Hoxworth Blood Center

Financial Statements as of and for the Years Ended June 30, 2006 and 2005, and Independent Auditors' Report

Board of Trustees of the University of Cincinnati
and the Community Advisory Board of 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, 2005 through June 30, 2006. 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

March 15, 2007

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HOXWORTH BLOOD CENTER

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INDEPENDENT AUDITORS' REPORT

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 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, 2006 and 2005, 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 respective 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 respective 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hoxworth at June 30, 2006 and 2005, 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 2–6 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 13, 2006, 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 13, 2006

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 increased from 87,913 in fiscal year 2004, to 88,599 in fiscal year 2005, to 94,027 in fiscal year 2006.

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, 2006, with total assets of $28,865,499 and liabilities of $3,507,242. Net assets, which represent the residual interest in Hoxworth's assets after liabilities are deducted, increased by $846,645 to $25,358,257.

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:

	2006	2005	2004
Operating Revenues:			
Patient and Community Service	$31,968,593	$31,334,972	$29,030,435
Other	553,611	536,723	521,995
Total Operating Revenues	32,522,204	31,871,695	29,552,430
Operating Expenses:			
Salaries and employee benefits	15,745,686	15,179,264	14,190,317
Routine supplies and facility maint.	12,511,593	11,710,022	10,653,863
Blood component inventory support	327,990	764,365	167,221
General and administrative	2,407,692	1,690,700	1,876,454
Depreciation	1,303,091	1,190,936	1,107,665
Total Operating Expenses	32,296,052	30,535,287	27,995,520
Operating income	226,152	1,336,408	1,556,910
Non-operating revenues (expenses)			
Net increase in the fair value of investments	174,290	115,029	347,972
Interest income	490,199	315,343	300,226
Interest expense	(123,016)	(167,123)	(206,886)
Other	79,020	58,212	180,053
Total non-operating revenues	620,493	321,461	621,365
Increase in net assets	$ 846,645	$ 1,657,869	$ 2,178,275

Operating Revenues: 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 (accounted for under Apheresis Components and Therapeutics revenues) 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. In 2005, operating revenues increased from $29,522,430 at June 30, 2004 to $31,871,695 at June 30, 2005. This increase of $2,349,265, or 8% is primarily attributable to several factors. Blood and Blood Components revenue increased $1,330,822 due to volume and price increases. Transplantation Immunology revenue increased $463,673 due to a volume increase of 1,877 procedures. Apheresis Components and Therapeutics revenue increased $384,641 due to an increase in demand for therapeutic apheresis procedures. Cellular Therapies revenue increased $286,265 due to an increase in demand by Cincinnati Children's Hospital Medical Center and the Jewish Hospital of the Health Alliance of Greater Cincinnati for services to support their bone marrow transplant programs.

Operating Expenses: Operating expenses increased $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. In 2005, operating expenses increased $2,539,767 or 9%, from $27,995,520 at June 30, 2004 to $30,535,287 at June 30, 2005. Salaries and employee benefits increased $988,947, or 7% due to a 2.14% increase in benefits, the annual pay increase, and positions filled. Routine supplies and facilities maintenance increased $1,056,159, or 10% due to sales volume increases, automated collections supplies, and an increase in blood collections. Blood component inventory support increased $597,144 due to an increase in the need for imported blood. General and administrative expenses decreased $185,754 or 10%, due to decreases in blood inventory costs, advertising, and insurance charges.

Non-Operating Revenues and Expenses: The unrealized gain on our quasi-endowment fund in 2006 was $174,290 compared to an unrealized gain of $115,029 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. In 2005, the unrealized gain on our quasi-endowment fund was $115,029, compared to an unrealized gain of $347,972 in 2004. While the value of the quasi-endowment increased during 2005, the performance of the stock market was not as prosperous as in 2004. Other revenue decreased $121,841 in 2005 due to a loss on disposal of assets and a decrease in fundraising from prior year.

Increase in Net Assets: 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. For the year ended June 30, 2005, our net assets increased $1,657,869 compared with an increase in net assets of $2,178,275 for the year ended June 30, 2004.

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. Asset 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:

	2006	2005	2004
Current assets	$14,374,588	$12,764,741	$11,927,022
Noncurrent assets—Assets whose use is limited by bond indentures		1,072,418	1,064,126
Capital assets, net	14,490,911	14,499,437	14,336,115
Total assets	28,865,499	28,336,596	27,327,263
Current liabilities	3,507,242	2,962,615	2,788,774
Noncurrent liabilities		862,369	1,684,746
Net assets	$25,358,257	$24,511,612	$22,853,743

Assets: 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 $689,999 from $8,770,543 as of

June 30, 2005 to $8,080,544 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 $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. Capital purchases in 2006 were $1,294,565. Capital purchases in 2005 were $1,413,827. In 2005, total assets of the organization increased $1,009,333 to $28,336,596 as of June 30, 2005 from $27,327,263 as of June 30, 2004. Current assets increased $837,719 from $11,927,022 as of June 30, 2004 to $12,764,741 as of June 30, 2005. Cash and cash equivalents increased $1,586,285 from $7,184,258 as of June 30, 2004 to $8,770,543 as of June 30, 2005. The increase in cash is explained in our discussion of cash flows below. In 2005, net accounts receivable decreased $692,533 due to timing of payments. Blood and supplies inventories decreased $37,793. Capital assets, net, increased $163,322 from $14,336,115 as of June 30, 2004 to $14,499,437 as of June 30, 2005. This increase is the result of capital purchases exceeding depreciation expense during the year. Capital purchases were $1,413,827 during 2005. Capital purchases were $817,555 in 2004.

Liabilities: 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. 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. In 2005, total liabilities decreased $648,534 to $3,824,984 as of June 30, 2005. As of June 30, 2004, total liabilities were $4,473,520. Current liabilities increased $173,841 from $2,788,774 at June 30, 2004 to $2,962,615 at June 30, 2005. Bonds payable, net of current portion, decreased $822,377 from $1,684,746 as of June 30, 2004 to $862,369 as of June 30, 2005 primarily due to payment of bond principal.

Net Assets

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

	2006	2005	2004
Invested in capital assets, net of related debt	$13,627,780	$12,814,692	$11,869,275
Restricted-expendable	1,064,103	1,084,281	1,076,699
Unrestricted	10,666,374	10,612,639	9,907,769
Total net assets	$25,358,257	$24,511,612	$22,853,743

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.

In 2005, net assets invested in capital assets, net of related debt, increased $945,417 from $11,869,275 as of June 30, 2004 to $12,814,692 as of June 30, 2005. This increase is primarily due to our bonds payable liability decreasing due to our payment made during 2005, as well as fixed asset purchases of $1,413,827 and disposals of $59,569, offset by depreciation expense. Net assets unrestricted increased $704,870 from $9,907,769 as of June 30, 2004 to $10,612,639 as of June 30, 2005. This increase is primarily due to the net asset increase of $1,657,869 and the purchase of $1,413,827 less disposals of $59,569 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:

	2006	2005	2004
Cash received from operations	$31,261,071	$32,562,969	$28,444,990
Cash expended for operations	30,468,482	29,149,781	27,465,403
Net cash provided by operating activities	792,589	3,413,188	979,587
Net cash provided by non-capital financing activities	76,493	113,281	175,091
Net cash used for capital and related financing activities	(2,223,570)	(2,370,556)	(1,776,802)
Cash from investing activities	664,489	430,372	648,198
Net increase (decrease) in cash and Cash equivalents	$ (689,999)	$ 1,586,285	$ 26,074

Cash Flows: For the year ended June 30, 2006, cash and cash equivalents decreased $687,104. 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. For the year ended June 30, 2005, cash and cash equivalents increased $1,586,285. Cash provided by operations was $3,413,188 and consisted primarily of cash received from customers and cash paid to suppliers and employees. Cash received through contributions was $113,281. Cash used for capital and financing activities was $2,370,556 and consisted primarily of cash paid for capital purchases and cash paid for bond interest and principal. In 2005, an unrealized gain of $115,029 and cash received from interest on investments of $315,343 provided a net investment gain of $430,372.

HOXWORTH BLOOD CENTER

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2006 AND 2005

	2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 8,080,544	$ 8,770,543
Accounts receivable, net of allowance for doubtful accounts of approximately $44,000 at June 30, 2006 and 2005, respectively	4,373,662	3,113,907
Assets whose use is limited by bond indentures	1,055,135	
Inventories	830,175	829,211
Prepaid expenses and other assets	35,072	51,080
Total current assets	14,374,588	12,764,741
NONCURRENT ASSETS:		
Assets whose use is limited by bond indentures		1,072,418
Capital assets:		
Land and buildings	15,678,271	15,637,852
Furniture and equipment	10,092,074	9,076,939
Leasehold improvements	730,279	610,811
Total capital assets	26,500,624	25,325,602
Less accumulated depreciation	12,009,713	10,826,165
Capital assets—net	14,490,911	14,499,437
Total noncurrent assets	14,490,911	15,571,855
TOTAL ASSETS	28,865,499	28,336,596
LIABILITIES		
CURRENT LIABILITIES:		
Current portion of bond payable	$ 863,131	$ 822,376
Accounts payable	1,323,091	898,416
Accrued salaries and benefits	1,318,190	1,234,808
Accrued interest payable	2,830	7,015
Total current liabilities	3,507,242	2,962,615
BOND PAYABLE—Net of current portion		862,369
TOTAL LIABILITIES	3,507,242	3,824,984
NET ASSETS		
Invested in capital assets—net of related debt	13,627,780	12,814,692
Restricted—expendable	1,064,103	1,084,281
Unrestricted	10,666,374	10,612,639
TOTAL NET ASSETS	$ 25,358,257	$ 24,511,612

See notes to financial statements.

HOXWORTH BLOOD CENTER

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
OPERATING REVENUES:		
Patient and community service	$31,968,593	$31,334,972
Other	553,611	536,723
Total operating revenues	32,522,204	31,871,695
OPERATING EXPENSES:		
Salaries and employee benefits	15,745,686	15,179,264
Routine supplies and facility maintenance	12,511,593	11,710,022
Blood component inventory support	327,990	764,365
General and administrative	2,407,692	1,690,700
Depreciation	1,303,091	1,190,936
Total operating expenses	32,296,052	30,535,287
OPERATING INCOME	226,152	1,336,408
NONOPERATING REVENUES (EXPENSES):		
Net increase in the fair value of investments	174,290	115,029
Interest income	490,199	315,343
Interest expense	(123,016)	(167,123)
Other	79,020	58,212
Total nonoperating revenues (expenses)—net	620,493	321,461
INCREASE IN NET ASSETS	846,645	1,657,869
NET ASSETS:		
Beginning of year	24,511,612	22,853,743
End of year	$25,358,257	$24,511,612

See notes to financial statements.

HOXWORTH BLOOD CENTER

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 30,707,460	$ 32,026,246
Cash payments to suppliers for goods and services	(14,806,178)	(14,072,848)
Cash payments to employees for services	(15,662,304)	(15,076,933)
Other operating revenues	553,611	536,723
Net cash provided by operating activities	792,589	3,413,188
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES—		
Contributions received	76,493	113,281
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(1,294,565)	(1,413,827)
Principal paid on bonds	(865,000)	(825,000)
Interest paid on bonds	(83,815)	(127,937)
Proceeds from sale of equipment	2,527	4,500
Decrease (increase) in value of bond deposit with trustees	17,283	(8,292)
Net cash used for capital and related financing activities	(2,223,570)	(2,370,556)
CASH FLOWS FROM INVESTING ACTIVITIES—		
Net investment gain from cash in the University's pooled cash account	664,489	430,372
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(689,999)	1,586,285
CASH AND CASH EQUIVALENTS—Beginning of year	8,770,543	7,184,258
CASH AND CASH EQUIVALENTS—End of year	$ 8,080,544	$ 8,770,543
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 226,152	$ 1,336,408
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,303,091	1,190,936
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(1,259,755)	692,533
(Increase) decrease in inventories	(964)	37,793
Increase in accrued salaries and benefits	83,382	102,331
Decrease in prepaid expenses	16,008	18,240
Increase in accounts payable	424,675	34,947
Total adjustments	566,437	2,076,780
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 792,589	$ 3,413,188

See notes to financial statements.

HOXWORTH BLOOD CENTER

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

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 $4,794,000 and $3,556,000 at June 30, 2006 and 2005, 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, 2006 and 2005, assets whose use is limited consists principally of debt securities, the use of which is limited by bond indenture. These securities are carried at amortized cost which approximates market value. Gains or losses on sales of securities are based on average cost.

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

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

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

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

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

Reclassifications—Certain reclassifications have been made to the 2005 balances to be consistent with the classification used in 2006.

2. CONCENTRATIONS AND CREDIT RISK

In the normal course of business, Hoxworth extends credit to various area hospitals. At June 30, 2006, three hospital groups accounted for approximately 57%, 11%, and 9%, respectively of accounts receivable. At June 30, 2005, three hospital groups accounted for approximately 62%, 11%, and 9%, respectively of accounts receivable. Accounts receivable are not collateralized.

3. INVENTORIES

Inventories at June 30, 2006 and 2005, consist of the following:

	2006	2005
Blood components	$ 608,170	$ 599,807
Blood bags and accessories	102,305	118,890
Other supplies	119,700	110,514
Total	$ 830,175	$ 829,211

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, 2006 and 2005, the carrying amount and market value of assets whose use is limited are as follows:

	2006		2005	
	Carrying Amount	Market Value	Carrying Amount	Market Value
U.S. government agency obligations	$1,055,135	$ 997,172	$1,055,110	$1,027,083
Accrued interest			17,308	17,308
	$1,055,135	$ 997,172	$1,072,418	$1,044,391

5. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2006 and 2005, was as follows:

	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

	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005
Land and buildings	$ 15,361,464	$ 292,863	$ 16,475	$ 15,637,852
Furniture and equipment	8,852,391	900,934	676,386	9,076,939
Leasehold improvements	390,781	220,030		610,811
Total	24,604,636	1,413,827	692,861	25,325,602
Less accumulated depreciation:				
Buildings	3,767,455	419,399	16,478	4,170,376
Furniture and equipment	6,153,518	734,545	616,814	6,271,249
Leasehold improvements	347,548	36,992		384,540
Total accumulated depreciation	10,268,521	1,190,936	633,292	10,826,165
Capital assets—net	$ 14,336,115	$ 222,891	$ 59,569	$ 14,499,437

6. BOND PAYABLE

Bond payable at June 30, 2006 and 2005, consists of the following:

	2006	2005
Series R-11 General Receipts Bonds; with interest ranging from 4.5% to 5.0%; with various maturities through 2007; net of unamortized deferred loss on bond refunding of approximately $42,700 and $87,000, unamortized premium of approximately $2,700 and $5,000, and unamortized issuance costs of approximately $1,900 and $4,000 at June 30, 2006 and 2005, respectively	$ 863,131	$ 1,684,745
Less current portion	863,131	822,376
	$ -	$ 862,369

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 is collateralized by the general receipts of the University. Interest expense related to the bond was approximately $123,000 and $167,000 for 2006 and 2005, respectively.

Cash payments due on the debt outstanding at June 30, 2006, are as follows:

	Principal	Interest	Total
2007	$ 905,000	$ 45,250	$ 950,250

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 $439,000 and $404,000 in 2006 and 2005, respectively.

At June 30, 2006, estimated future lease payments under noncancelable leases approximate the following:

Years Ending June 30, 2006	
2007	$ 426,000
2008	428,000
2009	394,000
2010	278,000
2011	165,000
Thereafter	713,000
Total	$2,404,000

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 2006 and 2005, costs for such resources, including indirect overhead charges from the University, were approximately $1,444,000 and $1,403,000, 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 $3,286,000 and $5,214,000 at June 30, 2006 and 2005, respectively, and is included in cash and cash equivalents in the accompanying statements of net assets. Interest of approximately $197,000 in 2006 and $38,000 in 2005 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 $4,794,000 and $3,556,000 at June 30, 2006 and 2005, respectively. The unrealized gain on this fund was approximately $174,000 and $115,000 for the years ended June 30, 2006 and 2005, respectively. The fund also had interest income of $238,000 and $210,000 for the years ended June 30, 2006 and 2005, 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 2006. 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. 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, 2006. 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, 2006 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 13.54% (4.5% relating to health care benefits) and 9.0% 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, 2006, and for each of the two preceding years, approximate the following:

Fiscal Year	PERS	STRS	CRS
2004	$ 16,769,000	$ 14,686,000	$ 408,000
2005	18,217,000	15,404,000	417,000
2006	19,811,000	16,417,000	361,000

Hoxworth's contributions to PERS for the years ended June 30, 2006, 2005, and 2004 were $1,388,072, $1,313,217 and $1,273,233, respectively. Hoxworth's contributions to STRS for the years ended June 30, 2006, 2005, and 2004 were $159,684, $171,299 and $158,394, 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, 2004. An entry age normal actuarial cost method of valuation is used in determining the present value. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The actuaries' assumptions were as follows: investment return 8%, annual wage increase (compounded annually) 4%, and health care costs 4%. At December 31, 2004 the actuarial value of the Retirement System's net assets available for OPEB was $10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $29.5 billion and $18.7 billion, respectively. There are 376,109 active contributing participants. Of the $19,811,000 University employer contributions to PERS for 2006, $5,953,000 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 $3.3 billion at June 30, 2005 (the latest information available). For the year ended June 30, 2005, the net health care costs paid by STRS were $254,780,000. There were 115,395 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 2006, 2005, and 2004, the net cost of these benefits recorded on a pay-as-you-go basis totaled approximately $2,945,000, $2,972,000 and $2,906,000, 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, 2006, there were 1,825 members of the plan. During 2006, 2005 and 2004, the University employer contributions were $11,310,000, $10,349,000 and $9,194,000, respectively. The employer contribution rates were 12% for participants electing out of PERS during fiscal year 2006 and 2005, and the rate for participants electing out of STRs was 10.5% for the same period.

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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. 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, 2006, and have issued our report thereon dated October 13, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal controls that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hoxworth's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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

October 13, 2006

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
MARCH 27, 2007

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