



San Diego
Blood Bank

FINANCIAL STATEMENTS

JUNE 30, 2011



Leaf & Cole, LLP
Certified Public Accountants

**SAN DIEGO BLOOD BANK
FINANCIAL STATEMENTS
JUNE 30, 2011**

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Independent Auditor's Report

To the Board of Directors
San Diego Blood Bank

We have audited the accompanying statement of financial position of San Diego Blood Bank as of June 30, 2011, 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 2010 financial statements and in our report dated September 9, 2010, 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, 2011, 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 6, 2011

SAN DIEGO BLOOD BANK
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2010)

ASSETS

	<u>2011</u>	<u>2010</u>
<u>Current Assets:</u> (Note 1)		
Cash and cash equivalents:		
Unrestricted	\$ 2,209,342	\$ 2,675,563
Temporarily restricted	449,009	559,438
Permanently restricted	327,495	326,995
Total cash and cash equivalents	<u>2,985,846</u>	<u>3,561,996</u>
Accounts receivable, net	4,259,145	5,985,118
Blood deposits receivable (Navy)	-	39,284
Inventories:		
Whole blood and blood components	1,100,941	1,744,214
Supplies	434,587	511,712
Prepaid expenses and other	252,440	272,124
Total Current Assets	<u>9,032,959</u>	<u>12,114,448</u>
<u>Noncurrent Assets:</u> (Notes 1, 2, 4, 5 and 6)		
Property and equipment, net	24,935,227	21,747,797
Deposits	118,131	109,873
Total Noncurrent Assets	<u>25,053,358</u>	<u>21,857,670</u>
TOTAL ASSETS	<u>\$ 34,086,317</u>	<u>\$ 33,972,118</u>

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

SAN DIEGO BLOOD BANK
STATEMENT OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2011
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2010)

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
<u>Current Liabilities:</u> (Note 1)		
Accounts payable	\$ 1,522,631	\$ 2,094,412
Accrued salaries, payroll taxes and benefits	1,803,083	2,108,818
Blood deposits payable (Navy)	21,499	-
Advance blood deposits	50,000	50,000
Donor recognition	1,800,012	1,675,239
Current portion of noncurrent liabilities	5,629,194	526,312
Total Current Liabilities	<u>10,826,419</u>	<u>6,454,781</u>
<u>Noncurrent Liabilities:</u> (Notes 4, 6 and 7)		
Notes payable, net of current portion	9,598,224	15,796,800
Capital lease obligations, net of current portion	1,064,385	360,380
Accrued pension liability	372,959	2,507,983
Total Noncurrent Liabilities	<u>11,035,568</u>	<u>18,665,163</u>
 Total Liabilities	 <u>21,861,987</u>	 <u>25,119,944</u>
 <u>Obligation Under Interest Rate Swap</u> (Notes 1 and 5)	 <u>411,029</u>	 <u>343,783</u>
 <u>Commitments and Contingencies</u> (Notes 3 and 11)		
 <u>Net Assets:</u> (Notes 1, 8 and 9)		
Unrestricted	11,036,797	7,621,958
Temporarily restricted	449,009	559,438
Permanently restricted	327,495	326,995
Total Net Assets	<u>11,813,301</u>	<u>8,508,391</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 34,086,317</u>	 <u>\$ 33,972,118</u>

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

**SAN DIEGO BLOOD BANK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010)**

	2011			<u>Total</u>	<u>2010</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>		
<u>Revenue and Support:</u>					
Processing fees	\$ 35,016,992	\$ -	\$ -	\$ 35,016,992	\$ 39,049,268
Blood services	4,850,893	-	-	4,850,893	5,581,445
Contributions	328,586	695,439	500	1,024,525	903,661
Research components	127,052	-	-	127,052	144,689
In-kind contributions	19,426	-	-	19,426	37,816
Interest income	23,261	-	-	23,261	28,601
Lease income and other	337,067	-	-	337,067	54,266
Contractual and family plan allowances	(154,514)	-	-	(154,514)	(513,714)
Net assets released from restrictions	805,868	(805,868)	-	-	-
Total Revenue and Support	<u>41,354,631</u>	<u>(110,429)</u>	<u>500</u>	<u>41,244,702</u>	<u>45,286,032</u>
<u>Operating Expenses:</u>					
Program Services:					
Drawing, processing, distribution and laboratory	<u>37,747,201</u>	<u>-</u>	<u>-</u>	<u>37,747,201</u>	<u>40,614,745</u>
Supporting Services:					
General and administrative	2,180,840	-	-	2,180,840	2,054,276
Fundraising	394,217	-	-	394,217	470,359
Total Supporting Expenses	<u>2,575,057</u>	<u>-</u>	<u>-</u>	<u>2,575,057</u>	<u>2,524,635</u>
Total Operating Expenses	<u>40,322,258</u>	<u>-</u>	<u>-</u>	<u>40,322,258</u>	<u>43,139,380</u>
Change in Net Assets From Operating Activities	1,032,373	(110,429)	500	922,444	2,146,652
<u>Nonoperating Income (Expenses):</u>					
Gain (Loss) on disposal of property and equipment	480,693	-	-	480,693	(14,444)
Pension related changes other than net periodic pension cost	1,969,019	-	-	1,969,019	492,898
Change in fair value of interest rate swap	<u>(67,246)</u>	<u>-</u>	<u>-</u>	<u>(67,246)</u>	<u>(343,783)</u>
Change in Net Assets	3,414,839	(110,429)	500	3,304,910	2,281,323
Net Assets at Beginning 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>
NET ASSETS AT END OF YEAR	<u>\$ 11,036,797</u>	<u>\$ 449,009</u>	<u>\$ 327,495</u>	<u>\$ 11,813,301</u>	<u>\$ 8,508,391</u>

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

SAN DIEGO BLOOD BANK
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010)

	2011				2010
	Drawing, Processing, Distribution and <u>Laboratory</u>	General and <u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>	
Salaries and related	\$ 18,887,174	\$ 1,420,308	\$ 290,051	\$ 20,597,533	\$ 22,670,782
Supplies	11,288,987	16,555	7,792	11,313,334	12,773,171
Advertising	697,661	127	6,511	704,299	974,345
Depreciation	1,052,415	99,496	1,650	1,153,561	926,811
Equipment maintenance	907,289	74,358	2,495	984,142	977,436
Community relations	536,928	10,829	-	547,757	666,216
Lease expense	568,819	-	-	568,819	811,488
Consultants	98,796	248,152	5,240	352,188	325,057
Vehicle expenses and mileage	489,971	3,229	3,340	496,540	544,696
Shipping and postage	158,350	-	3,510	161,860	308,170
Utilities	314,243	37,475	-	351,718	337,805
Insurance	265,501	34,786	-	300,287	337,443
Blood purchases	592,635	-	-	592,635	412,006
Telephone	163,631	13,400	1,005	178,036	197,283
Bad debts	(19,254)	-	-	(19,254)	(67,062)
Equipment rental	93,904	22,735	1,225	117,864	146,423
Sanitation	115,202	-	-	115,202	123,492
Printing	16,953	-	11,343	28,296	63,794
Dues and periodicals	25,724	66,533	182	92,439	97,914
Security	60,428	8,212	-	68,640	91,489
Interest expense	752,687	31,362	-	784,049	94,067
Donor cultivation	-	-	40,715	40,715	103,114
Legal	-	38,114	-	38,114	29,906
In-kind expenses	5,828	-	13,598	19,426	20,966
Permits and licenses	43,878	-	-	43,878	41,625
Travel, conference, and education	16,610	5,960	500	23,070	30,386
Audit	-	34,550	-	34,550	24,150
Laundry	14,284	-	-	14,284	13,269
Bank charges	2,169	-	5,060	7,229	7,969
Miscellaneous	1,300	11,543	-	12,843	8,832
Taxes	20,849	3,116	-	-	5,194
Taxis (net)	116,560	-	-	116,560	(11,099)
Earned discounts	(185,593)	-	-	(185,593)	(19,344)
Blood inventory adjustment	643,272	-	-	643,272	71,586
TOTAL FUNCTIONAL EXPENSES	\$ 37,747,201	\$ 2,180,840	\$ 394,217	\$ 40,298,293	\$ 43,139,380

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

**SAN DIEGO BLOOD BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010)**

	<u>2011</u>	<u>2010</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ 3,304,910	\$ 2,281,323
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,153,561	926,811
(Gain) Loss on disposal of property and equipment	(480,693)	14,444
Permanently restricted contributions	(500)	(11,000)
Change in fair value of interest rate swap	67,246	343,783
(Increase) Decrease in:		
Accounts receivable	1,725,973	(453,763)
Blood deposits receivable (Navy)	39,284	(27,663)
Inventories	720,398	102,678
Prepaid expenses and other	19,684	7,134
Deposits	(8,258)	35,323
Increase (Decrease) in:		
Accounts payable	(571,781)	(33,753)
Accrued salaries, payroll taxes and benefits	(305,735)	47,134
Donor recognition	124,773	251,186
Blood deposits payable (Navy)	21,499	-
Accrued pension liability	(2,135,024)	(898,617)
Net Cash Provided by Operating Activities	<u>3,675,337</u>	<u>2,585,020</u>
<u>Cash Flows From Investing Activities:</u>		
Restricted cash released	-	150,000
Proceeds from sale of property and equipment	1,039,892	600
Purchase of property and equipment	(3,725,676)	(16,393,089)
Net Cash Used In Investing Activities	<u>(2,685,784)</u>	<u>(16,242,489)</u>
<u>Cash Flows From Financing Activities:</u>		
Advances on notes payable	-	16,000,000
Repayments on notes payable	(1,227,532)	(205,561)
Repayments on capital lease obligations	(338,671)	(389,015)
Permanently restricted contributions	500	11,000
Net Cash Provided by (Used In) Financing Activities	<u>(1,565,703)</u>	<u>15,416,424</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, 2011
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010)

	<u>2011</u>	<u>2010</u>
Net Increase in Cash and Cash Equivalents	(576,150)	1,758,955
Cash and Cash Equivalents at Beginning of Year	<u>3,561,996</u>	<u>1,803,041</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>2,985,846</u>	\$ <u>3,561,996</u>
<u>Supplemental Disclosures of Cash Flow Information:</u>		
Interest paid	<u>\$ 791,462</u>	<u>\$ 72,871</u>
<u>Supplemental Disclosures of Noncash Investing and Financing Activities:</u>		
Property and equipment acquired through capital lease obligation	<u>\$ 1,174,514</u>	<u>\$ 513,018</u>

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

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2010)

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 accounting principles generally accepted in the United States of America (GAAP) 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. 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, 2011
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2010)

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, 2011 and 2010, except for its derivative instrument as described in Note 1 below.

Allowance for Doubtful Accounts

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 \$64,516 and \$90,731 at June 30, 2011 and 2010, 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 (payable) Navy totaled \$(21,499) and \$39,284 at June 30, 2011 and 2010, 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, 2011
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2010)

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

Depreciation aggregated \$1,153,561 and \$926,811 for the years ended June 30, 2011 and 2010, 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 2011 or 2010.

Compensated Absences

Accumulated unpaid vacation totaling \$952,125 and \$1,064,444 at June 30, 2011 and 2010, respectively are accrued when incurred and included in accrued salaries, payroll taxes and benefits.

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2010)

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, 2011 and 2010.

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 \$1,800,012 and \$1,675,239 at June 30, 2011 and 2010, 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 5 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 liability is as follows for the years ended June 30:

	<u>2011</u>	<u>2010</u>
Balance at Beginning of Year	\$ 343,783	\$ -
Change in Fair Value of Obligation Under Interest Rate Swap	<u>67,246</u>	<u>343,783</u>
Balance at End of Year	<u>\$ 411,029</u>	<u>\$ 343,783</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, 2011 and 2010, 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, 2011
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2010)

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 \$19,426 and \$37,816 for the years ended June 30, 2011 and 2010, 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. Income from rental activities (Note 10) not directly related to the Blood Bank's tax-exempt purpose is subject to taxation as unrelated business income. There were no income taxes for such unrelated business income for the years ended June 30, 2011 and 2010. 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, 2011 and 2010. 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. Certificates of deposit that may be redeemed without a significant penalty are considered cash and cash equivalents regardless of the maturity. The following is the composition of the combined amounts appearing in the statement of cash flows:

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2010)

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

Significant Accounting Policies (Continued)

Cash and Cash Equivalents (Continued)

	<u>2011</u>	<u>2010</u>
Cash and money market funds	\$ 2,687,095	\$ 3,262,067
Certificates of deposit	298,751	299,929
Total Cash and Cash Equivalents	<u>\$ 2,985,846</u>	<u>\$ 3,561,996</u>

Certificates of deposit bear interest at rates ranging from .70% to 1.70% and mature between November 2011 and November 2012 at June 30, 2011.

Comparative Totals for June 30, 2010

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, 2010, 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 6, 2011, the date the financial statements were available to be issued.

Note 2 - Property and Equipment:

Property and equipment consist of the following at June 30:

	<u>2011</u>	<u>2010</u>
Land and land improvements	\$ 7,341,229	\$ 7,649,295
Building and improvements	18,455,678	15,252,307
Equipment, furniture, and fixtures	6,612,220	6,002,589
Data processing equipment	6,184,096	6,166,345
Vehicles	2,971,875	2,717,648
Construction in progress	275,150	194,403
Subtotal	<u>41,840,248</u>	<u>37,982,587</u>
Less: Accumulated depreciation	<u>(16,905,021)</u>	<u>(16,234,790)</u>
Property and Equipment, Net	<u>\$ 24,935,227</u>	<u>\$ 21,747,797</u>

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Note 3 - Line-of-Credit

The Blood Bank has 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, 2011). The line-of-credit is renewable on December 20, 2011 (extended annually thereafter), and is secured by accounts receivable. There were no outstanding borrowings on the line-of-credit at June 30, 2011 and 2010.

Note 4 - Notes Payable:

Notes payable consist of the following at June 30:

	<u>2011</u>	<u>2010</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, 2011). 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 \$4,822 and \$6,414 at June 30, 2011 and 2010, respectively.	\$ 4,960,107	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%, (3.25% at June 30, 2011), except that effective June 9, 2010, the Blood Bank entered into an interest rate swap agreement (Note 5) 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 \$6,109 and \$9,375 at June 30, 2011 and 2010, respectively.	<u>9,796,800</u>	<u>9,984,439</u>
Total Notes Payable	<u>14,756,907</u>	<u>15,984,439</u>
Less: Current portion	<u>(5,158,683)</u>	<u>(187,639)</u>
Notes Payable - Noncurrent	<u>\$ 9,598,224</u>	<u>\$ 15,796,800</u>

Future principal payments on the notes payable are as follows:

<u>Years Ended</u> <u>June 30</u>	
2012	\$ 5,158,683
2013	210,151
2014	222,391
2015	<u>9,165,682</u>
	<u>\$ 14,756,907</u>

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Note 5 - 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 4. 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 totaled \$411,029 and \$343,783 at June 30, 2011 and 2010, respectively. Accrued interest payable totaled \$7,960 and \$5,344 at June 30, 2011 and 2010, respectively.

Note 6 - 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>2011</u>	<u>2010</u>
Cost	\$ 1,981,009	\$ 1,013,712
Less: Accumulated depreciation	(298,184)	(189,431)
Net Book Value	<u>\$ 1,682,825</u>	<u>\$ 824,281</u>

Future minimum capital lease payments are as follows:

<u>Years Ended</u> <u>June 30</u>	
2012	\$ 541,522
2013	377,914
2014	165,668
2015	165,668
2016	165,668
Thereafter	<u>331,337</u>
Total	1,747,777
Less: Amount representing interest	<u>(212,882)</u>
Capital Lease Obligations	<u>\$ 1,534,895</u>

Financial Statement Presentation:	<u>2011</u>	<u>2010</u>
Current portion of noncurrent liabilities	\$ 470,511	\$ 338,673
Capital lease obligations, net of current portion	<u>1,064,384</u>	<u>360,380</u>
	<u>\$ 1,534,895</u>	<u>\$ 699,053</u>

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Note 7 - 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 \$830,000 and \$1,200,000 to the Plan for the years ended June 30, 2011 and 2010, 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 \$663,995 and \$794,281 for the years ended June 30, 2011 and 2010, 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.

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

	<u>2011</u>	<u>2010</u>
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 14,694,748	\$ 13,797,833
Experience (gain) /loss	59,190	259,350
Service cost	162,003	170,883
Interest cost	1,014,579	968,539
Benefit paid	(537,801)	(501,857)
Assumption gain	(9,017)	-
Benefit Obligation at End of Year	<u>15,383,702</u>	<u>14,694,748</u>
Change in Plan Assets:		
Fair value of plan assets at beginning of year	12,186,765	10,391,233
Actual return on plan assets	2,689,609	1,297,849
Fees paid	(157,830)	(200,460)
Employer contributions	830,000	1,200,000
Benefits paid	(537,801)	(501,857)
Fair Value of Plan Assets at End of Year	<u>15,010,743</u>	<u>12,186,765</u>
Funded Status Plan at End of Year (Underfunded):		
Accrued Pension Liability	<u>\$ (372,959)</u>	<u>\$ (2,507,983)</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>2011</u>	<u>2010</u>
Unrecognized prior service cost	\$ 145	\$ 409
Unrecognized net actuarial loss	<u>1,527,012</u>	<u>3,495,767</u>
Total	<u>\$ 1,527,157</u>	<u>\$ 3,496,176</u>

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Note 7 - 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>2011</u>	<u>2010</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>2011</u>	<u>2010</u>
Service cost	\$ 162,003	\$ 170,883
Interest cost	1,014,579	968,539
Actual return on assets net of expenses	(2,531,779)	(1,097,389)
Deferral of assets gain/(loss)	1,758,604	402,191
Recognition of (gain)/loss	260,324	349,793
Unrecognized prior service cost	264	264
Net Periodic Pension Cost	<u>\$ 663,995</u>	<u>\$ 794,281</u>

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

	<u>2011</u>	<u>2010</u>
Recognition of (gain)/loss	\$ (260,324)	\$ (349,793)
Recognition of UPSC	(264)	(264)
Experience loss at beginning of year	59,190	259,350
Assumption gain at beginning of year	(9,017)	-
Asset loss at end of year	(1,758,604)	(402,191)
Total Recognized in Non-operating (Income) Expenses	<u>\$ (1,969,019)</u>	<u>\$ (492,898)</u>
Total Recognized in Net Periodic Benefit Cost	<u>\$ 2,633,014</u>	<u>\$ 1,287,179</u>

Plan assets by category as of June 30:

	<u>2011</u>	<u>2010</u>
Cash and money market funds	0%	0%
Equity securities and mutual funds	63%	61%
Debt securities and mutual funds	23%	22%
Insurance contracts	14%	17%
	<u>100%</u>	<u>100%</u>

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Note 7 - 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 \$900,000.

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>	
2012	\$ 900,000
2013	575,000
2014	581,000
2015	645,000
2016	808,000
2017	903,000
2018 - 2022	5,952,000

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

Note 8 - Temporarily Restricted Net Assets

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

	<u>2011</u>	<u>2010</u>
Special Projects Fund	\$ 220,658	\$ 305,570
Capital Campaign	114,531	-
Stem Cell/Marrow Program	108,196	179,880
Education Funds	22,124	27,358
Disaster Readiness Fund	-	46,630
Total Temporarily Restricted Net Assets	<u>\$ 465,509</u>	<u>\$ 559,438</u>

Temporarily restricted net assets were released from restrictions as follows during the year ended June 30, 2011:

Satisfaction of Purpose Restrictions	<u>\$ 805,868</u>
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Note 9 – 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, 2011 and 2010.

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 9 – 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:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</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	-	326,995
Contributions	-	500
Interest income	3,800	-
Appropriation of endowment assets for expenditure	<u>(3,800)</u>	<u>-</u>
Endowment Net Assets at June 30, 2011	<u>\$ -</u>	<u>\$ 327,495</u>

Note 10 – 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, 2015. The lease includes scheduled rent increases and an additional charge for common area maintenance costs. Lease income totaled \$285,661 and \$21,768 for the years ended June 30, 2011 and 2010, respectively.

Future minimum lease income is as follows:

<u>Years Ended June 30</u>	
2012	\$ 288,684
2013	297,348
2014	306,264
2015	<u>315,456</u>
Total	<u>\$ 1,207,752</u>

The Blood Bank leases rooftop space on its building at 440 Upas Street, San Diego, California. Lease income totaled \$33,375 and \$33,066 for the years ended June 30, 2011 and 2010, respectively. These leases will be discontinued in the fiscal year ended 2012 when the related property is sold.

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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 \$647,346 and \$655,521 to the MPP Plan for the years ended June 30, 2011 and 2010, respectively, 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. These 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 these leases totaled \$568,819 and \$811,488 for the years ended June 30, 2011 and 2010, respectively.

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

Years Ended June 30	
2012	\$ 463,357
2013	264,977
2014	271,974
2015	207,920
2016	73,761
Total	<u>\$ 1,281,989</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.

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Note 11 - Commitments and Contingencies: (Continued)

Purchase/Sale Agreement

In February 2011, the Blood Bank entered into a purchase and sale agreement for the sale of the property and improvements located at 440 Upas Street, Section of Fifth Avenue and Upas and Section of Upas and Third Avenue, San Diego, California. The escrow is scheduled to close no later than November 30, 2011.