



San Diego  
**Blood Bank**

**FINANCIAL STATEMENTS**

**JUNE 30, 2012**



Leaf & Cole, LLP  
*Certified Public Accountants*

**SAN DIEGO BLOOD BANK  
FINANCIAL STATEMENTS  
JUNE 30, 2012**

**TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditor's Report	1
Statement of Financial Position	2 - 3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6 - 7
Notes to Financial Statements	8 - 21



Leaf & Cole, LLP  
Certified Public Accountants  
A Partnership of Professional Corporations

Steven W. Northcote, C.P.A.  
Michael S. Schreiberman, C.P.A.  
Michael J. Zizzi, C.P.A.  
Julie A. Firl, C.P.A.  
Nicholas M. Gines, C.P.A.

*Members*  
American Institute of Certified Public Accountants  
California Society of Certified Public Accountants

## 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, 2012, 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 2011 financial statements and in our report dated September 6, 2011, 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, 2012, 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 13, 2012

**SAN DIEGO BLOOD BANK**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2012**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)**

**ASSETS**

	<u>2012</u>	<u>2011</u>
<b><u>Current Assets:</u></b> (Notes 1 and 4)		
Cash and cash equivalents:		
Unrestricted	\$ 2,542,166	\$ 2,209,342
Temporarily restricted	249,479	449,009
Permanently restricted	327,495	327,495
Total cash and cash equivalents	<u>3,119,140</u>	<u>2,985,846</u>
Accounts receivable, net	4,655,051	4,259,145
Inventories:		
Whole blood and blood components	902,432	1,100,941
Supplies	428,414	434,587
Prepaid expenses and other	213,995	252,440
Total Current Assets	<u>9,319,032</u>	<u>9,032,959</u>
<b><u>Noncurrent Assets:</u></b> (Notes 1, 2, 3, 5, 7 and 8)		
Investment in Blood Centers of America, Inc.	350,000	-
Prepaid pension asset	113,096	-
Property and equipment, net	24,643,278	24,935,227
Deposits	80,056	118,131
Total Noncurrent Assets	<u>25,186,430</u>	<u>25,053,358</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>34,505,462</u></b>	<b>\$ <u>34,086,317</u></b>

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

**SAN DIEGO BLOOD BANK**  
**STATEMENT OF FINANCIAL POSITION (CONTINUED)**  
**JUNE 30, 2012**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)**

**LIABILITIES AND NET ASSETS**

	<u>2012</u>	<u>2011</u>
<b><u>Current Liabilities:</u></b> (Note 1)		
Accounts payable	\$ 1,221,249	\$ 1,522,631
Accrued salaries, payroll taxes and benefits	1,445,369	1,803,083
Blood deposits payable (Navy)	46,415	21,499
Advance blood deposits	50,000	50,000
Donor recognition	1,802,666	1,800,012
Current portion of noncurrent liabilities	4,862,309	5,629,194
Total Current Liabilities	<u>9,428,008</u>	<u>10,826,419</u>
 <b><u>Noncurrent Liabilities:</u></b> (Notes 5, 7 and 8)		
Notes payable, net of current portion	9,388,073	9,598,224
Capital lease obligations, net of current portion	961,936	1,064,385
Accrued pension liability	-	372,959
Total Noncurrent Liabilities	<u>10,350,009</u>	<u>11,035,568</u>
 Total Liabilities	<u>19,778,017</u>	<u>21,861,987</u>
 <b><u>Obligation Under Interest Rate Swap</u></b> (Notes 1 and 6)	<u>549,704</u>	<u>411,029</u>
 <b><u>Commitments and Contingencies</u></b> (Notes 4 and 12)		
 <b><u>Net Assets:</u></b> (Notes 1, 9 and 10)		
Unrestricted	13,600,767	11,036,797
Temporarily restricted	249,479	449,009
Permanently restricted	327,495	327,495
Total Net Assets	<u>14,177,741</u>	<u>11,813,301</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u>\$ 34,505,462</u>	 <u>\$ 34,086,317</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, 2012  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)**

	2012			<u>Total</u>	<u>2011</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>		
<b><u>Revenue and Support:</u></b>					
Processing fees	\$ 33,567,566	\$ -	\$ -	\$ 33,567,566	\$ 35,016,992
Blood services	3,908,380	-	-	3,908,380	4,850,893
Contributions	753,598	519,147	-	1,272,745	1,024,525
Research components	316,817	-	-	316,817	127,052
In-kind contributions	21,794	-	-	21,794	19,426
Interest income	100	2,620	-	2,720	23,261
Lease income and other	406,167	-	-	406,167	337,067
Contractual and family plan allowances	(22,449)	-	-	(22,449)	(154,514)
Net assets released from restrictions	721,297	(721,297)	-	-	-
Total Revenue and Support	<u>39,673,270</u>	<u>(199,530)</u>	<u>-</u>	<u>39,473,740</u>	<u>41,244,702</u>
<b><u>Operating Expenses:</u></b>					
<b>Program Services:</b>					
Drawing, processing, distribution and laboratory	<u>34,741,547</u>	<u>-</u>	<u>-</u>	<u>34,741,547</u>	<u>37,747,201</u>
<b>Supporting Services:</b>					
General and administrative	2,042,494	-	-	2,042,494	2,180,840
Fundraising	341,199	-	-	341,199	394,217
Total Supporting Expenses	<u>2,383,693</u>	<u>-</u>	<u>-</u>	<u>2,383,693</u>	<u>2,575,057</u>
Total Operating Expenses	<u>37,125,240</u>	<u>-</u>	<u>-</u>	<u>37,125,240</u>	<u>40,322,258</u>
Change in Net Assets From Operating Activities	2,548,030	(199,530)	-	2,348,500	922,444
<b><u>Nonoperating Income (Expenses):</u></b>					
Income from nonoperational property, net	494,916	-	-	494,916	-
Gain on disposal of property and equipment	-	-	-	-	480,693
Pension related changes other than net periodic pension cost	(340,301)	-	-	(340,301)	1,969,019
Change in fair value of interest rate swap	(138,675)	-	-	(138,675)	(67,246)
Change in Net Assets	2,563,970	(199,530)	-	2,364,440	3,304,910
Net Assets at Beginning 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>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 13,600,767</u>	<u>\$ 249,479</u>	<u>\$ 327,495</u>	<u>\$ 14,177,741</u>	<u>\$ 11,813,301</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, 2012**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)**

	2012				
	Drawing, Processing, Distribution and <u>Laboratory</u>	General and <u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>2011</u>
Salaries and related costs and benefits \$	17,005,587	\$ 1,401,701	\$ 234,920	\$ 18,642,208	\$ 20,597,533
Supplies	10,807,417	17,359	10,568	10,835,344	11,313,334
Depreciation	1,056,560	58,518	4,178	1,119,256	1,153,561
Blood purchases	1,061,466	-	-	1,061,466	592,635
Equipment maintenance	784,547	86,093	3,174	873,814	984,142
Interest expense	666,248	42,923	6,192	715,363	784,049
Advertising	629,741	240	3,417	633,398	704,299
Lease expense	500,168	-	-	500,168	568,819
Vehicle expenses and mileage	415,929	1,829	1,203	418,961	496,540
Community relations	397,106	15,007	-	412,113	547,757
Utilities	256,133	18,314	2,642	277,089	351,718
Insurance	250,087	12,395	1,788	264,270	300,287
Consultants	70,037	130,415	9,850	210,302	352,188
Blood inventory adjustment	198,225	-	-	198,225	643,272
Telephone	112,953	12,161	902	126,016	178,036
Taxis (net)	112,655	-	-	112,655	116,560
Equipment rental	79,398	22,090	3,041	104,529	117,864
Legal	-	102,871	-	102,871	38,114
Shipping and postage	84,462	-	4,464	88,926	161,860
Dues and periodicals	22,492	65,029	112	87,633	92,439
Taxes	75,723	1,947	281	77,951	23,965
Sanitation	77,001	-	-	77,001	115,202
Permits and licenses	46,948	225	-	47,173	43,878
Audit	-	32,650	-	32,650	34,550
Security	28,125	2,056	297	30,478	68,640
Donor cultivation	-	-	28,084	28,084	40,715
Travel, conference, and education	11,831	14,759	870	27,460	23,070
In-kind expenses	5,929	-	13,835	19,764	19,426
Printing	8,606	-	6,511	15,117	28,296
Laundry	14,558	-	-	14,558	14,284
Bank charges	2,087	-	4,870	6,957	7,229
Bad debts	6,337	-	-	6,337	(19,254)
Miscellaneous	482	3,912	-	4,394	12,843
Earned discounts	(47,291)	-	-	(47,291)	(185,593)
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 34,741,547</b>	<b>\$ 2,042,494</b>	<b>\$ 341,199</b>	<b>\$ 37,125,240</b>	<b>\$ 40,322,258</b>

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, 2012  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)**

	<u>2012</u>	<u>2011</u>
<b><u>Cash Flows From Operating Activities:</u></b>		
Change in net assets	\$ 2,364,440	\$ 3,304,910
<b>Adjustments to reconcile change in net assets to net cash provided by operating activities:</b>		
Depreciation	1,221,641	1,153,561
Gain on disposal of property and equipment	(5,495)	(480,693)
Permanently restricted contributions	-	(500)
Change in fair value of interest rate swap	138,675	67,246
<b>(Increase) Decrease in:</b>		
Accounts receivable, net	(395,906)	1,725,973
Blood deposits receivable (Navy)	-	39,284
Inventories	204,682	720,398
Prepaid expenses and other	38,445	19,684
Prepaid pension asset	(113,096)	-
Deposits	38,075	(8,258)
<b>Increase (Decrease) in:</b>		
Accounts payable	(301,382)	(571,781)
Accrued salaries, payroll taxes and benefits	(357,714)	(305,735)
Blood deposits payable (Navy)	24,916	21,499
Donor recognition	2,654	124,773
Accrued pension liability	(372,959)	(2,135,024)
Net Cash Provided by Operating Activities	<u>2,486,976</u>	<u>3,675,337</u>
<b><u>Cash Flows From Investing Activities:</u></b>		
Purchase of investment in Blood Centers of America, Inc.	(350,000)	-
Proceeds from sale of property and equipment	49,366	1,039,892
Purchase of property and equipment	(851,543)	(3,725,676)
Net Cash Used In Investing Activities	<u>(1,152,177)</u>	<u>(2,685,784)</u>
<b><u>Cash Flows From Financing Activities:</u></b>		
Repayments on notes payable	(798,576)	(1,227,532)
Repayments on capital lease obligations	(402,929)	(338,671)
Permanently restricted contributions	-	500
Net Cash Used In Financing Activities	<u>(1,201,505)</u>	<u>(1,565,703)</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, 2012**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)**

	<u>2012</u>	<u>2011</u>
Net Increase (Decrease) in Cash and Cash Equivalents	133,294	(576,150)
Cash and Cash Equivalents at Beginning of Year	<u>2,985,846</u>	<u>3,561,996</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ <u>3,119,140</u></b>	<b>\$ <u>2,985,846</u></b>
<b><u>Supplemental Disclosures of Cash Flow Information:</u></b>		
Interest paid	<u>\$ 784,914</u>	<u>\$ 791,462</u>
<b><u>Supplemental Disclosures of Noncash Investing and Financing Activities:</u></b>		
Property and equipment acquired through capital lease obligation	<u>\$ 122,020</u>	<u>\$ 1,174,514</u>

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

**SAN DIEGO BLOOD BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)**

**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.

**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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**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, 2012 and 2011, except for its derivative instrument as described in Note 1 below.

**SAN DIEGO BLOOD BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)**

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

**Significant Accounting Policies (Continued)**

**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 \$65,385 and \$64,516 at June 30, 2012 and 2011, 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.

**Capitalization and Depreciation**

The Blood Bank capitalizes all expenditures in excess of \$1,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. 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 \$1,221,641 and \$1,153,561 for the years ended June 30, 2012 and 2011, 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.

**SAN DIEGO BLOOD BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)**

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

**Significant Accounting Policies (Continued)**

**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 2012 or 2011.

**Compensated Absences**

Accumulated unpaid vacation totaling \$926,769 and \$952,125 at June 30, 2012 and 2011, respectively are accrued when incurred and included in accrued salaries, payroll taxes and benefits.

**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 payable (Navy) totaled \$46,415 and \$21,499 at June 30, 2012 and 2011, respectively.

**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, 2012 and 2011.

**Donor Recognition**

The Blood Bank has a reward program to recognize donors of blood. Donors who participate in The Donors 4 Life program receive points with every blood donation. With each donation of blood, donors move higher in life levels. The points can be redeemed for merchandise available through the Blood Bank's online store. The Blood Bank accrues a liability for unredeemed points based on the average redemption value of accumulated points. The donor recognition liability totaled \$1,802,666 and \$1,800,012 at June 30, 2012 and 2011, respectively.

**SAN DIEGO BLOOD BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)**

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

**Significant Accounting Policies (Continued)**

**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>2012</u>	<u>2011</u>
Balance at Beginning of Year	\$ 411,029	\$ 343,783
Change in Fair Value of Obligation Under Interest Rate Swap	<u>138,675</u>	<u>67,246</u>
Balance at End of Year	<u>\$ 549,704</u>	<u>\$ 411,029</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, 2012 and 2011, did not meet the requirements above, therefore no amounts were recognized in the financial statements.

In-kind contributions consisting of donor cultivation supplies and other supplies with an estimated fair value of \$21,794 and \$19,426 for the years ended June 30, 2012 and 2011, 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 Taxes**

The Blood Bank is a public charity 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 except on net income derived from unrelated business activities. The Blood Bank's unrelated business activity did not generate taxable income and no tax liability has been recorded at June 30, 2012 and 2011. The Blood Bank believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Blood Bank is not a private foundation.

**SAN DIEGO BLOOD BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)**

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

**Significant Accounting Policies (Continued)**

**Income Taxes (Continued)**

The Blood Bank's Return of Organization Exempt from Income Tax and Exempt Organization Business Income Tax Returns for Tax for the years ended June 30, 2012, 2011, 2010 and 2009 are subject to examination by Internal Revenue Service and State taxing authorities, generally the three to four years after the returns were filed.

**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, 2012 and 2011. 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 October 21, 2011. 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:

	<u>2012</u>	<u>2011</u>
Cash and money market funds	\$ 2,819,642	\$ 2,687,095
Certificates of deposit	<u>299,498</u>	<u>298,751</u>
Total Cash and Cash Equivalents	<u>\$ 3,119,140</u>	<u>\$ 2,985,846</u>

Certificates of deposit bear interest at rates ranging from .70% to .80% and mature between July 2012 and June 2013 at June 30, 2012.

**Comparative Totals for June 30, 2011**

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, 2011, from which the summarized information was derived.

**SAN DIEGO BLOOD BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)**

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

**Significant Accounting Policies (Continued)**

**Subsequent Events**

In preparing these financial statements, the Blood Bank has evaluated events and transactions for potential recognition or disclosure through September 13, 2012, the date the financial statements were available to be issued. The subsequent event is disclosed in Note 13.

**Note 2 - Investment in Blood Centers of America, Inc.**

In January 2012, 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 30 unrelated nonprofit organizations that have voting memberships in BCA at June 30, 2012. The Blood Bank owns approximately 3.33% of BCA and accounts for its investment using the equity method of accounting. The investment in BCA totaled \$350,000 at June 30, 2012.

**Note 3 - Property and Equipment:**

Property and equipment consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Land and land improvements	\$ 7,341,229	\$ 7,341,229
Building and improvements	18,427,320	18,455,678
Equipment, furniture, and fixtures	7,184,426	6,612,220
Data processing equipment	6,226,325	6,184,096
Vehicles	3,067,961	2,971,875
Construction in progress	349,860	275,150
Subtotal	<u>42,597,121</u>	<u>41,840,248</u>
Less: Accumulated depreciation	<u>(17,953,843)</u>	<u>(16,905,021)</u>
Property and Equipment, Net	<u>\$ 24,643,278</u>	<u>\$ 24,935,227</u>

**Note 4 - 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, 2012). The line-of-credit is renewable on December 20, 2012 (extended annually thereafter), and is secured by accounts receivable. There were no outstanding borrowings on the line-of-credit at June 30, 2012 and 2011.

**SAN DIEGO BLOOD BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)**

**Note 5 - Notes Payable:**

Notes payable consist of the following at June 30:

	<u>2012</u>	<u>2011</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, 2012). Interest is payable monthly. Principal and accrued interest are due March 20, 2013. Secured by a deed of trust on real property. Accrued interest payable totaled \$4,663 and \$4,822 at June 30, 2012 and 2011, respectively.	\$ 4,360,107	4,960,107
 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, 2012), 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 \$5,983 and \$6,109 at June 30, 2012 and 2011, respectively.		
Total Notes Payable	9,598,224	9,796,800
Less: Current portion	13,958,331	14,756,907
Notes Payable - Noncurrent	(4,570,258)	(5,158,683)
	<u>\$ 9,388,073</u>	<u>\$ 9,598,224</u>

Future principal payments on the notes payable are as follows:

<u>Years Ended</u> <u>June 30</u>	
2013	\$ 4,570,258
2014	222,391
2015	<u>9,165,682</u>
Total	<u>\$ 13,958,331</u>

**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 totaled \$549,704 and \$411,029 at June 30, 2012 and 2011, respectively. Accrued interest payable totaled \$8,665 and \$7,960 at June 30, 2012 and 2011, respectively.

**SAN DIEGO BLOOD BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)**

**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>2012</u>	<u>2011</u>
Cost	\$ 1,809,552	\$ 1,981,009
Less: Accumulated depreciation	(209,636)	(298,184)
Net Book Value	<u>\$ 1,599,916</u>	<u>\$ 1,682,825</u>

Future minimum capital lease payments are as follows:

<u>Years Ended</u> <u>June 30</u>	
2013	\$ 344,634
2014	236,004
2015	236,004
2016	236,005
2017	165,834
Thereafter	<u>200,919</u>
Total	1,419,400
Less: Amount representing interest	(165,413)
Capital Lease Obligations	<u>\$ 1,253,987</u>

Financial Statement Presentation:	<u>2012</u>	<u>2011</u>
Current portion of noncurrent liabilities	\$ 292,051	\$ 470,511
Capital lease obligations, net of current portion	<u>961,936</u>	<u>1,064,384</u>
	<u>\$ 1,253,987</u>	<u>\$ 1,534,895</u>

**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 \$900,000 and \$830,000 to the Plan for the years ended June 30, 2012 and 2011, 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 totaling \$73,644 and \$663,995 for the years ended June 30, 2012 and 2011, 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. Effective December 10, 2011, the Plan has been amended to freeze benefit accruals for participants covered under the terms of a collective bargaining agreement.

**SAN DIEGO BLOOD BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)**

**Note 8 - Pension Plan: (Continued)**

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

	<u>2012</u>	<u>2011</u>
<b>Change in Benefit Obligation:</b>		
Benefit obligation at beginning of year	\$ 15,383,702	\$ 14,694,748
Experience (gain)/loss	(76,492)	59,190
Service cost	75,457	162,003
Interest cost	1,044,583	1,014,579
Benefit paid	(739,569)	(537,801)
Gain due to plan amendment during the year	(275,660)	-
Assumption (gain)/loss	19,580	(9,017)
Benefit Obligation at End of Year	<u>15,431,601</u>	<u>15,383,702</u>
<b>Change in Plan Assets:</b>		
Fair value of plan assets at beginning of year	15,010,743	12,186,765
Actual return on plan assets	508,124	2,689,609
Fees paid	(134,601)	(157,830)
Employer contributions	900,000	830,000
Benefits paid	(739,569)	(537,801)
Fair Value of Plan Assets at End of Year	<u>15,544,697</u>	<u>15,010,743</u>
<b>Funded Status Plan at End of Year (Underfunded):</b>		
Prepaid (Accrued) Pension Asset (Liability)	<u>\$ 113,096</u>	<u>\$ (372,959)</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>2012</u>	<u>2011</u>
Unrecognized prior service cost	\$ -	\$ 145
Unrecognized net actuarial loss	<u>1,867,458</u>	<u>1,527,012</u>
Total	<u>\$ 1,867,458</u>	<u>\$ 1,527,157</u>

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>2012</u>	<u>2011</u>
Discount rate	7.00%	7.00%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	4.00%	4.00%

**SAN DIEGO BLOOD BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)**

**Note 8 - Pension Plan: (Continued)**

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

	<u>2012</u>	<u>2011</u>
Service cost	\$ 75,457	\$ 162,003
Interest cost	1,044,583	1,014,579
Load for expenses	168,878	214,492
Actual return on assets net of expenses	(542,401)	(2,746,271)
Deferral of assets (gain)/loss	(672,946)	1,758,604
Recognition of (gain)/loss	-	260,324
Unrecognized prior service cost	73	264
Net Periodic Pension Cost	<u>\$ 73,644</u>	<u>\$ 663,995</u>

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

	<u>2012</u>	<u>2011</u>
Recognition of (gain)/loss	\$ -	\$ (260,324)
Recognition of UPSC	(73)	(264)
Experience loss at beginning of year	(76,492)	59,190
Assumption gain at beginning of year	19,580	(9,017)
Recognition due to curtailment at December 31, 2011	(275,660)	-
Asset gain at end of year	672,946	(1,758,604)
Total Recognized in Non-operating (Income) Expenses	<u>\$ 340,301</u>	<u>\$ (1,969,019)</u>
Total Recognized in Net Periodic Benefit Cost	<u>\$ 413,945</u>	<u>\$ (1,305,024)</u>

Plan assets by category as of June 30:

	<u>2012</u>	<u>2011</u>
Cash and money market funds	0%	0%
Equity securities and mutual funds	58%	63%
Debt securities and mutual funds	29%	23%
Insurance contracts	13%	14%
	<u>100%</u>	<u>100%</u>

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.

**SAN DIEGO BLOOD BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)**

**Note 8 - Pension Plan: (Continued)**

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>		
2013	\$	546,000
2014		613,000
2015		756,000
2016		842,000
2017		962,000
2018 - 2023		6,148,000

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>2012</u>	<u>2011</u>
Special Projects Fund	\$ 169,875	\$ 220,658
Capital Campaign	750	98,031
Stem Cell/Marrow Program	39,845	108,196
Education Funds	19,009	22,124
Disaster Readiness Fund	20,000	-
Total Temporarily Restricted Net Assets	<u>\$ 249,479</u>	<u>\$ 449,009</u>

Temporarily restricted net assets were released from restrictions as follows during the year ended June 30, 2012:

Satisfaction of Purpose Restrictions	<u>\$ 721,297</u>
--------------------------------------	-------------------

**SAN DIEGO BLOOD BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)**

**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, 2012 and 2011.

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.

**SAN DIEGO BLOOD BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)**

**Note 10 - Endowment Net Assets: (Continued)**

Endowment composition by type of fund as of June 30 and changes in endowment net assets are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</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	-	327,495
Interest income	2,620	-
Appropriation of endowment assets for expenditure	<u>(2,620)</u>	<u>-</u>
Endowment Net Assets at June 30, 2012	<u>\$ -</u>	<u>\$ 327,495</u>

**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, 2015. The lease includes scheduled rent increases and an additional charge for common area maintenance costs. Lease income totaled \$364,620 and \$285,661 for the years ended June 30, 2012 and 2011, respectively.

Future minimum lease income is as follows:

<u>Years Ended June 30</u>	
2013	\$ 297,348
2014	306,264
2015	<u>315,456</u>
Total	<u>\$ 919,068</u>

The Blood Bank leases rooftop space on its building at 440 Upas Street, San Diego, California. Lease income totaled \$35,826 and \$33,375 for the years ended June 30, 2012 and 2011, respectively. These leases will be discontinued in the fiscal year ended 2013, when the related property is sold.

**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 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 \$571,155 and \$647,346 to the MPP Plan for the years ended June 30, 2012 and 2011, respectively, which is included in salaries and related expenses.

**SAN DIEGO BLOOD BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)**

**Note 12 - Commitments and Contingencies: (Continued)**

**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 five to ten years through November 2022, and require the Blood Bank to pay common area maintenance charges. Lease expense for these leases totaled \$500,168 and \$568,819 for the years ended June 30, 2012 and 2011, respectively.

The following is a schedule of future minimum lease payments under the leases:

<u>Years Ended</u> <u>June 30</u>	
2013	\$ 410,913
2014	401,452
2015	345,936
2016	143,988
2017	58,028
Thereafter	345,745
Total	<u>\$ 1,706,062</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.

**Note 13 - Subsequent Event:**

On September 10, 2012, 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 within 75 days.