

# **Hoxworth Blood Center**

Independent Auditor's Reports and Financial Statements

June 30, 2016 and 2015





# Dave Yost • Auditor of State

Members of the Board  
Hoxworth Blood Center  
PO Box 670055  
3130 Highland Avenue  
Cincinnati, Ohio 45267

We have reviewed the *Independent Auditor's Report* of the Hoxworth Blood Center, Hamilton County, prepared by BKD, LLP, for the audit period July 1, 2015 through June 30, 2016. 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

December 9, 2016

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**Hoxworth Blood Center**  
**June 30, 2016 and 2015**

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## Independent Auditor's 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:

### Report on the Financial Statements

We have audited the accompanying basic financial statements of Hoxworth Blood Center ("Hoxworth"), a department of the University of Cincinnati ("University"), which are comprised of the statements of net position as of June 30, 2016 and 2015, and the statements of revenues, expenses and changes in net position and statements of cash flows and the related notes to the basic financial statements for the years ended June 30, 2016 and 2015, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hoxworth Blood Center as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matters***

As discussed in *Note 1* to the financial statements, the financial statements of Hoxworth are intended to present the net position, changes in net position and cash flows of only that portion of the business-type activities of the University that is attributable to the transactions of Hoxworth. They do not purport to, and do not, present fairly the net position of the University as of June 30, 2016 and 2015, the changes in its net position or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in *Note 1* to the financial statements, the 2015 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

## ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2016, 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* in considering Hoxworth's internal control over financial reporting and compliance.

**BKD, LLP**

Cincinnati, Ohio  
October 14, 2016

# **Hoxworth Blood Center**

## **Management's Discussion and Analysis**

### **June 30, 2016 and 2015**

#### ***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 30 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.

Hoxworth receives whole units of blood and apheresis products from individual donors. Hoxworth processes and tests the blood and distributes various blood products to hospitals and other users for patient care purposes. Fees are charged to hospitals and other users 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 76,919 in fiscal year 2016, 78,844 in fiscal year 2015, and 87,086 in fiscal year 2014.

#### ***Using the Financial Statements***

Hoxworth's financial report includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; 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.

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, 2016, with total assets of \$39,715,792 and total liabilities of \$4,102,940. Net position, which represents the residual interest in Hoxworth's assets after liabilities are deducted, decreased by \$1,116,872 to \$35,612,852 primarily due to the net loss for the year.



**Hoxworth Blood Center**  
**Management's Discussion and Analysis**  
**June 30, 2016 and 2015**

***Statement of Revenues, Expenses, and Changes in Net Position***

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

	<b>2016</b>	<b>2015 (Restated)</b>	<b>2014</b>
<b>OPERATING REVENUES</b>			
Patient and community service	\$ 41,012,876	\$ 44,026,414	\$ 48,830,973
Other	862,784	1,117,208	307,694
<b>Total operating revenues</b>	<b>41,875,660</b>	<b>45,143,622</b>	<b>49,138,667</b>
<b>OPERATING EXPENSES</b>			
Salaries and employee benefits	20,789,368	21,880,274	21,728,860
Routine supplies and facility maintenance	16,548,374	17,866,193	19,438,158
Blood component inventory support	616,715	1,762,461	1,512,645
General and administrative	3,684,157	3,506,545	4,014,087
Depreciation	1,402,967	1,465,823	1,436,560
<b>Total operating expenses</b>	<b>43,041,581</b>	<b>46,481,296</b>	<b>48,130,310</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(1,165,921)</b>	<b>(1,337,674)</b>	<b>1,008,357</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Net increase (decrease) in fair value			
of cash equivalents	(651,348)	(451,601)	394,885
Interest income	668,203	576,629	606,228
Other	32,194	66,501	104,779
<b>Total nonoperating revenues</b>	<b>49,049</b>	<b>191,529</b>	<b>1,105,892</b>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>(1,116,872)</b>	<b>(1,146,145)</b>	<b>2,114,249</b>
<b>NET POSITION, beginning of year, as restated</b>	<b>36,729,724</b>	<b>37,875,869</b>	<b>35,761,620</b>
<b>NET POSITION, end of year</b>	<b>\$ 35,612,852</b>	<b>\$ 36,729,724</b>	<b>\$ 37,875,869</b>

# **Hoxworth Blood Center**

## **Management's Discussion and Analysis**

### **June 30, 2016 and 2015**

#### ***Operating Revenues***

Operating revenues decreased from \$45,143,622 for the year ended June 30, 2015 to \$41,875,660 for the year ended June 30, 2016. This decrease of \$3,267,962 or 7.2% is attributable to several factors. Blood and Blood Components revenue decreased by \$3,167,643, or 11.5% for the year ended June 30, 2016. The current economic environment faced by hospitals and a need for better patient blood management has decreased the demand for blood components. Medical advances have contributed to a lower need for transfusions during and after surgery. These impacts have negatively affected blood centers nationally and impacted Hoxworth locally. Transplantation Immunology revenue increased by \$579,744 or 11.4% due to an increase in demand locally. Therapeutic Apheresis decreased \$663,440 or 10.8%. This is due to a drop in demand for Photopheresis procedures for Children's and Jewish hospitals.

Operating revenues decreased from \$49,138,667 for the year ended June 30, 2014 to \$45,143,622 for the year ended June 30, 2015. This decrease of \$3,995,045 or 8.1% is attributable to several factors. Blood and Blood Components revenue decreased by \$2,231,253, or 7.5% for the year ended June 30, 2015. The current economic environment faced by hospitals and a need for better patient blood management has decreased the demand for blood components. Medical advances have contributed to a lower need for transfusions during and after surgery. These impacts have negatively affected blood centers nationally and impacted Hoxworth locally. Transplantation Immunology revenue decreased by \$2,434,016 or 32.4% due to the loss of the Diagnostic Laboratories of Oklahoma and also a decrease in demand locally. Therapeutic Apheresis decreased \$543,423 or 8.1%. This is due to a drop in demand for Photopheresis procedures for Children's and Jewish hospitals. Other Operating revenue increased by \$809,514 due to an increase in research revenue.

#### ***Operating Expenses***

Operating expenses decreased by \$3,439,715 or 7.4%, from \$46,481,296 for the year ended June 30, 2015, to \$43,041,581 for the year ended June 30, 2016. Salaries and employee benefits decreased \$1,090,906, or 5.0% primarily due to a decrease in overall full time equivalents. Routine supplies and facilities maintenance decreased \$1,317,819, or 7.4% due to a decrease in testing expenses, blood bags, and overall volume decreases. Blood component inventory support decreased \$1,145,746, or 65.0% due to a decrease in the need for imported blood. General and administrative expenses increased \$177,612, or 5.1% due to an increase in solicited lab tests, and the blood inventory expense account, offset by a decrease in blood transportation, vehicle maintenance & fuel, and computing expenses.

Operating expenses decreased by \$1,649,014 or 3.4%, from \$48,130,310 for the year ended June 30, 2014, to \$46,481,296 for the year ended June 30, 2015. Salaries and employee benefits increased \$151,414, or 0.7% due to an increase in average salary per full time equivalent. Routine supplies and facilities maintenance decreased \$1,571,965, or 8.1% due to a decrease in testing expenses, blood bags, blood & medical supplies, antisera & reagents, and overall volume decreases. Blood component inventory support increased \$249,816, or 16.5% due to an increase in the need for imported blood. General and administrative expenses decreased \$507,542, or 12.6% due to a decrease in blood transportation, the blood inventory expense account, advertising, and computing expenses.

**Hoxworth Blood Center**  
**Management's Discussion and Analysis**  
**June 30, 2016 and 2015**

***Nonoperating Revenues and Expenses***

The fair value adjustment loss on our quasi-endowment fund in 2016 was \$651,348 compared to a fair value adjustment loss of \$451,601 in 2015. The decrease in the fair value adjustment relates to unfavorable market conditions for the assets being held in a pooled investment account managed by the University of Cincinnati, as disclosed in *Note 1*. Interest income increased \$91,574 due to market performance fluctuations. Other nonoperating revenue decreased \$34,307.

In 2015, the fair value adjustment loss on our quasi-endowment fund was \$451,601 compared to a fair value adjustment gain of \$394,885 in 2014. The decrease in the fair value adjustment relates to unfavorable market conditions for the assets being held in a pooled investment account managed by the University of Cincinnati, as disclosed in *Note 1*. Interest income decreased \$29,599 due to market performance fluctuations. Other nonoperating revenue decreased \$38,278.

***Increase (Decrease) in Net Position***

For the year ended June 30, 2016, our net position decreased \$1,116,872. The decrease in net position is compared to the decrease in net position of \$1,146,145 for the year ended June 30, 2015. Net position increased \$2,114,249 for the year ended June 30, 2014.

***Statement of Net Position***

The statement of net position represents the financial position of Hoxworth at the end of the fiscal year. Net position represents the difference between total assets and total liabilities. Net position is one indicator of the overall financial condition of Hoxworth, while the change in net position 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 position at June 30 follows:

	<b>2016</b>	<b>2015 (Restated)</b>	<b>2014</b>
Current assets	\$ 27,698,786	\$ 28,259,831	\$ 30,284,588
Noncurrent assets - net	<u>12,017,006</u>	<u>12,523,686</u>	<u>12,275,260</u>
Total assets	39,715,792	40,783,517	42,559,848
Total liabilities	<u>4,102,940</u>	<u>4,053,793</u>	<u>4,683,979</u>
Total net position	<u>\$ 35,612,852</u>	<u>\$ 36,729,724</u>	<u>\$ 37,875,869</u>

# **Hoxworth Blood Center**

## **Management's Discussion and Analysis**

### **June 30, 2016 and 2015**

#### **Assets**

Total assets of the organization decreased \$1,067,725 to \$39,715,792 as of June 30, 2016, from \$40,783,517 as of June 30, 2015. Current assets decreased \$561,045, from \$28,259,831 as of June 30, 2015, to \$27,698,786 as of June 30, 2016. Cash and cash equivalents increased \$1,377,346, from \$20,696,111 as of June 30, 2015, to \$22,073,457 as of June 30, 2016. The increase in cash is explained in the discussion of cash flows below. Net accounts receivable decreased \$1,657,569, due to less revenue being generated and the timing of payments.

In 2015, total assets of the organization decreased \$1,776,331 to \$40,783,517 as of June 30, 2015, from \$42,559,848 as of June 30, 2014. Current assets decreased \$2,024,757, from \$30,284,588 as of June 30, 2014, to \$28,259,831 as of June 30, 2015. Cash and cash equivalents decreased \$1,162,798, from \$21,858,909 as of June 30, 2014, to \$20,696,111 as of June 30, 2015. The decrease in cash is explained in the discussion of cash flows below. Net accounts receivable decreased \$883,166, due to less revenue being generated and the timing of payments.

#### **Capital Assets**

Capital assets, net, decreased \$399,465, from \$12,305,893 as of June 30, 2015, to \$11,906,428 as of June 30, 2016. This decrease is the result of depreciation expense and disposals during the year being more than capital purchases. Capital purchases in 2016 were \$1,004,679. Significant capital purchases made during fiscal year 2016 include Optia Apheresis systems for our Therapeutic Apheresis department, equipment for our Cellular Therapies department, and equipment for our Components laboratory.

Capital assets, net, increased \$238,633, from \$12,067,260 as of June 30, 2014, to \$12,305,893 as of June 30, 2015. This increase is the result of capital purchases being more than depreciation expense during the year. Capital purchases in 2015 were \$1,704,456. Significant capital purchases made during fiscal year 2015 include a new irradiator, equipment for our Transplantation Immunology and Components laboratories, and furniture and build-out for our new downtown neighborhood donor center.

#### **Liabilities**

Total liabilities increased \$49,147 to \$4,102,940 as of June 30, 2016 primarily due to an increase in accounts payable offset by a decrease in self-insurance liability. Total liabilities decreased \$630,186, to \$4,053,793 as of June 30, 2015, primarily due to a decrease in accounts payable and accrued salaries and benefits. As of June 30, 2014, total liabilities were \$4,683,979.

**Hoxworth Blood Center**  
**Management's Discussion and Analysis**  
**June 30, 2016 and 2015**

**Net Position**

Net position represents the residual interest in Hoxworth's assets and liabilities. Hoxworth's net position is summarized below:

	<b>2016</b>	<b>2015 (Restated)</b>	<b>2014</b>
Net investment in capital assets	\$ 11,906,428	\$ 12,305,893	\$ 12,067,260
Restricted — expendable	14,511	29,073	32,423
Unrestricted	<u>23,691,913</u>	<u>24,394,758</u>	<u>25,776,186</u>
 Total net position	 <u>\$ 35,612,852</u>	 <u>\$ 36,729,724</u>	 <u>\$ 37,875,869</u>

Investment in capital assets, net of depreciation, decreased \$399,465 from \$12,305,893 as of June 30, 2015, to \$11,906,428 as of June 30, 2016. This decrease is due to depreciation and disposals exceeding capital asset purchases of \$1,004,679. Net position restricted-expendable was \$29,073 at June 30, 2015 and \$14,511 at June 30, 2016. Net position unrestricted decreased \$702,845 from \$24,394,758 as of June 30, 2015, to \$23,691,913 as of June 30, 2016 as a result of the operating loss for the year.

Investment in capital assets, net of depreciation, increased \$238,633 from \$12,067,260 as of June 30, 2014, to \$12,305,893 as of June 30, 2015. This increase is due to capital asset purchases of \$1,704,456 exceeding depreciation and disposals. Net position restricted-expendable was \$32,423 at June 30, 2014 and \$29,073 at June 30, 2015. Net position unrestricted decreased \$1,381,428 from \$25,776,186 as of June 30, 2014, to \$24,394,758 as of June 30, 2015 as a result of the operating loss for the year.

# Hoxworth Blood Center

## Management's Discussion and Analysis

### June 30, 2016 and 2015

#### **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:

	<b>2016</b>	<b>2015 (Restated)</b>	<b>2014</b>
Cash received from operations	\$ 43,533,229	\$ 46,026,788	\$ 48,430,364
Cash expended for operations	41,215,993	45,677,472	46,784,617
Net cash provided by operating activities	2,317,236	349,316	1,645,747
Net cash provided by noncapital financing activities	47,934	67,314	52,081
Net cash used for capital and related financing activities	(1,004,679)	(1,704,456)	(1,657,759)
Net cash provided by investing activities	16,855	125,028	1,001,113
Net increase (decrease) in cash and cash equivalents	<u>\$ 1,377,346</u>	<u>\$ (1,162,798)</u>	<u>\$ 1,041,182</u>

#### **Cash Flows**

For the year ended June 30, 2016, cash and cash equivalents increased \$1,377,346. Cash provided by operations was \$2,317,236 and consisted primarily of cash received from customers offset by cash paid to suppliers and employees. Cash provided by noncapital financing activities was primarily from contributions. Cash used for capital and financing activities was \$1,004,679 and consisted of cash paid for capital purchases. A fair value adjustment loss of \$651,348 and cash received from interest on investments of \$668,203 provided a net investment gain of \$16,855.

For the year ended June 30, 2015, cash and cash equivalents decreased \$1,162,798. Cash provided by operations was \$349,316 and consisted primarily of cash received from customers offset by cash paid to suppliers and employees. Cash provided by noncapital financing activities was primarily from contributions. Cash used for capital and financing activities was \$1,704,456 and consisted of cash paid for capital purchases. A fair value adjustment loss of \$451,601 and cash received from interest on investments of \$576,629 provided a net investment gain of \$125,028.

#### **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. In addition, Hoxworth Blood Center experienced a decrease in demand for our products and services during the year ended June 30, 2016. If this trend were to continue, the financial impact could be significant.

**Hoxworth Blood Center**  
**Statements of Net Position**  
**June 30, 2016 and 2015**

	<b>2016</b>	<b>2015 (Restated)</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 22,073,457	\$ 20,696,111
Accounts receivable — net of allowance for doubtful accounts of approximately \$44,800 and \$44,600 at June 30, 2016 and 2015, respectively	4,240,688	5,898,257
Inventories	1,249,952	1,661,603
Prepaid expenses and other assets	134,689	3,860
Total current assets	27,698,786	28,259,831
<b>CAPITAL ASSETS</b>		
Land	816,197	816,197
Building	15,415,050	15,068,383
Furniture and equipment	17,513,692	16,871,978
Leasehold improvements	1,460,774	1,457,386
Construction in progress	242,681	519,348
Total capital assets	35,448,394	34,733,292
Less accumulated depreciation	23,541,966	22,427,399
Capital assets — net	11,906,428	12,305,893
<b>OTHER ASSETS</b>		
Deposit with trustees for self-insurance	55,565	151,030
Other	55,013	66,763
Total other assets	110,578	217,793
<b>TOTAL ASSETS</b>	39,715,792	40,783,517
<b>CURRENT LIABILITIES</b>		
Accounts payable	2,134,689	2,003,011
Accrued salaries and benefits	1,921,162	1,922,790
<b>TOTAL CURRENT LIABILITIES</b>	4,055,851	3,925,801
Self-insurance liability	47,089	127,992
<b>TOTAL LIABILITIES</b>	4,102,940	4,053,793
<b>NET POSITION</b>		
Net investment in capital assets	11,906,428	12,305,893
Restricted — expendable	14,511	29,073
Unrestricted	23,691,913	24,394,758
<b>TOTAL NET POSITION</b>	\$ 35,612,852	\$ 36,729,724

**Hoxworth Blood Center**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended June 30, 2016 and 2015**

	<b>2016</b>	<b>2015 (Restated)</b>
<b>OPERATING REVENUES</b>		
Patient and community service	\$ 41,012,876	\$ 44,026,414
Other	<u>862,784</u>	<u>1,117,208</u>
Total operating revenues	<u>41,875,660</u>	<u>45,143,622</u>
<b>OPERATING EXPENSES</b>		
Salaries and employee benefits	20,789,368	21,880,274
Routine supplies and facility maintenance	16,548,374	17,866,193
Blood component inventory support	616,715	1,762,461
General and administrative	3,684,157	3,506,545
Depreciation	<u>1,402,967</u>	<u>1,465,823</u>
Total operating expenses	<u>43,041,581</u>	<u>46,481,296</u>
<b>OPERATING LOSS</b>	<u>(1,165,921)</u>	<u>(1,337,674)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Net decrease in the fair value of cash equivalents	(651,348)	(451,601)
Interest income	668,203	576,629
Other	<u>32,194</u>	<u>66,501</u>
Total nonoperating revenues	<u>49,049</u>	<u>191,529</u>
<b>DECREASE IN NET POSITION</b>	<u>(1,116,872)</u>	<u>(1,146,145)</u>
<b>NET POSITION</b>		
Beginning of year, as previously reported	-	26,907,302
Adjustment applicable to prior years (see <i>Note 1</i> )	<u>-</u>	<u>10,968,567</u>
Beginning of year, as restated	<u>36,729,724</u>	<u>37,875,869</u>
End of year	<u>\$ 35,612,852</u>	<u>\$ 36,729,724</u>



**Hoxworth Blood Center**  
**Statements of Cash Flows**  
**Years Ended June 30, 2016 and 2015**

	<b>2016</b>	<b>2015 (Restated)</b>
CASH FLOWS FROM OPERATING ACTIVITIES —		
Cash received from customers	\$ 42,670,445	\$ 44,909,580
Cash payments to suppliers for goods and services	(20,424,997)	(23,597,955)
Cash payments to employees for services	(20,790,996)	(22,079,517)
Other operating revenues	862,784	1,117,208
	<u>2,317,236</u>	<u>349,316</u>
Net cash provided by operating activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES —		
Increase (decrease) in research endowment fund	(11,750)	14,065
Contributions received	59,684	53,249
	<u>47,934</u>	<u>67,314</u>
Net cash provided by noncapital financing activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES — Acquisition and construction of capital assets	(1,004,679)	(1,704,456)
NET CASH FLOWS FROM INVESTING ACTIVITIES — Net investment return	<u>16,855</u>	<u>125,028</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,377,346	(1,162,798)
CASH AND CASH EQUIVALENTS — Beginning of year	20,696,111	21,858,909
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 22,073,457</u>	<u>\$ 20,696,111</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES —		
Operating loss	\$ (1,165,921)	\$ (1,337,674)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,402,967	1,465,823
Changes in assets and liabilities:		
Accounts receivable	1,657,569	883,166
Inventories	411,651	(114,122)
Accrued salaries and benefits	(1,629)	(199,404)
Prepaid expenses and other assets	(119,079)	78,850
Accounts payable	131,678	(427,323)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,317,236</u>	<u>\$ 349,316</u>
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	<u>\$ 50,437</u>	<u>\$ 3,119</u>

# Hoxworth Blood Center

## Notes to Financial Statements

### June 30, 2016 and 2015

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

##### ***Nature of Operations***

Hoxworth Blood Center (“Hoxworth”), a department 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.

##### ***Basis of Accounting and Presentation***

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board. Hoxworth reports as a special purpose government engaged primarily in business type activities (BTA), as defined by GASB, on the accrual basis. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods and services. In accordance with BTA reporting, Hoxworth presents Management’s Discussion and Analysis, Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, and Notes to the Financial Statements.

##### ***Estimates***

The preparation of 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, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

##### ***Cash and Cash Equivalents***

Hoxworth presents its unrestricted portion of the University’s pooled cash account as cash and cash equivalents. In addition, Hoxworth maintains an unrestricted quasi-endowment fund consisting of cash and cash equivalents and marketable securities amounting to \$9,180,913 and \$9,694,275 at June 30, 2016 and 2015, respectively, in the University’s pooled investment account. The University’s pooled investment 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.

Investment income consists of interest and dividend income and the net change for the year in the fair value of the quasi-endowment fund.

# Hoxworth Blood Center

## Notes to Financial Statements

### June 30, 2016 and 2015

#### ***Accounts Receivable***

Accounts receivable are stated at the amount billed to customers plus any accrued and unpaid interest. Hoxworth provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

#### ***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 (FIFO) 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 shorter of the estimated remaining period of occupancy or useful life. 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.

#### ***Compensated Absences***

The University's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. University employees earn vacation and sick leave benefits on a monthly basis. All accrued compensated absences are considered a current liability. Employees hired before January 1, 2015 may accrue vacation benefits up to a maximum of three years' credit. Employees hired on or after January 1, 2015 may accrue up to a maximum of 30 days of vacation benefits. Earned but unused vacation days are payable upon termination of employment. Sick leave benefits accrue without limit; however, unused days are payable only upon retirement from the University, subject to 30- or 60-day limits depending on the employees' date of hire. The termination payment method is utilized to compute the liability for sick leave.

#### ***Unearned Revenue***

Unearned revenue includes the amounts received from grant sponsors that have not yet been earned under the terms of the agreement. Hoxworth recognizes such amounts into revenue in the fiscal year when these services are provided.

# Hoxworth Blood Center

## Notes to Financial Statements

### June 30, 2016 and 2015

#### **Net Position**

Hoxworth's financial resources are classified for accounting and reporting purposes into the following three net position categories:

- Net Investment in Capital Assets: Capital assets, net of accumulated depreciation.
- Restricted purposes:
  - Expendable – The net position whose use by the Hoxworth is subject to externally-imposed restrictions that can be fulfilled by actions of the Hoxworth pursuant to those restrictions or that expire by the passage of time are classified as expendable net position. Such assets include noncapital assets that must be used for bone marrow registry testing and assets held for self-insurance arrangements.
- Unrestricted: The remaining net position that is neither the net investment in capital assets or restricted for expendable purposes. Hoxworth's unrestricted net position 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 Services**

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**

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.

#### **Restatement of Prior Year Financial Statements**

Fiscal year 2015 has been restated to correct for an error in the application of generally accepted accounting principles associated with the adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

**Hoxworth Blood Center**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

This restatement decreased previously reported 2015 change in net position by \$232,973 and increased beginning net position by \$10,968,567. Hoxworth had incorrectly included these amounts in its 2015 financial statements. During 2016, Hoxworth determined that they were not liable for these amounts and corrected its previously issued financial statements through this restatement.

**Note 2: Deposits and Investments**

The fair value of deposits and investments, by type, at June 30, 2016 and 2015 are as follows:

	<b>2016</b>	<b>2015</b>
Cash on deposit with the University of Cincinnati \$	12,892,544	\$ 11,001,836
Investment in University of Cincinnati pooled endowment fund	9,180,913	9,694,275
Total	\$ 22,073,457	\$ 20,696,111

Because Hoxworth has immediate access to these deposits and investments and all amounts are readily convertible to known amounts of cash, all amounts are classified as cash and cash equivalents in Hoxworth's Statements of Net Position.

***Endowment Investments***

Diversification is a fundamental risk management strategy for the endowment portfolio. Accordingly, the portfolio includes investments in domestic and non-U.S. stocks, bonds and loans; real estate; and limited partnerships for investments in real estate, private equity, and hedge funds. The approved asset mix may range from 70% to 90% equity investments and 10% to 30% fixed income investments, at any one time, at the discretion of the University's investment office.

The University has an established set of endowment investment guidelines for alternative investments related to targeted asset allocation and allowable ranges. The maximum allowable percentages the portfolio can hold for alternative investments is: real estate and private equity including natural resources 30% and hedge funds 25%. The University's investment committee has established the target allocations at the maximum allowable percentages.

Ohio's version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) replaced the Ohio Uniform Management of Institutional Funds Act. UPMIFA provides statutory rules for the management and investment of endowment funds owned and controlled by charitable institutions. The University's endowment policies are governed and authorized under University rules and are structured to meet or exceed UPMIFA requirements.

**Hoxworth Blood Center**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

***Off-Balance-Sheet Risk***

The University's investment strategy incorporates certain financial instruments which involve, to varying degrees, elements of risk in excess of amounts reported on the financial statements. These risks include interest rate, credit and custodial. Policies established by the University have been developed to balance the University's exposure to risk while maximizing investment returns.

Hoxworth's investments in the University's pooled endowment fund are included in Fund A. While Fund A includes investments of varying fair value hierarchies, Hoxworth considers its investment in the endowment pool to be Level 2 investments because Hoxworth has immediate access to the deposits and investments with the University and amounts are readily convertible to cash. There have been no significant changes in the valuation techniques during the year ended June 30, 2016.

The composition of Fund A of the University's pooled endowment fund based upon fair values at June 30, 2016 is as follows:

	<u>2016</u>	<u>2015</u>
Cash & cash equivalents	-0.66%	1.40%
U.S. Agency securities	3.39%	0.66%
U.S. Treasury securities	2.48%	1.87%
Corporate notes and bonds	7.50%	10.23%
NDCL* - principal	6.13%	5.80%
NDCL* - accrued income	1.54%	1.16%
Corporate stocks	46.69%	41.60%
Alternative Investments		
Private equity	14.89%	19.64%
Hedge funds	17.02%	16.66%
Real estate	1.02%	0.98%
	<u>100.00%</u>	<u>100.00%</u>

***Interest Rate Risk***

Interest rate risk is the risk an investment portfolio may face should rate variances affect the fair value of investments. The University's investment policy minimizes the risk of the loss of value due to changing interest rates through the use of target durations. University investment policy stipulates that the weighted average maturity of investments in the temporary investment pool will not exceed three years. There is no stipulation for the endowment portfolio.

**Hoxworth Blood Center**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

***Credit Risk***

Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. The University's risk of loss in the event of counterparty default is typically limited to the amounts reported on the Statements of Net Position and is not represented by the contract or notional amounts of the instruments. In accordance with the University's investment policy, the University's bond and other fixed income investments are rated by nationally recognized rating organizations.

***Custodial Credit Risk***

The University does not have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, a government entity will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. The University's investments are held in trust or by a custodian in the University's name or directly held in the University's name.

**Note 3: Concentrations and Credit Risk**

In the normal course of business, Hoxworth extends credit to various area hospitals. At June 30, 2016, four hospital groups accounted for approximately 25%, 21%, 19% and 15%, respectively, of accounts receivable. At June 30, 2015, four hospital groups accounted for approximately 40%, 18%, 17% and 11%, respectively, of accounts receivable. Annual revenues recorded for these hospitals are consistent with the percentages listed above.

**Note 4: Inventories**

Inventories at June 30, 2016 and 2015, consist of the following:

	<u>2016</u>	<u>2015</u>
Blood components	\$ 407,092	\$ 638,229
Blood bags and accessories	713,866	843,859
Other supplies	<u>128,994</u>	<u>179,515</u>
Total	<u>\$ 1,249,952</u>	<u>\$ 1,661,603</u>

**Hoxworth Blood Center**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**Note 5: Capital Assets**

Capital asset activity for the years ended June 30, 2016 and 2015, was as follows:

	<b>Balance July 1, 2015</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Balance June 30, 2016</b>
Land	\$ 816,197	\$ -	\$ -	\$ -	\$ 816,197
Buildings	15,068,383	-	-	346,667	15,415,050
Furniture and equipment	16,871,978	923,059	281,345	-	17,513,692
Leasehold improvements	1,457,386	11,620	8,232	-	1,460,774
Construction in progress	519,348	70,000	-	(346,667)	242,681
Total	<u>34,733,292</u>	<u>1,004,679</u>	<u>289,577</u>	<u>-</u>	<u>35,448,394</u>
Less accumulated depreciation:					
Buildings	8,481,561	380,533	-	-	8,862,094
Furniture and equipment	12,749,489	928,519	280,166	-	13,397,842
Leasehold improvements	1,196,349	93,915	8,234	-	1,282,030
Total	<u>22,427,399</u>	<u>1,402,967</u>	<u>288,400</u>	<u>-</u>	<u>23,541,966</u>
Capital assets — net	<u>\$ 12,305,893</u>	<u>\$ (398,288)</u>	<u>\$ 1,177</u>	<u>\$ -</u>	<u>\$ 11,906,428</u>
	<b>Balance July 1, 2014</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Balance June 30, 2015</b>
Land	\$ 816,197	\$ -	\$ -	\$ -	\$ 816,197
Buildings	15,068,383	-	-	-	15,068,383
Furniture and equipment	15,571,694	1,553,991	253,707	-	16,871,978
Leasehold improvements	1,361,603	95,783	-	-	1,457,386
Construction in progress	464,666	54,682	-	-	519,348
Total	<u>33,282,543</u>	<u>1,704,456</u>	<u>253,707</u>	<u>-</u>	<u>34,733,292</u>
Less accumulated depreciation:					
Buildings	8,086,360	395,201	-	-	8,481,561
Furniture and equipment	12,086,104	917,092	253,707	-	12,749,489
Leasehold improvements	1,042,819	153,530	-	-	1,196,349
Total	<u>21,215,283</u>	<u>1,465,823</u>	<u>253,707</u>	<u>-</u>	<u>22,427,399</u>
Capital assets — net	<u>\$ 12,067,260</u>	<u>\$ 238,633</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,305,893</u>



**Hoxworth Blood Center**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**Note 6: Operating Leases**

Hoxworth is obligated under a number of operating leases, principally for neighborhood donor centers, expiring at various dates through 2025. Total operating lease expense under noncancelable leases was approximately \$823,000 and \$784,000 in 2016 and 2015, respectively.

At June 30, 2016, estimated future lease payments under noncancelable leases are as follows:

2017	\$	610,000
2018		464,000
2019		317,000
2020		281,000
2021		129,000
Thereafter		232,000
 Total	 \$	 2,033,000

**Note 7: 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 2016 and 2015, costs for such resources, including indirect overhead charges from the University, were approximately \$1,534,000 and \$1,487,000, 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 \$12,892,544 and \$11,001,836 at June 30, 2016 and 2015, respectively, and is included in cash and cash equivalents in the accompanying statements of net position. Interest of \$133,926 in 2016 and \$39,059 in 2015 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 \$9,180,913 and \$9,694,275 at June 30, 2016 and 2015, respectively. The fair value adjustment loss on this fund was approximately \$646,000 and \$438,000 for the years ended June 30, 2016 and 2015, respectively. The fund also had interest income of approximately \$531,000 and \$532,000 for the years ended June 30, 2016 and 2015, respectively.

All employees of Hoxworth are employees of the University. Employee salaries and wages are paid by the University and the associated expenses are allocated to Hoxworth. In addition, Hoxworth is charged fixed employee fringe benefit rates to cover employee benefits, such as employee health care and participation in employee retirement plans. The fringe benefit rates range between 35.8% and 53.5% based on the various employee groups such as exempt and non-exempt staff. During the years ended June 30, 2016 and 2015, employee salaries and wages expenses were approximately \$14,351,000 and \$14,755,000, respectively. Employee benefit expenses of approximately \$6,438,000 and \$7,125,000 were also charged to Hoxworth for the years ended June 30, 2016 and 2015, respectively.

# Hoxworth Blood Center

## Notes to Financial Statements

### June 30, 2016 and 2015

#### Note 8: Risk Management and Self-Insurance Funds

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. Settled claims have not exceeded commercial coverage in any of the three preceding years. The state of Ohio self-insures workers' compensation benefits for all state employees, including University employees. Under the direction of the University and the Ohio Bureau of Workers' Compensation, CareWorks and Sheakley UniService, Inc. assist in the administration and disposition of workers' compensation claims.

The University provides for medical professional and general liability insurance through a combination of an actuarially funded self-insurance program sponsored by the University and has purchased commercial insurance in excess of the self-insurance amount. The medical professional liability insurance program also includes Hoxworth and qualified not-for-profit physician practice corporations, largely subsumed into University of Cincinnati Physicians, Inc. Medical professional self-insurance limits were \$4 million per occurrence for 2016. An additional \$30 million in commercial excess professional liability insurance was provided above the self-insured retention.

The University's self-insurance program is based on calculations by independent actuaries and funds are deposited directly into two irrevocable self-insurance trust funds, one for medical and professional liability and one for general liability. In the opinion of management, trust assets totaling approximately \$26,245,000 are adequate to cover estimated liabilities resulting from known claims and incidents and incurred-but-not-reported incidents as of June 30, 2016 for the University, Hoxworth and University of Cincinnati Physicians, Inc. Trust assets recorded on the University's financial report total \$4,628,000 included in current portion of other assets and liabilities of \$551,000 included in accrued liabilities in the Statement of Net Position as of June 30, 2016. 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 7*.

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 \$10 million retention per occurrence with the first \$100,000 funded by the University, \$900,000 funded by pooled funds held through the IUC-IC and \$9 million reinsured through a commercial reinsurance agreement. Excess commercial coverage for general liability was provided with total limits of \$50 million shared with the other participating universities. The IUC-IC self-insurance pools are funded by an agreed formula among the participating universities. This program qualifies as a public entity risk pool as defined by GASB standards and is classified as a risk-sharing pool. Under this arrangement, there is a transfer of risk from the University to the pool. Therefore, there is no recognition in the University's financial statements of assets or liabilities related to the IUC-IC program.

**Hoxworth Blood Center**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

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 retained losses subject to a \$100,000 University deductible. Total insurance expense paid through the IUC-IC program was \$1,621,000 and \$1,755,000 for the years ended June 30, 2016 and 2015, respectively.

The University is also self-insured for a portion of medical, dental, and pharmacy benefits provided to employees. The cost of such self-insured benefits provided during 2016 and 2015, respectively, was approximately \$82,045,000 and \$78,154,000. In addition, \$5,638,000 and \$5,780,000 was accrued for 2016 and 2015, respectively, for estimated claims incurred but not reported.

**Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of the 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, 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, the basic financial statements of Hoxworth Blood Center, which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 14, 2016, which contained emphasis of matter paragraphs regarding the financial statements of Hoxworth as a department of the University of Cincinnati and a correction of an error in previously issued financial statements.

### **Internal Control Over Financial Reporting**

Management of Hoxworth is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered Hoxworth's internal control to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Hoxworth's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

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 significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Hoxworth's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2016-001 to be a material weakness.

## **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*.

## **Management's Response to Findings**

Hoxworth's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We also noted certain matters that we reported to Hoxworth's management in a separate letter dated October 14, 2016.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hoxworth's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BKD, LLP**

Cincinnati, Ohio  
October 14, 2016

**Hoxworth Blood Center**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2016**

**Findings Required to be Reported by *Government Auditing Standards***

<b>Reference Number</b>	<b>Finding</b>
2016-001	<p>Criteria or specific requirement: Management is responsible for establishing and maintaining effective internal controls over financial reporting.</p> <p>Condition: The audit of the financial statements resulted in identification of an error in previously issued financial statements.</p> <p>Context: Management is responsible for the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.</p> <p>Effect: Material misstatements in the financial statements and disclosures.</p> <p>Cause: Audit procedures indicated errors in the application of accounting principles, specifically as a result of the University's adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, <i>Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27</i> and GASB Statement No. 71, <i>Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68</i>. The allocation of pension liabilities and related disclosures were determined to be incorrect.</p> <p>Recommendation: Management should review its policies for consistent application and allocation of financial statement amounts recorded by the University.</p> <p>Views of responsible officials and planned corrective actions: Management agrees and will review the process for evaluating the application of GASB pronouncements and allocation of financial statement amounts recorded by the University to Hoxworth financial statements.</p>



# 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 22, 2016**