

SAN DIEGO BLOOD BANK
CONSOLIDATED FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2022



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INDEPENDENT AUDITORS' REPORT

Audit Committee
San Diego Blood Bank
San Diego, California

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of San Diego Blood Bank (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of San Diego Blood Bank as of June 30, 2022, and the changes in their net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of San Diego Blood Bank and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about San Diego Blood Bank's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 San Diego Blood Bank 's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about San Diego Blood Bank 's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

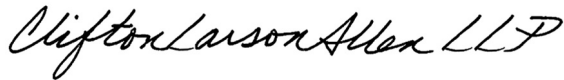
Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements.

Audit Committee
San Diego Blood Bank

The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2023, on our consideration of San Diego Blood Bank 's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of San Diego Blood Bank 's 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 San Diego Blood Bank 's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

San Diego, California
March 30, 2023

**SAN DIEGO BLOOD BANK
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022**

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 2,496,567
Restricted Cash	943,858
Accounts Receivable, Net of Allowance for Returns and Doubtful Accounts	6,061,356
Promises to Give	87,735
Inventories, Net of Inventory Obsolescence	1,820,983
Prepaid Expenses and Other Assets	616,876
Total Current Assets	12,027,375
Property and Equipment, Net of Accumulated Depreciation	23,709,208
Investments	1,706,108
Interest Rate Swap	1,064,486
Deposits and Other Assets	58,903
Total Assets	\$ 38,566,080

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts Payable	\$ 3,488,992
Accrued Payroll	974,433
Accrued Expenses	1,360,522
Deferred Revenue	240,188
Donor Recognition	-
Notes Payable	448,114
Accrued Pension	681,312
Total Current Liabilities	7,193,561
Notes Payable, Net of Current Portion	10,275,736
Accrued Pension, Net of Current Portion	2,395,049
Total Liabilities	19,864,346
Net Assets:	
Without Donor Restrictions:	17,669,353
With Donor Restrictions	1,032,381
Total Net Assets	18,701,734
Total Liabilities and Net Assets	\$ 38,566,080

See accompanying Notes to Consolidated Financial Statements.

**SAN DIEGO BLOOD BANK
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Blood and Blood Components	\$ 47,951,440	\$ -	\$ 47,951,440
Research and Cell Therapy	2,991,371	-	2,991,371
Government Grants and Contracts	1,344,689	-	1,344,689
Contributions	334,591	1,159,436	1,494,027
Lease Income	912,705	-	912,705
COVID-19 Convalescent Plasma	98,101	-	98,101
Other	1,124,416	-	1,124,416
Net Assets Released from Restrictions	1,105,784	(1,105,784)	-
Total Revenue and Support	<u>55,863,097</u>	<u>53,652</u>	<u>55,916,749</u>
OPERATING EXPENSES			
Program Services:			
Blood Banking	40,947,064	-	40,947,064
Research and Cell Therapy	3,263,800	-	3,263,800
Supporting Services:			
Management and General	9,302,724	-	9,302,724
Fund Raising	632,168	-	632,168
Total Operating Expenses	<u>54,145,756</u>	<u>-</u>	<u>54,145,756</u>
INCOME FROM OPERATIONS	1,717,341	53,652	1,770,993
NONOPERATING REVENUE			
Pension Related Changes Other than Net			
Periodic Pension Cost	589,454	-	589,454
Change in Fair Value of Interest Rate Swaps	1,064,486	-	1,064,486
Unrealized Loss on Investments	(139,699)	-	(139,699)
Loss on Disposal of Fixed Assets	(168,636)	-	(168,636)
Total Nonoperating Revenue	<u>1,345,605</u>	<u>-</u>	<u>1,345,605</u>
CHANGE IN NET ASSETS	3,062,946	53,652	3,116,598
Net Assets - Beginning of Year	<u>14,606,407</u>	<u>978,729</u>	<u>15,585,136</u>
NET ASSETS - END OF YEAR	<u>\$ 17,669,353</u>	<u>\$ 1,032,381</u>	<u>\$ 18,701,734</u>

See accompanying Notes to Consolidated Financial Statements.

SAN DIEGO BLOOD BANK
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022

	Program Services		Supporting Services		Total
	Blood Banking	Research and Cell Therapy	Management and General	Fund Raising	
Salaries, Related Costs, and Benefits	\$ 17,556,283	\$ 1,837,008	\$ 4,690,979	\$ 427,571	\$ 24,511,841
Supplies	13,148,124	453,613	72,303	2,749	13,676,789
Testing	4,140,093	358,429	-	-	4,498,522
Facility and Equipment	1,338,100	115,125	1,185,285	7,554	2,646,064
Depreciation	536,304	80,758	1,041,026	-	1,658,088
Shipping	1,613,618	70,639	2,068	126	1,686,451
Lease	796,434	-	-	-	796,434
Interest	2,528	-	323,075	-	325,603
Marketing	720,176	41,270	14,858	55,310	831,614
Insurance	-	-	362,150	-	362,150
Consultant	134,472	89,288	56,643	104,885	385,288
Miscellaneous	65,839	5,595	158,268	9,037	238,739
Vehicle	451,599	-	-	-	451,599
Information Technology	55,591	2,467	596,497	2,797	657,352
Dues and Subscriptions	96,546	11,790	214,955	8,406	331,697
Travel	94,899	30,692	21,021	7,308	153,920
Professional Fees	2,630	225	74,261	-	77,116
Taxes	148,103	12,036	393,053	1,088	554,280
Contract Services	45,725	154,865	80,973	-	281,563
Bank and Brokerage Fees	-	-	15,309	5,337	20,646
Total Expenses	\$ 40,947,064	\$ 3,263,800	\$ 9,302,724	\$ 632,168	\$ 54,145,756

See accompanying Notes to Consolidated Financial Statements.

**SAN DIEGO BLOOD BANK
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2022**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ 3,116,598
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	1,658,088
Unrealized (Gain) Loss on Investments	139,699
(Gain) Loss on Disposal of Property and Equipment	168,636
Change in Fair Value of Interest Rate Swaps	(1,064,486)
Changes in Operating Assets and Liabilities:	
Accounts Receivable, Net	962,974
Promises to Give	(66,815)
Inventories, Net	(442,682)
Prepaid Expenses and Other Assets	(293,310)
Deposits and Other Assets	(7,370)
Accounts Payable	687,299
Accrued Payroll	(810,177)
Accrued Expenses	(92,942)
Deferred Revenue	(104)
Accrued Pension	(1,262,955)
Net Cash Provided by Operating Activities	<u>2,692,453</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Property and Equipment	<u>(4,032,459)</u>
Net Cash Used by Investing Activities	<u>(4,032,459)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on Line of Credit	(711,637)
Proceeds from Notes Payable	1,450,000
Payments on Notes Payable	<u>(233,622)</u>
Net Cash Provided (Used) by Financing Activities	<u>504,741</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(835,265)
Cash and Cash Equivalents and Restricted Cash - Beginning of Year	<u>4,275,690</u>
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR	<u>\$ 3,440,425</u>
Cash and Cash Equivalents and Restricted Cash Consists of:	
Cash and Cash Equivalents	\$ 2,496,567
Restricted Cash	943,858
Total Cash and Cash Equivalents and Restricted Cash	<u>\$ 3,440,425</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash Paid for Interest	<u>\$ 325,603</u>

See accompanying Notes to Consolidated Financial Statements.

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2022**

NOTE 1 BLOOD BANK AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The San Diego Blood Bank (SDBB) is a California nonprofit public benefit corporation established in 1950. SDBB collects, tests, processes, stores, and distributes blood products throughout the Southern California region. In addition, SDBB provides a wide range of additional blood banking services, including plateletpheresis and plasmapheresis, and testing in an immunohematology reference laboratory. SDBB also supports life science research and clinical trials, including in cellular therapies and population-scale genomics, as an extension of our mission to save lives. SDBB's vision is to have an even greater impact in the community's health by improving community wellness and engaging with researchers to drive future medical advances.

Effective November 5, 2021, the San Diego Blood Bank transferred its cell therapy activity and related assets to Community Bio, Inc. in exchange for 342,000 Series A preferred shares of Community Bio, Inc., which represents a 40% ownership interest. Community Bio, Inc. was formally renamed Excellos, Incorporated (Excellos) effective January 31, 2022.

The consolidated financial statements include the accounts of SDBB Labs, Inc. (SDBB Labs), which was incorporated during the year ended June 30, 2019. SDBB Labs is a wholly owned subsidiary of the San Diego Blood Bank focused on providing research and other services to outside entities.

Basis of Consolidation

The consolidated financial statements include the accounts of the San Diego Blood Bank, SDBB Labs, and Neighbor Savors (collectively, Blood Bank). All significant intercompany balances and transactions have been eliminated.

Consolidated Financial Statement Presentation

The consolidated financial statements of the Blood Bank have been prepared in accordance with auditing standards generally accepted in the United States of America (U.S. GAAP), which require the Blood Bank to report information regarding their consolidated financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Blood Bank. These net assets may be used at the discretion of Blood Bank's management and the board of directors.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Blood Bank or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Blood Bank did not have any donor restrictions that were perpetual in nature for the year ended June 30, 2022.

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidated Financial Statement Presentation (Continued)

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of activities.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, the actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Blood Bank considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Certificates of deposit that may be redeemed without a significant penalty are considered cash and cash equivalents regardless of the maturity.

Investment return on restricted assets is reported as an increase in net assets without donor restrictions if the asset restriction expires in the reporting period in which the income is recognized. All other restricted investment return is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction.

Cash with donor-imposed restrictions is reported as restricted cash.

Investments

The Blood Bank invests in other organizations with similar missions. For equity securities with a readily determinable fair value, the Blood Bank estimates the fair value of the investment using the net asset value (NAV) per share as of the Blood Bank's measurement date. If the NAV per share of the investment obtained from the investee is not as of the Blood Bank's measurement date, the Blood Bank considers whether an adjustment to the most recent NAV per share is necessary. For equity securities without a readily determinable fair value and the asset does not qualify for the practical expedient to estimate fair value in accordance, the Blood Bank will measure the equity security at its cost minus impairment, if any.

Accounts Receivable

Accounts receivable arise in the normal course of business. The amounts for accounts receivable are presented at net realizable value. It is the policy of management to review the outstanding accounts receivable at year-end, as well as the bad debt write-offs experienced in the past, and establish an allowance for returns and doubtful accounts for uncollectible amounts. The allowance for returns and doubtful accounts was \$110,240 at June 30, 2022. Accounts receivable are recognized and collected or written off within a year.

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to Give

Promises to give that are expected to be collected within one year are recorded at their net realizable value. Promises to give that are expected to be collected in future years are discounted to their estimated net present value. After promises to give are originally recorded, an allowance for uncollectible promises to give may be established based on specific circumstances.

Inventories

The cost of whole blood and blood components inventory is determined by valuing blood using drawing and processing costs and certain purchased items, excluding distribution costs. Inventories of supplies are valued at the lower of cost or net realizable value, determined on the first-in, first-out basis. The allowance for inventory obsolescence was \$202,492 at June 30, 2022.

Property and Equipment

Acquisitions of property and equipment of \$5,000 or more are capitalized. Property and equipment are stated at cost, or if donated, at the approximate fair market value on the date of donation. Expenditures for maintenance and repairs are charged against operations. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, ranging from 3 to 40 years, or, in the case of leasehold improvements, over the lesser of the useful lives of the related assets or the lease term.

Deferred Revenue

The Blood Bank has a monthly prepayment agreement with one customer. Deferred revenue of \$240,188 as of June 30, 2022 represents the cash collected prior to year end for the July 2022 prepayment, net of the customer's balance in accounts receivable as of June 30, 2022. All of the \$240,292 deferred revenue as of June 30, 2021 was recognized during the June 30, 2022 year then ended. The deferred revenue of \$240,188 as of June 30, 2022 was cash received during year ended June 30, 2022.

Impairment of Long-Term Assets

The Blood Bank reviews its investment in long-term assets for impairment whenever events and changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the long-term asset to the estimated proceeds from the eventual disposition of the long-term asset. If the long-term asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of long-term asset exceeds the fair value of such property. There were no impairment losses recognized for the year ended June 30, 2022.

Compensated Absences

Accumulated paid time off totaling \$1,342,022 at June 30, 2022, is accrued when incurred and included in accrued payroll.

SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Revenue earned from the blood and its components, plasma derivatives, and research is recognized when the products are shipped or services are performed. The Blood Bank generally enters into contracts with customers to provide various blood products and other blood related services with payments based upon a fee schedule.

At contract inception, the Blood Bank assess the services promised in the contracts with customers to identify the performance obligations in the arrangement. Generally, the contracts are considered to have a single performance obligation once the Blood Bank ships the products or performs the service.

Revenue is recognized for the performance obligation at a point in time for products or services performed. The transaction price is the contractually defined amount that includes adjustment for variable consideration, if any. The Blood Bank determines the transaction price based on the Blood Bank's internal pricing guidelines, discount agreements, if any, and negotiations with the customer. The transaction price is reduced by implicit and explicit price concessions, if any. The Blood Bank determines its estimates of explicit price concessions based on contractual agreements and its discount policies. The Blood Bank determines its estimate of implicit price concessions based on its historical collection experience with each class of customers.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

The Blood Bank recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Grants and conditional promises to give – that are, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

Government Grants and Contracts comprise of cost-reimbursable contracts and grants, which are conditional contributions recognized in accordance with the policy described in the preceding paragraph, and exchange revenue related to the value of the benefits received by the funding agency, which is recognized as the services are provided. Amounts received under cost-reimbursable contracts are recognized as earned and are reported as revenue when the Blood Bank has incurred expenditures in compliance with specific contract or grant provisions. Amounts received but not yet earned are reported as deferred revenue in the statement of financial position.

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services and Materials

The Blood Bank utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the consolidated financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. In-kind contributions consisting of fundraising items, donor points donated back and other supplies have been recorded as in-kind contribution revenue and expenses in the consolidated statements of activities.

Derivative Instruments

The accounting and reporting standards related to derivative instruments and hedging activities requires that every derivative instrument be recorded on the consolidated statements of financial position as either an asset or liability as measured at its fair value. The Blood Bank's interest rate swap agreements (IRSA) as discussed in Note 9 are considered a cash flow hedge and are measured at fair value. The gains and losses on cash flow hedges are recognized as a change in net assets in the period of the change. The Blood Bank enters into total return swaps to manage risks on the changes in market interest rates.

The IRSA's are considered Level 3 assets or liabilities. For the valuation of the IRSA's at June 30, 2022, the Blood Bank used the income approach which involves using (i) quoted prices for economically equivalent swaps, or (ii) valuation methodologies, assumptions and inputs, which in the case of projected future cash flows; discount such cash flows to a single net present value amount. Various inputs are used to construct interest rate, currency exchange rate, commodity price or other curves that are placed into a valuation model to compute the valuation.

The change in the fair value of the IRSA liability is as follows for the year ended June 30:

	<u>2022</u>
Balance - Beginning of Year	\$ (463,852)
Termination of Interest Rate Swaps	463,852
Interest Rate Swaps Issuance	-
Change in Fair Value of Obligation Under Interest Rate Swaps	<u>1,064,486</u>
Balance - End of Year	<u><u>\$ 1,064,486</u></u>

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expense Allocations

The Blood Bank's accounting system is established to record expenses by fund, department, and natural expense. The expense function is determined by either fund alone or by a combination of fund and department. One fund is used to accumulate expenses considered to be either management and general or fundraising in nature. Within that fund, the department determines whether the expense is management and general or fundraising in nature. The remaining funds accumulate expenses considered to be programmatic in nature. In the event certain costs are mistakenly captured within the program funds, such as investment brokerage fees or professional fundraising fees, they are reallocated as appropriate to either management and general or fundraising costs.

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. If not directly identifiable to program services, types of expenses that are allocated include depreciation, interest, and insurance, which are allocated on a square-footage basis, as well as salaries, related costs and benefits, which are allocated on the basis of supportable estimates of time and effort.

Income Taxes

The San Diego Blood Bank is a qualified nonprofit blood bank that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. However, the Blood Bank remains subject to taxes on any net income which is derived from a trade or business regularly carried on and unrelated to its exempt purpose. For the year ended June 30, 2022, no such unrelated business taxable income was reported and, therefore, no provision for income taxes has been made. The Blood Bank is not a private foundation.

The Blood Bank follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Blood Bank recognizes accrued interest and penalties associated with uncertain tax positions as part of the consolidated statements of activities, when applicable. Management has determined that the Blood Bank has no uncertain tax positions at June 30, 2022 and therefore, no amounts have been accrued.

Fair Value Measurements

The Blood Bank defines fair value as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market. The Blood Bank applies fair value measurements to assets and liabilities that are required to be recorded at fair value under U.S. GAAP. Fair value measurement techniques maximize the use of observable inputs and minimize the use of unobservable inputs, and are categorized in a fair value hierarchy based on the transparency of inputs.

The three levels are defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

As a practical expedient, certain financial instruments may be valued using net asset value (NAV) per share. NAV is the amount of net assets attributable to each share of outstanding capital stock at the end of the period.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The carrying value of cash, receivables, inventory, and payables approximates fair value as of June 30, 2022, due to the relative short maturities of these instruments.

Measure of Operations

Transactions deemed by management to be directly related to the programs of the Blood Bank are reported as operating revenue and expenses. Nonoperating activities include investment returns, capital activity, pension related changes other than net periodic pension costs, and extinguishment of debt.

Future Accounting Standards

The FASB has issued one substantial ASU which will become effective in future years.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The primary change in U.S. GAAP addressed by ASU 2016-02 is the requirement for a lessee to recognize on the consolidated statement of financial position a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. ASU 2016-02 also requires qualitative and quantitative disclosures to enable users of the consolidated financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, although there are optional practical expedients that entities may elect to apply. The Blood Bank is evaluating the effect that the provisions of ASU 2016-02 will have on its consolidated financial statements and related disclosures.

Subsequent Events

The Blood Bank has evaluated subsequent events through March 30, 2023, which is the date the consolidated financial statements were available to be issued.

SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2022

NOTE 2 LIQUIDITY AND AVAILABILITY

The following reflects the Blood Bank’s financial assets as of the consolidated statements of financial position dates, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statements of financial position dates. Amounts not available include amounts set aside for long-term investing in the board designated fund that could be drawn upon if the governing board approves that action.

	2022
Cash and Cash Equivalents	\$ 2,496,567
Accounts Receivable, Net of Allowance for Returns and Doubtful Accounts	6,061,356
Promises to Give	87,735
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ 8,645,658

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Blood Bank considers all expenditures related to its ongoing activities of blood banking and distribution, research, and public service as well as the conduct of services undertaken to support those activities to be general expenditures.

The Blood Bank is partially supported by donor-restricted contributions. Because a donor’s restriction requires resources to be used in a particular manner or in a future period, the Blood Bank must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year.

The Blood Bank regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Blood Bank has various sources of liquidity at its disposal, including cash and cash equivalents, conversion of investments, collection of accounts receivable, conversion and usage of inventories, and if needed, a revolving line of credit. See Note 7 for more information on the line of credit.

In addition to financial assets available to meet general expenditures over the next 12 months, the Blood Bank operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the consolidated statements of cash flows which identifies the sources and uses of the Blood Bank’s cash.

NOTE 3 CONCENTRATIONS OF CREDIT RISK

Cash

The Blood Bank maintains cash accounts at various financial institutions. The balances at times may exceed Federal Deposit Insurance Corporation (FDIC) limits. Accounts at each financial institution are insured by the FDIC up to \$250,000.

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2022**

NOTE 3 CONCENTRATIONS OF CREDIT RISK (CONTINUED)

Accounts Receivable

Essentially all of the Blood Bank’s business is conducted with hospitals in Southern California. Substantially all of the accounts receivable balance was due from hospitals and was unsecured at June 30, 2022. The Blood Bank’s allowance for returns and doubtful accounts has historically been adequate to cover existing credit risks. The Blood Bank had two customers that comprised 30% of total accounts receivable during the year ended June 30, 2022.

Promises to Give

During the year ended June 30, 2022, the Blood Bank had one donor that comprised 74% of total promises to give.

Revenue

During the year ended June 30, 2022, the Blood Bank had one customer that comprised 11% of total revenue.

Revenue from Government Contracts

During the year ended June 30, 2022, the Blood Bank had one grantor that comprised 100% and two grantors that comprised 100% of total revenue from government contracts, respectively.

Contributions

During the year ended June 30, 2022, the Blood Bank had one donor that comprised 49% and one donor that comprised 21% of total contributions, respectively.

Labor Subject to Collective Bargaining Agreements

Nurses employed by the Blood Bank are subject to a collective bargaining agreement which expires September 30, 2023. Nurses account for approximately 9% of the labor force employed by the Blood Bank.

NOTE 4 PROMISES TO GIVE

Promises to give consist of the following as of June 30:

	2022
Due in Less than One Year	\$ 87,735
Due in One to Five Years	-
Total	\$ 87,735

Long-term promises to give are included in deposits and other assets on the consolidated statements of financial position. No discount was considered necessary at June 30, 2022 due to the minimal effect it would have on the consolidated financial statements. No allowance was considered necessary at June 30, 2022 because management believes that all amounts are collectible.

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2022**

NOTE 5 INVESTMENTS

Blood Centers of America, Inc.

The Blood Bank purchased a voting membership in Blood Centers of America, Inc., (BCA). BCA is a cooperative representing community blood centers located throughout the United States. BCA's focus is on improving the operations and business activities of the member blood centers. BCA provides contract management for the purchase and sale of medical plastics, therapeutic proteins, and recovered plasma. BCA provides an active blood exchange that assures an adequate supply of blood to all member centers and shares excesses with other nonmember centers. BCA provides technology partnering for product development, clinical trials, product testing and implementation work groups. Voting members have (i) the right to vote, (ii) the right to share in any patronage dividend or other distributions made by BCA, and (iii) the right to share in the assets of BCA upon liquidation. There are currently approximately 37 unrelated nonprofit blood banks that have voting memberships in BCA at June 30, 2022. The Blood Bank owns approximately 3% of BCA. The investment in BCA was recorded at the equity method of \$575,568 at June 30, 2022.

National Blood Collaborative, LLC

The Blood Bank is one of the founding members of National Blood Collaborative, LLC (NBC), a national network of leading blood centers coming together to provide capacity to respond to the increasing economic demands of hospitals and healthcare systems across the United States. At June 30, 2022, the Blood Bank owned approximately 10% of NBC. The investment in NBC was recorded at the equity method of \$52,211 at June 30, 2022.

Investment in Excellos

As a result of the agreement entered into and effective November 5, 2021, the Blood Bank owns approximately 40% of Excellos. The Blood Bank transferred assets with a net book value of \$1,059,095 in exchange for its ownership interest. The Blood Bank elected to measure the equity security at its cost minus impairment, if any, as there is not readily determinable fair value and the asset does not qualify for the practical expedient to estimate fair value in accordance.

The schedule below summarizes the activity of the investments above:

	Blood Centers of America, Inc	National Blood Collaborative , LLC	Community Bio Inc.	Total
Ending Balance, June 30 2020	\$ 488,683	\$ 28,350	\$ -	\$ 517,033
Total Gains (Losses):				
Included in Realized/Unrealized	213,320	(26,875)	-	186,445
Purchases, Issuances and Redemptions, Net	-	29,000	19,234	48,234
Ending Balance, June 30 2021	702,003	30,475	19,234	751,712
Total Gains (Losses):				
Included in Realized/Unrealized	(126,435)	(13,264)	-	(139,699)
Purchases, Issuances and Redemptions, Net	-	35,000	1,059,095	1,094,095
Ending Balance, June 30 2022	<u>\$ 575,568</u>	<u>\$ 52,211</u>	<u>\$ 1,078,329</u>	<u>\$ 1,706,108</u>

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2022**

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2022
Building and Improvements	\$ 17,221,206
Land	6,480,629
Equipment, Furniture, and Fixtures	6,902,421
Vehicles	4,318,098
Data Processing Equipment	2,482,051
Software	580,464
Construction-in-Progress	752,046
Subtotal	38,736,915
Less: Accumulated Depreciation	(15,027,707)
Total	\$ 23,709,208

NOTE 7 NOTES PAYABLE

On August 6, 2021, the Blood Bank entered into a new tax-exempt loan of \$10,451,131 and a taxable loan of \$290,336. Both obligations are amortized over a 30-year period with monthly principal and interest payments starting October 1, 2021 and have termination dates of September 1, 2031. These new loans were used to pay off prior obligations, as of August 6, 2021, of \$7,710,679 and \$262,891 both originated in December 2013, a loan balance of \$647,121 originated in May 2015 and obligations of \$450,000 relating to interest rate swap agreements associated with the 2013 obligations. The new loans also made \$1,450,000 available as a "Project Fund" allowing for long-term infrastructure and equipment acquisitions and improvements. \$154,811 of loan costs and origination fees were capitalized as part of the transaction and will be amortized over the term of the loan. All obligations are secured by the commercial property at 3636 Gateway Center Ave, San Diego, California.

Notes payable consists of the following at June 30:

Description	2022
<p>Note payable which is held by City National Bank in the original amount of \$10,451,131 and bears interest at fixed rate of 1.35% plus the secured overnight financing rate listed by Federal Reserve Bank of New York, except that effective September 1, 2021, the Blood Bank entered into an interest rate swap agreement (Note 9) that fixed the interest rate of the note at 2.69% per annum. Payments of principal (fixed monthly amounts ranging from \$17,633 to \$23,433 and interest payments are due monthly. Secured by a deed of trust on real property. Accrued interest payable totaled \$18,523 at June 30, 2022,</p>	\$ 10,259,813

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2022**

NOTE 7 NOTES PAYABLE (CONTINUED)

Description	2022
<p>Note payable which is held by City National Bank in the original amount of \$290,336 and bears interest at fixed rate of 1.75% plus the secured overnight financing rate listed by Federal Reserve Bank of New York, except that effective September 1, 2021, the Blood Bank entered into an interest rate swap agreement (Note 9) that fixed the interest rate of the note at 3.09% per annum. Payments of principal (fixed monthly amounts ranging from \$427 to \$570 and interest payments are due monthly. Secured by a deed of trust on real property. Accrued interest payable totaled \$499 at June 30, 2022,</p>	\$ 285,886
<p>Multiple notes payable which are held by various lenders that originated October 15, 2015 through June 1, 2020 in the original amount of \$750,746 and bear interest from 0% to 10%. Principal is payable monthly beginning October 15, 2015 through June 1, 2020 and is due September 5, 2018 through January 1, 2025. Secured by equipment.</p>	326,381
Subtotal	10,872,080
Less: Amortized Loan Issuance Costs	(148,230)
Less: Current Portion	(448,114)
Total	<u>\$ 10,275,736</u>

The Blood Bank is subject to compliance with certain debt covenants. The Blood Bank received waivers for covenant noncompliance for the year ended June 30, 2022.

Future principal payments on notes payable as of June 30, 2022 are as follows:

Year Ending June 30,	Amount
2023	\$ 448,114
2024	333,810
2025	313,112
2026	260,348
2027	266,803
Thereafter	9,249,893
Total	<u>\$ 10,872,080</u>

SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2022

NOTE 8 INTEREST RATE SWAPS

The Blood Bank entered into two interest rate swap agreements (IRSA) with a financial institution in regards to the notes payable described in Note 7. In accordance with the agreements, the Blood Bank pays interest at a fixed rate of 2.69% and 3.09% per annum, respectively, through the termination date of September 1, 2031.

The fair value of the IRSA's are recorded on the consolidated statements of financial position as either an asset or liability at fair value with changes in the fair value recorded as a change in net assets in the period of the change.

NOTE 9 PENSION PLAN

Effective June 30, 2009, the Blood Bank amended the defined benefit pension plan (Plan) to freeze benefit accruals for all participants except those covered under terms of a collective bargaining agreement. Effective December 10, 2011, the Plan has been amended to freeze benefit accruals for participants covered under the terms of a collective bargaining agreement. The Blood Bank contributed \$681,312 to the Plan for the year ended June 30, 2022. The Plan's assets are invested in an annuity contract with an insurance company and a diversified portfolio of stocks and bonds. The annual periodic benefit cost totaling \$673,501 for the year ended June 30, 2022, has been included in salaries, related costs and benefits in the consolidated statements of functional expenses.

The changes in projected benefit obligations and fair value of plan assets are as follows at June 30:

	2022
Change in Benefit Obligation:	
Benefit Obligation - Beginning of Year	\$ 25,908,560
Interest Cost	673,280
Benefit Paid	(1,244,258)
Actuarial Loss (Gain)	(3,992,277)
Settlements	(5,587,000)
Benefit Obligation - End of Year	\$ 15,758,305
Change in Plan Assets:	
Plan Assets - Beginning of Year	\$ 21,569,244
Actual Return on Plan Assets	(2,729,543)
Employer Contributions	673,501
Benefits Paid	(1,244,258)
Settlements	(5,587,000)
Plan Assets - End of Year	\$ 12,681,944
Funded Status Plan at End of Year (Underfunded):	
Pension Liability	\$ (3,076,361)

Amounts recognized in nonoperating expenses and net assets without donor restrictions but have not yet been recognized in net periodic pension costs at June 30:

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2022**

NOTE 9 PENSION PLAN (CONTINUED)

	<u>2022</u>
Unrecognized Net Actuarial Loss	<u>\$ 5,097,430</u>

The following weighted-average assumptions were used to determine benefit obligations and net periodic benefit costs as of and for the year ended June 30:

	<u>2022</u>
Discount Rate	2.65 %
Expected Return on Plan Assets	7.0
Rate of Compensation Increase	N/A

The Blood Bank reviews the assumptions used by the Plan on an annual basis. The rate of compensation increase does not apply to the Plan since the Plan has been frozen. The discount rate is an estimate used to discount future cash flows to the present to account for the time value of money and is one of the factors in determining the benefit obligation of the Plan. The discount rate used by the Plan is highly sensitive and changes to the discount rate can have a significant impact on the calculation of the benefit obligation of the Plan.

The components of net periodic pension cost are as follows for the year ended June 30:

	<u>2022</u>
Service Cost	\$ -
Interest Cost	673,280
Expected Return on Assets Net of Expenses	(1,249,872)
Deferral of Assets Loss	365,840
Net Periodic Pension Cost	<u>\$ (210,752)</u>

Other changes in amounts included in nonoperating expenses and net assets for the year ended June 30:

	<u>2022</u>
Assumption Loss at End of Year	\$ 320,145
Asset Loss at End of Year	<u>(365,840)</u>
Total Recognized in Nonoperating Expenses	<u>\$ (45,695)</u>
Total Recognized in Net Periodic Benefit Cost	<u>\$ (256,447)</u>

Plan assets by category at June 30:

	<u>2022</u>
Equity Securities and Mutual Funds	70 %
Debt Securities and Mutual Funds	12
Other	18
Total	<u>100 %</u>

SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2022

NOTE 9 PENSION PLAN (CONTINUED)

The investment objective for the assets of the defined benefit pension plan portfolio is to generate a total rate of return, including income and capital appreciation, sufficient to enhance the ability of the plan to meet its obligations to plan participants and their beneficiaries when due without taking unnecessary risk of long-term capital decline.

Investment policies and strategies governing the assets of the plan are designed to achieve investment objectives within prudent risk parameters. Risk management practices include the use of an external investment manager and the maintenance of a portfolio diversified by asset class, investment approach and security holdings, and the maintenance of sufficient liquidity to meet benefit obligations as they come due.

Current policies for the plan target an asset mix of 70% in total equity securities, and the remainder in fixed income securities and guaranteed investment income fund.

The Blood Bank expects to make contributions totaling \$681,312 to the Plan for the year ended June 30, 2022.

NOTE 9 PENSION PLAN (CONTINUED)

The following benefit payments are expected to be paid over the next 10 fiscal years ending June 30:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 913,376
2024	961,976
2026	985,777
2026	1,010,556
2027	1,022,960
2028-2032	5,360,698

These amounts are based on current data and assumptions and reflect expected future services, as appropriate.

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2022**

NOTE 10 RESTRICTIONS ON NET ASSETS

Net assets with donor restrictions consist of the following at June 30:

	2022
Purpose Restrictions:	
Fleet of Lifesaving Vehicles	\$ 23,756
Equipment and Software	728,514
Blood Collections and Drives	55,185
Emergency Preparedness	6,856
Help a Cancer Patient	105,969
Other	23,578
Total Purpose Restrictions	943,858
Time Restricted:	
Equipment and Software	87,500
Blood Collections and Drives	1,023
Total Time Restrictions	88,523
Total	\$ 1,032,381

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended June 30:

	2022
Satisfaction of Purpose Restrictions:	
Fleet of Lifesaving Vehicles	\$ 567,884
Equipment and Software	506,000
Blood Collections and Drives	15,000
Other	16,900
Total	\$ 1,105,784

NOTE 11 LEASE INCOME

The Blood Bank owns the building located at 3636 Gateway Center Avenue, San Diego, California and leases the facility space to an unrelated party under an operating lease which expires on June 30, 2021, and provides for a renewal option through January 1, 2022. The lease includes scheduled rent increases and an additional charge for common area maintenance costs. The Blood Bank leases rooftop space on its building at 3636 Gateway Center, San Diego, California under an operating lease which expires in August 31, 2026 and is automatically renewed for four additional five-year terms unless written notice of intent to terminate is made. The Blood Bank leases a portion of its building to an unrelated party under an operating lease which expires on January 31, 2025, and provides for two renewal options through January 31, 2030. Lease income totaled \$912,705 for the year ended June 30, 2022.

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2022**

NOTE 11 LEASE INCOME (CONTINUED)

Future minimum lease income as of June 30, 2022 is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 335,472
2024	86,706
2025	61,210
2026	26,000
2027	26,000
Thereafter	1,460,818
Total	<u>\$ 1,996,206</u>

NOTE 12 COMMITMENTS AND CONTINGENCIES

Retirement Plans

The Blood Bank offers employees the opportunity for participation in a 403(b) retirement plan. Employees may contribute to the 403(b) retirement plan up to the maximum amount allowed by the Internal Revenue Code. The Blood Bank makes up to a 3% discretionary contribution. The Blood Bank had also established the San Diego Blood Bank Money Purchase Pension Plan (MPP Plan). The Blood Bank contributed an amount equal to 5% of a participant's compensation earned while an eligible employee. Employees could not contribute to the MPP Plan. The Plan was terminated during the year ended June 30, 2020. The Blood Bank contributed \$489,311 to these retirement plans for the year ended June 30, 2022, which is included in salaries, related costs and benefits on the consolidated statements of functional expenses.

Operating Leases

The Blood Bank has several noncancelable operating leases for facilities that expire at various dates through October 2024. These leases generally contain renewal options for periods ranging from 5 to 10 years and require the Blood Bank to pay common area maintenance charges. Leases and common area maintenance charges for these leases totaled \$796,434 for the year ended June 30, 2022.

Minimum future lease payments as of June 30, 2022 are due as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 817,461
2024	671,157
2025	554,568
2026	521,811
Thereafter	241,553
Total	<u>\$ 2,806,550</u>

SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2022

NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Purchase Commitments

The Blood Bank has agreements with several suppliers obligating it to purchase a minimum amount of certain products. These agreements are related to certain supplies and equipment used by the Blood Bank in its operations.

In September 2022, Blood Bank entered into \$915,000 purchase agreements to acquire two new Bloodmobiles to update their fleet. The new vehicles incorporate modern technology, including solar-powered generators that replace pollution causing diesel generators that power the vehicle while at the mobile collection site. Of the older internal combustion engine fleet, two bloodmobiles were donated to Global Blood Initiative to further the mission of blood collection in underserved populations around the world.

Sales Commitments

The Blood Bank has agreements with several hospitals to provide blood products.

Loss Contingencies

The Blood Bank was involved in two pending lawsuits for activity that took place prior to June 30, 2020. Loss contingencies of \$421,700 were included in accrued expenses as of June 30, 2020. As of June 30, 2021, \$385,700 remained as an accrued liability, and was settled in-full on July 7, 2021; other than this now settled matter, no new loss contingencies existed as of June 30, 2022.

NOTE 13 LINE OF CREDIT

At June 30, 2022, the Blood Bank had a line of credit (LOC) with a financial institution in the amount of \$4,000,000 at a variable interest rate of Prime Rate plus 0.25%, with a Floor of 2.5%. There were no amounts outstanding on the LOC at June 30, 2022. The LOC is secured by commercial property at 3636 Gateway Center Ave, San Diego, California and matures August 1, 2024.

NOTE 14 RELATED PARTY TRANSACTIONS

Activity related to Excellos, in which the Blood Bank owns approximately 40% interest, includes revenue related to product sales, services, lease income, and royalty income. The Blood Bank recognized \$695,506 of revenue related product sales, services, and lease income during the year ended June 30, 2022, of which \$347,018 was a receivable as of June 30, 2022.

In addition, the Blood Bank recognized a receivable of \$179,236 as of June 30, 2022 for various expenses paid on behalf of Excellos. The Blood Bank also billed customers on behalf of Excellos until February 2023. There was outstanding amount due to Excellos, for cash collected but not yet transferred to Excellos, as of June 30, 2022.

SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2022

NOTE 14 RELATED PARTY TRANSACTIONS (CONTINUED)

As part of the agreement between the Blood Bank and Excellos, Excellos is to pay the Blood Bank a royalty fee of 3% of net revenues until January 1, 2026. The Blood Bank recognized \$99,142 of royalty income during the year ended June 30, 2022, of which \$98,560 was a receivable as of June 30, 2022.

The Blood Bank has one additional related party customer. The Blood Bank recognized \$6,013,743 of revenue related to this customer during the year ended June 30, 2022. The Blood Bank has recognized deferred revenue of \$240,188 as of June 30, 2022 related to this customer.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Audit Committee
San Diego Blood Bank
San Diego, California

We have audited, in accordance with the 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 consolidated financial statements of San Diego Blood Bank (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 30, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered San Diego Blood Bank's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of San Diego Blood Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of San Diego Blood Bank's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

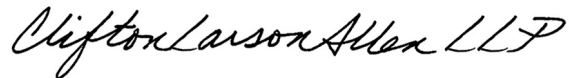
As part of obtaining reasonable assurance about whether San Diego Blood Bank’s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. 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*.

San Diego Blood Bank’s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the San Diego Blood Bank’s response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The San Diego Blood Bank’s response was not subjected to the other auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

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 the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

San Diego, California
March 30, 2023



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE,
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Audit Committee
San Diego Blood Bank
San Diego, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited San Diego Blood Bank 's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of San Diego Blood Bank 's major federal programs for the year ended June 30, 2022. San Diego Blood Bank 's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, San Diego Blood Bank complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of San Diego Blood Bank and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of San Diego Blood Bank 's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to San Diego Blood Bank 's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on San Diego Blood Bank 's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about San Diego Blood Bank 's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding San Diego Blood Bank 's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of San Diego Blood Bank 's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of San Diego Blood Bank 's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2022-002 and 2022-003. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on San Diego Blood Bank's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. San Diego Blood Bank's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance


Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-002 and 2022-03, to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on San Diego Blood Bank's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. San Diego Blood Bank's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

San Diego, California
March 30, 2023

SAN DIEGO BLOOD BANK
SCHEDULE OF EXPEDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2022
(SEE INDEPENDENT AUDITORS' REPORT)

Federal/Pass-Through Grantor and Program Title	Federal Assistance Listing Number	Agency or Pass-Through Grantor No.	Passed- Through to Subrecipients	Expenditures
Research and Development Cluster:				
<u>U.S. Department of Health & Human Services</u>				
Pass-Through The Scripps Research Institute:				
Trans-NIH Research Support	93.310	U24OD023176	\$ 156,632	\$ 1,351,376
Total Expenditures of Federal Awards			<u>\$ 156,632</u>	<u>\$ 1,351,376</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**SAN DIEGO BLOOD BANK
NOTES TO SCHEDULE OF EXPEDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2022**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the San Diego Blood Bank and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative* Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

San Diego Blood Bank elected to use the 10% de minimus cost rate as covered in the Uniform Guidance 2 CFR section 200.414 indirect costs.

**SAN DIEGO BLOOD BANK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? x yes no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes x none reported
3. Noncompliance material to financial statements noted? yes x no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? yes x no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? x yes none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? x yes no

Identification of Major Federal Programs

Assistance Listing Number(s)

93.310

Name of Federal Program or Cluster

Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee pursuant to OMB Circular A-133?

 yes x no

**SAN DIEGO BLOOD BANK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022**

Section II – Consolidated Financial Statement Findings

Finding 2022-001: Accounting Processes and Year-End Closing Procedures

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria or Specific Requirement:

Internal controls should be in place to provide reasonable assurance that the consolidated financial statements are prepared in accordance with U.S. GAAP.

Condition:

We identified several significant adjusting journal entries while performing the audit to correct errors that should have been made by the accounting department.

Cause:

Key financial and accounting personnel left during the year which made it challenging to detect the adjustments made as part of the audit and ensure accurate financial reporting.

Effect:

Financial statements could have been misstated.

Recommendation:

We recommend the Blood Bank review and assess policy manuals, process models, flowcharts, job descriptions, documents, and forms used in establish and reinforce established policies and procedures, evaluating performance, or training a new employee to perform the process.

Management Response: Please refer to the attached Corrective Action Plan.

**SAN DIEGO BLOOD BANK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022**

Section III – Federal Award Findings and Questioned Costs

2022-002 – Time and Effort Documentation

Federal Agency: Department of Health and Human Services
Federal Program: Research and Development Cluster
Assistance Listing Number: 93.310 – Trans-NIH Research Support

Award Period: July 1, 2021 to June 30, 2022

Type of Finding: Significant Deficiency in Internal Control over Compliance; Other Matter

Criteria or Specific Requirement:

According to Code of Federal Regulations, 200 CFR 200.430(i), the minimum time and effort documentation must be supported by a system of internal controls which provides reasonable assurance that charges are accurate, allowable and allocable; be incorporated into official records; reasonably reflect total activity for which the employee is compensated; encompass all activities (federal and nonfederal); comply with established accounting policies and practices; and support distribution among specific activities or cost objectives.

Condition:

We noted the charges for one employee was not supported by the established time and effort documentation. This discrepancy was noted for 1 out of 35 samples tested, which was statistically valid.

Questioned Costs:

\$1,653 (known), \$16,540 (likely)

Context:

The employee's time and effort accounted for \$14,887 of the \$816,606 total personnel expenses charged to the program audit the award period.

Cause:

The employee's time and effort on the program was not captured within the Blood Bank's timekeeping system.

Effect:

The condition identified led to noncompliance with federal time and effort documentation requirement.

Repeat Finding:

Yes, 2021-001

Recommendation:

We recommend the Blood Bank implement procedures to ensure all personnel charges to the program are supported by the minimum time and effort documentation outlined within 200 CFR 200.430.

Views of Responsible Officials and Planned Corrective Actions

Please refer to the attached Corrective Action Plan.

**SAN DIEGO BLOOD BANK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022**

2022-003 – Indirect Costs Based on Modified Total Direct Costs

Federal Agency: Department of Health and Human Services
Federal Program: Research and Development Cluster
Assistance Listing Number: 93.310 – Trans-NIH Research Support

Award Period: July 1, 2021 to June 30, 2022

Type of Finding: Significant Deficiency in Internal Control over Compliance; Other Matter

Criteria or Specific Requirement:

According to Code of Federal Regulations, 200 CFR 200.68, the recipient must exclude rental costs from the Modified Total Direct Costs (MTDC) subject to the indirect cost rate.

Condition:

\$96,000 rent (\$8,000 a month) was included in the MTDC calculation subject the indirect cost rate. Upon testing three of the 12 monthly invoices, we further confirmed all 12 invoices included the rental costs.

Questioned Costs:

\$9,600 (known)

Context:

\$96,000 rent (\$8,000 a month) was included in the MTDC calculation subject the indirect cost rate.

Cause:

MTDC calculation did not exclude rental costs.

Effect:

The condition identified led to noncompliance with respect to reimbursement of the rent at the 10% de minimis indirect cost rate.

Repeat Finding:

No

Recommendation:

We recommend the Blood Bank implement procedures to ensure only allowable charges outlined within 200 CFR 200.68 are included in the MTDC subject to the indirect cost rate.

Views of Responsible Officials and Planned Corrective Actions

Please refer to the attached Corrective Action Plan.

**SAN DIEGO BLOOD BANK
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2022**

U.S. Department of Health & Human Services

San Diego Blood Bank respectfully submits the following corrective action plan for the year June 30, 2022.

Audit period: July 1, 2021 - June 30, 2022

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS—FINANCIAL STATEMENT AUDIT

2022-001 Accounting Processes and Year-End Closing Procedures

Recommendation: We recommend the Blood Bank review and assess policy manuals, process models, flowcharts, job descriptions, documents, and forms used to establish and reinforce established policies and procedures, evaluating performance, or training a new employee to perform the process.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: Monthly review of fixed asset subledger reconciliation to the general ledger balance sheet account. Semi-annual review of investment financials (BCA and NBC) to adjust equity ownership valuation.

Names of the contact persons responsible for corrective action: Bryan Eleazar, CFO; Lisa Alexander, Direct of Grant Accounting; Jeanette Lysse, Controller

Planned completion date for corrective action plan: April 1, 2023 via FloQast

FINDINGS—FEDERAL AWARD PROGRAMS AUDITS

U.S. Department of Health & Human Services

2022-002 Research and Development Cluster – Assistance Listing No. 93.310

Recommendation: We recommend the Blood Bank implement procedures to ensure all personnel charges to the program are supported by the minimum time and effort documentation outlined within 200 CFR 200.430.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The Blood Bank added review and approval processes to compare actual vs budgeted vs allowable time and effort.

Names of the contact persons responsible for corrective action: Bryan Eleazar, CFO; Lisa Alexander, Direct of Grant Accounting; Jeanette Lysse, Controller

Planned completion date for corrective action plan: Completed October 29, 2021

**SAN DIEGO BLOOD BANK
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2022**

2022-003 Research and Development Cluster – Assistance Listing No. 93.310

Recommendation: We recommend the Blood Bank implement procedures to ensure only allowable charges outlined within 200 CFR 200.68 are included in the Modified Total Direct Costs (MTDC) subject to the indirect cost rate.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The Blood Bank added review and approval processes to ensure only allowable charges are included in the MTDC subject to the indirect cost rate.

Names of the contact persons responsible for corrective action: Bryan Eleazar, CFO; Lisa Alexander, Direct of Grant Accounting; Jeanette Lysse, Controller

Planned completion date for corrective action plan: March 31, 2023

If the U.S. Department of Health & Human Services has questions regarding this plan, please call Bryan Eleazar, Chief Financial Officer, at 619-400-8235.

**SAN DIEGO BLOOD BANK
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2021**

U.S. Department of Health & Human Services

San Diego Blood Bank respectfully submits the following summary schedule of prior audit findings for the year ended June 30, 2021.

Audit period: July 1, 2020 - June 30, 2021

The findings from the prior audit's schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the prior year.

FINDINGS—FINANCIAL STATEMENT AUDIT

2021-001 – Year-End Financial Close Process

Condition: We noted the charges for one employee was not supported by the established time and effort documentation. This discrepancy was noted for 2 out of 43 samples tested, which was statistically valid.

Status: Not corrected, see finding 2022-001

If the U.S. Department of Health & Human Services has questions regarding this schedule, please call Bryan Eleazar, Chief Financial Officer, at 619-400-8235.



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