Hoxworth Blood Center

Financial Statements for the Years Ended June 30, 2003 and 2002 and Independent Auditors' Report

Auditor of State
Betty Montgomery

Board of Trustees
Hoxworth Blood Center

We have reviewed the Independent Auditor's Report of the Hoxworth Blood Center, Hamilton County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2002 through June 30, 2003. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 8, 2003

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HOXWORTH BLOOD CENTER

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INDEPENDENT AUDITORS' REPORT

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, a division of the University of Cincinnati, ("Hoxworth") as of June 30, 2003 and 2002 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Hoxworth at June 30, 2003 and 2002 and the results of its operations 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 2-3 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. The 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 supplementary information. However, we didn't audit the information and express opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2003, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

August 29, 2003

Deloitte
Touche
Tohmatsu

HOXWORTH BLOOD CENTER

MANAGEMENT DISCUSSION AND ANALYSIS

Hoxworth Blood Center is the community blood center for the Greater Cincinnati area. Serving a 14-county area in Ohio, Kentucky and Indiana, Hoxworth collects, tests, processes and distributes blood and blood components to 24 hospitals. 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, a medical advisory committee and a 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.

We receive whole units of blood and aphaeresis 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 year, blood units donated have decreased from 86,504 in fiscal year 2002 to 82,594 in fiscal year 2003.

In an effort to produce safer blood products, we began implementing leukoreduction for all cellular products in May 2002 and achieved full implementation in July 2002. This process involves removing white blood cells during the processing stage. This process is costly in terms of personnel and supplies. We have increased our pricing to offset these costs.

An analysis and discussion of specific financial information for fiscal years 2002 and 2003 is below.

Operating Revenues—Operating revenues increased from $23,703,872 at June 30, 2002 to $24,370,141 at June 30, 2003. This increase of $666,269, or 2.8% is primarily attributable to several factors. Blood and Blood Components revenue increased $2,530,100 due to the fact that Hoxworth provides 100% leukoreduced products. The prices for these products increased significantly from fiscal year 2002. Plasma for fractionation revenues decreased $154,257 due to the need to stockpile fresh frozen plasma in anticipation of West Nile Virus testing. We did not ship our plasma as salvage to safeguard our supply in case we had high degrees of infection in our community, prior to the implementation of testing. Compatibility and Reference revenue decreased $39,500 due to a decrease in activity in the bone marrow transplant program at Cincinnati Children's Hospital Medical Center. Transplantation Immunology revenue increased $205,082 due to a volume increase of 1,061 procedures. Aphaeresis Components and Therapeutics revenue decreased $63,657 due to a decrease in demand for therapeutic aphaeresis procedures. Cellular Therapies revenue decreased $1,611,464 due to a decrease 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 $1,667,389 or 7.2%, from $23,255,393 at June 30, 2002 to $24,922,782 at June 30, 2003. Salaries and employee benefits increased $603,503, or 4.9% due to a 4.04% increase in benefits, the annual pay increase, and positions filled. Routine supplies and facilities maintenance increased $1,134,237, or 14.1% due to supplies associated with the provision of leukoreduced products. Blood component inventory support decreased $84,298, or 24.4%, due to a reduction in the need for imported blood. General and administrative expenses increased $56,585 or 3.6%, due to increases in indirect charges from the University of Cincinnati and insurance charges.

Non-Operating Revenues and Expenses—Due to a decrease in the stock market over the past year, the unrealized loss on our quasi-endowment fund was $191,000, reducing our interest revenue to $124,967. For the year ended June 30, 2002, interest revenue was $22,210 of which $425,000 was an unrealized loss. Other revenue decreased $53,719 primarily due to a gift from a trust realized in 2002.

Decrease in Net Assets—For the year ended June 30, 2003, our net assets decreased $679,029 compared with an increase in net assets of $236,307 for the year ended June 30, 2002. Net assets invested in capital assets, net of related debt, increased $1,118,187 from $10,295,333 as of June 30, 2002 to $11,413,520 as of June 30, 2003. This increase is primarily due to our bonds payable liability decreasing due to our payment made during 2003, as well as fixed asset purchases of $1,469,871 offset by depreciation expense. Unrestricted net assets decreased $1,797,217 from $11,046,881 as of June 30, 2002 to $9,249,664 as of June 30, 2003. This decrease is primarily due to the net asset decrease of $679,029 and the purchase of $1,469,871 in capital assets.

Assets—Total assets of the organization decreased $1,222,937 to $26,147,123 as of June 30, 2003 from $27,370,060 as of June 30, 2002. Current assets decreased $1,622,009 from $12,080,537 as of June 30, 2002 to $10,458,528 as of June 30, 2003. Cash and cash equivalents decreased $1,390,053 from $8,535,664 as of June 30, 2002 to $7,145,611 as of June 30, 2003. The decrease in cash is explained in our discussion of cash flows below. Net accounts receivable decreased $269,637 due to timing of payments. Blood and supplies inventories increased $54,608. Capital assets, net, increased $400,825 from $14,232,203 as of June 30, 2002 to $14,633,028 as of June 30, 2003. This increase is the result of capital purchases during the year, offset by depreciation expense. Capital purchases were $1,469,871 for the year. Last year capital purchases were $937,521. The increase is primarily attributed to equipment purchased in our Donor Services, Computer Operations, and Physical Operations departments. In February 2003 we opened a new donor center in Fort Thomas, Kentucky. We also renovated our Anderson donor center during the year. Furniture and equipment were purchased for these two centers.

Liabilities—Total liabilities decreased $543,908 to $5,471,655 as of June 30, 2003. As of June 30, 2002, total liabilities were $6,015,563. Current liabilities increased $208,454 from $2,796,069 at June 30, 2002 to $3,004,523 at June 30, 2003. Bonds payable, net of current portion, decreased $752,362 from $3,219,494 as of June 30, 2002 to $2,467,132 as of June 30, 2003 primarily due to payment of bond principal.

Cash Flows—For the year ended June 30, 2003, cash and cash equivalents decreased $1,390,053. Cash provided by operations was $918,364 and consisted primarily of cash received from customers and cash paid to suppliers and employees. Cash received through contributions was $3,331. Cash used for capital and financing activities was $2,436,715 and consisted primarily of cash paid for capital purchases and cash paid for bond interest and principal. Cash received from interest on investments was $124,967.

HOXWORTH BLOOD CENTER

STATEMENTS OF NET ASSETS
JUNE 30, 2003 AND 2002

ASSETS	2003	2002
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,145,611	$ 8,535,664
Restricted cash and cash equivalents	12,284	12,283
Accounts receivable—net of allowance for doubtful accounts of approximately $44,000 and $45,000 at June 30, 2003 and 2002, respectively	2,700,517	2,970,154
Inventories	596,591	541,983
Prepaid expenses and other assets	3,525	20,453
Total current assets	10,458,528	12,080,537
NONCURRENT ASSETS:		
Assets whose use is limited by bond indentures	1,055,567	1,057,320
Capital assets:		
Land and buildings	15,182,239	14,831,751
Furniture and equipment	8,424,922	7,674,773
Leasehold improvements	371,523	347,652
	23,978,684	22,854,176
Less accumulated depreciation	9,345,656	8,621,973
Capital assets—net	14,633,028	14,232,203
Total noncurrent assets	15,688,595	15,289,523
TOTAL ASSETS	26,147,123	27,370,060
LIABILITIES		
CURRENT LIABILITIES:		
Current portion of bond payable	752,376	717,376
Accounts payable	1,080,354	945,577
Accrued salaries and benefits	1,158,449	1,117,084
Accrued interest payable	13,344	16,032
Total current liabilities	3,004,523	2,796,069
BOND PAYABLE—NET OF CURRENT PORTION	2,467,132	3,219,494
TOTAL LIABILITIES	5,471,655	6,015,563
NET ASSETS		
Invested in capital assets—net of related debt	11,413,520	10,295,333
Expendable— restricted	12,284	12,283
Unrestricted	9,249,664	11,046,881
TOTAL NET ASSETS	$20,675,468	$21,354,497

See accompanying notes to financial statements.

HOXWORTH BLOOD CENTER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
OPERATING REVENUES:		
Patient and community service	$ 24,066,767	$ 23,198,922
Other	303,374	504,950
Total operating revenues	24,370,141	23,703,872
OPERATING EXPENSES:		
Salaries and employee benefits	12,812,362	12,208,859
Routine supplies and facility maintenance	9,165,902	8,031,665
Blood component inventory support	261,165	345,463
General and administrative	1,620,447	1,563,862
Depreciation	1,062,906	1,105,544
Total operating expenses	24,922,782	23,255,393
OPERATING INCOME (LOSS)	(552,641)	448,479
NON-OPERATING REVENUES (EXPENSES):		
Unrealized loss on investments	(191,680)	(424,957)
Interest income	316,647	447,167
Interest expense	(259,174)	(295,920)
Other	7,819	61,538
Total non-operating revenues (expenses)—net	(126,388)	(212,172)
INCREASE (DECREASE) IN NET ASSETS	(679,029)	236,307
NET ASSETS:		
Beginning of year	21,354,497	21,118,190
End of year	$ 20,675,468	$ 21,354,497

See accompanying notes to financial statements.

HOXWORTH BLOOD CENTER

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 24,336,404	$ 22,825,872
Cash payments to suppliers for goods and services	(10,950,417)	(10,276,540)
Cash payments to employees for services	(12,770,997)	(12,121,664)
Other operating revenues	303,374	504,950
Net cash provided by operating activities	918,364	932,618
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES—		
Contributions received	3,331	60,238
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(1,469,871)	(937,521)
Principal paid on bonds	(760,000)	(710,000)
Interest paid on bonds	(219,224)	(247,595)
Proceeds from sale of equipment	10,627	
Decrease (increase) in value of bond deposit with trustees	1,753	(17,672)
Net cash used for capital and related financing activities	(2,436,715)	(1,912,788)
CASH FLOWS FROM INVESTING ACTIVITIES—		
Net investment gain from cash in the University's pooled cash account	124,967	22,210
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,390,053)	(897,722)
CASH AND CASH EQUIVALENTS—BEGINNING OF YEAR	8,535,664	9,433,386
CASH AND CASH EQUIVALENTS—END OF YEAR	$ 7,145,611	$ 8,535,664
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	$ (552,641)	$ 448,479
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,062,906	1,105,544
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	269,637	(355,050)
Increase in inventories	(54,608)	(136,812)
Increase in accrued salaries and benefits	41,365	87,195
Decrease (increase) in prepaid expenses	16,928	(3,444)
(Decrease) increase in accounts payable	134,777	(213,294)
Total adjustments	1,471,005	484,139
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 918,364	$ 932,618

See accompanying notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—Hoxworth Blood Center ("Hoxworth"), a division of the University of Cincinnati (the "University"), a state of Ohio assisted governmental institution, provides blood components, cellular and aphaeresis therapies, transplantation immunology, and compatibility and reference laboratory services to area hospitals, health care facilities and patients.

Financial Statements—The accompanying financial statements have been prepared in accordance with the principles contained in *Health Care Organizations* published by the American Institute of Certified Public Accountants. As a governmental institution, Hoxworth applies standards applicable to governmental units as prescribed in statements issued by the Governmental Accounting Standards Board ("GASB") and other recognized authoritative sources. Hoxworth also applies the Financial Accounting Standards Board's Statements and Interpretations issued prior to November 30, 1989, unless those pronouncements conflict with GASB pronouncements. The statements of cash flows have been prepared in accordance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, which was amended by GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

Cash and Cash Equivalents—Hoxworth considers its unrestricted portion of the University's pooled cash account to be cash and cash equivalents. The University's pooled cash account includes investments in U.S. government agency issues; U.S. Treasury bonds, notes and bills; corporate notes and bonds; preferred and common stocks; and other marketable securities. In addition, Hoxworth maintains an unrestricted quasi-endowment fund consisting of cash and cash equivalents amounting to approximately $2,975,000 and $3,112,000 at June 30, 2003 and 2002, 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, 2003 and 2002, 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 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 2002 amounts have been reclassified to conform with the current year presentation.

2. CONCENTRATIONS AND CREDIT RISK

In the normal course of business, Hoxworth extends credit to various area hospitals. At June 30, 2003, one hospital group accounted for approximately 27% and another for approximately 19% of accounts receivable. At June 30, 2002, one hospital group accounted for approximately 20% of accounts receivable.

3. INVENTORIES

Inventories at June 30 consist of the following:

	2003	2002
Blood components	$469,123	$464,768
Blood bags and accessories	100,505	54,697
Other supplies	26,963	22,518
Total	$596,591	$541,983

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

	2003		2002	
	Carrying Amount	Market Value	Carrying Amount	Market Value
By Bond Indenture:				
Cash and cash equivalents	$ 10	$ 10	$ 9,562	$ 9,562
U.S. Government Agency obligations	1,048,802	1,117,482	1,040,646	1,060,618
Accrued interest	6,755	6,755	7,112	7,112
	$ 1,055,567	$ 1,124,247	$ 1,057,320	$ 1,077,292

5. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2003 and 2002 was as follows:

	Balance July 1, 2002	Additions	Retirements	Balance June 30, 2003
Land and buildings	$ 14,831,751	$ 350,488		$ 15,182,239
Furniture and equipment	7,674,773	1,095,512	$ 345,363	8,424,922
Leasehold improvements	347,652	23,871		371,523
Total	22,854,176	1,469,871	345,363	23,978,684
Less accumulated depreciation:				
Buildings	2,978,643	384,286		3,362,929
Furniture and equipment	5,305,833	675,058	339,223	5,641,668
Leasehold improvements	337,497	3,562		341,059
Total accumulated depreciation	8,621,973	1,062,906	339,223	9,345,656
Capital assets—net	$ 14,232,203	$ 406,965	$ 6,140	$ 14,633,028

	Balance July 1, 2001	Additions	Retirements	Balance June 30, 2002
Land and buildings	$ 14,613,239	$ 218,512		$ 14,831,751
Furniture and equipment	7,088,193	710,777	$ 124,197	7,674,773
Leasehold improvements	339,420	8,232		347,652
Total	22,040,852	937,521	124,197	22,854,176
Less accumulated depreciation:				
Buildings	2,609,288	369,355		2,978,643
Furniture and equipment	4,695,439	734,591	124,197	5,305,833
Leasehold improvements	335,899	1,598		337,497
Total accumulated depreciation	7,640,626	1,105,544	124,197	8,621,973
Capital assets—net	$ 14,400,226	$ (168,023)	$ -	$ 14,232,203

6. BOND PAYABLE

Bond payable at June 30 consists of the following:

	2003	2002
Series R-11 General Receipts Bonds; with interest ranging from 4.25% to 5%; with various maturities through 2007; net of unamortized deferred loss on bond refunding of approximately $174,000 and $217,000, unamortized premium of approximately $11,000 and $14,000, and unamortized issuance costs of approximately $8,000 and $10,000 at June 30, 2003 and 2002, respectively	$ 3,219,508	$ 3,936,870
Less current portion	752,376	717,376
	$ 2,467,132	$ 3,219,494

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 a portion of the outstanding 1991 Series K bonds. The net proceeds of $4.422 million (after payment of approximately $26,000 of issuance costs and accrued interest) were used to purchase U.S. Treasury obligations. Those securities were deposited in an escrow fund to provide for future debt service payments for the advance refunded portion of the 1991 Series K bonds. As a result, this portion of the 1991 Series K bonds are considered to be defeased and the liability for those bonds has been removed from long-term debt. On June 30, 2003 $4.045 million of bonds outstanding are considered defeased.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $434,000. The difference, reported in the accompanying financial statements as a deduction from bonds payable, is being reported in interest expense through 2007 using the straight-line method. The advance refunding reduced Hoxworth's total debt service payments through 2007 by approximately $302,000 and caused an economic gain (difference between the present values of the old and new debt service payments) of approximately $246,000.

The bonds are collateralized by the general receipts of the University. Interest expense related to the bonds was approximately $259,000 and $296,000 for 2003 and 2002, respectively.

Cash payments due on the debt outstanding at June 30, 2003, are as follows:

	Principal	Interest	Total
2004	$ 795,000	$ 160,008	$ 955,008
2005	825,000	125,425	950,425
2006	865,000	84,175	949,175
2007	905,000	42,250	947,250
	$3,390,000	$ 411,858	$3,801,858

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 non-cancelable leases was approximately $222,000 and $207,000 in 2003 and 2002, respectively.

At June 30, 2003 estimated future lease payments under non-cancelable leases approximate the following:

2004	$241,000
2005	184,000
2006	100,000
2007	35,000
2008	13,000
Total	$573,000

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 2003 and 2002, costs for such resources, including indirect overhead charges from the University, were approximately $1,150,000 and $1,170,000, 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 $3,088,000 and $4,466,000 at June 30, 2003 and 2002, respectively, and is included in cash and cash equivalents in the accompanying balance sheets. Interest of approximately $40,000 in 2003 and $139,000 in 2002 was earned by Hoxworth on the pooled cash account.

9. SELF-INSURANCE FUNDS

Hoxworth currently provides for medical professional and general liability insurance, along with the University, through a combination of self-insurance funds and purchased commercial insurance in excess of the self-insurance amount. Additionally, several Physician Practice Plans are covered under the medical professional insurance program. Medical professional liability self-insurance retention limits were $1.5 million per occurrence for 2003 and 2002, and $6.0 million in the aggregate for 2003 and 2002. Excess commercial professional liability coverage in the amount of $15 million existed at June 30, 2003 and 2002. Excess commercial general liability coverage in the amount of $100 million existed at June 30, 2003 and 2002.

Funding for Hoxworth, the University, and the Physician Practice Plans is determined by independent actuaries and is made directly to a Self-Insurance Trust Fund ("Trust"), which is administered by an independent trustee.

The Trust is divided into two separate funds, one for 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 Trust and related reserves are not included in the accompanying Hoxworth balance sheets. In the opinion of management, Trust assets are adequate to cover estimated ultimate costs resulting from known and unknown claims and incidents, at June 30, 2003. Hoxworth paid $134,554 and $134,574 to the University for such medical professional and general liability in 2003 and 2002, respectively. These amounts are included in the overheard charges from the University discussed in Note 8 above. There were no claims outstanding against Hoxworth as of June 30, 2003 and 2002 that required a reserve to be reported on Hoxworth's balance sheet.

Trust assets and funds at June 30 approximate the following:

	2003		2002	
	Cost	Market Value	Cost	Market Value
Cash and short-term investments	$ 2,445,000	$ 2,445,000	$ 1,499,000	$ 1,499,000
U.S. Treasury bonds and notes	1,086,000	1,158,000	1,190,000	1,270,000
Federal agency bonds and notes	1,949,000	2,005,000	1,393,000	1,432,000
State agency bonds and notes	185,000	234,000	186,000	208,000
Corporate obligations	5,394,000	5,560,000	7,588,000	7,442,000
Mutual funds	15,000	13,000	15,000	10,000
Total	$ 11,074,000	$ 11,415,000	$ 11,871,000	$ 11,861,000

10. EMPLOYEE RETIREMENT PLANS AND OTHER POST EMPLOYMENT 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"). Non-certified 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 13.31% (5% relating to health care benefits) and 8.50% of covered payroll, respectively, for PERS; 14% (1% relating to health care benefits) and 9.3%, respectively, for STRS; 7% and 7%, respectively, for CRS. The University's contributions, representing 100% of employer contributions for the year ended June 30, 2003, and for each of the two preceding years, approximate the following:

Fiscal Year	PERS	STRS	CRS
2001	$ 10,462,000	$ 12,792,000	$ 375,000
2002	14,856,000	12,643,000	351,000
2003	15,686,000	13,981,000	330,000

Hoxworth's contributions to PERS for the years ended June 30, 2003 and 2002 were $1,157,324 and $1,112,294, respectively. Hoxworth's contributions to STRS for the years ended June 30, 2003 and 2002 were $136,730 and $136,774, 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, 2001. 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, 2001 the actuarial value of the Retirement System's net assets available for OPEB was $11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $16.4 billion and $4.8 billion, respectively. There are 402,041 active contributing participants. Of the $15,686,000 University employer contributions to PERS for 2003, $5,068,000 were 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 $3.01 billion at June 30, 2002 (the latest information available). For the year ended June 30, 2002, the net health care costs paid by STRS were $354,697,000. There were 105,300 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 2003, 2002 and 2001, the net cost of these benefits recorded on a pay-as-you-go basis totaled approximately $2,706,000, $2,402,000 and $1,960,000, 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, 2003, there were 1,514 members of the plan. During fiscal year 2003, the employer contributions were $7,681,000. The employer contribution rates were 12% for participants electing out of PERS. The rate for participants electing out of STRS was 8.62% for the first eleven months of fiscal year 2003. Effective June 1, 2003, the employer contribution rate for participants electing out of STRS increased to 10.5%

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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, 2003, and have issued our report thereon dated August 29, 2003. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether Hoxworth's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

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 assurance 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 control over financial reporting that might be material weaknesses. A material weakness is a 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 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.

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

August 29, 2003

Auditor of State
Betty Montgomery

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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 18, 2003