

Hoxworth Blood Center

Financial Statements as of and for the
Years Ended June 30, 2008 and 2007, and
Independent Auditors' Report



Mary Taylor, CPA
Auditor of State

Board of Trustees of the University 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, 2007 through June 30, 2008. 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 14, 2008

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HOXWORTH BLOOD CENTER

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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, 2008 and 2007, 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 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, 2008 and 2007, 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, 2008 and 2007, 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 October 10, 2008, 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

October 10, 2008

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 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. 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 94,027 in fiscal year 2006, 90,045 in fiscal 2007, and 88,838 in fiscal 2008.

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 No. 35, *Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities*, as amended by GASB Statement Nos. 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 nonoperating. 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, 2008, with total assets of \$30,993,040 and liabilities of \$3,750,400. Net assets, which represent the residual interest in Hoxworth's assets after liabilities are deducted, increased by \$766,747 to \$27,242,640.

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:

	2008	2007	2006
OPERATING REVENUES:			
Patient and community service	\$37,606,391	\$34,556,545	\$31,968,593
Other	<u>917,781</u>	<u>658,587</u>	<u>553,611</u>
Total operating revenues	<u>38,524,172</u>	<u>35,215,132</u>	<u>32,522,204</u>
OPERATING EXPENSES:			
Salaries and employee benefits	16,932,061	16,254,193	15,745,686
Routine supplies and facility maint.	14,065,999	13,108,969	12,511,593
Blood component inventory support	2,735,607	1,586,762	327,990
General and administrative	2,840,402	2,683,426	2,407,692
Depreciation	<u>1,309,560</u>	<u>1,339,124</u>	<u>1,303,091</u>
Total operating expenses	<u>37,883,629</u>	<u>34,972,474</u>	<u>32,296,052</u>
OPERATING INCOME	<u>640,543</u>	<u>242,658</u>	<u>226,152</u>
NONOPERATING REVENUES (EXPENSES):			
Net increase (decrease) in fair value			
of investments	(470,001)	422,574	174,290
Interest income	528,779	478,014	490,199
Interest expense		(89,619)	(123,016)
Other	<u>67,426</u>	<u>64,009</u>	<u>79,020</u>
Total nonoperating revenues (expenses) — net	<u>126,204</u>	<u>874,978</u>	<u>620,493</u>
INCREASE IN NET ASSETS	<u>\$ 766,747</u>	<u>\$ 1,117,636</u>	<u>\$ 846,645</u>

Operating Revenues — Operating revenues increased from \$35,215,132 for the year ended June 30, 2007, to \$38,524,172 for the year ended June 30, 2008. This increase of \$3,309,040 or 10% is primarily attributable to several factors. Blood and Blood Components revenue increased \$1,152,565 primarily due an increase in red blood cell usage, adding Mercy Hospital Fairfield as a customer, and price increases. Transplantation Immunology revenue increased \$633,993 due to the increase in activity by Cincinnati Children's Hospital Medical Center and the University Hospital transplant divisions. Apheresis Components and Therapeutics revenue increased \$1,032,716 due to an increase in demand for platelet pheresis products. 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 to 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 Expenses — Operating expenses increased \$2,911,155 or 9%, from \$34,972,474 for the year ended June 30, 2007, to \$37,883,629 for the year ended June 30, 2008. Salaries and employee benefits increased \$677,868, or 5% due to the annual pay increase and positions filled. Routine supplies and facilities maintenance increased \$957,030, or 8% due to an increase in antisera and reagents costs, an increase in test kits costs, and an increase in blood bag costs. Blood component inventory support increased \$1,148,845, due to an increase in the need for imported blood due to increased demand. General and administrative expenses increased \$156,976, due to an increase in indirect charges from the University of Cincinnati. In 2007, 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 and 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.

Nonoperating Revenues and Expenses — The unrealized loss on our quasi-endowment fund in 2008 was \$470,001 compared to an unrealized gain of \$422,574 in 2007. Interest income increased \$50,765 due to market performance fluctuations. Other revenue increased \$3,417. In 2007, the unrealized gain on our quasi-endowment fund was \$422,574 compared to an unrealized gain of \$174,290 in 2006. Interest income decreased \$12,185 due to market fluctuations. Other revenue decreased \$15,011.

Increase in Net Assets — For the year ended June 30, 2008, our net assets increased \$766,747 compared with an increase in net assets of \$1,117,636 for the year ended June 30, 2007. 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.

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:

	2008	2007	2006
Current assets	\$ 17,888,157	\$ 15,596,700	\$ 14,374,588
Noncurrent assets — capital assets — net	<u>13,104,883</u>	<u>14,024,274</u>	<u>14,490,911</u>
Total assets	30,993,040	29,620,974	28,865,499
Current and total liabilities	<u>3,750,400</u>	<u>3,145,081</u>	<u>3,507,242</u>
Net assets	<u>\$ 27,242,640</u>	<u>\$ 26,475,893</u>	<u>\$ 25,358,257</u>

Assets — Total assets of the organization increased \$1,372,066 to \$30,993,040 as of June 30, 2008, from \$29,620,974 as of June 30, 2007.

Current assets increased \$2,291,457, from \$15,596,700 as of June 30, 2007, to \$17,888,157 as of June 30, 2008. Cash and cash equivalents increased \$707,298, from \$10,420,671 as of June 30, 2007, to \$11,127,969 as of June 30, 2008. The increase in cash is explained in our discussion of cash flows below. Net accounts receivable increased \$1,311,372, due to timing of payments. In 2007, 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.

Capital Assets — Capital assets, net, decreased \$919,391, from \$14,024,274 as of June 30, 2007, to \$13,104,883 as of June 30, 2008. This decrease is the result of depreciation expenses exceeding capital purchases during the year. Capital purchases in 2008 were \$393,922. Significant capital purchases made during fiscal year 2008 include a blood analyzer, phone recording systems, copiers, tubing welders, and blood collection systems. Capital purchases in 2007 were \$872,487. Significant capital expenditures made during fiscal year 2007 include 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 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.

Liabilities — Total liabilities increased \$605,319, to \$3,750,400 as of June 30, 2008. As of June 30, 2007, total liabilities were \$3,145,081. 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. Long-term liabilities were paid in full in the prior year.

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

	2008	2007	2006
Invested in capital assets — net of related debt	\$ 13,104,883	\$ 14,024,274	\$ 13,627,780
Restricted-expendable	5,868	11,293	1,064,103
Unrestricted	<u>14,131,889</u>	<u>12,440,326</u>	<u>10,666,374</u>
Total net assets	<u>\$ 27,242,640</u>	<u>\$ 26,475,893</u>	<u>\$ 25,358,257</u>

Net assets invested in capital assets, net of related debt, decreased \$919,390, from \$14,024,274 as of June 30, 2007, to \$13,104,884 as of June 30, 2008. This decrease is due to depreciation expense exceeding capital purchases, as well as fixed asset purchases of \$393,922. Net assets restricted-expendable decreased \$5,425 from \$11,293 as of June 30, 2007, to \$5,868 as of June 30, 2008. Net assets unrestricted increased \$1,691,563 from \$12,440,326 as of June 30, 2007, to \$14,131,889 as of June 30, 2008.

In 2007, 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.

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:

	2008	2007	2006
Cash received from operations	\$ 37,208,666	\$ 35,026,974	\$ 31,261,071
Cash expended for operations	<u>36,294,428</u>	<u>32,876,187</u>	<u>30,468,482</u>
Net cash provided by operating activities	914,238	2,150,787	792,589
Net cash provided by non-capital financing activities	107,238	64,007	76,493
Net cash used for capital and related financing activities	(372,957)	(775,255)	(2,223,570)
Cash from investing activities	<u>58,778</u>	<u>900,588</u>	<u>664,489</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ 707,297</u>	<u>\$ 2,340,127</u>	<u>\$ (689,999)</u>

Cash Flows — For the year ended June 30, 2008, cash and cash equivalents increased \$707,297. Cash provided by operations was \$914,238 and consisted primarily of cash received from customers offset by cash paid to suppliers and employees. Cash received through contributions was \$107,238. Cash used for capital and financing activities was \$372,957 and consisted primarily of cash paid for capital purchases. An unrealized loss of \$470,001 and cash received from interest on investments of \$528,779 provided a net investment gain of \$58,778. 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.

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, 2008 AND 2007

	2008	2007
CURRENT ASSETS:		
Cash and cash equivalents	\$ 11,127,969	\$ 10,420,671
Accounts receivable — net of allowance for doubtful accounts of approximately \$44,000 at June 30, 2008 and 2007, respectively	5,873,192	4,561,820
Assets whose use is limited by bond indentures		2,325
Inventories	836,291	559,630
Prepaid expenses and other assets	<u>50,705</u>	<u>52,254</u>
Total current assets	<u>17,888,157</u>	<u>15,596,700</u>
Capital assets:		
Land and building	15,733,249	15,733,249
Furniture and equipment	11,004,576	10,706,069
Leasehold improvements	<u>880,912</u>	<u>880,912</u>
Total capital assets	27,618,737	27,320,230
Less accumulated depreciation	<u>14,513,853</u>	<u>13,295,956</u>
Capital assets — net	<u>13,104,884</u>	<u>14,024,274</u>
Total assets	<u>30,993,040</u>	<u>29,620,974</u>
CURRENT LIABILITIES:		
Accounts payable	2,196,234	1,705,090
Accrued salaries and benefits	1,499,466	1,439,991
Unearned revenue	<u>54,700</u>	
Total current liabilities	<u>3,750,400</u>	<u>3,145,081</u>
NET ASSETS:		
Invested in capital assets — net of related debt	13,104,884	14,024,274
Restricted — expendable	5,868	11,293
Unrestricted	<u>14,131,888</u>	<u>12,440,326</u>
TOTAL NET ASSETS	<u>\$27,242,640</u>	<u>\$26,475,893</u>

See notes to financial statements.

HOXWORTH BLOOD CENTER

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
OPERATING REVENUES:		
Patient and community service	\$37,606,391	\$34,556,545
Other	<u>917,781</u>	<u>658,587</u>
Total operating revenues	<u>38,524,172</u>	<u>35,215,132</u>
OPERATING EXPENSES:		
Salaries and employee benefits	16,932,061	16,254,193
Routine supplies and facility maintenance	14,065,999	13,108,969
Blood component inventory support	2,735,607	1,586,762
General and administrative	2,840,402	2,683,426
Depreciation	<u>1,309,560</u>	<u>1,339,124</u>
Total operating expenses	<u>37,883,629</u>	<u>34,972,474</u>
OPERATING INCOME	<u>640,543</u>	<u>242,658</u>
NONOPERATING REVENUES (EXPENSES):		
Net increase (decrease) in the fair value of cash equivalents	(470,001)	422,574
Interest income	528,779	478,014
Interest expense		(89,619)
Other	<u>67,426</u>	<u>64,009</u>
Total nonoperating revenues (expenses) — net	<u>126,204</u>	<u>874,978</u>
INCREASE IN NET ASSETS	766,747	1,117,636
NET ASSETS:		
Beginning of year	<u>26,475,893</u>	<u>25,358,257</u>
End of year	<u>\$27,242,640</u>	<u>\$26,475,893</u>

See notes to financial statements.

HOXWORTH BLOOD CENTER

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 36,290,885	\$ 34,368,387
Cash payments to suppliers for goods and services	(19,421,842)	(16,743,795)
Cash payments to employees for services	(16,872,586)	(16,132,392)
Other operating revenues	<u>917,781</u>	<u>658,587</u>
Net cash provided by operating activities	<u>914,238</u>	<u>2,150,787</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES — Contributions received		
	<u>107,238</u>	<u>64,007</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(393,922)	(872,487)
Proceeds on sale of capital assets	18,640	
Principal paid on bonds		(905,000)
Interest paid on bonds		(50,578)
Use of bond deposit with trustees	<u>2,325</u>	<u>1,052,810</u>
Net cash used in capital and related financing activities	<u>(372,957)</u>	<u>(775,255)</u>
CASH FLOWS FROM INVESTING ACTIVITIES — Interest income and gain (loss) from investment in cash and cash equivalents		
	<u>58,778</u>	<u>900,588</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	707,297	2,340,127
CASH AND CASH EQUIVALENTS — Beginning of year	<u>10,420,671</u>	<u>8,080,544</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 11,127,968</u>	<u>\$ 10,420,671</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 640,543	\$ 242,658
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,309,560	1,339,124
Changes in assets and liabilities:		
(Increase) in accounts receivable	(1,311,372)	(188,158)
(Increase) decrease in inventories	(276,661)	270,545
Increase in accrued salaries and benefits	59,475	121,801
(Increase) decrease in prepaid expenses	1,549	(17,182)
Increase in accounts payable	<u>491,144</u>	<u>381,999</u>
Total adjustments	<u>273,695</u>	<u>1,908,129</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 914,238</u>	<u>\$ 2,150,787</u>

See notes to financial statements.

HOXWORTH BLOOD CENTER

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

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 (FASB) 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*. The University has elected not to apply those FASB pronouncements issued after November 30, 1989.

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 \$4,895,920 and \$5,294,000 at June 30, 2008 and 2007, 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, 2008 and 2007, the carrying amount and market value of assets whose use is limited are as follows:

	2008		2007	
	Carrying Amount	Market Value	Carrying Amount	Market Value
U.S. government agency obligations	\$ -	\$ -	\$ 2,325	\$ 2,316

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.

Operating Activities — As reported on the statements of revenues, expenses, and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement 35, including gifts and investment income.

2. CONCENTRATIONS AND CREDIT RISK

In the normal course of business, Hoxworth extends credit to various area hospitals. At June 30, 2008, three hospital groups accounted for approximately 60%, 21%, and 10%, respectively, of accounts receivable. At June 30, 2007, three hospital groups accounted for approximately 58%, 15%, and 11%, respectively, of accounts receivable.

3. INVENTORIES

Inventories at June 30, 2008 and 2007, consist of the following:

	2008	2007
Blood components	\$461,274	\$ 419,871
Blood bags and accessories	339,162	68,191
Other supplies	<u>35,855</u>	<u>71,568</u>
Total	<u>\$836,291</u>	<u>\$ 559,630</u>

4. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2008 and 2007, was as follows:

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008
Land and buildings	\$ 15,733,249	\$ -	\$ -	\$ 15,733,249
Furniture and equipment	10,706,069	393,922	95,415	11,004,576
Leasehold improvements	<u>880,912</u>	<u> </u>	<u> </u>	<u>880,912</u>
Total	<u>27,320,230</u>	<u>393,922</u>	<u>95,415</u>	<u>27,618,737</u>
Less accumulated depreciation:				
Buildings	5,047,931	483,156		5,531,087
Furniture and equipment	7,677,253	723,850	91,663	8,309,440
Leasehold improvements	<u>570,772</u>	<u>102,554</u>	<u> </u>	<u>673,326</u>
Total accumulated depreciation	<u>13,295,956</u>	<u>1,309,560</u>	<u>91,663</u>	<u>14,513,853</u>
Capital assets — net	<u>\$ 14,024,274</u>	<u>\$ (915,638)</u>	<u>\$ 3,752</u>	<u>\$ 13,104,884</u>
	Balance July 1, 2006	Additions	Retirements	Balance June 30, 2007
Land and buildings	\$ 15,678,284	\$ 54,965	\$ -	\$ 15,733,249
Furniture and equipment	10,092,062	666,888	52,881	10,706,069
Leasehold improvements	<u>730,278</u>	<u>150,634</u>	<u> </u>	<u>880,912</u>
Total	<u>26,500,624</u>	<u>872,487</u>	<u>52,881</u>	<u>27,320,230</u>
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	<u>462,484</u>	<u>108,288</u>	<u> </u>	<u>570,772</u>
Total accumulated depreciation	<u>12,009,713</u>	<u>1,339,124</u>	<u>52,881</u>	<u>13,295,956</u>
Capital assets — net	<u>\$ 14,490,911</u>	<u>\$ (466,637)</u>	<u>\$ -</u>	<u>\$ 14,024,274</u>

5. BOND PAYABLE

Bond payable at June 30, 2007, consisted of the following, as the bond was paid in full during 2007, there is a zero balance as of June 30, 2008:

	Year Ended June 30, 2007					
	Balance July 1, 2006	Additions	Reductions	Balance July 1, 2007	Current Portion	Noncurrent Portion
Series R-11 General Obligation Bond	<u>\$ 863,131</u>	<u>\$ -</u>	<u>\$ 863,131</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>\$ 863,131</u>	<u>\$</u>	<u>\$ 863,131</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

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 \$0 and \$90,000 for 2008 and 2007, respectively.

6. OPERATING LEASES

Hoxworth is obligated under a number of operating leases, principally for neighborhood donor centers, expiring at various dates through 2008. Total operating lease expense under noncancelable leases was approximately \$488,000 and \$493,000 in 2008 and 2007, respectively.

At June 30, 2008, estimated future lease payments under noncancelable leases approximate the following:

Years Ending June 30	
2009	\$ 428,000
2010	293,000
2011	166,000
2012	166,000
2013	169,000
Thereafter	<u>352,000</u>
Total	<u>\$ 1,574,000</u>

7. 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 2008 and 2007, costs for such resources, including indirect overhead charges from the University, were approximately \$1,647,000 and \$1,552,000, 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 \$6,231,351 and \$5,127,000 at June 30, 2008 and 2007, respectively,

and is included in cash and cash equivalents in the accompanying statements of net assets. Interest of approximately \$198,000 in 2008, and \$131,000 in 2007, 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 \$4,896,000 and \$5,294,000 at June 30, 2008 and 2007, respectively. The unrealized loss on this fund was approximately \$470,000 for the year ended June 30, 2008. For the year ended June 30, 2007, the unrealized gain on this fund was approximately \$423,000. The fund also had interest income of \$306,000 and \$327,000 for the years ended June 30, 2008 and 2007, respectively.

8. SELF-INSURANCE FUNDS

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 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 2008. An additional \$15 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 \$1 million retention per occurrence with the first \$100,000 funded by UC, and the remaining \$900,000 funded by pool funds held through the IUC. 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. The IUC-IC self-insurance pools are funded by an agreed formula among the participating universities.

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, 2008. 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 this note. There were no claims outstanding against Hoxworth as of June 30, 2008, that required a reserve to be reported on Hoxworth's statements of net assets.

9. EMPLOYEE RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS

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 Ohio Public Employees Retirement System (OPERS). Both STRS 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, 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 OPERS, STRS, and CRS statutory authority, respectively, over employer and employee contributions. The required, actuarially determined contribution rates for the University and for employees are 14% (7% relating to health care benefits) and 10% of covered payroll, respectively, for OPERS; 14% (1% relating to health care benefits) and 10%, respectively, for STRS; and 17% and 7%, respectively, for CRS for the year ended June 30, 2008. The University's contributions, representing 100% of employer contributions for the year ended June 30, 2008, and for each of the two preceding years are as follows (in thousands):

Fiscal Year	PERS	STRS	CRS
2006	\$ 19,811	\$ 16,417	\$ 361
2007	20,318	17,618	506
2008	20,155	15,417	278

Hoxworth's contributions to PERS for the years ended June 30, 2008, 2007, and 2006 were \$1,555,884 \$1,470,024, and \$1,388,072, respectively. Hoxworth's contributions to STRS for the years ended June 30, 2008, 2007, and 2006 were \$178,028, \$170,713, and \$159,684, respectively.

OPERS and STRS provide postretirement and postemployment health care benefits in addition to the retirement benefits described above. OPERS Other Postemployment 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, 2006. 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 not to exceed a 12% corridor. The actuaries' assumptions were as follows: investment return, 6.5%; annual wage increase (compounded annually), 4%; and health care costs, 4%. At December 31, 2006, the actuarial value of the Retirement System's net assets available for OPEB was \$12 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$30.7 billion and \$18.7 billion, respectively. There are 374,979 active contributing participants. Of the \$20,155,000 University employer contributions to OPERS for 2008, \$10,078,000 was to fund OPEB.

STRS has discretionary authority, pursuant to the Ohio 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 \$4.1 billion at June 30, 2007 (the latest information available). For the year ended June 30, 2007, the net health care costs paid by STRS were \$265,558,000. There were 122,934 eligible benefit recipients.

In addition to the pension benefits described above, the University provides postretirement health care 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 2008, 2007, and 2006, the net cost of these benefits recorded on a pay-as-you-go basis totaled approximately \$3,010,000, \$2,961,000, and \$2,945,000, respectively.

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 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, 2008, there were 1,889 members of the plan. During 2008, 2007, and 2006 the employer contributions were \$13,730,000, \$13,418,000, and \$11,310,000, respectively. The employer contribution rate was 13.77% for participants electing out of OPERS during 2007. Effective January 1, 2008 the employer contribution rate increased to 14%. The employer contribution rate for participants electing out of STRS was 14.00% for both 2008 and 2007.

Combined Plans — STRS 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.

OPERS also 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.

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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. 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 financial statements of Hoxworth Blood Center ("Hoxworth"), as of and for the year ended June 30, 2008, and have issued our report thereon dated October 10, 2008, wherein we noted Hoxworth is a division of the University of Cincinnati, which is a component unit of the State of Ohio. 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 accounting principles generally accepted in the United States of America 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 the State of Ohio and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

October 10, 2008



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 2, 2008**