



SAN DIEGO BLOOD BANK

FINANCIAL STATEMENTS

JUNE 30, 2010



Leaf & Cole, LLP
Certified Public Accountants

**SAN DIEGO BLOOD BANK
FINANCIAL STATEMENTS
JUNE 30, 2010**

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Independent Auditor's Report

To the Board of Directors
San Diego Blood Bank
440 Upas Street
San Diego, California 92103

We have audited the accompanying statement of financial position of San Diego Blood Bank as of June 30, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2009 financial statements and in our report dated September 4, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Diego Blood Bank as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Leaf & Cole LLP
San Diego, California
September 8, 2010

SAN DIEGO BLOOD BANK
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

ASSETS

	<u>2010</u>	<u>2009</u>
<u>Current Assets:</u> (Notes 1, 2 and 5)		
Cash and cash equivalents:		
Unrestricted	\$ 2,675,563	\$ 901,336
Temporarily restricted	559,438	585,710
Permanently restricted	326,995	315,995
Total cash and cash equivalents	<u>3,561,996</u>	<u>1,803,041</u>
Restricted cash and investments	-	150,000
Accounts receivable, net	5,985,118	5,531,355
Blood deposits receivable (Navy)	39,284	11,621
Inventories:		
Whole blood and blood components	1,744,214	1,815,800
Supplies	511,712	542,804
Prepaid expenses and other	272,124	279,258
Total Current Assets	<u>12,114,448</u>	<u>10,133,879</u>
<u>Noncurrent Assets:</u> (Notes 1, 3, 4 and 5)		
Property and equipment, net	21,747,797	5,783,545
Deposits	109,873	145,196
Total Noncurrent Assets	<u>21,857,670</u>	<u>5,928,741</u>
TOTAL ASSETS	<u><u>\$ 33,972,118</u></u>	<u><u>\$ 16,062,620</u></u>

The accompanying notes are integral part of the financial statements.

SAN DIEGO BLOOD BANK
STATEMENT OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
<u>Current Liabilities:</u> (Note 1)		
Accounts payable	\$ 2,094,412	\$ 2,128,165
Accrued salaries, payroll taxes and benefits	2,108,818	2,061,684
Advance blood deposits	50,000	50,000
Donor recognition	1,675,239	1,424,053
Current portion of long-term liabilities	526,312	243,107
Total Current Liabilities	<u>6,454,781</u>	<u>5,907,009</u>
<u>Long-Term Liabilities:</u> (Notes 6, 7 and 8)		
Notes payable, net of current portion	15,796,800	190,000
Capital lease obligations, net of current portion	360,380	331,943
Accrued pension liability	2,507,983	3,406,600
Total Long-Term Liabilities	<u>18,665,163</u>	<u>3,928,543</u>
Total Liabilities	<u>25,119,944</u>	<u>9,835,552</u>
<u>Obligation Under Interest Rate Swap</u> (Notes 1 and 6)	<u>343,783</u>	<u>-</u>
<u>Commitments and Contingencies</u> (Notes 4 and 11)		
<u>Net Assets:</u> (Notes 1, 9 and 10)		
Unrestricted	7,621,958	5,320,322
Temporarily restricted	559,438	590,751
Permanently restricted	326,995	315,995
Total Net Assets	<u>8,508,391</u>	<u>6,227,068</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 33,972,118</u></u>	<u><u>\$ 16,062,620</u></u>

The accompanying notes are integral part of the financial statements.

**SAN DIEGO BLOOD BANK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)**

	2010				
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>2009</u>
<u>Revenue and Support:</u>					
Processing fees	\$ 39,049,268	\$ -	\$ -	\$ 39,049,268	\$ 40,325,633
Blood services	5,581,445	-	-	5,581,445	5,101,289
Contributions	335,373	557,288	11,000	903,661	997,481
Research components	144,689	-	-	144,689	117,931
In-kind contributions	37,816	-	-	37,816	45,501
Interest income	28,601	-	-	28,601	50,716
Other income	54,266	-	-	54,266	33,529
Loss on disposal of property and equipment	(14,444)	-	-	(14,444)	(6,770)
Contractual and family plan allowances	(513,714)	-	-	(513,714)	(632,634)
Net assets released from restrictions	<u>588,601</u>	<u>(588,601)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	<u>45,291,901</u>	<u>(31,313)</u>	<u>11,000</u>	<u>45,271,588</u>	<u>46,032,676</u>
<u>Operating Expenses:</u>					
<u>Program Services:</u>					
Drawing, processing, distribution and laboratory	<u>40,614,745</u>	<u>-</u>	<u>-</u>	<u>40,614,745</u>	<u>41,487,000</u>
<u>Supporting Services:</u>					
General and administrative	2,054,276	-	-	2,054,276	2,159,995
Fundraising	<u>470,359</u>	<u>-</u>	<u>-</u>	<u>470,359</u>	<u>487,554</u>
Total Supporting Expenses	<u>2,524,635</u>	<u>-</u>	<u>-</u>	<u>2,524,635</u>	<u>2,647,549</u>
Total Operating Expenses	<u>43,139,380</u>	<u>-</u>	<u>-</u>	<u>43,139,380</u>	<u>44,134,549</u>
Change in Net Assets From Operating Activities	2,152,521	(31,313)	11,000	2,132,208	1,898,127
<u>Nonoperating (Income) Expenses:</u>					
Pension related changes other than net periodic pension cost	(492,898)	-	-	(492,898)	386,762
Change in fair value of interest rate swap	<u>343,783</u>	<u>-</u>	<u>-</u>	<u>343,783</u>	<u>-</u>
Change in Net Assets	2,301,636	(31,313)	11,000	2,281,323	1,511,365
Net Assets at Beginning of Year	<u>5,320,322</u>	<u>590,751</u>	<u>315,995</u>	<u>6,227,068</u>	<u>4,715,703</u>
NET ASSETS AT END OF YEAR	<u>\$ 7,621,958</u>	<u>\$ 559,438</u>	<u>\$ 326,995</u>	<u>\$ 8,508,391</u>	<u>\$ 6,227,068</u>

The accompanying notes are integral part of the financial statements.

SAN DIEGO BLOOD BANK
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)

	2010				
	Drawing, Processing, Distribution and <u>Laboratory</u>	General and <u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>2009</u>
Salaries and related	\$ 20,949,952	\$ 1,468,338	\$ 252,492	\$ 22,670,782	\$ 22,738,235
Supplies	12,741,435	17,172	14,564	12,773,171	13,394,073
Advertising	966,085	43	8,217	974,345	1,124,838
Depreciation	854,166	70,234	2,411	926,811	882,645
Equipment maintenance	902,552	73,681	1,203	977,436	862,332
Community relations	659,351	6,865	-	666,216	844,449
Lease expense	810,754	734	-	811,488	778,847
Consultants	165,825	152,100	7,132	325,057	644,279
Vehicle expenses and mileage	535,306	3,575	5,815	544,696	518,052
Shipping and postage	282,968	-	25,202	308,170	413,577
Utilities	305,464	32,341	-	337,805	377,937
Insurance	303,359	33,865	219	337,443	357,832
Blood purchases	412,006	-	-	412,006	300,183
Telephone	183,482	13,266	535	197,283	240,087
Bad debts	(67,062)	-	-	(67,062)	170,518
Equipment rental	113,876	24,202	8,345	146,423	155,609
Sanitation	122,987	505	-	123,492	114,104
Printing	43,480	59	20,255	63,794	112,833
Dues and periodicals	28,944	68,928	42	97,914	98,680
Security	80,556	10,933	-	91,489	84,383
Interest expense	90,304	3,763	-	94,067	69,390
Donor cultivation	-	-	103,114	103,114	65,433
Legal	-	29,906	-	29,906	45,455
In-kind expenses	6,290	-	14,676	20,966	44,223
Permits and licenses	41,601	-	24	41,625	37,238
Travel, conference, and education	24,182	5,669	535	30,386	34,861
Audit	-	24,150	-	24,150	23,500
Laundry	13,269	-	-	13,269	11,372
Bank charges	2,391	-	5,578	7,969	8,764
Miscellaneous	79	13,947	-	14,026	6,581
Taxis (net)	(11,099)	-	-	(11,099)	(29,250)
Earned discounts	(19,344)	-	-	(19,344)	(93,456)
Blood inventory adjustment	71,586	-	-	71,586	(303,055)
TOTAL FUNCTIONAL EXPENSES	\$ 40,614,745	\$ 2,054,276	\$ 470,359	\$ 43,139,380	\$ 44,134,549

The accompanying notes are integral part of the financial statements.

SAN DIEGO BLOOD BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)

	<u>2010</u>	<u>2009</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ 2,281,323	\$ 1,511,365
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	926,811	882,645
Loss on disposal of property and equipment	14,444	6,770
Permanently restricted contributions	(11,000)	(351)
Change in fair value of interest rate swap	343,783	-
(Increase) Decrease in:		
Accounts receivable	(453,763)	345,914
Blood deposits receivable (Navy)	(27,663)	(11,621)
Inventories	102,678	(309,713)
Prepaid expenses and other	7,134	9,848
Deposits	35,323	(17,996)
Increase (Decrease) in:		
Accounts payable	(33,753)	(171,704)
Accrued salaries, payroll taxes and benefits	47,134	236,195
Donor recognition	251,186	420,550
Blood deposits payable (Navy)	-	(1,444)
Accrued pension liability	(898,617)	(166,170)
Net Cash Provided by Operating Activities	<u>2,585,020</u>	<u>2,734,288</u>
<u>Cash Flows From Investing Activities:</u>		
Restricted cash released	150,000	-
Proceeds from sale of property and equipment	600	3,585
Purchase of property and equipment	(16,393,089)	(932,224)
Net Cash Used In Investing Activities	<u>(16,242,489)</u>	<u>(928,639)</u>
<u>Cash Flows From Financing Activities:</u>		
Advances on notes payable	16,000,000	-
Repayments on notes payable	(205,561)	(1,087,000)
Repayments on capital lease obligations	(389,015)	(188,228)
Permanently restricted contributions	11,000	351
Net Cash Provided by (Used In) Financing Activities	<u>15,416,424</u>	<u>(1,274,877)</u>

(Continued)

The accompanying notes are an integral part of the financial statements.

SAN DIEGO BLOOD BANK
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)

	<u>2010</u>	<u>2009</u>
Net Increase in Cash and Cash Equivalents	1,758,955	530,772
Cash and Cash Equivalents at Beginning of Year	<u>1,803,041</u>	<u>1,272,269</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>3,561,996</u>	\$ <u>1,803,041</u>
<u>Supplemental Disclosures of Cash Flow Information:</u>		
Interest paid	<u>\$ 72,871</u>	<u>\$ 69,390</u>
<u>Supplemental Disclosures of Noncash Investing and Financing Activities:</u>		
Property and equipment acquired through capital lease obligation	<u>\$ 513,018</u>	<u>\$ 409,412</u>

The accompanying notes are an integral part of the financial statements.

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

Note 1 - Organization and Significant Accounting Policies:

Organization

The San Diego Blood Bank (the “Blood Bank”) was incorporated under the laws of the state of California in 1950 as a Nonprofit Benefit Corporation to provide blood and blood components to hospitals in California. The Blood Bank acquires blood principally by donation and, to some extent, by purchase from other Blood Centers.

Significant Accounting Policies

Method of Accounting

The financial statements of the Blood Bank have been prepared on the accrual basis of accounting which is in accordance with U.S. generally accepted accounting principles and, accordingly, reflect all significant receivables, payables, and other liabilities.

In June 2009, the Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) was issued. The Codification is the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The Codification is effective for financials statements issued for interim and annual periods ending after September 15, 2009. The implementation of this standard did not have a material impact on the financial position and results of operations.

Financial Statement Presentation

The financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

The FASB has issued reporting standards for endowments of not-for-profit Organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and enhanced disclosures for all endowment funds. In October, 2008 California adopted UPMIFA, with an implementation date of January 1, 2009. The standards provide guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The standards also require additional disclosures about endowments (both donor-restricted funds and board-designated funds) to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of its endowment funds.

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 and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Fair Value Measurements

The Blood Bank has adopted the fair value standards for financial assets and liabilities that are required to be measured at fair value on a recurring basis. The Fair Value Measurement standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). These standards do not change existing guidance as to whether or not an instrument is carried at fair value. The Blood Bank had no financial assets or liabilities required to be measured at fair value on a recurring basis at June 30, 2010 and 2009, except for its derivative instrument as described in Note 1 below.

Accounts Receivable

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. The allowance for doubtful accounts totaled \$90,731 and \$202,481 at June 30, 2010 and 2009, respectively.

Blood Deposits (Navy)

The Blood Bank has a blood exchange agreement with the Naval Medical Center, San Diego. The Blood Bank supplies the Navy with processed blood in exchange for priority access to blood donors at specific Navy and Marine Corps installations. The exchange is based upon agreed credits for processed versus unprocessed units. The net credits receivable or payable are recorded at the Blood Banks cost and reported as blood deposits receivable or payable. The blood deposits receivable (Navy) totaled \$39,284 and \$11,621 at June 30, 2010 and 2009, respectively.

Inventories

The cost of whole blood and blood components inventory is determined by valuing blood using drawing and processing costs and certain purchased items but excluding distribution costs and general and administrative expenses.

Inventories of supplies are valued at the lower of cost or market, determined on the first-in, first-out basis.

Contributions

Contributions are recognized when the donor makes a promise to give to the Blood Bank that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Capitalization and Depreciation

Property and equipment are recorded at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long these donated assets must be maintained, the Blood Bank reports expirations of donor restrictions when the donated or acquire assets are placed in service as instructed by the donor. The Blood Bank reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment is depreciated using the straight-line method over the estimated useful asset lives as follows:

Land improvements	10 - 20 years
Building	5 - 40 years
Equipment, furniture, and fixtures	5 - 20 years
Data processing equipment	3 - 20 years
Vehicles	3 - 10 years

Depreciation aggregated \$926,811 and \$882,645 for the years ended June 30, 2010 and 2009, respectively.

Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of land, buildings and equipment, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale and any resultant gain or loss is credited or charged to earnings.

Impairment of Real Estate

The Blood Bank reviews its investment in real estate 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 real estate to the estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of real estate exceeds the fair value of such property. There were no impairment losses recognized in 2010 or 2009.

Compensated Absences

Accumulated unpaid vacation totaling \$1,064,444 and \$1,013,937 at June 30, 2010 and 2009, respectively are accrued when incurred and included in accrued salaries, payroll taxes and benefits.

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Advance Blood Deposits

Effective July 1, 1995, the Blood Bank began implementing the Family Blood Plan to restructure the previous blood donor credit program. The plan provides supplemental coverage for all donors and their immediate families for processing costs for whole blood, packed red cells, platelet concentrates, plasma and cryoprecipitate. If the donor does not have insurance, the Family Blood Plan will cover the processing costs of the blood components listed above. All that is required is that one blood donation be made for the community supply within a twelve month period prior to the date the blood components are used. The Blood Bank reflects this cost as a reduction of revenue and accrues a liability for the estimated liability for advance blood deposits. The advance blood deposits totaled \$50,000 at June 30, 2010 and 2009.

Donor Recognition

The Blood Bank has a reward program to recognize donors of blood. Donors who participate in The Donor Difference program receive Life Saver points with every blood donation. With each donation of blood, donors move higher in life levels. The Life Saver points can be redeemed for Donor Difference merchandise available through the Blood Bank's online store. The Blood Bank accrues a liability for unredeemed Life Points based on the average redemption value of accumulated Life Saver points. The donor recognition liability totaled \$1,675,239 and \$1,424,053 at June 30, 2010 and 2009, respectively.

Derivative Instrument

The accounting and reporting standards related to Derivative Instruments and Hedging Activities requires that every derivative instrument be recorded on the statement of financial position as either an asset or liability as measured at its fair value. The Blood Bank's interest rate swap agreement ("IRSA") as discussed in Note 6 is considered a cash flow hedge and is 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 is considered a Level 3 asset or liability. The change in the fair value of the IRSA is as follows for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Balance at Beginning of Year	\$ -	\$ -
Change in Fair Value of Obligation Under Interest Rate Swap	343,783	-
Balance at End of Year	<u>\$ 343,783</u>	<u>\$ -</u>

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 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. The donated services for the years ended June 30, 2010 and 2009, did not meet the requirements above, therefore no amounts were recognized in the financial statements.

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Donated Services and Materials (Continued)

In-kind contributions consisting of donor cultivation supplies and other supplies with an estimated fair value of \$37,816 and \$45,501 for the years ended June 30, 2010 and 2009, respectively have been recorded as in-kind contribution revenue and fundraising expenses in the statement of activities.

Allocated Expenses

Expenses by function have been allocated among program and supporting services classifications on the basis of internal records and estimates made by the Blood Bank's management.

Income Tax Status

The Blood Bank is a nonprofit California corporation and 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 on income related to its tax exempt purpose. The Blood Bank is not a private foundation.

The Blood Bank uses a loss contingencies approach for evaluating uncertain tax positions and continually evaluates changes in tax law and new authoritative rulings.

Concentration of Credit Risk

The Blood Bank maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Blood Bank has not experienced any losses in such accounts. The Blood Bank believes it is not exposed to any significant credit risk on cash and cash equivalents.

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, 2010 and 2009. The Blood Bank's allowance for doubtful accounts has historically been adequate to cover existing credit risks.

Concentrations of Labor Subject to Collective Bargaining Agreements

Nurses employed by the Blood Bank are subject to a three-year collective bargaining agreement which took effect July 1, 2008. Nurses account for approximately 10% of the labor force employed by the Blood Bank.

Cash and Cash Equivalents

For purposes of the statement 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.

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Comparative Totals for June 30, 2009

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Blood Bank's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

Subsequent Events

In preparing these financial statements, the Blood Bank has evaluated events and transactions for potential recognition or disclosure through September 8, 2010, the date the financial statements were available to be issued.

Note 2 – Restricted Cash and Investments:

Restricted cash and investments consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
Merrill Lynch Collateralized Deposit (Note 5)	\$ <u>-</u>	\$ <u>150,000</u>

Note 3 - Property and Equipment:

Property and equipment consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
Land and land improvements	\$ 7,649,295	\$ 1,517,594
Building	15,252,307	5,463,381
Equipment, furniture, and fixtures	6,002,589	5,458,027
Data processing equipment	6,166,345	6,016,292
Vehicles	2,717,648	2,712,565
Construction in progress	194,403	170,134
Subtotal	<u>37,982,587</u>	<u>21,337,993</u>
Less: Accumulated depreciation	<u>(16,234,790)</u>	<u>(15,554,448)</u>
Property and Equipment, Net	<u>\$ 21,747,797</u>	<u>\$ 5,783,545</u>

Note 4 - Line-of-Credit

On June 6, 2010, the Blood Bank obtained a line-of-credit with Wells Fargo Bank in the amount of \$3,000,000 at an interest rate of the banks index rate plus .25% (3.50% at June 30, 2010). The line-of-credit is renewable on June 20, 2011, and is secured by inventory and equipment. There were no outstanding borrowings on the line-of-credit at June 30, 2010.

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Note 5 - Notes Payable:

Notes payable consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
Note payable which is held by Wells Fargo Bank in the original amount of \$6,000,000 and bears interest at the variable rate of the banks' index rate plus .25% per annum (3.50% at June 30, 2010). Interest is payable monthly. Principal and accrued interest are due November 20, 2011. Secured by a deed of trust on real property. Accrued interest payable totaled \$6,414 at June 30, 2010.	\$ 6,000,000	\$ -
Note payable which is held by Wells Fargo Bank in the original amount of \$10,000,000 and bears interest at the variable rate of LIBOR plus 3.00%, (3.375% at June 30, 2010), except that effective June 9, 2010, the Blood Bank entered into an interest rate swap agreement (Note 6) that fixed the interest rate in regards to \$9,000,000 of the note at 5.75% per annum. Payments of principal (fixed monthly amounts ranging from \$15,561 to \$19,518) and interest are due monthly. Principal and accrued interest are due June 1, 2015. Secured by a deed of trust on real property. Accrued interest payable totaled \$9,375 at June 30, 2010.	9,984,439	-
The Merrill Lynch loan was a reducing revolver loan agreement with a maximum loan available of \$2,800,000. The maximum loan available was reduced monthly (\$2,303,329 at June 30, 2009) by an amount equal to 1/240th of the original loan funding. Interest was payable monthly at the rate of 2.80% per annum plus the one-month LIBOR rate (3.10% at June 30, 2009). The loan was due and payable June, 2014. The loan required a compensating balance of \$150,000 at June 30, 2009, and was secured by a deed of trust on real property. The loan was repaid and closed in 2010.	-	190,000
Total Notes Payable	15,984,439	190,000
Less: Current portion	(187,639)	-
Notes Payable - Long - Term	<u>\$ 15,796,800</u>	<u>\$ 190,000</u>

Future principal payments on the notes payable are as follows:

<u>Years Ended</u> <u>June 30,</u>	
2011	\$ 187,639
2012	6,198,576
2013	210,151
2014	222,391
2015	9,165,682
	<u>\$ 15,984,439</u>

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Note 6 – Obligation Under Interest Rate Swap

Effective June 9, 2010, the Blood Bank entered into an interest rate swap agreement (“IRSA”) with Wells Fargo Bank in regards to \$9,000,000 of the \$10,000,000 note payable described in Note 5. In accordance with the agreement, the Blood Bank pays interest at a fixed rate of 5.75% on the \$9,000,000 through the termination date of June 1, 2015. The fair value of the IRSA is recorded on the statement 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. The fair value of the obligation under interest rate swap liability was \$343,783 at June 30, 2010. Accrued interest payable totaled \$5,344 at June 30, 2010.

Note 7 - Capital Lease Obligations

The Blood Bank leases equipment under capital leases. The economic substance of the leases is that the Blood Bank is financing the acquisition of the assets through the lease, and accordingly, it is recorded in the Blood Bank’s assets and liabilities. The leased property under the capital leases consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
Cost	\$ 1,013,712	\$ 747,509
Less: Accumulated depreciation	<u>(189,431)</u>	<u>(119,101)</u>
Net Book Value	<u>\$ 824,281</u>	<u>\$ 628,408</u>

The future minimum capital lease payments are as follows for the years ended June 30:

<u>Years Ended June 30,</u>	
2011	\$ 371,253
2012	267,304
2013	<u>108,629</u>
Total	747,186
Less: Amount representing interest	<u>(48,133)</u>
Capital Lease Obligations	<u>\$ 699,053</u>

Financial Statement Presentation:	<u>2010</u>	<u>2009</u>
Current portion of long-term liabilities	\$ 338,673	\$ 243,107
Capital lease obligations, net of current portion	<u>360,380</u>	<u>331,943</u>
	<u>\$ 699,053</u>	<u>\$ 575,050</u>

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Note 8 - Pension Plan:

The Blood Bank has a defined benefit pension plan (the "Plan") covering substantially all of its employees. Pension benefits are provided on a formula based on the employee's compensation during the five highest consecutive years of pay before retirement. The Blood Bank contributed \$1,200,000 and \$1,760,000 to the Plan for the years ended June 30, 2010 and 2009, respectively. 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 of \$794,281 and \$1,207,068 for the years ended June 30, 2010 and 2009, respectively has been included in salaries and related costs. Effective June 30, 2009, the Blood Bank amended the Plan to freeze benefit accruals for all participants except those covered under terms of a collective bargaining agreement. This curtailment of benefits reduces the pension benefit obligation by \$2,294,836 for the year ended June 30, 2009.

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

	<u>2010</u>	<u>2009</u>
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 13,797,833	\$ 14,608,951
Experience (gain) /loss	259,350	119,150
Service cost	170,883	789,993
Interest cost	968,539	1,016,389
Benefit paid	(501,857)	(441,814)
Gain due to plan amendment	-	(2,294,836)
Benefit Obligation at End of Year	<u>14,694,748</u>	<u>13,797,833</u>
Change in Plan Assets:		
Fair value of plan assets at beginning of year	10,391,233	11,036,181
Actual return on plan assets	1,297,849	(1,807,594)
Fees paid	(200,460)	(155,540)
Employer contributions	1,200,000	1,760,000
Benefits paid	(501,857)	(441,824)
Fair Value of Plan Assets at End of Year	<u>12,186,765</u>	<u>10,391,233</u>
Funded Status Plan at End of Year (Underfunded):		
Accrued Pension Liability	<u>\$ (2,507,983)</u>	<u>\$ (3,406,600)</u>

Amounts recognized in non-operating expenses and unrestricted net assets but have not yet been recognized in net periodic pension costs at June 30:

	<u>2010</u>	<u>2009</u>
Unrecognized prior service cost	\$ 409	\$ 673
Unrecognized net actuarial loss	3,495,767	3,988,401
Total	<u>\$ 3,496,176</u>	<u>\$ 3,989,074</u>

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Note 8 - Pension Plan: (Continued)

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

	<u>2010</u>	<u>2009</u>
Discount rate	7.00%	7.00%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	4.00%	4.00%

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

	<u>2010</u>	<u>2009</u>
Service cost	\$ 170,883	\$ 789,993
Interest cost	968,539	1,016,389
Actual return on assets net of expenses	(1,097,389)	1,963,134
Deferral of assets gain/(loss)	402,191	(2,840,724)
Recognition of (gain)/loss	349,793	234,407
Unrecognized prior service cost	264	43,869
Net Periodic Pension Cost	<u>\$ 794,281</u>	<u>\$ 1,207,068</u>

Other changes in amounts included in non-operating expenses and net assets for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Gain due to plan amendment	\$ -	\$ (2,294,836)
Recognition of (gain)/loss	(349,793)	(234,407)
Recognition of UPSC	(264)	(43,869)
Experience loss at beginning of year	259,350	119,150
Asset loss at end of year	(402,191)	2,840,724
Total Recognized in Non-operating (Income) Expenses	<u>\$ (492,898)</u>	<u>\$ 386,762</u>
Total Recognized in Net Periodic Benefit Cost	<u>\$ 1,287,179</u>	<u>\$ 1,593,830</u>

Plan assets by category as of June 30:

	<u>2010</u>	<u>2009</u>
Cash	0%	0%
Equity securities and mutual funds	61%	59%
Debt securities	22%	20%
Insurance contracts	17%	21%
	<u>100%</u>	<u>100%</u>

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Note 8 - 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 50 - 70 percent in total equity securities and the remainder in fixed income securities.

The expected contributions to the plan in the upcoming year are \$660,000.

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

<u>Years Ended</u> <u>June 30,</u>	
2011	\$ 539,000
2012	560,000
2013	568,000
2014	634,000
2015	795,000
2016-2020	5,563,000

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

Note 9 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2010</u>	<u>2009</u>
Special Projects Fund	\$ 305,570	\$ 306,171
Stem Cell/Marrow Program	179,880	133,661
Capital Campaign	-	100,000
Disaster Readiness Fund	46,630	46,630
Education Funds	27,358	4,289
Total Temporarily Restricted Net Assets	<u>\$ 559,438</u>	<u>\$ 590,751</u>

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Note 9 - Temporarily Restricted Net Assets: (Continued)

Temporarily restricted net assets were released from restrictions as follows during the year ended June 30, 2010:

Satisfaction of Purpose Restrictions	\$ <u>588,601</u>
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Note 10 – Endowment Net Assets

The Blood Bank's endowment was established to provide general program support. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

The Blood Bank has interpreted the enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Blood Bank classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment (2) the original value of subsequent gifts donated to the permanent endowment (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Blood Bank in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Blood Bank considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Blood Bank and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Blood Bank
7. The investment policies of the Blood Bank

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Blood Bank to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2010 and 2009.

The Blood Bank has adopted investment and spending policies for endowment funds that:

1. Protect the invested assets
2. Preserve spending capacity of the fund income
3. Maintain a diversified portfolio of assets that meet investment return objectives while keeping risk at a minimum level
4. Comply with applicable laws

The Blood Bank's endowment funds are invested in cash and cash equivalents. The Blood Bank's spending policy is to disburse funds available to meet the current program needs of the Blood Bank.

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Note 10 – Endowment Net Assets (Continued)

Endowment Composition by Type of Fund as of June 30 and Changes in Endowment Net Assets for the Years Ended June 30:

	Temporari y <u>Restricted</u>	Permanently <u>Restricted</u>
Endowment net assets at July 1, 2008	\$ -	\$ 315,644
Contributions	-	351
Interest income	4,997	-
Appropriation of endowment assets for expenditure	<u>(4,997)</u>	<u>-</u>
Endowment Net Assets at June 30, 2009	-	315,995
Contributions		11,000
Interest income	4,075	-
Appropriation of endowment assets for expenditure	<u>(4,075)</u>	<u>-</u>
Endowment Net Assets at June 30, 2010	<u>\$ -</u>	<u>\$ 326,995</u>

Note 11 - 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 does not make a contribution to the 403(b) retirement plan. Effective July 1, 2009, the Blood Bank established the San Diego Blood Bank Money Purchase Pension Plan (“MPP Plan”). The Blood Bank contributes an amount equal to 5% of a participant’s compensation earned while an eligible employee. Employees may not contribute to the MPP Plan. The Blood Bank contributed \$655,521 to the MPP Plan for the year ended June 30, 2010, which is included in salaries and related expenses.

Operating Leases

The Blood Bank has several non-cancelable operating leases for facilities that expire at various dates through January 2016. Those leases generally contain renewal options for periods ranging from three to five years and require the Blood Bank to pay common area maintenance charges. Lease expense for those leases totaled \$811,488 and \$778,847 for the years ended June 30, 2010 and 2009, respectively.

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Note 11 - Commitments and Contingencies (Continued):

Operating Leases (Continued)

Future minimum lease payments under the operating leases that have remaining terms in excess of one year are as follows for the years ended June 30:

Years Ended June 30,	
2011	\$ 555,222
2012	462,247
2013	264,977
2014	271,973
2015	207,920
Thereafter	73,761
Total	<u>\$ 1,836,100</u>

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 equipment used by the Blood Bank in its operations.

Sales Commitments

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

Litigation

Legal claims and lawsuits arise from time to time in the normal course of business. The Blood Bank's management and legal counsel estimate that the potential claims against the Blood Bank not covered by insurance, resulting from such litigation would not materially affect the operations or financial condition of the Blood Bank.