



San Diego  
**Blood Bank**

**FINANCIAL STATEMENTS**

**JUNE 30, 2013**



Leaf & Cole, LLP  
*Certified Public Accountants*

**SAN DIEGO BLOOD BANK  
FINANCIAL STATEMENTS  
JUNE 30, 2013**

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## **Independent Auditor's Report**

To the Board of Directors  
San Diego Blood Bank

### **Report on the Financial Statements**

We have audited the accompanying financial statements of San Diego Blood Bank, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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

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

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Diego Blood Bank as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited San Diego Blood Bank's 2012 financial statements, and our report dated September 13, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Leaf & Cole LLP

San Diego, California  
September 24, 2013

**SAN DIEGO BLOOD BANK**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2013**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2012)**

**ASSETS**

	<u>2013</u>	<u>2012</u>
<b><u>Current Assets:</u></b> (Notes 1 and 4)		
Cash and cash equivalents:		
Unrestricted	\$ 330,359	\$ 2,542,166
Temporarily restricted	257,714	249,479
Permanently restricted	414,031	327,495
Total cash and cash equivalents	<u>1,002,104</u>	<u>3,119,140</u>
Accounts receivable, net	4,561,728	4,655,051
Inventories:		
Whole blood and blood components	807,980	902,432
Supplies	500,085	428,414
Prepaid expenses and other	250,451	213,995
Total Current Assets	<u>7,122,348</u>	<u>9,319,032</u>
<b><u>Noncurrent Assets:</u></b> (Notes 1, 2, 3, 5, 7 and 8)		
Investments	373,909	350,000
Prepaid pension asset	1,123,235	113,096
Property and equipment, net	23,500,493	24,643,278
Deposits	80,516	80,056
Total Noncurrent Assets	<u>25,078,153</u>	<u>25,186,430</u>
<b>TOTAL ASSETS</b>	<u>\$ 32,200,501</u>	<u>\$ 34,505,462</u>

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

(Continued)

**SAN DIEGO BLOOD BANK**  
**STATEMENT OF FINANCIAL POSITION (CONTINUED)**  
**JUNE 30, 2013**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2012)**

**LIABILITIES AND NET ASSETS**

	<u>2013</u>	<u>2012</u>
<b><u>Current Liabilities:</u></b> (Notes 1 and 4)		
Accounts payable	\$ 1,082,430	\$ 1,221,249
Accrued salaries, payroll taxes and benefits	1,279,254	1,445,369
Line-of-credit payable	350,000	-
Blood deposits payable (Navy)	13,892	46,415
Advance blood deposits	25,000	50,000
Donor recognition	1,139,688	1,802,666
Current portion of noncurrent liabilities	502,939	4,862,309
Total Current Liabilities	4,393,203	9,428,008
<b><u>Noncurrent Liabilities:</u></b> (Notes 5 and 7)		
Notes payable, net of current portion	9,165,682	9,388,073
Capital lease obligations, net of current portion	926,172	961,936
Total Noncurrent Liabilities	10,091,854	10,350,009
Total Liabilities	14,485,057	19,778,017
<b><u>Obligation Under Interest Rate Swap</u></b> (Notes 1 and 6)	370,712	549,704
<b><u>Commitments and Contingencies</u></b> (Note 12)		
<b><u>Net Assets:</u></b> (Notes 1, 9 and 10)		
Unrestricted	16,672,986	13,600,767
Temporarily restricted	257,714	249,479
Permanently restricted	414,032	327,495
Total Net Assets	17,344,732	14,177,741
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 32,200,501	\$ 34,505,462

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

**SAN DIEGO BLOOD BANK**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2013**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012)**

	2013			Total	2012
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b><u>Revenue and Support:</u></b>					
Processing fees	\$ 30,257,136	\$ -	\$ -	\$ 30,257,136	\$ 33,567,566
Blood services	3,616,637	-	-	3,616,637	3,908,380
Contributions	151,574	535,895	86,537	774,006	1,272,745
Research components	350,868	-	-	350,868	316,817
Lease income and other	317,383	-	-	317,383	406,167
In-kind contributions	24,159	-	-	24,159	21,794
Contractual and family plan allowances	13,457	-	-	13,457	(22,449)
Interest income	5,080	3,321	-	8,401	2,720
Net assets released from restrictions	530,981	(530,981)	-	-	-
Total Revenue and Support	<u>35,267,275</u>	<u>8,235</u>	<u>86,537</u>	<u>35,362,047</u>	<u>39,473,740</u>
<b><u>Operating Expenses:</u></b>					
<b>Program Services:</b>					
Drawing, processing, distribution and laboratory	<u>34,161,712</u>	<u>-</u>	<u>-</u>	<u>34,161,712</u>	<u>34,741,547</u>
<b>Supporting Services:</b>					
General and administrative	2,279,553	-	-	2,279,553	2,042,494
Fundraising	<u>352,242</u>	<u>-</u>	<u>-</u>	<u>352,242</u>	<u>341,199</u>
Total Supporting Expenses	<u>2,631,795</u>	<u>-</u>	<u>-</u>	<u>2,631,795</u>	<u>2,383,693</u>
Total Operating Expenses	<u>36,793,507</u>	<u>-</u>	<u>-</u>	<u>36,793,507</u>	<u>37,125,240</u>
Change in Net Assets From Operating Activities	(1,526,232)	8,235	86,537	(1,431,460)	2,348,500
<b><u>Nonoperating Income (Expenses):</u></b>					
Income from nonoperational property and other income, net	225,098	-	-	225,098	494,916
Gain on disposal of property and equipment	3,816,652	-	-	3,816,652	-
Pension related changes other than net periodic pension cost	377,709	-	-	377,709	(340,301)
Change in fair value of interest rate swap	<u>178,992</u>	<u>-</u>	<u>-</u>	<u>178,992</u>	<u>(138,675)</u>
Change in Net Assets	3,072,219	8,235	86,537	3,166,991	2,364,440
Net Assets at Beginning of Year	<u>13,600,767</u>	<u>249,479</u>	<u>327,495</u>	<u>14,177,741</u>	<u>11,813,301</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 16,672,986</u>	<u>\$ 257,714</u>	<u>\$ 414,032</u>	<u>\$ 17,344,732</u>	<u>\$ 14,177,741</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, 2013**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012)**

	2013				2012
	Drawing, Processing, Distribution and <u>Laboratory</u>	General and <u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>	
Salaries, related costs and benefits	\$ 17,326,924	\$ 1,635,242	\$ 242,413	\$ 19,204,579	\$ 18,642,208
Supplies	10,869,539	10,816	9,494	10,889,849	10,835,344
Depreciation	1,045,606	51,928	4,044	1,101,578	1,119,256
Equipment maintenance	783,715	81,213	1,708	866,636	873,814
Blood purchases	811,244	-	-	811,244	1,061,466
Interest expense	613,854	40,869	5,896	660,619	715,363
Advertising	552,367	268	1,631	554,266	633,398
Vehicle expenses and mileage	455,278	2,282	1,324	458,884	418,961
Lease expense	437,400	-	-	437,400	500,168
Utilities	251,002	18,332	2,561	271,895	277,089
Insurance	241,005	12,511	1,805	255,321	264,270
Consultants	14,339	234,125	4,407	252,871	210,302
Taxis (net)	237,934	-	-	237,934	112,655
Telephone	145,184	8,518	1,297	154,999	126,016
Equipment rental	94,609	23,837	2,991	121,437	104,529
Shipping and postage	116,000	-	4,971	120,971	88,926
Blood inventory adjustment	94,451	-	-	94,451	198,225
Dues and periodicals	28,538	63,509	70	92,117	87,633
Taxes	70,050	2,412	348	72,810	77,951
Sanitation	49,020	915	125	50,060	77,001
Permits and licenses	41,190	90	-	41,280	47,173
Donor cultivation	-	-	37,200	37,200	28,084
Travel, conference, and education	20,496	13,675	(27)	34,144	27,460
Audit	-	30,000	-	30,000	32,650
Legal	-	27,763	-	27,763	102,871
Security	24,988	1,764	255	27,007	30,478
Bank charges	5,977	13,352	5,616	24,945	6,957
In-kind expenses	7,248	-	16,911	24,159	19,764
Laundry	16,189	-	-	16,189	14,558
Printing	7,735	-	7,202	14,937	15,117
Miscellaneous	40	485	-	525	4,394
Bad debts	(29,208)	-	-	(29,208)	6,337
Earned discounts	(36,795)	-	-	(36,795)	(47,291)
Community relations	(134,207)	5,647	-	(128,560)	412,113
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 34,161,712</b>	<b>\$ 2,279,553</b>	<b>\$ 352,242</b>	<b>\$ 36,793,507</b>	<b>\$ 37,125,240</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, 2013  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012)**

	<u>2013</u>	<u>2012</u>
<b><u>Cash Flows From Operating Activities:</u></b>		
Change in net assets	\$ 3,166,991	\$ 2,364,440
<b>Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:</b>		
Depreciation	1,131,718	1,221,641
Unrealized loss on investment	1,091	-
Loss (gain) on disposal of property and equipment	(3,763,243)	(5,495)
Permanently restricted contributions	(86,537)	-
Change in fair value of interest rate swap	(178,992)	138,675
<b>(Increase) Decrease in:</b>		
Accounts receivable, net	93,323	(395,906)
Inventories	22,781	204,682
Prepaid expenses and other	(36,456)	38,445
Prepaid pension asset	(1,010,139)	(113,096)
Deposits	(460)	38,075
<b>Increase (Decrease) in:</b>		
Accounts payable	(138,819)	(301,382)
Accrued salaries, payroll taxes and benefits	(166,115)	(357,714)
Blood deposits payable (Navy)	(32,523)	24,916
Advance blood deposits	(25,000)	-
Donor recognition	(662,978)	2,654
Accrued pension liability	-	(372,959)
Net Cash (Used in) Provided by Operating Activities	<u>(1,685,358)</u>	<u>2,486,976</u>
<b><u>Cash Flows From Investing Activities:</u></b>		
Purchase of investments	(25,000)	(350,000)
Proceeds from sale of property and equipment	5,136,998	49,366
Purchase of property and equipment	(1,096,857)	(851,543)
Net Cash Provided by (Used In) Investing Activities	<u>4,015,141</u>	<u>(1,152,177)</u>
<b><u>Cash Flows From Financing Activities:</u></b>		
Line-of-credit advances, net	350,000	-
Repayments on notes payable	(4,570,258)	(798,576)
Repayments on capital lease obligations	(313,098)	(402,929)
Permanently restricted contributions	86,537	-
Net Cash Used In Financing Activities	<u>(4,446,819)</u>	<u>(1,201,505)</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, 2013**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012)**

	<u>2013</u>	<u>2012</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(2,117,036)	133,294
Cash and Cash Equivalents at Beginning of Year	<u>3,119,140</u>	<u>2,985,846</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ <u>1,002,104</u></b>	<b>\$ <u>3,119,140</u></b>
<b><u>Supplemental Disclosures of Cash Flow Information:</u></b>		
Interest paid	<u>\$ 665,048</u>	<u>\$ 784,914</u>
<b><u>Supplemental Disclosures of Noncash Investing and Financing Activities:</u></b>		
Property and equipment acquired through capital lease obligation	<u>\$ 265,831</u>	<u>\$ 122,020</u>

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

**SAN DIEGO BLOOD BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2012)**

**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. The Blood Bank collects, stores and distributes blood products. In addition, the Blood Bank provides the Southern California region’s hospitals with a wide range of blood banking services. These include blood collection, component preparation, plateletpheresis, plasmapheresis, leukapheresis, washed blood, frozen blood, autologous storage, designated donation services and a reference laboratory. The Cell Therapy Program of the Blood Bank operates the Cord Blood Program providing lifesaving stem cell transplants to patients worldwide. 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.

- Unrestricted net assets – Net assets not subject to donor imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met by actions of the Blood Bank and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Permanently restricted net assets – Net assets subject to donor imposed stipulations requiring that they be maintained permanently by the Blood Bank. The income from these assets is available for either general operations or specific programs as specified by the donor.

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.

**SAN DIEGO BLOOD BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2012)**

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

**Significant Accounting Policies (Continued)**

**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**

Fair value accounting 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). The Blood Bank had no financial assets or liabilities required to be measured at fair value on a recurring basis at June 30, 2013 and 2012, 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 \$34,614 and \$65,385 at June 30, 2013 and 2012, 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, 2013**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2012)**

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

**Significant Accounting Policies (Continued)**

**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 totaled \$1,131,718 and \$1,221,641 for the years ended June 30, 2013 and 2012, 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 2013 or 2012.

**Compensated Absences**

Accumulated unpaid vacation totaling \$948,607 and \$926,769 at June 30, 2013 and 2012, 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 \$13,892 and \$46,415 at June 30, 2013 and 2012, respectively.

**SAN DIEGO BLOOD BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2012)**

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

**Significant Accounting Policies (Continued)**

**Advance Blood Deposits**

Through the Family Blood Plan, the Blood Bank 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 \$25,000 and \$50,000 at June 30, 2013 and 2012, respectively.

**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 \$1,139,688 and \$1,802,666 at June 30, 2013 and 2012, respectively.

**Derivative Instrument**

The accounting and reporting standards related to Derivative Instruments and Hedging Activities requires that every derivative instrument be recorded on the statement of financial position as either an asset or liability as measured at its fair value. The Blood Bank's interest rate swap agreement ("IRSA") as discussed in Note 6 is considered a cash flow hedge and is measured at fair value. The gains and losses on cash flow hedges are recognized as a change in net assets in the period of the change. The Blood Bank enters into total return swaps to manage risks on the changes in market interest rates.

The IRSA is considered a Level 3 asset or liability. For the valuation of the IRSA at June 30, 2013 and 2012, the Blood Bank used the income approach which involves using (i) quoted prices for economically equivalent swaps, or (ii) valuation methodologies, assumptions and inputs, which in the case of projected future cash flows, discount such cash flows to a single net present value amount. Various inputs are used to construct interest rate, currency exchange rate, commodity price or other curves that are placed into a valuation model to compute the valuation. The change in the fair value of the IRSA liability is as follows for the years ended June 30:

	<u>2013</u>	<u>2012</u>
Balance at Beginning of Year	\$ 549,704	\$ 411,029
Change in Fair Value of Obligation Under Interest Rate Swap	<u>(178,992)</u>	<u>138,675</u>
Balance at End of Year	<u>\$ 370,712</u>	<u>\$ 549,704</u>

**SAN DIEGO BLOOD BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2012)**

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

**Significant Accounting Policies (Continued)**

**Donated Services and Materials**

The Blood Bank utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the 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, 2013 and 2012, 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 \$24,159 and \$21,794 for the years ended June 30, 2013 and 2012, 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, 2013 and 2012. 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.

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, 2013, 2012, 2011 and 2010 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, 2013 and 2012. The Blood Bank's allowance for doubtful accounts has historically been adequate to cover existing credit risks.

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

**Significant Accounting Policies (Continued)**

**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>2013</u>	<u>2012</u>
Cash and money market funds	\$ 703,509	\$ 2,819,642
Certificates of deposit	298,595	299,498
Total Cash and Cash Equivalents	<u>\$ 1,002,104</u>	<u>\$ 3,119,140</u>

At June 30, 2013, certificates of deposit bear interest at rates ranging from .50% to .85% and mature between January 2014 and December 2014.

**Comparative Totals for June 30, 2012**

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, 2012, 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 24, 2013, the date the financial statements were available to be issued.

**SAN DIEGO BLOOD BANK**  
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**Note 2 - Investments:**

**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, 2013. 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, 2013 and 2012.

**National Blood Collaborative, LLC**

The Blood Bank is one of the founding members of National Blood Collaborative, LLC (NBC). A national network of leading blood centers coming together to provide capacity to respond to the increasing economic demands of hospitals and healthcare systems across the United States. The Blood Bank accounts for its investment using the equity method of accounting. The investment in NBC totaled \$23,909 and \$0- at June 30, 2013 and 2012, respectively.

**Note 3 - Property and Equipment:**

Property and equipment consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Land and land improvements	\$ 6,216,135	\$ 7,341,229
Building and improvements	14,885,921	18,427,320
Equipment, furniture, and fixtures	7,598,220	7,184,426
Data processing equipment	6,523,428	6,226,325
Vehicles	2,807,769	3,067,961
Construction in progress	-	349,860
Subtotal	<u>38,031,473</u>	<u>42,597,121</u>
Less: Accumulated depreciation	<u>(14,530,980)</u>	<u>(17,953,843)</u>
Property and Equipment, Net	<u>\$ 23,500,493</u>	<u>\$ 24,643,278</u>

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**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 bank's index rate plus .25% (3.50% at June 30, 2013). The line-of-credit is renewable on December 20, 2013 (extended annually thereafter), and is secured by accounts receivable. The outstanding borrowings on the line-of-credit totaled \$350,000 and \$-0- at June 30, 2013 and 2012, respectively.

**Note 5 - Notes Payable:**

Notes payable consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
<p>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, 2013), 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 \$8,475 and \$5,983 at June 30, 2013 and 2012, respectively.</p>	\$ 9,388,073	\$ 9,598,224
<p>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 bank's index rate plus .25% per annum (3.50% at June 30, 2013). 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 \$-0- and \$4,663 at June 30, 2013 and 2012, respectively.</p>	-	4,360,107
Total Notes Payable	9,388,073	13,958,331
Less: Current portion	(222,391)	(4,570,258)
Notes Payable - Noncurrent	\$ 9,165,682	\$ 9,388,073

Future principal payments on the notes payable are as follows:

<u>Years Ended</u> <u>June 30</u>	
2014	\$ 222,391
2015	9,165,682
Total	\$ 9,388,073

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**Note 6 - Obligation Under Interest Rate Swap:**

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 \$370,712 and \$549,704 at June 30, 2013 and 2012, respectively. Accrued interest payable totaled \$6,407 and \$8,665 at June 30, 2013 and 2012, respectively.

**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>2013</u>	<u>2012</u>
Cost	\$ 1,561,866	\$ 1,809,552
Less: Accumulated depreciation	(173,250)	(209,636)
Net Book Value	<u>\$ 1,388,616</u>	<u>\$ 1,599,916</u>

Future minimum capital lease payments are as follows:

<u>Years Ended</u> <u>June 30</u>	
2014	\$ 329,746
2015	329,746
2016	306,310
2017	200,919
2018	<u>165,834</u>
Total	1,332,555
Less: Amount representing interest	<u>(125,835)</u>
Capital Lease Obligations	<u>\$ 1,206,720</u>

<u>Financial Statement Presentation:</u>	<u>2013</u>	<u>2012</u>
Current portion of noncurrent liabilities	\$ 280,548	\$ 292,051
Capital lease obligations, net of current portion	<u>926,172</u>	<u>961,936</u>
	<u>\$ 1,206,720</u>	<u>\$ 1,253,987</u>

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**Note 8 - Pension Plan:**

The Blood Bank has a defined benefit pension plan (the “Plan”) covering substantially all of its employees. Pension benefits are provided on a formula based on the employee’s compensation during the five highest consecutive years of pay before retirement. The Blood Bank contributed \$660,000 and \$900,000 to the Plan for the years ended June 30, 2013 and 2012, 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 \$27,570 and \$73,644 for the years ended June 30, 2013 and 2012, respectively has been included in salaries, related costs and benefits. 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.

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

	<u>2013</u>	<u>2012</u>
<b>Change in Benefit Obligation:</b>		
Benefit obligation at beginning of year	\$ 15,431,601	\$ 15,383,702
Experience (gain)/loss	125,926	(76,492)
Service cost	-	75,457
Interest cost	1,072,062	1,044,583
Benefit paid	(590,824)	(739,569)
Gain due to plan amendment during the year	-	(275,660)
Assumption (gain)/loss	20,333	19,580
PBO at year-end	<u>18,400</u>	<u>-</u>
Benefit Obligation at End of Year	<u>16,077,498</u>	<u>15,431,601</u>
<b>Change in Plan Assets:</b>		
Fair value of plan assets at beginning of year	15,544,697	15,010,743
Actual return on plan assets	1,759,256	508,124
Fees paid	(172,396)	(134,601)
Employer contributions	660,000	900,000
Benefits paid	<u>(590,824)</u>	<u>(739,569)</u>
Fair Value of Plan Assets at End of Year	<u>17,200,733</u>	<u>15,544,697</u>
<b>Funded Status Plan at End of Year (Underfunded):</b>		
Prepaid (Accrued) Pension Asset (Liability)	<u>\$ 1,123,235</u>	<u>\$ 113,096</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>2013</u>	<u>2012</u>
Unrecognized net actuarial loss	\$ 1,489,749	\$ 1,867,458
Total	<u>\$ 1,489,749</u>	<u>\$ 1,867,458</u>

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

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

	<u>2013</u>	<u>2012</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>2013</u>	<u>2012</u>
Service cost	\$ -	\$ 75,457
Interest cost	1,072,062	1,044,583
Load for expenses	144,023	168,878
Actual return on assets net of expenses	(1,730,883)	(542,401)
Deferral of assets (gain)/loss	481,922	(672,946)
Recognition of (gain)/loss	60,446	-
Unrecognized prior service cost	-	73
Net Periodic Pension Cost	<u>\$ 27,570</u>	<u>\$ 73,644</u>

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

	<u>2013</u>	<u>2012</u>
Recognition of (gain)/loss	\$ (60,446)	\$ -
Recognition of UPSC	-	(73)
Experience loss at beginning of year	125,926	(76,492)
Assumption gain at beginning of year	20,333	19,580
Assumption gain at end of year	18,400	
Recognition due to curtailment at December 31, 2012	-	(275,660)
Asset gain at end of year	(481,922)	672,946
Total Recognized in Non-operating (Income) Expenses	<u>\$ (377,709)</u>	<u>\$ 340,301</u>
Total Recognized in Net Periodic Benefit Cost	<u>\$ 350,139</u>	<u>\$ 413,945</u>

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

Plan assets by category as of June 30:

	<u>2013</u>	<u>2012</u>
Cash and money market funds	0%	0%
Equity securities and mutual funds	58%	58%
Debt securities and mutual funds	32%	29%
Insurance contracts	10%	13%
	<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.

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 Blood Bank expects to contribute the minimum required contribution, approximately \$200,000, to the plan for the year ended June 30, 2014.

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>	
2014	\$ 639,000
2015	751,000
2016	829,000
2017	953,000
2018	993,000
2019 - 2024	6,225,000

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

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**Note 9 - Temporarily Restricted Net Assets:**

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

	<u>2013</u>	<u>2012</u>
Special Projects Fund	\$ 245,871	\$ 169,875
Stem Cell/Marrow Program	6,700	39,845
Education Funds	3,443	19,009
Capital Campaign	1,700	750
Disaster Readiness Fund	-	20,000
Total Temporarily Restricted Net Assets	<u>\$ 257,714</u>	<u>\$ 249,479</u>

Temporarily restricted net assets were released from restrictions as follows during the year ended June 30, 2013:

Satisfaction of Purpose Restrictions	<u>\$ 530,981</u>
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**Note 10 - Endowment Net Assets:**

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

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

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

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Blood Bank to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2013 and 2012.

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

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.

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, 2012	\$ -	\$ 327,495
Interest income	2,620	-
Appropriation of endowment assets for expenditure	<u>(2,620)</u>	<u>-</u>
Endowment Net Assets at June 30, 2013	-	327,495
Contributions	-	86,537
Interest income	3,321	-
Appropriation of endowment assets for expenditure	<u>(3,321)</u>	<u>-</u>
Endowment Net Assets at June 30, 2013	<u>\$ -</u>	<u>\$ 414,032</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 \$375,621 and \$364,621 for the years ended June 30, 2013 and 2012, respectively.

The Blood Bank leased rooftop space on its building at 440 Upas Street, San Diego, California through December, 2012 and leases rooftop space on its building at 3636 Gateway Center, San Diego, California under an operating lease which expires in February 2018. Lease income totaled \$25,252 and \$35,826 for the years ended June 30, 2013 and 2012, respectively.

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**Note 11 - Lease Income: (Continued)**

Future minimum lease income is as follows:

Years Ended June 30	
2014	330,264
2015	339,451
2016	24,000
2017	24,000
2018	16,000
Total	<u>\$ 733,715</u>

**Note 12 - Commitments and Contingencies:**

**Retirement Plans**

The Blood Bank offers employees the opportunity for participation in a 403(b) retirement plan. Employees may contribute to the 403(b) retirement plan up to the maximum amount allowed by the Internal Revenue Code. The Blood Bank 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 \$632,387 and \$571,155 to the MPP Plan for the years ended June 30, 2013 and 2012, respectively, which is included in salaries, related costs and benefits.

**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 February 2024, and require the Blood Bank to pay common area maintenance charges. Lease expense for these leases totaled \$437,400 and \$500,168 for the years ended June 30, 2013 and 2012, respectively.

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

Years Ended June 30	
2014	\$ 527,414
2015	475,032
2016	269,705
2017	184,781
2018	189,821
Thereafter	934,767
Total	<u>\$ 2,581,520</u>

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

**Purchase Commitments**

The Blood Bank has agreements with several suppliers obligating it to purchase a minimum amount of certain products. These agreements are related to certain 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.