

# Hoxworth Blood Center

Financial Statements as of and for the  
Years Ended June 30, 2011, and 2010, and  
Independent Auditors' Report





# Dave Yost • 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, 2010 through June 30, 2011. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

November 22, 2011

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# HOXWORTH BLOOD CENTER

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## INDEPENDENT AUDITORS' REPORT

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

We have audited 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, 2011, and 2010, 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 Hoxworth are intended to present the financial position, changes in net assets and 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 position of the University of Cincinnati as of June 30, 2011, and 2010, its 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, 2011, and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 to 8 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 inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2011, on our consideration of Hoxworth's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

October 13, 2011



# HOXWORTH BLOOD CENTER

## MANAGEMENT DISCUSSION AND ANALYSIS

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### INTRODUCTION

Hoxworth Blood Center (“Hoxworth”) is the community blood center for the Greater Cincinnati area. Serving a 17-county area in Ohio, Kentucky, and Indiana, Hoxworth collects, tests, processes, and distributes blood and blood components to 31 health care facilities. Our purpose is to enhance the well-being of patients in our service area by assuring a reliable and economical supply of the safest possible blood, by providing innovative hemotherapy services, and by promoting research and education programs in transfusion medicine. To help us meet this goal, Hoxworth is governed by the University of Cincinnati Board of Trustees. The University of Cincinnati is considered a component unit of the State of Ohio. Hoxworth also has its own community advisory board and a medical/technical advisory committee. Hoxworth is licensed and regulated by the U.S. Food and Drug Administration and accredited by the American Association of Blood Banks, the American Society for Histocompatibility and Immunogenetics, and the Foundation for the Accreditation of Cellular Therapy. Hoxworth is also a member of America’s Blood Centers and Blood Centers of America.

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 93,010 in fiscal year 2009, 94,094 in fiscal year 2010, and 93,483 in fiscal year 2011.

### USING THE FINANCIAL STATEMENTS

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

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

### FINANCIAL POSITION

Hoxworth’s financial position remained strong at June 30, 2011, with total assets of \$36,169,523 and liabilities of \$3,838,984. Net assets, which represent the residual interest in Hoxworth’s assets after liabilities are deducted, increased by \$1,815,621 to \$32,330,539.

## 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:

	2011	2010	2009
OPERATING REVENUES:			
Patient and community service	\$41,826,268	\$43,203,412	\$40,552,169
Other	<u>346,157</u>	<u>501,200</u>	<u>724,303</u>
Total operating revenues	<u>42,172,425</u>	<u>43,704,612</u>	<u>41,276,472</u>
OPERATING EXPENSES:			
Salaries and employee benefits	19,460,920	18,755,124	17,391,327
Routine supplies and facility maintenance	16,362,793	16,726,174	16,103,082
Blood component inventory support	1,383,436	1,541,718	2,373,836
General and administrative	2,996,575	3,339,320	3,115,118
Depreciation	<u>1,181,264</u>	<u>1,056,705</u>	<u>1,155,835</u>
Total operating expenses	<u>41,384,988</u>	<u>41,419,041</u>	<u>40,139,198</u>
OPERATING INCOME	<u>787,437</u>	<u>2,285,571</u>	<u>1,137,274</u>
NONOPERATING REVENUES (EXPENSES):			
Net (decrease) increase in fair value of cash equivalents	337,674	30,663	(1,097,124)
Interest income	387,919	307,632	394,747
Other	<u>302,591</u>	<u>121,908</u>	<u>91,607</u>
Total nonoperating (expenses) revenues — net	<u>1,028,184</u>	<u>460,203</u>	<u>(610,770)</u>
INCREASE IN NET ASSETS	<u>\$ 1,815,621</u>	<u>\$ 2,745,774</u>	<u>\$ 526,504</u>

**Operating Revenues** — Operating revenues decreased from \$43,704,612 for the year ended June 30, 2010, to \$42,172,425 for the year ended June 30, 2011. This decrease of \$1,532,187 or 3.5% is primarily attributable to several factors. Blood and Blood Components revenue decreased \$1,411,898 primarily due to a decrease in red blood cell, platelet, and plasma usage. Transplantation Immunology revenue increased \$234,120 due to the increase in activity by Cincinnati Children's Hospital Medical Center ("Children's Hospital"), Christ Hospital, and the University Hospital transplant divisions. Apheresis Components and Therapeutics revenue increased \$122,770 due to an increase in demand for therapeutic apheresis products. Revenues for the Cellular Therapies division decreased by \$255,446 due to a decrease in demand by Children's Hospital and The Jewish Hospital. Compatibility & Reference revenue decreased \$233,883 due to a decrease in activity in the Transfusion Service at Children's Hospital.

Operating revenues increased from \$41,276,472 for the year ended June 30, 2009, to \$43,704,612 for the year ended June 30, 2010. This increase of \$2,428,140 or 5.9% is primarily attributable to several factors. Blood and Blood Components revenue increased \$359,234 primarily due an increase in platelet and plateletpheresis usage and price increases. Transplantation Immunology revenue increased \$889,314 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 \$652,320 due to an increase in demand for therapeutic apheresis products.

**Operating Expenses** — Operating expenses decreased \$34,053 or 0.1%, from \$41,419,041 for the year ended June 30, 2010, to \$41,384,988 for the year ended June 30, 2011. Salaries and employee benefits increased \$705,796, or 3.8% due to the annual pay increase and positions filled. Routine supplies and facilities maintenance decreased \$363,381, or 2.2% due to a decrease in blood bag, bacterial detection, and test kits expenses. Blood component inventory support decreased \$158,282, or 10.3% due to a decrease in the need for imported blood due to decreased demand. General and administrative expenses decreased \$342,745, or 10.3% due to a decrease in our blood inventory expense resulting from a higher year-end blood inventory balance at year-end, as well as reduced insurance premiums paid to the University due to actuarial determinations.

Operating expenses increased \$1,279,843 or 3.2%, from \$40,139,198 for the year ended June 30, 2009, to \$41,419,041 for the year ended June 30, 2010. Salaries and employee benefits increased \$1,363,797, or 7.8% due to the annual pay increase and positions filled. Routine supplies and facilities maintenance increased \$623,092, or 3.9% due to an increase in antisera and reagents costs, an increase in blood & medical supplies costs, and an increase in bacterial detection supplies costs. Blood component inventory support decreased \$832,118 due to a decrease in the need for imported blood due to increased local collections. General and administrative expenses increased \$224,202, due to increases in advertising, solicited lab tests, and blood transportation costs.

**Nonoperating Revenues and Expenses** — The fair value adjustment gain on our quasi-endowment fund in 2011 was \$337,674 compared to a fair value adjustment gain of \$30,663 in 2010. The increase in the fair value adjustment relates to the assets being held in a pooled investment account managed by the University of Cincinnati, as disclosed in Note 1. Interest income increased \$80,287 due to market performance fluctuations. Other revenue increased \$180,683.

In 2010, the fair value adjustment gain on our quasi-endowment fund was \$30,663 compared to a fair value adjustment loss of \$1,097,124 in 2009. The increase in the fair value adjustment relates to the assets being held in a pooled investment account managed by the University of Cincinnati, as disclosed in Note 1. Interest income decreased \$87,115 due to market performance fluctuations. Other revenue increased \$30,301.

**Increase in Net Assets** — For the year ended June 30, 2011, our net assets increased \$1,815,621 compared with an increase in net assets of \$2,745,774 for the year ended June 30, 2010. For the year ended June 30, 2010, our net assets increased \$2,745,774 compared with an increase in net assets of \$526,504 for the year ended June 30, 2009.

## **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:

	2011	2010	2009
Current assets	\$23,551,647	\$22,859,085	\$18,448,824
Noncurrent assets — capital assets — net	<u>12,617,876</u>	<u>12,240,467</u>	<u>12,322,043</u>
 Total assets	 36,169,523	 35,099,552	 30,770,867
 Current and total liabilities	 <u>3,838,984</u>	 <u>4,584,634</u>	 <u>3,001,723</u>
 Net assets	 <u>\$32,330,539</u>	 <u>\$30,514,918</u>	 <u>\$27,769,144</u>

**Assets** — Total assets of the organization increased \$1,069,971 to \$36,169,523 as of June 30, 2011, from \$35,099,552 as of June 30, 2010. Current assets increased \$692,562, from \$22,859,085 as of June 30, 2010, to \$23,551,647 as of June 30, 2011. Cash and cash equivalents increased \$449,208, from \$15,907,617 as of June 30, 2010, to \$16,356,825 as of June 30, 2011. The increase in cash is explained in our discussion of cash flows below. Net accounts receivable increased \$76,748, due to timing of payments.

In 2010, total assets of the organization increased \$4,328,685 to \$35,099,552 from \$30,770,867 as of June 30, 2009. Current assets increased \$4,410,261, from \$18,448,824 as of June 30, 2009, to \$22,859,085 as of June 30, 2010. Cash and cash equivalents increased \$3,895,038, from \$12,012,579 as of June 30, 2009, to \$15,907,617 as of June 30, 2010. The increase in cash is explained in our discussion of cash flows below. Net accounts receivable increased \$345,125, due to timing of payments.

**Capital Assets** — Capital assets, net, increased \$377,409, from \$12,240,467 as of June 30, 2010, to \$12,617,876 as of June 30, 2011. This increase is the result of capital purchases exceeding depreciation expense during the year. Capital purchases in 2011 were \$1,558,673. Significant capital purchases made during fiscal year 2011 include a new floor at the Hoxworth Center building, a genetic analyzer, a hematology analyzer, and a robotic system for transplantation testing.

Capital assets, net, decreased \$81,576, from \$12,322,043 as of June 30, 2009, to \$12,240,467 as of June 30, 2010. This decrease is the result of depreciation expenses exceeding capital purchases during the year. Capital purchases in 2010 were \$997,906. Significant capital purchases made during fiscal year 2010 include a new bloodmobile, four apheresis systems, an ultracentrifuge, and a new photopheresis system.

**Liabilities** — Total liabilities decreased \$745,650, to \$3,838,984 as of June 30, 2011 due to the timing of payments to vendors and a decrease in deferred revenue. Total liabilities increased \$1,582,911, to \$4,584,634 as of June 30, 2010 due to the timing of payments to vendors, an increase in accrued salaries, and an increase in deferred revenue. As of June 30, 2009, total liabilities were \$3,001,723.

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

	2011	2010	2009
Invested in capital assets	\$12,617,876	\$12,240,467	\$12,322,043
Restricted-expendable	5,868	5,868	5,868
Unrestricted	<u>19,706,795</u>	<u>18,268,583</u>	<u>15,441,233</u>
 Total net assets	 <u>\$32,330,539</u>	 <u>\$30,514,918</u>	 <u>\$27,769,144</u>

Net assets invested in capital assets, net of related debt, increased \$377,409, from \$12,240,467 as of June 30, 2010, to \$12,617,876 as of June 30, 2011. This increase is due to capital purchases exceeding depreciation expense, as well as fixed asset purchases of \$1,558,673. Net assets restricted-expendable remained the same at \$5,868 as of June 30, 2010 and June 30, 2011. Net assets unrestricted increased \$1,438,212 from \$18,268,583 as of June 30, 2010, to \$19,706,795 as of June 30, 2011.

In 2010, net assets invested in capital assets, net of related debt, decreased \$81,576, from \$12,240,467 as of June 30, 2010, to \$12,322,043 as of June 30, 2009. This decrease is due to depreciation expense exceeding capital purchases, as well as fixed asset purchases of \$997,906. Net assets restricted-expendable remained the same at \$5,868 as of June 30, 2009 and June 30, 2010. Net assets unrestricted increased \$2,827,350 from \$15,441,233 as of June 30, 2009, to \$18,268,583 as of June 30, 2010.

## 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:

	2011	2010	2009
Cash received from operations	\$42,093,975	\$43,359,487	\$41,551,870
Cash expended for operations	<u>41,075,381</u>	<u>39,522,716</u>	<u>39,628,794</u>
Net cash provided by operating activities	1,018,594	3,836,771	1,923,076
Net cash provided by non-capital financing activities	79,563	717,878	36,907
Net cash used for capital and related financing activities	(1,374,540)	(997,906)	(372,995)
Cash from (used by) investing activities	<u>725,591</u>	<u>338,295</u>	<u>(702,377)</u>
Net increase in cash and cash equivalents	<u>\$ 449,208</u>	<u>\$ 3,895,038</u>	<u>\$ 884,611</u>

**Cash Flows** — For the year ended June 30, 2011, cash and cash equivalents increased \$449,208. Cash provided by operations was \$1,018,594 and consisted primarily of cash received from customers offset by cash paid to suppliers and employees. Cash received through contributions and a decrease in unearned revenue was \$79,563. Cash used for capital and financing activities was \$1,374,540 and consisted of cash paid for capital purchases. A fair value adjustment of \$337,674 and cash received from interest on investments of \$387,917 provided a net investment gain of \$725,591.

For the year ended June 30, 2010, cash and cash equivalents increased \$3,895,038. Cash provided by operations was \$3,836,771 and consisted primarily of cash received from customers offset by cash paid to suppliers and employees. Cash received through contributions and an increase in unearned revenue was \$717,878. Cash used for capital and financing activities was \$997,906 and consisted of cash paid for capital purchases. A fair value adjustment of \$30,663 and cash received from interest on investments of \$307,632 provided a net investment gain of \$338,295.

## **ECONOMIC FACTORS AFFECTING THE FUTURE**

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

# HOXWORTH BLOOD CENTER

## STATEMENTS OF NET ASSETS AS OF JUNE 30, 2011 AND 2010

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	2011	2010
CURRENT ASSETS:		
Cash and cash equivalents	\$ 16,356,825	\$ 15,907,617
Accounts receivable — net of allowance for doubtful accounts of approximately \$44,500 and \$44,400 at June 30, 2011 and 2010, respectively	6,018,811	5,942,063
Inventories	1,009,700	824,005
Prepaid expenses and other assets	<u>166,311</u>	<u>185,400</u>
Total current assets	<u>23,551,647</u>	<u>22,859,085</u>
CAPITAL ASSETS:		
Land	816,197	816,197
Building	15,068,383	14,945,149
Furniture and equipment	13,232,628	11,935,963
Leasehold improvements	<u>984,567</u>	<u>934,916</u>
Total capital assets	30,101,775	28,632,225
Less accumulated depreciation	<u>17,483,899</u>	<u>16,391,758</u>
Capital assets — net	<u>12,617,876</u>	<u>12,240,467</u>
TOTAL ASSETS	<u>\$ 36,169,523</u>	<u>\$ 35,099,552</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 1,699,054	\$ 2,233,360
Accrued salaries and benefits	1,789,767	1,778,081
Unearned revenue	<u>350,163</u>	<u>573,193</u>
TOTAL CURRENT LIABILITIES	<u>\$ 3,838,984</u>	<u>\$ 4,584,634</u>
NET ASSETS:		
Invested in capital assets	\$ 12,617,876	\$ 12,240,467
Restricted — expendable	5,868	5,868
Unrestricted	<u>19,706,795</u>	<u>18,268,583</u>
TOTAL NET ASSETS	<u>\$ 32,330,539</u>	<u>\$ 30,514,918</u>

See notes to financial statements.

# HOXWORTH BLOOD CENTER

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

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	2011	2010
OPERATING REVENUES:		
Patient and community service	\$41,826,268	\$43,203,412
Other	<u>346,157</u>	<u>501,200</u>
Total operating revenues	<u>42,172,425</u>	<u>43,704,612</u>
OPERATING EXPENSES:		
Salaries and employee benefits	19,460,920	18,755,124
Routine supplies and facility maintenance	16,362,793	16,726,174
Blood component inventory support	1,383,436	1,541,718
General and administrative	2,996,575	3,339,320
Depreciation	<u>1,181,264</u>	<u>1,056,705</u>
Total operating expenses	<u>41,384,988</u>	<u>41,419,041</u>
OPERATING INCOME	<u>787,437</u>	<u>2,285,571</u>
NONOPERATING REVENUES:		
Net increase in the fair value of cash equivalents	337,674	30,663
Interest income	387,917	307,632
Other	<u>302,593</u>	<u>121,908</u>
Total nonoperating revenues — net	<u>1,028,184</u>	<u>460,203</u>
INCREASE IN NET ASSETS	1,815,621	2,745,774
NET ASSETS:		
Beginning of year	<u>30,514,918</u>	<u>27,769,144</u>
End of year	<u>\$32,330,539</u>	<u>\$30,514,918</u>

See notes to financial statements.



# HOXWORTH BLOOD CENTER

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 41,747,818	\$ 42,858,287
Cash payments to suppliers for goods and services	(21,626,145)	(21,007,569)
Cash payments to employees for services	(19,449,234)	(18,515,147)
Other operating revenues	<u>346,157</u>	<u>501,200</u>
Net cash provided by operating activities	<u>1,018,596</u>	<u>3,836,771</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES —		
Contributions received and increase in unearned revenues	<u>79,563</u>	<u>717,878</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING		
ACTIVITIES — Acquisition and construction of capital assets	<u>(1,374,542)</u>	<u>(997,906)</u>
CASH FLOWS FROM INVESTING ACTIVITIES — Interest income		
and gain from investment in cash and cash equivalents	<u>725,591</u>	<u>338,295</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	449,208	3,895,038
CASH AND CASH EQUIVALENTS — Beginning of year	<u>15,907,617</u>	<u>12,012,579</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 16,356,825</u>	<u>\$ 15,907,617</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH		
PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 787,437	\$ 2,285,571
Adjustments to reconcile operating income to net cash		
provided by operating activities:		
Depreciation	1,181,264	1,056,705
Changes in assets and liabilities:		
(Increase) in accounts receivable	(76,748)	(345,125)
(Increase) in inventories	(185,695)	(44,138)
Increase in accrued salaries and benefits	11,686	239,977
Decrease (increase) in prepaid expenses and other assets	19,089	(125,960)
(Decrease) increase in accounts payable	<u>(718,437)</u>	<u>769,741</u>
Total adjustments	<u>231,159</u>	<u>1,551,200</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,018,596</u>	<u>3,836,771</u>
NONCASH TRANSACTIONS		
Accrued liabilities for property, plant and equipment	<u>\$ 184,131</u>	<u>\$ 0</u>

See notes to financial statements.

# HOXWORTH BLOOD CENTER

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**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 and marketable securities amounting to \$4,432,328 and \$3,993,154 at June 30, 2011 and 2010, 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.

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

**Unrestricted Net Assets** — Unrestricted net assets consist of net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

**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.

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

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

**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, operating expenses 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 Hoxworth’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, 2011, four hospital groups accounted for approximately 23%, 23%, 19%, and 10%, respectively, of accounts receivable. At June 30, 2010, four hospital groups accounted for approximately 30%, 27%, 15%, and 10%, respectively, of accounts receivable.

## 3. INVENTORIES

Inventories at June 30, 2011 and 2010, consist of the following:

	2011	2010
Blood components	\$ 644,945	\$ 412,246
Blood bags and accessories	330,152	373,257
Other supplies	<u>34,603</u>	<u>38,502</u>
Total	<u>\$ 1,009,700</u>	<u>\$ 824,005</u>

#### 4. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2011 and 2010, was as follows:

	<b>Balance July 1, 2010</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2011</b>
Land	\$ 816,197			\$ 816,197
Buildings	14,945,149	\$ 123,234	\$ -	15,068,383
Furniture and equipment	11,935,964	1,333,049	36,385	13,232,628
Leasehold improvements	<u>934,915</u>	<u>102,390</u>	<u>52,738</u>	<u>984,567</u>
Total	<u>28,632,225</u>	<u>1,558,673</u>	<u>89,123</u>	<u>30,101,775</u>
Less accumulated depreciation:				
Buildings	6,390,520	428,231		6,818,751
Furniture and equipment	9,216,319	719,783	36,385	9,899,717
Leasehold improvements	<u>784,919</u>	<u>33,250</u>	<u>52,738</u>	<u>765,431</u>
Total accumulated depreciation	<u>16,391,758</u>	<u>1,181,264</u>	<u>89,123</u>	<u>17,483,899</u>
Capital assets — net	<u>\$ 12,240,467</u>	<u>\$ 377,409</u>	<u>\$ -</u>	<u>\$ 12,617,876</u>
	<b>Balance July 1, 2009</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2010</b>
Land	\$ 816,197			\$ 816,197
Buildings	14,918,876	\$ 26,273	\$ -	14,945,149
Furniture and equipment	11,328,066	903,730	295,832	11,935,964
Leasehold improvements	<u>896,844</u>	<u>67,903</u>	<u>29,832</u>	<u>934,915</u>
Total	<u>27,959,983</u>	<u>997,906</u>	<u>325,664</u>	<u>28,632,225</u>
Less accumulated depreciation:				
Buildings	5,966,047	424,473		6,390,520
Furniture and equipment	8,913,918	591,033	288,632	9,216,319
Leasehold improvements	<u>757,975</u>	<u>41,199</u>	<u>14,255</u>	<u>784,919</u>
Total accumulated depreciation	<u>15,637,940</u>	<u>1,056,705</u>	<u>302,887</u>	<u>16,391,758</u>
Capital assets — net	<u>\$ 12,322,043</u>	<u>\$ (58,799)</u>	<u>\$ 22,777</u>	<u>\$ 12,240,467</u>

#### 5. OPERATING LEASES

Hoxworth is obligated under a number of operating leases, principally for neighborhood donor centers, expiring at various dates through 2021. Total operating lease expense under noncancelable leases was approximately \$484,000 and \$571,000 in 2011 and 2010, respectively.

At June 30, 2011, estimated future lease payments under noncancelable leases are as follows:

<b>Years Ending June 30</b>	
2012	\$ 483,000
2013	436,000
2014	433,000
2015	287,000
2016	208,000
Thereafter	<u>593,000</u>
Total	<u>\$2,440,000</u>

## **6. RELATED-PARTY TRANSACTIONS**

The relationship between Hoxworth and the University requires that common resources, such as facilities, computing services, insurance, and other administrative services, be shared at a cost to Hoxworth. In 2011 and 2010, costs for such resources, including indirect overhead charges from the University, were approximately \$1,388,000 and \$1,548,000, 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 \$11,923,797 and \$11,913,763 at June 30, 2011 and 2010, respectively, and is included in cash and cash equivalents in the accompanying statements of net assets. Interest of approximately \$1,350 in 2011 and \$2,500 in 2010 was earned by Hoxworth on the pooled cash account. In addition, the University maintains a quasi-endowment fund for Hoxworth. As disclosed in Note 1, this quasi-endowment fund consisted of cash, cash equivalents, and marketable securities amounting to \$4,432,328 and \$3,993,154 at June 30, 2011 and 2010, respectively. The fair value adjustment gain on this fund was approximately \$338,000 and \$31,000 for the years ended June 30, 2011, and 2010, respectively. The fund also had interest income of \$355,000 and \$302,000 for the years ended June 30, 2011 and 2010, respectively.

## **7. SELF-INSURANCE FUNDS**

As a department of the University, Hoxworth is covered by the University's insurance programs.

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 2011. 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 the University, and the remaining \$900,000 funded by pool funds held through the IUC-IC. 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-IC 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 University and Hoxworth 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, 2011. Amounts paid by Hoxworth to the University for medical professional and general liability coverage, including its allocated share of commercial insurance premiums and trust fund contributions, are included in the overhead charges from the University discussed in Note 6. There were no claims outstanding against Hoxworth as of June 30, 2011, that required a reserve to be reported on Hoxworth's statements of net assets.

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

The University, and thereby Hoxworth, is also self-insured for a portion of medical, dental, and pharmacy benefits provided to employees. The total costs to Hoxworth for participation in these programs are included in the indirect overhead charges discussed in Note 6 and are not separable from the other elements of those charges.

## **8. 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 of Ohio (STRS Ohio). Non-certified employees appointed on or after that date are covered by the Ohio Public Employees Retirement System (OPERS). Employees may opt out of STRS Ohio and OPERS and participate in the Alternative Retirement Plan (ARP) if they meet certain eligibility requirements.

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

**Defined Benefit Plans** — The OPERS, STRS Ohio, 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.

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

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

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 organization as follows: Ohio Public Employee Retirement System, 277 East Town Street, Columbus, Ohio 43215, Telephone (800) 222-7377; STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215, Telephone (888) 227-7877; and City of Cincinnati Retirement System, 801 Plum Street, Cincinnati, Ohio 45202, Telephone (513) 352-3227.

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 2011, 2010, and 2009, the net cost of these benefits recorded on a pay-as-you-go basis totaled approximately \$2,467,000, \$2,922,000, and \$3,148,000, 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 120 days from the date of hire to elect the ARP option. Once this window has passed, the employee will not have the option to elect into the ARP. ARP does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits, or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

At June 30, 2011, there were 1,885 members of the plan. During 2011, 2010, and 2009, the employer contributions were \$14,336,000, \$14,221,000, and \$13,956,000, respectively. The employer contribution rate for participants electing out of OPERS and STRS Ohio was 14% for 2011, 2010, and 2009.

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

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

**Combined Plans** — OPERS 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.

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

**Funding Policy** — The Ohio Revised Code provides OPERS and STRS Ohio statutory authority, over employer and employee contributions. The Cincinnati Municipal Code provides CRS statutory authority. The required, actuarially determined contribution rates for the University and for employees are 14% and 10% of covered payroll, respectively, for OPERS; 14% and 10%, respectively, for STRS; and 17% and 8%, respectively, for CRS for the year ended June 30, 2011. Contributions equal to those STRS Ohio and OPERS are required for ARP. For employees enrolling in ARP, Ohio law requires a portion (which may be revised pursuant to periodic actuarial studies) of the employer contribution be contributed to STRS Ohio and OPERS to enhance the stability of these plans.

The University's contributions, representing 100% of employer contributions for the year ended June 30, 2011, and for each of the two preceding years are as follows (in thousands):

<b>Fiscal Year</b>	<b>OPERS</b>	<b>STRS</b>	<b>CRS</b>
2009	\$ 20,904	\$ 16,733	\$ 162
2010	20,543	17,334	118
2011	21,534	17,894	85

Hoxworth's contributions to OPERS for the years ended June 30, 2011, 2010, and 2009, were \$1,782,287, \$1,722,773, and \$1,606,702, respectively. Hoxworth's contributions to STRS Ohio for the years ended June 30, 2011, 2010, and 2009, were \$188,276, \$184,717, and \$166,763, respectively.



OPERS Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. For the year ended December 31, 2010, OPERS allocated 5.5% from January 1 through February 28, 2010 and 5.0% from March 1 through December 31, 2010 of the employer contribution rate to fund the health care program for members in the Traditional Plan. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73% from January 1 through February 28, 2010, and 4.23% from March 1 through December 31, 2010. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Of the \$21,534,000 University employer contributions to OPERS for 2011, \$7,691,000 was to fund OPEB.

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

\* \* \* \* \*

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

We have audited the financial statements of Hoxworth Blood Center ("Hoxworth"), as of and for the year ended June 30, 2011, and have issued our report thereon dated October 13, 2011, 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**

Management of Hoxworth is responsible for establishing and maintaining effective 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 our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hoxworth's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hoxworth's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 13, 2011

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# Dave Yost • Auditor of State

**HOXWORTH BLOOD CENTER**

**HAMILTON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 8, 2011**