,061	12,240,376
NONCURRENT ASSET - Receivable from self-insurance trust	132,641	108,990
TOTAL ASSETS	40,307,138	37,586,279
CURRENT LIABILITIES		
Accounts payable	2,246,561	2,087,665
Accrued salaries and benefits	2,126,793	1,840,967
Self-insurance liability	112,407	92,364
Unearned revenue	59,757	182,397
TOTAL CURRENT LIABILITIES	4,545,518	4,203,393
NET POSITION		
Net investment in capital assets	11,846,061	12,240,376
Restricted — expendable	22,661	22,651
Unrestricted	23,892,898	21,119,859
TOTAL NET POSITION	$ 35,761,620	$ 33,382,886

Hoxworth Blood Center

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Patient and community service	$ 46,119,750	$ 42,079,027
Other	813,237	527,964
Total operating revenues	46,932,987	42,606,991
OPERATING EXPENSES		
Salaries and employee benefits	20,819,227	19,477,610
Routine supplies and facility maintenance	18,233,820	16,684,796
Blood component inventory support	998,658	835,026
General and administrative	3,889,474	3,429,049
Depreciation	1,414,791	1,342,084
Total operating expenses	45,355,970	41,768,565
OPERATING INCOME	1,577,017	838,426
NONOPERATING REVENUES		
Net increase (decrease) in the fair value of cash equivalents	159,285	(320,231)
Interest income	335,860	325,454
Other	306,572	208,698
Total nonoperating revenues, net	801,717	213,921
INCREASE IN NET POSITION	2,378,734	1,052,347
NET POSITION		
Beginning of year	33,382,886	32,330,539
End of year	$ 35,761,620	$ 33,382,886

Hoxworth Blood Center

Statements of Cash Flows

Years Ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES —		
Cash received from customers	$ 46,271,502	$ 41,699,151
Cash payments to suppliers for goods and services	(22,976,726)	(20,494,498)
Cash payments to employees for services	(20,533,401)	(19,426,410)
Other operating revenues	813,237	527,964
Net cash provided by operating activities	3,574,612	2,306,207
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES —		
Contributions received and increase in unearned revenues and changes in self-insurance assets and liabilities	173,522	28,106
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES — Acquisition and construction of capital assets	(1,013,674)	(1,108,239)
NET CASH FLOWS FROM INVESTING ACTIVITIES — Interest income and gain from investment in cash and cash equivalents	495,145	5,223
INCREASE IN CASH AND CASH EQUIVALENTS	3,229,605	1,231,297
CASH AND CASH EQUIVALENTS — Beginning of year	17,588,122	16,356,825
CASH AND CASH EQUIVALENTS — End of year	$ 20,817,727	$ 17,588,122
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES —		
Operating income	$ 1,577,017	$ 838,426
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,414,791	1,342,084
Changes in assets and liabilities:		
Accounts receivable	258,873	(376,556)
Inventories	(153,012)	(101,031)
Accrued salaries and benefits	285,826	51,200
Prepaid expenses and other assets	32,221	23,718
Accounts payable	158,896	528,366
Total adjustments	1,997,595	1,467,781
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,574,612	$ 2,306,207
Supplemental Cash Flows Information		
Accrued liabilities for property, plant and equipment	$ 10,924	$ 44,376

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Hoxworth Blood Center ("Hoxworth"), a department of the University of Cincinnati (the "University"), which is a component unit of the State of Ohio, provides blood components, cellular and apheresis therapies, transplantation immunology, and compatibility and reference laboratory services to area hospitals, health care facilities, and patients.

Approximately 42% of Hoxworth's labor force is covered under collective bargaining agreements that expire at various dates through January 2014.

Basis of Accounting and Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by GASB. Hoxworth reports as a special purpose government engaged primarily in business type activities (BTA), as defined by GASB, on the accrual basis. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods and services. In accordance with BTA reporting, Hoxworth presents Management's Discussion and Analysis, Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, and Notes to the Financial Statements.

In June 2011, GASB issued a statement that standardizes the presentation of deferred outflows of resources and deferred inflows of resources, which are distinct from assets and liabilities, and their effects on an entity's net position. Additionally, the statement renames the residual of all elements presented in a statement of financial position as net position, rather than net assets. The requirements of the statement are for periods beginning after December 15, 2011. Hoxworth has revised the presentation of the financial statements. However, there was no significant impact on the financial statements related to the implementation of this statement. Hoxworth does not have deferred outflows of resources and deferred inflows of resources as of June 30, 2013 and 2012.

In June 2012, GASB issued a statement to establish new accounting and financial requirements for pension plans provided by the University to its employees. University employees participate in cost-sharing multiple employer plans, which are within the scope of this statement. This statement will require the University to recognize a net pension liability (or asset), pension expense, and pension-related deferred inflows and outflows of resources based on the University's proportionate share of collective amounts for all participating employers in the plans. The requirements of this statement are for periods beginning after June 15, 2014. Hoxworth will recognize its pro-rata share of these liabilities upon implementation of this standard. Management believes there will be a significant impact on the financial statements related to the implementation of this statement but is still evaluating the overall effect.

Hoxworth's financial resources are classified for accounting and reporting purposes into the following three net position categories:

- Net Investment in Capital Assets: Capital assets, net of accumulated depreciation.
- Restricted purposes:
    - Expendable – The net position whose use by the Hoxworth is subject to externally-imposed restrictions that can be fulfilled by actions of the Hoxworth pursuant to those restrictions or that expire by the passage of time are classified as expendable net position. Such assets include noncapital assets that must be used for bone marrow registry testing and assets held for self-insurance arrangements.
- Unrestricted: The remaining net position that is neither the net invested in capital assets or restricted for expendable purposes. Hoxworth's unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Estimates

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, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Hoxworth presents its unrestricted portion of the University's pooled cash account as 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 and marketable securities amounting to $4,455,219 and $4,211,693 at June 30, 2013 and 2012, respectively.

Accounts Receivable

Accounts receivable are stated at the amount billed to customers plus any accrued and unpaid interest. Hoxworth provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

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 (FIFO) 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.

Compensated Absences

University policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Unearned Revenue

Unearned revenue includes the amounts received from grant sponsors that have not yet been earned under the terms of the agreement. Hoxworth will recognize such amounts into revenue when these services are provided over the coming fiscal years.

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 Services

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

As a department of the University, Hoxworth is tax-exempt under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the accompanying financial statements.

Note 2: Concentrations and Credit Risk

In the normal course of business, Hoxworth extends credit to various area hospitals. At June 30, 2013, three hospital groups accounted for approximately 29%, 21%, and 19%, respectively, of accounts receivable. At June 30, 2012, five hospital groups accounted for approximately 26%, 25%, 17%, 10% and 10%, respectively, of accounts receivable. Annual revenues recorded for these hospitals are consistent with the percentages listed above.

Note 3: Inventories

Inventories at June 30, 2013 and 2012, consist of the following:

	2013	2012
Blood components	$ 660,879	$ 565,001
Blood bags and accessories	474,106	495,045
Other supplies	128,758	50,685
Total	$ 1,263,743	$ 1,110,731

Note 4: Capital Assets

Capital asset activity for the years ended June 30, 2013 and 2012, was as follows:

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013
Land	$ 816,197	$ -	$ -	$ 816,197
Buildings	15,068,383	-	-	15,068,383
Furniture and equipment	14,012,760	730,417	235,239	14,507,938
Leasehold improvements	1,002,806	316,000	-	1,318,806
Total	30,900,146	1,046,417	235,239	31,711,324
Less accumulated depreciation:				
Buildings	7,250,526	423,554	-	7,674,080
Furniture and equipment	10,604,147	900,079	209,298	11,294,928
Leasehold improvements	805,097	91,158	-	896,255
Total accumulated depreciation	18,659,770	1,414,791	209,298	19,865,263
Capital assets — net	$ 12,240,376	$ (368,374)	$ 25,941	$ 11,846,061

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012
Land	$ 816,197	$ -	$ -	$ 816,197
Buildings	15,068,383	-	-	15,068,383
Furniture and equipment	13,232,628	950,245	170,113	14,012,760
Leasehold improvements	984,567	18,239	-	1,002,806
Total	30,101,775	968,484	170,113	30,900,146
Less accumulated depreciation:				
Buildings	6,818,751	431,775	-	7,250,526
Furniture and equipment	9,899,717	870,643	166,213	10,604,147
Leasehold improvements	765,431	39,666	-	805,097
Total accumulated depreciation	17,483,899	1,342,084	166,213	18,659,770
Capital assets — net	$ 12,617,876	$ (373,600)	$ 3,900	$ 12,240,376

Note 5: Operating Leases

Hoxworth is obligated under a number of operating leases, principally for neighborhood donor centers, expiring at various dates through 2021. Total operating lease expense under noncancelable leases was approximately $692,000 and $516,000 in 2013 and 2012, respectively.

At June 30, 2013, estimated future lease payments under noncancelable leases are as follows:

2014	$ 644,000
2015	472,000
2016	285,000
2017	140,000
2018	140,000
Thereafter	283,000
Total	$ 1,964,000

Note 6: Related Party Transactions

The relationship between Hoxworth and the University requires that common resources, such as facilities, computing services, insurance, and other administrative services, be shared at a cost to Hoxworth. In 2013 and 2012, costs for such resources, including indirect overhead charges from the University, were approximately $1,574,000 and $1,425,000, 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 $16,361,808 and $13,375,729 at June 30, 2013 and 2012, respectively, and is included in cash and cash equivalents in the accompanying statements of net position. Interest of $21,134 in 2013 and $1,034 in 2012 was earned by Hoxworth on the pooled cash account. In addition, the University maintains a quasi-endowment fund for Hoxworth. As disclosed in Note 1, this quasi-endowment fund consisted of cash, cash equivalents, and marketable securities amounting to $4,455,219 and $4,211,693 at June 30, 2013 and 2012, respectively. The fair value adjustment gain on this fund was approximately $156,000 for the year ended June 30, 2013. The fair value adjustment loss on this fund was approximately $312,000 for the year ended June 30, 2012. The fund also had interest income of approximately $306,000 and $319,000 for the years ended June 30, 2013 and 2012, respectively.

Note 7: Risk Management and Self-Insurance Funds

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The state of Ohio self-insures workers' compensation benefits for all state employees, including University employees. Workers' compensation claims are administered by CareWorks.

The University currently provides for medical professional and general liability insurance through a combination of an actuarially funded self-insurance program sponsored by the University and has purchased commercial insurance in excess of the self-insurance amount. The medical professional liability insurance program also includes Hoxworth Blood Center and qualified not-for-profit physician practice corporation largely subsumed into University of Cincinnati Physicians, Inc. Medical professional self-insurance limits were $4 million per occurrence for 2013. An additional $30 million in commercial excess professional liability insurance was provided above the self-insured retention.

General liability coverage is also provided as part of a group insurance program of Ohio state universities known as the Inter-University Council of Ohio Insurance Consortium (IUC-IC). This program provided for $10 million retention per occurrence with the first $100,000 funded by UC, $900,000 funded by pool funds held through the IUC-IC and $9 million reinsured through a commercial reinsurance agreement. Excess commercial coverage for general liability was provided with total limits of $50 million shared with the other participating universities. In addition, educators' legal liability coverage was provided through the IUC-IC program with $35 million in total limits also shared among the participating institutions. The IUC-IC self-insurance pools are funded by an agreed formula among the participating universities. This program qualifies as a public entity risk pool as defined by GASB standards and is classified as a risk-sharing pool. Under this arrangement there is a transfer of risk from the University to the pool. Therefore, there is no recognition in the University's financial statements of assets or liabilities related to the IUC-IC program.

The University's self-insurance program is based on calculations by independent actuaries and funds are deposited directly into two irrevocable self-insurance trust funds, one for medical and professional liability and one for general liability. In the opinion of management, trust assets totaling approximately $27,293,000 are adequate to cover estimated liabilities resulting from known claims and incidents and incurred-but-not-reported incidents as of June 30, 2013 for the University and University of Cincinnati Physicians, Inc. Trust assets recorded on the University financial report total $4,025,000 included in current portion of other assets and liabilities of $598,000 included in accrued liabilities in the Statements of Net Position as of June 30, 2013. Amounts paid by Hoxworth to the University for medical professional and general liability coverage, including its allocated share of commercial insurance premiums and trust fund contributions, are included in the overhead charges from the University discussed in Note 6.

Property insurance is also provided through the IUC-IC program, consisting of commercial property insurance with a $350,000 retention, and a self-insurance pool to fund retained losses subject to a $100,000 university deductible.

The University is also self-insured for a portion of medical, dental, and pharmacy benefits provided to employees. The cost of such self-insured benefits provided during 2013 was approximately $84,451,000. In addition, $6,289,000 was accrued for 2013, for estimated claims incurred but not reported.

Note 8: Employee Retirement Plans and Other Postemployment Benefits

Retirement benefits are available for substantially all employees under one of several contributory retirement plans maintained by the University. 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 Ohio). Non-certified employees appointed on or after that date are covered by the Ohio Public Employees Retirement System (OPERS). Employees may opt out of STRS Ohio and OPERS and participate in the Alternative Retirement Plan (ARP) if they meet certain eligibility requirements.

STRS Ohio and OPERS are statewide systems that offer three separate plans: (1) a defined benefit plan, (2) a defined contribution plan, and (3) a combined plan. Each of the three options is discussed in greater detail in the following sections.

Defined Benefit Plans

The OPERS and STRS Ohio plans are cost-sharing, multiple-employer, defined-benefit, public-employee retirement systems. Each provides retirement, disability, and survivor 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.

OPERS provides postemployment health care benefits to retirees with ten or more years of qualifying Ohio service credit under the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. The plan benefits include a medical plan, prescription drug program and Medicare Part B premium reimbursement. The Ohio Revised Code permits, but does not mandate, OPERS to provide Other Post Employment Benefits (OPEB) to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to Chapter 3307 of the Ohio Revised Code, STRS Ohio has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of monthly premiums.

Both plans issue separate, publicly available financial reports that include financial statements and required supplementary information. These reports may be obtained by contacting each organization as follows:

OPERS
277 East Town Street, Columbus, Ohio 43215-4642
Telephone (800) 222-7377
www.opers.org

STRS Ohio
275 East Broad Street, Columbus, Ohio 43215-3771
Telephone (888) 227-7877
www.strsoh.org

Defined Contribution Plans

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, which allow the participant to manage the investment of all retirement funds. New employees who qualify for the ARP have 120 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. ARP does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

At June 30, 2013, there were 1,949 members of the plan. Under the provisions of ARP, the required rate for plan participants was 10% for 2013. The employer contribution rate for participants electing out of OPERS and STRS Ohio was 14% for 2013. During 2013, 2012, and 2011, the employer contributions were $14,196,000, $14,134,000, and $14,336,000, respectively.

OPERS also offers a defined contribution plan, the Member-Directed Plan (MD). The MD plan does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

STRS Ohio also offers a defined contribution plan in addition to its long established defined benefit plan. All employee contributions and employer contributions at a rate of 10.5% are placed in an investment account directed by the employee. Disability benefits are limited to the employee's account balance. Employees electing the defined contribution plan receive no postretirement health care benefits.

Combined Plans

OPERS offers a combined plan. This is a cost-sharing, multiple-employer defined benefit plan that has elements of both a defined benefit and defined contribution plan. In the combined plan, employee contributions are invested in self-directed investments, and the employer contribution is used to fund a reduced defined benefit. Employees electing the combined plan receive postretirement health care benefits. OPERS provides retirement, disability, survivor and postretirement health benefits to qualifying members of the combined plan.

STRS Ohio offers a combined plan with features of both a defined contribution plan and a defined benefit plan. In the combined plan, employee contributions are invested in self-directed investments, and the employer contribution is used to fund a reduced defined benefit. Employees electing the combined plan receive postretirement health care benefits.

Funding Policy

The Ohio Revised Code provides OPERS and STRS Ohio statutory authority over employer and employee contributions. The required actuarially determined contribution rates (as a percentage of covered payroll) for the employee and the University are as follows for the year ending June 30, 2013:

	OPERS (staff)	OPERS (Law Enforcement staff)	STRS Ohio
Employee:			
All year	10%		10%
7/12 – 12/12		12.10%	
1/13 – 6/13		12.60%	
University:			
All year	14%	18.10%	14%

The University's contributions, representing 100% of employer contributions for the year ended June 30, 2013, and for each of the two preceding years are as follows *(in thousands):*

Fiscal Year	OPERS	STRS Ohio
2013	$21,094	$18,899
2012	$21,405	$17,843
2011	$21,534	$17,894

Hoxworth's contributions to OPERS for the years ended June 30, 2013, 2012 and 2011 were $1,853,587, $1,772,078 and $1,782,287 respectively. Hoxworth's contributions to STRS Ohio for the years ended June 30, 2013, 2012, and 2011 were $180,329, $166,868, and $188,276, respectively.

OPERS Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For the year ended December 31, 2012, OPERS allocated 4.0% of the employer contribution rate to fund the health care program for members in the Traditional Plan. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05%. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. University employer contributions to OPERS to fund OPEB for 2013, 2012, and 2011 were approximately $6,026,000, $6,115,000, and $6,921,000 respectively.

For the fiscal year ended June 30, 2013, STRS Ohio allocated employer contributions equal to 1.0% covered payroll to a Health Care Stabilization Fund from which payments for health care benefits are paid. University employer contributions to STRS Ohio to fund OPEB for 2013, 2012, and 2011 were approximately $1,350,000, $1,274,000, and $1,278,000, respectively.

Supplementary Information

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

To Mr. David Yost, 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, 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, the financial statements of Hoxworth Blood Center ("Hoxworth"), which comprise the statements of financial position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 14, 2013.

Internal Control Over Financial Reporting

Management of Hoxworth is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered Hoxworth's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hoxworth's internal control. Accordingly, we do not express an opinion on the effectiveness of Hoxworth's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Compliance

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 grant agreements, 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*.

Other Matters

The purpose of this communication is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hoxworth’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Cincinnati, Ohio
October 14, 2013

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Dave Yost • Auditor of State

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
NOVEMBER 19, 2013