Hoxworth Blood Center

Financial Statements as of and for the Years Ended June 30, 2007 and 2006, and Independent Auditors' Report

Mary Taylor, CPA
Auditor of State

Board of Trustees of the Univerity of Cincinnati
and the Community Advisory Board of Hoxworth Blood Center
Hoxworth Blood Center
P.O. Box 210641
Cincinnati, Ohio 45221-0641

We have reviewed the *Independent Auditors' Report* of the Hoxworth Blood Center, Hamilton County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2006 through June 30, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 6, 2007

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

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HOXWORTH BLOOD CENTER

TABLE OF CONTENTS

Deloitte.

Deloitte & Touche LLP
250 East 5th Street
Suite 1900
Cincinnati, OH 45202-5109
USA

Tel: 513-784-7100
Fax: 513-784-7204
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To Ms. Mary Taylor, 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, 2007 and 2006, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Hoxworth's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

As discussed in Note 1, the financial statements of the Hoxworth Blood Center are intended to present the financial position and results of operations and the cash flows of only that portion of the financial reporting entity of the University of Cincinnati that is attributable to the transactions of Hoxworth. They do not purport to, and do not, present fairly the financial statements of the University of Cincinnati as of June 30, 2007 and 2006, the changes in net assets or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hoxworth at June 30, 2007 and 2006, and its change in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3–7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

This 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 required supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2007, 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 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* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

September 21, 2007

HOXWORTH BLOOD CENTER

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

Hoxworth Blood Center 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 28 healthcare 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. 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 Blood Centers of America.

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 three years, blood units donated have totaled 88,599 in fiscal year 2005, 94,027 in fiscal year 2006, and 90,045 in fiscal 2007.

USING THE FINANCIAL STATEMENTS

Hoxworth Blood Center's financial report includes three financial statements; the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*, as amended by GASB Statements 37 and 38. These statements 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 and is considered a component unit of the State of Ohio.

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

FINANCIAL POSITION

Hoxworth's financial position remained strong at June 30, 2007, with total assets of $29,620,974 and liabilities of $3,145,081. Net assets, which represent the residual interest in Hoxworth's assets after liabilities are deducted, increased by $1,117,636 to $26,475,893.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

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

	2007	2006	2005
OPERATING REVENUES:			
Patient and community service	$34,556,545	$31,968,593	$31,334,972
Other	658,587	553,611	536,723
Total operating revenues	35,215,132	32,522,204	31,871,695
OPERATING EXPENSES:			
Salaries and employee benefits	16,254,193	15,745,686	15,179,264
Routine supplies and facility maint.	13,108,969	12,511,593	11,710,022
Blood component inventory support	1,586,762	327,990	764,365
General and administrative	2,683,426	2,407,692	1,690,700
Depreciation	1,339,124	1,303,091	1,190,936
Total operating expenses	34,972,474	32,296,052	30,535,287
OPERATING INCOME	242,658	226,152	1,336,408
NON-OPERATING REVENUES (EXPENSES):			
Net increase in the fair value of investments	422,574	174,290	115,029
Interest income	478,014	490,199	315,343
Interest expense	(89,619)	(123,016)	(167,123)
Other	64,009	79,020	58,212
Total non-operating revenues	874,978	620,493	321,461
INCREASE IN NET ASSETS	$ 1,117,636	$ 846,645	$ 1,657,869

Operating Revenues — Operating revenues increased from $32,522,204 for the year ended June 30, 2006 to $35,215,132 for the year ended June 30, 2007. This increase of $2,692,928 or 8% is primarily attributable to several factors. Blood and Blood Components revenue increased $949,449 primarily due an increase in red blood cell usage and price increases. Transplantation Immunology revenue increased $347,561 due to the increase in activity by Cincinnati Children's Hospital Medical Center and the Christ Hospital transplant divisions. Apheresis Components and Therapeutics revenue increased $713,024 due to an increase in demand for platelet pheresis products. Operating revenues increased from $31,871,695 for the year ended June 30, 2005 to $32,522,204 for the year ended June 30, 2006. This increase of $650,509 or 2% is primarily attributable to several factors. Blood and Blood Components revenue decreased $409,387 primarily due to producing more platelet pheresis products in place of random platelets and a decrease in plasma patient usage. These two factors were partially offset by an increase in red blood cell usage. Transplantation Immunology revenue increased $168,362 due to the increase in activity by Cincinnati Children's Hospital Medical Center and the University Hospital kidney transplant divisions. Apheresis Components and Therapeutics revenue increased $837,178 due to an increase in demand for platelet pheresis products.

Operating Expenses — Operating expenses increased $2,676,422 or 8%, from $32,296,052 for the year ended June 30, 2006 to $34,972,474 for the year ended June 30, 2007. Salaries and employee benefits increased $508,507, or 3% due to the annual pay increase and positions filled. Routine supplies and facilities maintenance increased $597,376, or 5% due to an increase in antisera & reagents costs, donor center lease costs (Hoxworth opened a center in Mason during the year), and an increase in utilities costs. Blood component inventory support increased $1,258,772 due to an increase in the need for imported blood due to increased demand. General and administrative expenses increased $275,734 due to an increase in blood inventory expense, advertising, printing, and blood transportation. In 2006, operating expenses increased $1,760,765 or 6%, from $30,535,287 for the year ended June 30, 2005 to $32,296,052 for the year ended June 30, 2006. Salaries and employee benefits increased $566,422, or 4% due to the annual pay increase and positions filled. Routine supplies and facilities maintenance increased $801,571, or 7% due to an increase in blood collections, automated collections supplies, and an increase in utilities costs. Blood component inventory support decreased $436,375 due to a decrease in the need for imported blood. General and administrative expenses increased $716,992 due to an increase in blood inventory expense, advertising, computer operations, and consulting fees.

Non-Operating Revenues and Expenses — The unrealized gain on our quasi-endowment fund in 2007 was $422,574 compared to an unrealized gain of $174,290 in 2006. Interest income decreased $12,185 due to market performance fluctuations. Other revenue decreased $15,011. In 2006, the unrealized gain on our quasi-endowment fund was $174,290 compared to an unrealized gain of $115,069 in 2005. Interest income increased $174,856 due to investing more funds in our quasi-endowment fund during the year and better returns on operating funds as well. Other revenue increased $20,808.

Increase in Net Assets — For the year ended June 30, 2007, our net assets increased $1,117,636 compared with an increase in net assets of $846,645 for the year ended June 30, 2006. For the year ended June 30, 2006, our net assets increased $846,645 compared with an increase in net assets of $1,657,869 for the year ended June 30, 2005.

STATEMENT OF NET ASSETS

The statement of net assets represents the financial position of Hoxworth Blood Center at the end of the fiscal year. Net assets represent the difference between total assets and total liabilities. Net assets are one indicator of the overall financial condition of Hoxworth, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One exception is capital assets, which are stated at historical cost less an allowance for depreciation. A summarized comparison of Hoxworth's assets, liabilities and net assets at June 30 follows:

	2007	2006	2005
Current assets	$ 15,596,700	$ 14,374,588	$ 12,764,741
Noncurrent assets:			
Assets whose use is limited by bond indentures			1,072,418
Capital Assets, net	14,024,274	14,490,911	14,499,437
Total assets	29,620,974	28,865,499	28,336,596
Current liabilities	3,145,081	3,507,242	2,962,615
Noncurrent liabilities			862,369
Net assets	$ 26,475,893	$ 25,358,257	$ 24,511,612

Assets — Total assets of the organization increased $755,475 to $29,620,974 as of June 30, 2007 from $28,865,499 as of June 30, 2006.

Current assets increased $1,222,112 from $14,374,588 as of June 30, 2006 to $15,596,700 as of June 30, 2007. Cash and cash equivalents increased $2,340,127 from $8,080,544 as of June 30, 2006 to $10,420,671 as of June 30, 2007. The increase in cash is explained in our discussion of cash flows below. Net accounts receivable increased $188,158 due to timing of payments. In 2006, total assets of the organization increased $528,903 to $28,865,499 as of June 30, 2006 from $28,336,596 as of June 30, 2005. Current assets increased $1,609,847 from $12,764,741 as of June 30, 2005 to $14,374,588 as of June 30, 2006. Cash and cash equivalents decreased $687,104 from $8,758,680 as of June 30, 2005 to $8,071,576 as of June 30, 2006. The decrease in cash is explained in our discussion of cash flows below. Net accounts receivable increased $1,259,755 due to timing of payments.

Capital assets, net, decreased $466,637 from $14,490,911 as of June 30, 2006 to $14,024,274 as of June 30, 2007. This decrease is the result of depreciation expenses exceeding capital purchases during the year. Capital purchases in 2007 were $872,487. Significant capital purchases made during fiscal year 2007 include the build-out, signage, phone system, and furniture for our new Mason neighborhood donor center. Hoxworth also purchased additional automation collection equipment, as well as hematology analyzers for our donor centers during 2007. Capital purchases in 2006 were $1,294,565. Significant capital expenditures made during fiscal year 2006 include a bloodmobile, the build-out and furniture for our Tri County neighborhood donor center, automation collection equipment, and a computerized refrigeration monitoring system. Capital assets, net, decreased $8,526 from $14,499,437 as of June 30, 2005 to $14,490,911 as of June 30, 2006. This decrease is the result of depreciation expenses exceeding capital purchases during the year.

Liabilities — Total liabilities decreased $362,161 to $3,145,081 as of June 30, 2007. As of June 30, 2006, total liabilities were $3,507,242. Current liabilities also decreased $362,161 from $3,507,242 at June 30, 2006 to $3,145,081 at June 30, 2007 primarily from the payment of bonds payable. In 2006, total liabilities decreased $317,742 to $3,507,242 as of June 30, 2006. As of June 30, 2005, total liabilities were $3,824,984. Current liabilities increased $544,627 from $2,962,615 at June 30, 2005 to $3,507,242 at June 30, 2006 primarily from the increase in accounts payable.

Net Assets — Net assets represent the residual interest in Hoxworth's assets after liabilities are deducted. Hoxworth's net assets are summarized below:

	2007	2006	2005
Invested in capital assets, net of related debt	$14,024,274	$13,627,780	$12,814,692
Restricted-expendable	11,293	1,064,103	1,084,281
Unrestricted	12,440,326	10,666,374	10,612,639
Total net assets	$26,475,893	$25,358,257	$24,511,612

Net assets invested in capital assets, net of related debt, increased $396,494 from $13,627,780 as of June 30, 2006 to $14,024,274 as of June 30, 2007. This increase is due to our bonds payable liability decreasing due to our payment made during 2007, as well as fixed asset purchases of $872,487. Net assets restricted-expendable decreased $1,052,810 from $1,064,103 as of June 30, 2006 to $11,293 as of June 30, 2007. This decrease is due to the use of the assets whose use is limited by bond indentures for the final payment of bond principal in fiscal year 2007. Net assets unrestricted increased $1,773,952 from $10,666,374 as of June 30, 2006 to $12,440,326 as of June 30, 2007. This increase is primarily due to the net asset increase of $1,117,636 and the purchase of $872,487 in capital assets.

In 2006, net assets invested in capital assets, net of related debt, increased $813,088 from $12,814,692 as of June 30, 2005 to $13,627,780 as of June 30, 2006. This increase is due to our bonds payable liability decreasing due to our payment made during 2006, as well as fixed asset purchases of $1,294,565. Net assets unrestricted increased $53,735 from $10,612,639 as of June 30, 2005 to $10,666,374 as of June 30, 2006. This increase is primarily due to the net asset increase of $846,645 and the purchase of $1,294,565 in capital assets.

Bonds payable, net of current portion, decreased $862,369 from $862,369 as of June 30, 2005 to $0 as of June 30, 2006 primarily due to payment of bond principal. Hoxworth paid off its bond debt during fiscal year 2007. Hoxworth has no debt limitations that would affect the financing of potential planned facilities.

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:

	2007	2006	2005
Cash received from operations	$ 35,026,974	$ 31,261,071	$ 32,562,969
Cash expended for operations	32,876,187	30,468,482	29,149,781
Net cash provided by operating activities	2,150,787	792,589	3,413,188
Net cash provided by non-capital financing activities	64,007	76,493	113,281
Net cash used for capital and related financing activities	(775,255)	(2,223,570)	(2,370,556)
Cash from investing activities	900,588	664,489	430,372
Net increase (decrease) in cash and cash equivalents	$ 2,340,127	$ (689,999)	$ 1,586,285

Cash Flows — For the year ended June 30, 2007, cash and cash equivalents increased $2,340,127. Cash provided by operations was $2,150,787 and consisted primarily of cash received from customers and cash paid to suppliers and employees. Cash received through contributions was $64,007. Cash used for capital and financing activities was $775,255 and consisted primarily of cash paid for capital purchases and cash paid for bond interest and principal. An unrealized gain of $422,574 and cash received from interest on investments of $478,014 provided a net investment gain of $900,588. For the year ended June 30, 2006, cash and cash equivalents decreased $689,999. Cash provided by operations was $792,589 and consisted primarily of cash received from customers and cash paid to suppliers and employees. Cash received through contributions was $76,493. Cash used for capital and financing activities was $2,223,570 and consisted primarily of cash paid for capital purchases and cash paid for bond interest and principal. An unrealized gain of $174,290 and cash received from interest on investments of $490,199 provided a net investment gain of $664,489.

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 resource share 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 ASSETS
AS OF JUNE 30, 2007 AND 2006

	2007	2006
CURRENT ASSETS:		
Cash and cash equivalents	$ 10,420,671	$ 8,080,544
Accounts receivable, net of allowance for doubtful accounts of approximately $44,000 at June 30, 2007 and 2006, respectively	4,561,820	4,373,662
Assets whose use is limited by bond indentures	2,325	1,055,135
Inventories	559,630	830,175
Prepaid expenses and other assets	52,254	35,072
Total current assets	15,596,700	14,374,588
Capital assets:		
Land and building	15,733,249	15,678,271
Furniture and equipment	10,706,069	10,092,074
Leasehold improvements	880,912	730,279
Total capital assets	27,320,230	26,500,624
Less accumulated depreciation	13,295,956	12,009,713
Capital assets — assets	14,024,274	14,490,911
Total assets	29,620,974	28,865,499
CURRENT LIABILITIES:		
Current portion of bond payable		863,131
Accounts payable	1,705,090	1,323,091
Accrued salaries and benefits	1,439,991	1,318,190
Accrued interest payable		2,830
Total current liabilities	3,145,081	3,507,242
NET ASSETS:		
Invested in capital assets — net of related debt	14,024,274	13,627,780
Restricted — expendable	11,293	1,064,103
Unrestricted	12,440,326	10,666,374
TOTAL NET ASSETS	$ 26,475,893	$ 25,358,257

See notes to financial statements.

HOXWORTH BLOOD CENTER

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
OPERATING REVENUES:		
Patient and community service	$34,556,545	$31,968,593
Other	658,587	553,611
Total operating revenues	35,215,132	32,522,204
OPERATING EXPENSES:		
Salaries and employee benefits	16,254,193	15,745,686
Routine supplies and facility maintenance	13,108,969	12,511,593
Blood component inventory support	1,586,762	327,990
General and administrative	2,683,426	2,407,692
Depreciation	1,339,124	1,303,091
Total operating expenses	34,972,474	32,296,052
OPERATING INCOME	242,658	226,152
NONOPERATING REVENUES (EXPENSES):		
Net increase in the fair value of investments	422,574	174,290
Interest income	478,014	490,199
Interest expense	(89,619)	(123,016)
Other	64,009	79,020
Total nonoperating revenues (expenses) — net	874,978	620,493
INCREASE IN NET ASSETS	1,117,636	846,645
NET ASSETS:		
Beginning of year	25,358,257	24,511,612
End of year	$26,475,893	$25,358,257

See notes to financial statements.

HOXWORTH BLOOD CENTER

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 34,368,387	$ 30,707,460
Cash payments to suppliers for goods and services	(16,743,795)	(14,806,178)
Cash payments to employees for services	(16,132,392)	(15,662,304)
Other operating revenues	658,587	553,611
Net cash provided by operating activities	2,150,787	792,589
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES — Contributions received	64,007	76,493
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(872,487)	(1,294,565)
Principal paid on bonds	(905,000)	(865,000)
Interest paid on bonds	(50,578)	(83,815)
Proceeds from sale of equipment		2,527
Decrease in value of bond deposit with trustees		17,283
Use of bond deposit with trustees	1,052,810	
Net cash used for capital and related financing activities	(775,255)	(2,223,570)
CASH FLOWS FROM INVESTING ACTIVITIES — Net investment gain from cash in the University's pooled cash account	900,588	664,489
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,340,127	(689,999)
CASH AND CASH EQUIVALENTS — Beginning of year	8,080,544	8,770,543
CASH AND CASH EQUIVALENTS — End of year	$ 10,420,671	$ 8,080,544
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 242,658	$ 226,152
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,339,124	1,303,091
Changes in assets and liabilities:		
(Increase) in accounts receivable	(188,158)	(1,259,755)
(Increase) decrease in inventories	270,545	(964)
Increase in accrued salaries and benefits	121,801	83,382
(Increase) decrease in prepaid expenses	(17,182)	16,008
Increase in accounts payable	381,999	424,675
Total adjustments	1,908,129	566,437
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 2,150,787	$ 792,589

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 $5,294,000 and $4,794,000 at June 30, 2007 and 2006, 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, 2007 and 2006, 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.

2. CONCENTRATIONS AND CREDIT RISK

In the normal course of business, Hoxworth extends credit to various area hospitals. At June 30, 2007, three hospital groups accounted for approximately 58%, 15%, and 11%, respectively of accounts receivable. At June 30, 2006, three hospital groups accounted for approximately 57%, 11%, and 9%, respectively of accounts receivable.

3. INVENTORIES

Inventories at June 30, 2007 and 2006, consist of the following:

	2007	2006
Blood components	$ 419,871	$ 608,170
Blood bags and accessories	68,191	102,305
Other supplies	71,568	119,700
Total	$ 559,630	$ 830,175

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, 2007 and 2006, the carrying amount and market value of assets whose use is limited are as follows:

	2007		2006	
	Carrying Amount	Market Value	Carrying Amount	Market Value
U.S. government agency obligations	$ 2,325	$ 2,316	$ 1,055,135	$ 997,172

5. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2007 and 2006, was as follows:

	Balance July 1, 2006	Additions	Retirements	Balance June 30, 2007
Land and buildings	$ 15,678,271	$ 54,965	$	$ 15,733,236
Furniture and equipment	10,092,074	666,888	52,881	10,706,081
Leasehold improvements	730,279	150,634		880,913
Total	26,500,624	872,487	52,881	27,320,230
Less accumulated depreciation:				
Buildings	4,608,424	439,507		5,047,931
Furniture and equipment	6,938,805	791,329	52,881	7,677,253
Leasehold improvements	462,484	108,288		570,772
Total accumulated depreciation	12,009,713	1,339,124	52,881	13,295,956
Capital assets — net	$ 14,490,911	$ (466,637)	$	$ 14,024,274

	Balance July 1, 2005	Additions	Retirements	Balance June 30, 2006
Land and buildings	$ 15,637,852	$ 40,419	$ -	$ 15,678,271
Furniture and equipment	9,076,939	1,134,678	119,543	10,092,074
Leasehold improvements	610,811	119,468		730,279
Total	25,325,602	1,294,565	119,543	26,500,624
Less accumulated depreciation:				
Buildings	4,170,376	438,048		4,608,424
Furniture and equipment	6,271,249	787,099	119,543	6,938,805
Leasehold improvements	384,540	77,944		462,484
Total accumulated depreciation	10,826,165	1,303,091	119,543	12,009,713
Capital assets — net	$ 14,499,437	$ (8,526)	$ -	$ 14,490,911

6. BOND PAYABLE

Bond payable at June 30, 2007 and 2006, consisted of the following:

	2007	2006
Series R-11 General Receipts Bond — paid in full in 2007	$ -	$ 863,131
Less current portion		863,131
	$ -	$ -

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 older bonds which subsequently have been paid in full.

The bond was collateralized by the general receipts of the University. Interest expense related to the bond was approximately $90,000 and $123,000 for 2007 and 2006, respectively.

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 noncancelable leases was approximately $493,000 and $439,000 in 2007 and 2006, respectively.

At June 30, 2007, estimated future lease payments under noncancelable leases approximate the following:

Years Ending June 30	
2008	$ 447,000
2009	428,000
2010	293,000
2011	166,000
2012	166,000
Thereafter	521,000
Total	$2,021,000

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 2007 and 2006, costs for such resources, including indirect overhead charges from the University, were approximately $1,552,000 and $1,444,000, 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 $5,127,000 and $3,286,000 at June 30, 2007 and 2006, respectively, and is included in cash and cash equivalents in the accompanying statements of net assets. Interest of approximately $131,000 in 2007 and $197,000 in 2006 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 $5,294,000 and $4,794,000 at June 30, 2007 and 2006, respectively. The unrealized gain on this fund was approximately $423,000 and $174,000 for the years ended June 30, 2007 and 2006, respectively. The fund also had interest income of $327,000 and $238,000 for the years ended June 30, 2007 and 2006, respectively.

9. SELF-INSURANCE FUNDS

The University currently provides for medical professional and general liability insurance through a combination of actuarially funded self-insurance and purchased commercial insurance in excess of the self-insurance amount. The medical professional liability insurance program also includes several qualified not-for-profit departmental (physician) practice corporations. Medical professional self-insurance limits were $4 million per occurrence for 2007. An additional $15 million in commercial excess professional liability insurance was provided above the self-insured retention. General liability coverage was provided as part of a group purchase arrangement of Ohio state universities through the Inter-University Council of Ohio (IUC). This program provided for $250,000 retention per occurrence with the first $100,000 funded by UC, and the remaining $150,000 funded by pool funds held through the IUC. IUC self-insurance pools are funded by an agreed formula among the participating universities. Excess commercial coverage for general liability was provided with total limits of $50 million, of which $45 million was shared with the other participating universities. In addition, Educators Legal Liability coverage was provided through the IUC program with $25 million in total limits, of which $20 million was shared among the participating institutions.

UC's self-insurance funding is based on calculations by independent actuaries and funds are deposited directly into two irrevocable self-insurance trust funds, one for medical 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 Trusts and related reserves are not included in the accompanying Hoxworth statements of net assets because such assets are considered part of the University and not separately attributable to divisions. In the opinion of management, trust assets are adequate to cover estimated liabilities resulting from known claims and incidents and incurred-but-not-reported incidents as of June 30, 2007. 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 8 above. There were no claims outstanding against Hoxworth as of June 30, 2007, that required a reserve to be reported on Hoxworth's statements of net assets.

10. EMPLOYEE RETIREMENT PLANS AND OTHER POSTEMPLOYMENT 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). Noncertified 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 13.77% (5.0% relating to health care benefits) and 9.5% of covered payroll, respectively, for PERS; 14% (1% relating to health care benefits) and 10%, respectively, for STRS; 17% and 7%, respectively, for CRS. The University's contributions, representing 100% of employer contributions for the year ended June 30, 2007, and for each of the two preceding years, approximate the following:

Fiscal Year	PERS	STRS	CRS
2005	$18,217,000	$15,404,000	$417,000
2006	19,811,000	16,417,000	361,000
2007	20,318,000	17,618,000	506,000

Hoxworth's contributions to PERS for the years ended June 30, 2007, 2006, and 2005 were $1,470,024 $1,388,072, and $1,313,217, respectively. Hoxworth's contributions to STRS for the years ended June 30, 2007, 2006, and 2005 were $170,713, $159,684, and $171,299, 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, 2005. 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 6.5%, annual wage increase (compounded annually) 4%, and health care costs 4%. At December 31, 2005, the actuarial value of the Retirement System's net assets available for OPEB was $11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $31.3 billion and $20.2 billion, respectively. There are 369,214 active contributing participants. Of the $20,318,000 University employer contributions to PERS for 2007, $7,378,000 was 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 $3.5 billion at June 30, 2006 (the latest information available). For the year ended June 30, 2006, the net health care costs paid by STRS were $282,743,000. There were 119,184 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 2007, 2006, and 2005, the net cost of these benefits recorded on a pay-as-you-go basis totaled approximately $2,961,000, $2,945,000, and $2,972,000, 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, 2007, there were 1,901 members of the plan. During 2007, 2006 and 2005, the University employer contributions were $13,418,000, $11,310,000, and $10,349,000, respectively. The employer contribution rate was 12% for participants electing out of PERS during fiscal year 2006. Effective January 1, 2007, the employer contribution rate increased to 13.77%. The employer contribution rate for participants electing out of STRS was 14% (3.5% goes to STRS to cover an unfunded liability) for both 2007 and 2006.

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Deloitte.

Deloitte & Touche LLP
250 East 5th Street
Suite 1900
Cincinnati, OH 45202-5109
USA

Tel: 513-784-7100
Fax: 513-784-7204
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To 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, 2007, and have issued our report thereon dated September 21, 2007. 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 *Government 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 as a basis for designing auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Hoxworth's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hoxworth's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal process of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such as there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section, and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 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*.

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 21, 2007

Mary Taylor, CPA
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
DECEMBER 4, 2007

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us