

SAN DIEGO BLOOD BANK
CONSOLIDATED FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORT
YEARS ENDED JUNE 30, 2021 AND 2020



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**SAN DIEGO BLOOD BANK
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INDEPENDENT AUDITORS' REPORT

Audit Committee
San Diego Blood Bank
San Diego, California

We have audited the accompanying consolidated financial statements of San Diego Blood Bank (a nonprofit organization), which comprises the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of San Diego Blood Bank as of June 30, 2021, 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.

Emphasis-of-Matter

Changes in Accounting Principles

As discussed in Note 1 to the consolidated financial statements, in 2021, San Diego Blood Bank adopted Accounting Standards Update Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to these matters.

Other Matters

Comparative Information

The 2020 consolidated financial statements of San Diego Blood Bank were audited by other auditors whose report dated December 4, 2020, expressed an unmodified opinion on those statements.

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2021, on our consideration of San Diego Blood Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the San Diego Blood Bank's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering San Diego Blood Bank's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

San Diego, California
October 29, 2021

SAN DIEGO BLOOD BANK
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021 AND 2020

ASSETS	2021	2020
Current Assets:		
Cash and Cash Equivalents	\$ 3,311,961	\$ 2,397,248
Restricted Cash	963,729	226,943
Accounts Receivable, Net of Allowance for Returns and Doubtful Accounts	7,024,330	6,003,393
Accounts Receivable - COVID-19 Convalescent Plasma	52,581	346,680
Promises to Give	20,920	5,000
Inventories, Net of Inventory Obsolescence	1,378,301	1,482,636
Prepaid Expenses and Other Assets	323,566	300,255
Total Current Assets	13,075,388	10,762,155
Property and Equipment, Net of Accumulated Depreciation	21,874,595	21,521,128
Investments	751,712	517,033
Deposits and Other Assets	51,533	5,814
Total Assets	\$ 35,753,228	\$ 32,806,130
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	\$ 2,808,009	\$ 3,842,665
Accrued Payroll	938,846	853,740
Accrued Expenses	1,453,464	1,248,406
Deferred Revenue	240,292	431,365
Line of Credit	699,134	2,620,134
Customer Deposits	-	30,000
Donor Recognition	-	1,309,417
Notes Payable	571,970	1,116,575
Accrued Pension	681,312	665,996
Total Current Liabilities	7,393,027	12,118,298
Notes Payable, Net of Current Portion	8,653,209	10,790,245
Interest Rate Swap	463,852	708,376
Accrued Pension, Net of Current Portion	3,658,004	8,733,476
Total Liabilities	20,168,092	32,350,395
Net Assets:		
Without Donor Restrictions:	14,606,407	223,792
With Donor Restrictions	978,729	231,943
Total Net Assets	15,585,136	455,735
Total Liabilities and Net Assets	\$ 35,753,228	\$ 32,806,130

See accompanying Notes to Consolidated Financial Statements.

**SAN DIEGO BLOOD BANK
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR JUNE 30, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Blood and Blood Components	\$ 45,298,004	\$ -	\$ 45,298,004
Research and Cell Therapy	3,756,069	-	3,756,069
Government Grants and Contracts	1,095,365	-	1,095,365
Contributions	176,268	895,299	1,071,567
Lease Income	802,304	-	802,304
COVID-19 Convalescent Plasma	4,476,590	-	4,476,590
Other	1,039,118	-	1,039,118
Net Assets Released from Restrictions	148,513	(148,513)	-
Total Revenue and Support	<u>56,792,231</u>	<u>746,786</u>	<u>57,539,017</u>
OPERATING EXPENSES			
Program Services:			
Blood Banking	38,785,498	-	38,785,498
Research and Cell Therapy	3,520,135	-	3,520,135
Supporting Services:			
Management and General	7,005,241	-	7,005,241
Fund Raising	488,390	-	488,390
Total Operating Expenses	<u>49,799,264</u>	<u>-</u>	<u>49,799,264</u>
INCOME FROM OPERATIONS	6,992,967	746,786	7,739,753
NONOPERATING REVENUE			
Pension Related Changes Other than Net			
Periodic Pension Cost	4,394,160	-	4,394,160
Change in Fair Value of Interest Rate Swaps	244,524	-	244,524
Unrealized Gain on Investments	186,445	-	186,445
Gain on Disposal of Fixed Assets	3,719	-	3,719
Extinguishment of Debt	2,560,800	-	2,560,800
Total Nonoperating Revenue	<u>7,389,648</u>	<u>-</u>	<u>7,389,648</u>
CHANGE IN NET ASSETS	14,382,615	746,786	15,129,401
Net Assets - Beginning of Year	<u>223,792</u>	<u>231,943</u>	<u>455,735</u>
NET ASSETS - END OF YEAR	<u>\$ 14,606,407</u>	<u>\$ 978,729</u>	<u>\$ 15,585,136</u>

See accompanying Notes to Consolidated Financial Statements.

**SAN DIEGO BLOOD BANK
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR JUNE 30, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Blood and Blood Components	\$ 39,976,196	\$ -	\$ 39,976,196
Research and Cell Therapy	2,491,061	-	2,491,061
Government Grants and Contracts	1,030,920	-	1,030,920
Contributions	204,050	585,584	789,634
Lease Income	600,919	-	600,919
COVID-19 Convalescent Plasma	492,180	-	492,180
Other	246,464	-	246,464
Net Assets Released from Restrictions	738,021	(738,021)	-
Total Revenue and Support	<u>45,779,811</u>	<u>(152,437)</u>	<u>45,627,374</u>
OPERATING EXPENSES			
Program Services:			
Blood Banking	35,284,202	-	35,284,202
Research and Cell Therapy	2,665,624	-	2,665,624
Supporting Services:			
Management and General	6,308,503	-	6,308,503
Fund Raising	381,860	-	381,860
Total Operating Expenses	<u>44,640,189</u>	<u>-</u>	<u>44,640,189</u>
INCOME (LOSS) FROM OPERATIONS	1,139,622	(152,437)	987,185
NONOPERATING REVENUE (EXPENSES)			
Pension Related Changes Other than Net			
Periodic Pension Cost	(4,304,922)	-	(4,304,922)
Change in Fair Value of Interest Rate Swaps	(239,431)	-	(239,431)
Unrealized Gain on Investments	85,569	-	85,569
Gain on Disposal of Fixed Assets	396	-	396
Total Nonoperating Expenses	<u>(4,458,388)</u>	<u>-</u>	<u>(4,458,388)</u>
CHANGE IN NET ASSETS	(3,318,766)	(152,437)	(3,471,203)
Net Assets - Beginning of Year	<u>3,542,558</u>	<u>384,380</u>	<u>3,926,938</u>
NET ASSETS - END OF YEAR	<u>\$ 223,792</u>	<u>\$ 231,943</u>	<u>\$ 455,735</u>

See accompanying Notes to Consolidated Financial Statements.

SAN DIEGO BLOOD BANK
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR JUNE 30, 2021

	Program Services		Supporting Services		Total
	Blood Banking	Research and Cell Therapy	Management and General	Fund Raising	
Salaries, Related Costs, and Benefits	\$ 16,064,719	\$ 2,014,919	\$ 4,155,041	\$ 333,250	\$ 22,567,929
Supplies	11,237,266	649,291	68,113	1,965	11,956,635
Testing	5,709,137	59,271	-	-	5,768,408
Facility and Equipment	1,081,431	446,073	729,652	6,495	2,263,651
Depreciation	1,123,556	70,715	259,582	11,602	1,465,455
Shipping	1,464,182	15,256	695	53	1,480,186
Lease	604,197	-	-	-	604,197
Interest	305,979	24,268	134,575	6,618	471,440
Marketing	481,705	64,247	21,631	23,388	590,971
Insurance	-	-	318,242	-	318,242
Consultant	65,118	57,671	203,259	89,034	415,082
Miscellaneous	111,088	69,875	133,203	2,826	316,992
Vehicle	260,600	-	-	-	260,600
Information Technology	26,683	21,623	528,662	-	576,968
Dues and Subscriptions	55,641	758	99,866	5,612	161,877
Travel	72,091	17,968	18,116	971	109,146
Professional Fees	-	-	88,293	-	88,293
Taxes	94,585	8,150	130,438	788	233,961
Contract Services	26,673	50	109,675	-	136,398
Bank and Brokerage Fees	847	-	6,198	5,788	12,833
Total Expenses	\$ 38,785,498	\$ 3,520,135	\$ 7,005,241	\$ 488,390	\$ 49,799,264

See accompanying Notes to Consolidated Financial Statements.

SAN DIEGO BLOOD BANK
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR JUNE 30, 2020

	Program Services		Supporting Services		Total
	Blood Banking	Research and Cell Therapy	Management and General	Fund Raising	
Salaries, Related Costs, and Benefits	\$ 15,313,942	\$ 1,585,824	\$ 3,764,872	\$ 281,605	\$ 20,946,243
Supplies	9,132,489	423,012	43,000	3,717	9,602,218
Testing	4,644,247	31,317	-	-	4,675,564
Facility and Equipment	1,405,832	400,819	433,320	5,415	2,245,386
Depreciation	878,739	71,833	317,010	15,589	1,283,171
Shipping	1,308,819	8,806	-	15	1,317,640
Lease	540,845	-	-	-	540,845
Interest	374,549	30,169	179,604	8,228	592,550
Marketing	700,963	19,056	48,328	38,962	807,309
Insurance	214,354	11,864	65,798	3,236	295,252
Consultant	86,876	23,994	152,879	17,374	281,123
Miscellaneous	17,463	21,587	144,583	1,163	184,796
Vehicle	287,559	-	-	-	287,559
Information Technology	186,614	-	282,527	295	469,436
Dues and Subscriptions	74,938	1,744	51,841	3,919	132,442
Travel	89,929	28,589	27,298	2,342	148,158
Professional Fees	-	3,030	544,208	-	547,238
Taxes	-	-	175,767	-	175,767
Contract Services	26,044	3,980	59,128	-	89,152
Bank and Brokerage Fees	-	-	18,340	-	18,340
Total Expenses	\$ 35,284,202	\$ 2,665,624	\$ 6,308,503	\$ 381,860	\$ 44,640,189

See accompanying Notes to Consolidated Financial Statements.

**SAN DIEGO BLOOD BANK
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS JUNE 30, 2021 AND 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 15,129,401	\$ (3,471,203)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	1,465,455	1,283,171
Unrealized (Gain) Loss on Investments	(186,445)	33,500
Gain on Disposal of Property and Equipment	(3,719)	(396)
Change in Fair Value of Interest Rate Swaps	(244,524)	239,431
Extinguishment of Debt	(2,560,800)	-
Changes in Operating Assets and Liabilities:		
Accounts Receivable, Net	(1,020,937)	(377,265)
Accounts Receivable - COVID-19 Convalescent Plasma	294,099	(346,680)
Promises to Give	(15,920)	16,000
Inventories, Net	104,335	(172,903)
Prepaid Expenses and Other Assets	(23,311)	111,540
Deposits and Other Assets	(45,719)	6,177
Accounts Payable	(1,034,656)	(496,681)
Accrued Payroll	85,106	(195,905)
Accrued Expenses	205,058	321,710
Deferred Revenue	(191,073)	(201,333)
Advanced Blood Deposits	(30,000)	-
Donor Recognition	(1,309,417)	114,033
Accrued Pension	(5,060,156)	3,972,089
Net Cash Provided by Operating Activities	5,556,777	835,285
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(1,854,922)	(1,247,928)
Proceeds from Sale of Property and Equipment	39,719	2,250
Equity Investment Member Contribution	(48,234)	-
Net Cash Used by Investing Activities	(1,863,437)	(1,245,678)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on Line of Credit	-	530,134
Payments on Line of Credit	(1,921,000)	(800,000)
Proceeds from Notes Payable	468,059	2,745,570
Payments on Notes Payable	(588,900)	(478,595)
Net Cash Provided (Used) by Financing Activities	(2,041,841)	1,997,109
NET INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	1,651,499	1,586,716
Cash and Cash Equivalents and Restricted Cash - Beginning of Year	2,624,191	1,037,475
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR	\$ 4,275,690	\$ 2,624,191
Cash and Cash Equivalents and Restricted Cash Consists of:		
Cash and Cash Equivalents	\$ 3,311,961	\$ 2,397,248
Restricted Cash	963,729	226,943
Total Cash and Cash Equivalents and Restricted Cash	\$ 4,275,690	\$ 2,624,191
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 471,439	\$ 548,331

See accompanying Notes to Consolidated Financial Statements.

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 BLOOD BANK AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The San Diego Blood Bank (SDBB) is a California not-for-profit public benefit corporation established in 1950. SDBB collects, tests, processes, stores, and distributes blood products throughout the Southern California region. In addition, SDBB provides a wide range of additional blood banking services, including plateletpheresis and plasmapheresis, and testing in an immunohematology reference laboratory. SDBB also supports life science research and clinical trials, including in cellular therapies and population-scale genomics, as an extension of our mission to save lives. SDBB's vision is to have an even greater impact in the community's health by improving community wellness and engaging with researchers to drive future medical advances.

The consolidated financial statements include the accounts of SDBB Labs, Inc. (SDBB Labs) and Neighbor Savers, Inc. (Neighbor Savers), both of which were incorporated during the year ended June 30, 2019. SDBB Labs is a wholly owned subsidiary of the San Diego Blood Bank focused on providing research and other services to outside entities. Neighbor Savers was a nonprofit organization set up for the purposes of enhancing deliveries of healthcare products to, from and between the San Diego Blood Bank, local hospitals and biotech companies. Neighbor Savers was dissolved during the year ended June 30, 2020.

Basis of Consolidation

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

New Accounting Pronouncements

The amendments in ASU 2014-09, Revenue from Contracts with Customers, and subsequent updates require that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This assessment included determining the effect of the new standard on the Blood Bank's consolidated financial statements, accounting systems, business processes, and internal controls. Adoption of ASU 2014-09 also requires enhanced consolidated financial statement disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Blood Bank evaluated the effect that the provisions of ASU 2014-09 on its consolidated financial statements and concluded there were no impact to the financial statements of the prior period presented.

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation

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

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

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Blood Bank or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Blood Bank did not have any donor restrictions that were perpetual in nature for the years ended June 30, 2021 and 2020.

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

Use of Estimates

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

Cash and Cash Equivalents

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

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

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

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable arise in the normal course of business. The amounts for accounts receivable are presented at net realizable value. It is the policy of management to review the outstanding accounts receivable at year-end, as well as the bad debt write-offs experienced in the past, and establish an allowance for returns and doubtful accounts for uncollectible amounts. The allowance for returns and doubtful accounts was \$180,870 and \$95,325 at June 30, 2021 and 2020, respectively.

Promises to Give

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

Inventories

The cost of whole blood and blood components inventory is determined by valuing blood using drawing and processing costs and certain purchased items, excluding distribution costs. Inventories of supplies are valued at the lower of cost or net realizable value, determined on the first-in, first-out basis. The allowance for inventory obsolescence was \$153,143 and \$-0- at June 30, 2021 and 2020, respectively.

Property and Equipment

Acquisitions of property and equipment of \$1,000 or more are capitalized. Property and equipment are stated at cost, or if donated, at the approximate fair market value on the date of donation. Expenditures for maintenance and repairs are charged against operations. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, ranging from 3 to 40 years, or, in the case of leasehold improvements, over the lesser of the useful lives of the related assets or the lease term.

Impairment of Long-Term Assets

The Blood Bank reviews its investment in long-term assets for impairment whenever events and changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the long-term asset to the estimated proceeds from the eventual disposition of the long-term asset. If the long-term asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of long-term asset exceeds the fair value of such property. There were no impairment losses recognized for the years ended June 30, 2021 and 2020.

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Accumulated paid time off totaling \$1,453,464 and \$1,248,406 at June 30, 2021 and 2020, respectively, is accrued when incurred and included in accrued payroll.

Donor Recognition

The Blood Bank has a reward program to recognize donors of blood. Donors receive points with every blood donation. The points can be redeemed for merchandise available through the Blood Bank's online store. The Blood Bank accrues expenses for unredeemed points based on the average redemption value of accumulated points. Donor points expire if the donor has not donated blood in one year. For the years ended June 30, 2021 and 2020, \$876,418 and \$154,028 of donor points were written off due to expiration, respectively. The Blood Bank terminated the program effective December 31, 2020.

Revenue Recognition

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

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

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

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

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (continued)

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

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

Donated Services and Materials

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

Derivative Instruments

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

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The IRSA's are considered Level 3 assets or liabilities. For the valuation of the IRSA's at June 30, 2021 and 2020, 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:

	2021	2020
Balance - Beginning of Year	\$ 708,376	\$ 468,945
Change in Fair Value of Obligation Under Interest Rate Swaps	(244,524)	239,431
Balance - End of Year	<u>\$ 463,852</u>	<u>\$ 708,376</u>

Functional Expense Allocations

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

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

Income Taxes

The San Diego Blood Bank is a qualified nonprofit blood bank that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. However, the Blood Bank remains subject to taxes on any net income which is derived from a trade or business regularly carried on and unrelated to its exempt purpose. For the years ended June 30, 2021 and 2020, no such unrelated business taxable income was reported and, therefore, no provision for income taxes has been made. The Blood Bank is not a private foundation.

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Blood Bank follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Blood Bank recognizes accrued interest and penalties associated with uncertain tax positions as part of the consolidated statements of activities, when applicable. Management has determined that the Blood Bank has no uncertain tax positions at June 30, 2021 and 2020 and therefore, no amounts have been accrued.

Fair Value Measurements

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

The three levels are defined as follows:

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

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

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

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

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

The carrying value of cash, receivables, inventory, and payables approximates fair value as of June 30, 2021 and 2020, due to the relative short maturities of these instruments.

Measure of Operations

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

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Future Accounting Standards

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

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

Risks and Uncertainties

In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. In response, the U.S. Government enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which includes significant provisions to provide relief and assistance to affected organizations.

COVID-19 health challenges resulted in new revenue streams for the Blood Bank through collection and distribution of COVID-19 Convalescent Plasma (CCP) under a government-sponsored program. Research revenues also expanded through collaborations with local bio-research organizations interested in blood antibody testing.

The emergence of COVID-19 variants and new and unknown viruses will continue to challenge the world population, with unknown impact on the Blood Bank. Uncertainties will persist over workforce availability, compensation as it relates to employee retention, transition to and from remote work capabilities, management and information technology challenges around support of remote work, increased risks of cyber-attacks and other issues.

Reclassifications

Certain amounts in the June 30, 2020 consolidated financial statements have been reclassified to conform to current year classifications.

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

The Blood Bank has evaluated subsequent events through October 29, 2021, which is the date the consolidated financial statements were available to be issued. See Note 14 for more information.

NOTE 2 LIQUIDITY AND AVAILABILITY

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

	<u>2021</u>	<u>2020</u>
Cash and Cash Equivalents	\$ 3,311,961	\$ 2,397,248
Accounts Receivable, Net of Allowance for Returns and Doubtful Accounts	7,024,330	6,003,393
Accounts Receivable - COVID-19 Convalescent Plasma	52,581	346,680
Promises to Give	<u>20,920</u>	<u>5,000</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 10,409,792</u>	<u>\$ 8,752,321</u>

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

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

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

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

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 3 CONCENTRATIONS OF CREDIT RISK

Cash

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

Accounts Receivable

Essentially all of the Blood Bank's business is conducted with hospitals in Southern California. Substantially all of the accounts receivable balance was due from hospitals and was unsecured at June 30, 2021 and 2020. The Blood Bank's allowance for returns and doubtful accounts has historically been adequate to cover existing credit risks. The Blood Bank had two customers that comprised 21% and 23% of total accounts receivable during the years ended June 30, 2021 and 2020, respectively.

Promises to Give

During the years ended June 30, 2021 and 2020, the Blood Bank had one and two donors that comprised 72% and 100% of total promises to give, respectively.

Revenue

During the years ended June 30, 2021 and 2020, the Blood Bank had one customer that comprised 10% and 12% of total revenue, respectively.

Revenue from Government Contracts

During the years ended June 30, 2021 and 2020, the Blood Bank had two grantors that comprised 100% and one grantor that comprised 100% of total revenue from government contracts, respectively.

Contributions

During the years ended June 30, 2021 and 2020, the Blood Bank had one donor that comprised 21% and two donors that comprised 33% of total contributions, respectively.

Labor Subject to Collective Bargaining Agreements

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

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 4 PROMISES TO GIVE

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

	2021	2020
Due in Less than One Year	\$ 20,920	\$ 5,000
Due in One to Five Years	-	-
Total	\$ 20,920	\$ 5,000

Long-term promises to give are included in deposits and other assets on the consolidated statements of financial position. No discount was considered necessary at June 30, 2021 and 2020 due to the minimal effect it would have on the consolidated financial statements. No allowance was considered necessary at June 30, 2021 and 2020 because management believes that all amounts are collectible.

NOTE 5 INVESTMENTS

Blood Centers of America, Inc.

The Blood Bank purchased a voting membership in Blood Centers of America, Inc., (BCA). BCA is a cooperative representing community blood centers located throughout the United States. BCA's focus is on improving the operations and business activities of the member blood centers. BCA provides contract management for the purchase and sale of medical plastics, therapeutic proteins, and recovered plasma. BCA provides an active blood exchange that assures an adequate supply of blood to all member centers and shares excesses with other nonmember centers. BCA provides technology partnering for product development, clinical trials, product testing and implementation work groups. Voting members have (i) the right to vote, (ii) the right to share in any patronage dividend or other distributions made by BCA, and (iii) the right to share in the assets of BCA upon liquidation. There are currently approximately 32 unrelated nonprofit blood banks that have voting memberships in BCA at June 30, 2021 and 2020. The Blood Bank owns approximately 3% of BCA. The investment in BCA was valued at \$702,003 and \$488,683 at June 30, 2021 and 2020, respectively.

National Blood Collaborative, LLC

The Blood Bank is one of the founding members of National Blood Collaborative, LLC (NBC), a national network of leading blood centers coming together to provide capacity to respond to the increasing economic demands of hospitals and healthcare systems across the United States. At June 30, 2021 and 2020, the Blood Bank owned approximately 8% and 14% of NBC, respectively. The investment in NBC was valued at \$30,475 and \$28,350 at June 30, 2021 and 2020, respectively.

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 5 INVESTMENTS (CONTINUED)

Investment in Community Bio, Inc.

The Blood Bank is the sole member of Community Bio, Inc. (CB). CB was incorporated in September 2020 with a possible purpose of segregating certain future research activities that could lead to development of intellectual property and commercialization. The investment in CB was valued at \$19,234 and \$-0- at June 30, 2021 and 2020, respectively.

The schedule below summarizes the activity of the investments above:

	Blood Centers of America, Inc	National Blood Collaborative, LLC	Community Bio Inc.	Total
Ending Balance, June 30 2019	\$ 340,969	\$ 44,495	\$ -	\$ 385,464
Total gains (losses):				
Included in realized/unrealized	-	(62,145)	-	(62,145)
Purchases, issuances and redemptions, net	147,714	46,000	-	193,714
Ending Balance, June 30 2020	488,683	28,350	-	517,033
Total gains (losses):				
Included in realized/unrealized	213,320	(26,875)	-	186,445
Purchases, issuances and redemptions, net	-	29,000	19,234	48,234
Ending Balance, June 30 2021	<u>\$ 702,003</u>	<u>\$ 30,475</u>	<u>\$ 19,234</u>	<u>\$ 751,712</u>

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2021	2020
Building and Improvements	\$ 16,141,871	\$ 16,080,927
Land	6,565,063	6,565,063
Equipment, Furniture, and Fixtures	6,347,192	5,330,551
Vehicles	3,356,830	3,456,883
Data Processing Equipment	2,475,885	2,260,592
Software	534,473	534,473
Construction-in-Progress	667,100	227,174
Subtotal	<u>36,088,414</u>	<u>34,455,663</u>
Less: Accumulated Depreciation	<u>(14,213,819)</u>	<u>(12,934,535)</u>
Total	<u>\$ 21,874,595</u>	<u>\$ 21,521,128</u>

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 7 NOTES PAYABLE

Notes payable consists of the following at June 30:

<u>Description</u>	<u>2021</u>	<u>2020</u>
<p>Note payable which is held by City National Bank in the original amount of \$9,678,234 and bears interest at the variable rate of 80% LIBOR plus 1.48%, (1.5537% and 1.620% at June 30, 2021 and 2020, respectively), except that effective December 20, 2013, the Blood Bank entered into an interest rate swap agreement (Note 9) that fixed the interest rate of the note at 4.08% per annum. Payments of principal (fixed monthly amounts ranging from \$17,826 to \$28,040, with one balloon payment in the amount of \$6,941,298) and interest are due monthly. Principal and accrued interest are due January 1, 2024. Secured by a deed of trust on real property. Accrued interest payable totaled \$26,382 and \$27,833 at June 30, 2021 and 2020, respectively.</p>	\$ 7,759,448	\$ 8,053,755
<p>Note payable which is held by City National Bank which originated May 18, 2015 in the original amount of \$654,240 and bears interest at 4.25% beginning July 1, 2015. Payments of principal (fixed monthly amount of \$5,602) and interest are due monthly. Principal and interest are due June 1, 2025. Secured by a deed of trust on real property. Accrued interest totaled \$2,458 and \$2,587 at June 30, 2021 and 2020, respectively.</p>	664,582	694,288
<p>Note payable which is held by City National Bank in the original amount of \$321,766 and bears interest at the variable rate of LIBOR plus 1.85%, (1.9421% and 2.023% at June 30, 2021 and 2020, respectively), except that effective December 20, 2013, the Blood Bank entered into an interest rate swap agreement (Note 9) that fixed the interest rate of the note at 5.04% per annum. Payments of principal (fixed monthly amounts ranging from \$506 to \$892, with one balloon payment in the amount of \$238,755) and interest are due monthly. Principal and accrued interest are due January 1, 2024. Secured by a deed of trust on real property. Accrued interest payable totaled \$1,110 and \$1,148 at June 30, 2021 and 2020, respectively.</p>	264,384	273,446

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 7 NOTES PAYABLE (CONTINUED)

<u>Description</u>	<u>2021</u>	<u>2020</u>
Multiple notes payable which are held by various lenders that originated October 15, 2015 through June 1, 2020 in the original amount of \$750,746 and bear interest from 0% to 10%. Principal is payable monthly beginning October 15, 2015 through June 1, 2020 and is due September 5, 2018 through January 1, 2025. Secured by equipment.	\$ 536,765	\$ 324,531
Note payable under the Paycheck Protection Program (PPP) which was held by City National Bank, approved by the Small Business Administration on April 13, 2020, in the original amount of \$2,560,800 and bears interest at 1% per annum. Principal and interest were due in monthly principal and interest payments, net of any amounts forgiven, over 24 months. There were no prepayment penalties and the loan was unsecured. The Blood Bank requested forgiveness and on June 15, 2021 received a letter from City National Bank confirming that the request for forgiveness has been approved in full.	-	2,560,800
Subtotal	9,225,179	11,906,820
Less: Current Portion	(571,970)	(1,116,575)
Total	<u>\$ 8,653,209</u>	<u>\$ 10,790,245</u>

The Blood Bank is subject to compliance with certain debt covenants. The Blood Bank received waivers for covenant noncompliance for the years ended June 30, 2021 and 2020.

Future principal payments on notes payable as of June 30, 2021 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 571,970
2023	547,639
2024	330,061
2025	102,829
2026	7,672,680
Thereafter	-
Total	<u>\$ 9,225,179</u>

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 8 OBLIGATION UNDER INTEREST RATE SWAPS

As part of existing obligations outstanding as of June 30, 2021, the Blood Bank had entered into two interest rate swap agreements (IRSA) with a financial institution in regards to the \$9,678,234 and \$321,766 notes payable described in Note 7. In accordance with the agreements, the Blood Bank pays interest at a fixed rate of 4.08% and 5.04% per annum, respectively, through the termination date of January 1, 2024.

The fair value of the IRSA's are recorded on the consolidated statements of financial position as either an asset or liability at fair value with changes in the fair value recorded as a change in net assets in the period of the change. Accrued interest payable totaled \$27,493 and \$28,531 at June 30, 2021 and 2020, respectively.

Both IRSA obligations were terminated August 6, 2021 as part of a refinancing (see Note 14).

NOTE 9 PENSION PLAN

Effective June 30, 2009, the Blood Bank amended the defined benefit pension plan (Plan) to freeze benefit accruals for all participants except those covered under terms of a collective bargaining agreement. Effective December 10, 2011, the Plan has been amended to freeze benefit accruals for participants covered under the terms of a collective bargaining agreement. The Blood Bank contributed \$665,996 and \$332,833 to the Plan for the years ended June 30, 2021 and 2020, 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 \$646,673 and \$396,661 for the years ended June 30, 2021 and 2020, respectively, has been included in salaries, related costs and benefits in the consolidated statements of functional expenses.

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

	<u>2021</u>	<u>2020</u>
Change in Benefit Obligation:		
Benefit Obligation - Beginning of Year	\$ 27,417,660	\$ 25,060,571
Interest Cost	697,005	927,811
Benefit Paid	(1,753,953)	(2,181,859)
Actuarial Loss (Gain)	(452,152)	3,611,137
Benefit Obligation - End of Year	<u>\$ 25,908,560</u>	<u>\$ 27,417,660</u>
Change in Plan Assets:		
Plan Assets - Beginning of Year	\$ 18,018,188	\$ 19,633,188
Actual Return on Plan Assets	4,639,013	234,026
Employer Contributions	665,996	332,833
Benefits Paid	(1,753,953)	(2,181,859)
Plan Assets - End of Year	<u>\$ 21,569,244</u>	<u>\$ 18,018,188</u>
Funded Status Plan at End of Year (Underfunded):		
Pension Liability	<u>\$ (4,339,316)</u>	<u>\$ (9,399,472)</u>

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 10 PENSION PLAN (CONTINUED)

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

	<u>2021</u>	<u>2020</u>
Unrecognized Net Actuarial Loss	<u>\$ 7,167,212</u>	<u>\$ 12,108,045</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>2021</u>	<u>2020</u>
Discount Rate	2.65 %	2.60 %
Expected Return on Plan Assets	7.0	7.0
Rate of Compensation Increase	N/A	N/A

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

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

	<u>2021</u>	<u>2020</u>
Service Cost	\$ -	\$ -
Interest Cost	697,005	927,811
Expected Return on Assets Net of Expenses	(930,855)	(1,046,211)
Deferral of Assets Loss	780,523	398,359
Net Periodic Pension Cost	<u>\$ 546,673</u>	<u>\$ 279,959</u>

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

	<u>2021</u>	<u>2020</u>
Assumption Loss at End of Year	\$ 381,363	\$ 780,523
Asset Loss at End of Year	<u>(780,523)</u>	<u>(398,359)</u>
Total Recognized in Nonoperating Revenues (Expenses)	<u>\$ (399,160)</u>	<u>\$ 382,164</u>
Total Recognized in Net Periodic Benefit Cost	<u>\$ 147,513</u>	<u>\$ 662,123</u>

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 10 PENSION PLAN (CONTINUED)

Plan assets by category at June 30:

	<u>2021</u>	<u>2020</u>
Equity Securities and Mutual Funds	70 %	59 %
Debt Securities and Mutual Funds	13	22
Other	17	19
Total	<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 70% in total equity securities, and the remainder in fixed income securities and guaranteed investment income fund.

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

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 1,316,749
2023	1,365,562
2025	1,400,071
2025	1,413,429
2026	1,427,886
2027-2031	7,242,755

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

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 10 RESTRICTIONS ON NET ASSETS

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

	<u>2021</u>	<u>2020</u>
Purpose Restrictions:		
Fleet of Lifesaving Vehicles	\$ 573,804	\$ 130,381
Equipment and Software	224,811	91,562
Blood Collections and Drives	45,783	5,000
Emergency Preparedness	6,567	-
Help a Cancer Patient	105,969	-
Other	6,795	-
Total Purpose Restrictions	<u>963,729</u>	<u>226,943</u>
Time Restricted:		
Fleet of Lifesaving Vehicles	15,000	-
Equipment and Software	-	5,000
Total Time Restrictions	<u>15,000</u>	<u>5,000</u>
 Total	 <u>\$ 978,729</u>	 <u>\$ 231,943</u>

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

	<u>2021</u>	<u>2020</u>
Satisfaction of Purpose Restrictions:		
Fleet of Lifesaving Vehicles	\$ 84,887	\$ 180,000
Equipment and Software	4,940	539,168
Blood Collections and Drives	8,803	-
Emergency Preparedness	44,254	-
Other	629	-
Total Satisfaction of Purpose Restrictions	<u>143,513</u>	<u>719,168</u>
Satisfaction of Time Restrictions:		
Equipment and Software	5,000	-
Blood Collections and Drives	-	15,000
Greatest Need	-	3,853
Total Satisfaction of Time Restrictions	<u>5,000</u>	<u>18,853</u>
 Total	 <u>\$ 148,513</u>	 <u>\$ 738,021</u>

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 11 LEASE INCOME

The Blood Bank owns the building located at 3636 Gateway Center Avenue, San Diego, California and leases the facility space to an unrelated party under an operating lease which expires on June 30, 2021, and provides for a renewal option through January 1, 2022. The lease includes scheduled rent increases and an additional charge for common area maintenance costs. The Blood Bank leases rooftop space on its building at 3636 Gateway Center, San Diego, California under an operating lease which expires in August 31, 2026 and is automatically renewed for four additional five-year terms unless written notice of intent to terminate is made. The Blood Bank leases a portion of its building to an unrelated party under an operating lease which expires on January 31, 2025, and provides for two renewal options through January 31, 2030. Lease income totaled \$802,304 and \$600,919 for the years ended June 30, 2021 and 2020, respectively.

Future minimum lease income as of June 30, 2021 is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 148,474
2023	84,879
2024	87,426
2025	88,587
2026	92,524
Thereafter	1,741,743
Total	<u>\$ 2,243,633</u>

NOTE 12 COMMITMENTS AND CONTINGENCIES

Retirement Plans

The Blood Bank offers employees the opportunity for participation in a 403(b) retirement plan. Employees may contribute to the 403(b) retirement plan up to the maximum amount allowed by the Internal Revenue Code. The Blood Bank makes up to a 3% discretionary contribution. The Blood Bank had also established the San Diego Blood Bank Money Purchase Pension Plan (MPP Plan). The Blood Bank contributed an amount equal to 5% of a participant's compensation earned while an eligible employee. Employees could not contribute to the MPP Plan. The Plan was terminated during the year ended June 30, 2020. The Blood Bank contributed \$439,606 and \$349,349 to these retirement plans for the years ended June 30, 2021 and 2020, respectively, which is included in salaries, related costs and benefits on the consolidated statements of functional expenses.

Operating Leases

The Blood Bank has several noncancelable operating leases for facilities that expire at various dates through October 2024. These leases generally contain renewal options for periods ranging from 5 to 10 years and require the Blood Bank to pay common area maintenance charges. Leases and common area maintenance charges for these leases totaled \$604,197 and \$540,845 for the years ended June 30, 2021 and 2020, respectively.

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Operating Leases (Continued)

Minimum future lease payments as of June 30, 2021 are due as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 428,428
2023	209,812
2024	132,221
2025	45,176
Thereafter	-
Total	<u>\$ 815,637</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 supplies and equipment used by the Blood Bank in its operations.

In January 2020, Blood Bank entered into a \$900,000 purchase agreement to acquire two new Bloodmobiles to update their fleet. The new vehicles incorporate modern technology, including solar-powered generators that replace pollution causing diesel generators that power the vehicle while at the mobile collection site. Of the older fleet, one bloodmobile was donated within FY21 to Global Blood Initiative to further the mission of blood collection in underserved populations around the world. Upon receipt of the second ordered replacement vehicle, internal needs will be reevaluated such that the second older bloodmobile may be similarly repurposed. Following delays due to limitations on parts availability and availability of laborers resulting from COVID-19 health restrictions, one vehicle was delivered in August 2021; however, manufacturing progress payments have been delayed and anticipated delivery of the second vehicle has been extended.

Sales Commitments

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

Loss Contingencies

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

**SAN DIEGO BLOOD BANK
NOTES TO CONSOLIDATED STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 13 LINE OF CREDIT

At June 30, 2021, the Blood Bank had a line of credit (LOC) with a financial institution in the amount of \$4,000,000 at a variable interest rate (6.00% and 6.00% at June 30, 2021 and 2020, respectively) and had outstanding liabilities of \$699,134 and \$2,620,134 at June 30, 2021 and 2020, respectively. The LOC is secured by commercial property at 3636 Gateway Center Ave, San Diego, California and matures October 9, 2021. This LOC was novated as part of a new financing agreement entered into on August 6, 2021 (see Note 14).

NOTE 14 SUBSEQUENT EVENT

Debt Refinance

On August 6, 2021, the Blood Bank entered into a new tax-exempt loan of \$10,451,131 and a taxable loan of \$290,336. Both obligations are amortized over a 30-year period with monthly principal and interest payments starting October 1, 2021 and have termination dates of September 1, 2031. Both obligations are tied to interest rate swap agreements effective over the same periods, at fixed interest rates of 2.69% and 3.09% per annum, respectively.

These new loans were used to pay off prior obligations, as of August 6, 2021, of \$7,710,679 and \$262,891 both originated in December 2013, a loan balance of \$647,121 originated in May 2015 and obligations of \$450,000 relating to interest rate swap agreements associated with the 2013 obligations. The new loans also made \$1,450,000 available as a "Project Fund" allowing for long-term infrastructure and equipment acquisitions and improvements. \$154,811 of loan costs and origination fees were capitalized as part of the transaction and will be amortized over the term of the loan. All obligations are secured by the commercial property at 3636 Gateway Center Ave, San Diego, California.

Included in the new August 6, 2021, loan provisions are the establishment of a new line of credit (LOC) in the amount of \$4,000,000 at a variable interest rate of Prime Rate plus 0.25%, with a Floor of 2.5%. This new LOC replaces the previous LOC referenced in Note 13 which was novated as part of the new loan transaction.

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

Audit Committee
San Diego Blood Bank
San Diego, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the San Diego Blood Bank (Blood Bank) (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 29, 2021.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Blood Bank's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Blood Bank's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Blood Bank's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

San Diego, California
October 29, 2021

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Audit Committee
San Diego Blood Bank
San Diego, California

Report on Compliance for the Major Federal Program

We have audited the San Diego Blood Bank's (Blood Bank) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the Blood Bank's major federal programs for the year ended June 30, 2021. Blood Bank's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Blood Bank's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Blood Bank's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Blood Bank's compliance.

Opinion on the Major Federal Program

In our opinion, the Blood Bank complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2021-001. Our opinion on the federal program is not modified with respect to these matters.

The Blood Bank's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Blood Bank is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Blood Bank's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Blood Bank's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2020-001, that we consider to be a significant deficiency.

The Blood Bank's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Blood Bank's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Audit Committee
San Diego Blood Bank

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

San Diego, California
October 29, 2021

**SAN DIEGO BLOOD BANK
SCHEDULE OF EXPEDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2021
(SEE INDEPENDENT AUDITORS' REPORT)**

Federal/Pass-Through Grantor and Program Title	Federal Assistance Listing Number	Agency or Pass-Through Grantor No.	Expenditures
Research and Development Cluster:			
<u>U.S. Department of Health & Human Services</u>			
Pass-Through The Scripps Research Institute:			
Trans-NIH Research Support	93.310	N/A	<u>\$ 968,229</u>
Total Expenditures of Federal Awards			<u>\$ 968,229</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**SAN DIEGO BLOOD BANK
NOTES TO SCHEDULE OF EXPEDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2021**

NOTE 1 BASIS OF PRESENTATION

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**SAN DIEGO BLOOD BANK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021**

Section I – Summary of Auditors’ Results

Financial Statements

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

Federal Awards

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

Identification of Major Federal Programs

Assistance Listing Number(s)

93.310

Name of Federal Program or Cluster

Research and Development Cluster

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

\$ 750,000

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

_____ yes x no

**SAN DIEGO BLOOD BANK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021**

Section II – Consolidated Financial Statement Findings

There were no findings and questioned costs related to basic financial statements for the year ended June 30, 2021.

**SAN DIEGO BLOOD BANK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021**

Section III – Federal Award Findings and Questioned Costs

2021-001 – Time and Effort Documentation

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

Award Period: July 1, 2020 to June 30, 2021

Type of Finding: Significant Deficiency in Internal Control over Compliance

Criteria or Specific Requirement:

According to Code of Federal Regulations, 200 CFR 200.430(i), the minimum time and effort documentation must:

- Be supported by a system of internal controls which provides reasonable assurance that charges are accurate, allowable and allocable
- Be incorporated into official records
- Reasonably reflect total activity for which the employee is compensated
- Encompass all activities (federal and nonfederal)
- Comply with established accounting policies and practices; and
- Support distribution among specific activities or cost objectives.

Condition:

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

Questioned Costs:

\$10,600 (known), \$16,004 (likely)

Context:

The employee's time and effort accounted for \$10,600 of the \$644,831 total personnel expenses charged to the program audit the award period.

Cause:

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

Effect:

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

Repeat Finding:

No

Recommendation:

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

Views of Responsible Officials and Planned Corrective Actions

Please refer to the attached Corrective Action Plan.

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