Hoxworth Blood Center

Financial Statements as of and for the
Years Ended June 30, 2010 and 2009, and
Independent Auditors' Report

Mary Taylor, CPA
Auditor of State

Board of Trustees of the University of Cincinnati and
Community Advisory Board of Hoxworth Blood Center
Hoxworth Blood Center
P. O. Box 210641
Cincinnati, Ohio 45221-0641

We have reviewed the *Independent Auditors' Report* of the Hoxworth Blood Center, Hamilton County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Hoxworth Blood Center is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 2, 2010

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HOXWORTH BLOOD CENTER

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

To Ms. Mary Taylor, Auditor of State of Ohio;
Board of Trustees of the University of
Cincinnati; and the Community Advisory
Board of Hoxworth Blood Center:

We have audited the accompanying statements of net assets of Hoxworth Blood Center ("Hoxworth"), a division of the University of Cincinnati, which is a component unit of the State of Ohio, as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets, and of cash flows for the years then ended. These financial statements are the responsibility of Hoxworth's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Hoxworth's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of Hoxworth are intended to present the financial position, changes in net assets and cash flows of only that portion of the financial reporting entity of the University of Cincinnati that is attributable to the transactions of Hoxworth. They do not purport to, and do not, present fairly the financial position of the University of Cincinnati as of June 30, 2010 and 2009, its changes in net assets or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hoxworth at June 30, 2010 and 2009, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 to 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of Hoxworth's management. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2010, on our consideration of Hoxworth's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

October 13, 2010

HOXWORTH BLOOD CENTER

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

Hoxworth Blood Center is the community blood center for the Greater Cincinnati area. Serving a 17-county area in Ohio, Kentucky and Indiana, Hoxworth collects, tests, processes, and distributes blood and blood components to 32 health care facilities. Our purpose is to enhance the well-being of patients in our service area by assuring a reliable and economical supply of the safest possible blood, by providing innovative hemotherapy services, and by promoting research and education programs in transfusion medicine. To help us meet this goal, Hoxworth is governed by the University of Cincinnati Board of Trustees. The University of Cincinnati is considered a component unit of the State of Ohio. Hoxworth also has its own community advisory board and a medical/technical advisory committee. Hoxworth is licensed and regulated by the U.S. Food and Drug Administration and accredited by the American Association of Blood Banks, the American Society for Histocompatibility and Immunogenetics, and the Foundation for the Accreditation of Cellular Therapy. Hoxworth is also a member of America's Blood Centers and Blood Centers of America.

We receive whole units of blood and apheresis products from individual donors. We then process and test the blood and distribute various blood products to hospitals and other users for patient care purposes. Fees are charged to cover the cost of acquiring, processing, testing, and distributing blood components and other blood services. These fees are recorded as revenue at the time such products and services are provided. In the past three years, blood units donated have totaled 88,838 in fiscal 2008, 93,010 in fiscal 2009, and 94,094 in fiscal 2010.

USING THE FINANCIAL STATEMENTS

Hoxworth Blood Center's financial report includes three financial statements; the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). These principles establish standards for external financial reporting for public colleges and universities. These apply to Hoxworth Blood Center because Hoxworth is governed by the University of Cincinnati Board of Trustees. The University of Cincinnati is considered a component unit of the State of Ohio.

Revenues and expenses are categorized as either operating or nonoperating. Sources of Hoxworth's revenues, including interest income, contributions, and the net increase in the fair value of investments, are considered nonoperating.

FINANCIAL POSITION

Hoxworth's financial position remained strong at June 30, 2010, with total assets of $35,099,552 and liabilities of $4,584,634. Net assets, which represent the residual interest in Hoxworth's assets after liabilities are deducted, increased by $2,745,774 to $30,514,918.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The statement of revenues, expenses, and changes in net assets presents Hoxworth's results of operations. A comparison for the years ended June 30 follows:

	2010	2009	2008
OPERATING REVENUES:			
Patient and community service	$ 43,203,412	$ 40,552,169	$ 37,606,391
Other	501,200	724,303	917,781
Total operating revenues	43,704,612	41,276,472	38,524,172
OPERATING EXPENSES:			
Salaries and employee benefits	18,755,124	17,391,327	16,932,061
Routine supplies and facility maintenance	16,726,174	16,103,082	14,065,999
Blood component inventory support	1,541,718	2,373,836	2,735,607
General and administrative	3,339,320	3,115,118	2,840,402
Depreciation	1,056,705	1,155,835	1,309,560
Total operating expenses	41,419,041	40,139,198	37,883,629
OPERATING INCOME	2,285,571	1,137,274	640,543
NONOPERATING REVENUES (EXPENSES):			
Net (decrease) increase in fair value of cash equivalents	30,663	(1,097,124)	(470,001)
Interest income	307,632	394,747	528,779
Other	121,908	91,607	67,426
Total nonoperating (expenses) revenues — net	460,203	(610,770)	126,204
INCREASE IN NET ASSETS	$ 2,745,774	$ 526,504	$ 766,747

Operating Revenues — Operating revenues increased from $41,276,472 for the year ended June 30, 2009, to $43,704,612 for the year ended June 30, 2010. This increase of $2,428,140 or 5.9% is primarily attributable to several factors. Blood and Blood Components revenue increased $359,234 primarily due an increase in platelet and plateletpheresis usage and price increases. Transplantation Immunology revenue increased $889,314 due to the increase in activity by Cincinnati Children's Hospital Medical Center and the University Hospital transplant divisions. Apheresis Components and Therapeutics revenue increased $652,320 due to an increase in demand for therapeutic apheresis products. Operating revenues increased from $38,524,172 for the year ended June 30, 2008, to $41,276,472 for the year ended June 30, 2009. This increase of $2,752,300 or 7% was primarily attributable to several factors. Blood and Blood Components revenue increased $1,575,174 primarily due to an increase in red blood cell usage, adding West Chester Medical Center as a customer, and price increases. Transplantation Immunology revenue increased $354,028 due to the increase in activity by Cincinnati Children's Hospital Medical Center and the University Hospital transplant divisions. Apheresis Components and Therapeutics revenue increased $742,372 due to an increase in demand for photopheresis and therapeutic apheresis products.

Operating Expenses — Operating expenses increased $1,279,843 or 3%, from $40,139,198 for the year ended June 30, 2009, to $41,419,041 for the year ended June 30, 2010. Salaries and employee benefits increased $1,363,797, or 7.8% due to the annual pay increase and positions filled. Routine supplies and facilities maintenance increased $623,092, or 3.8% due to an increase in antisera and reagents costs, an increase in blood & medical supplies costs, and an increase in bacterial detection supplies costs. Blood component inventory support decreased $832,118 due to a decrease in the need for imported blood due to increased local collections. General and administrative expenses increased $224,202, due to increases in advertising, solicited lab tests, and blood transportation costs. In 2009, operating expenses increased $2,255,569 or 6%, from $37,883,629 for the year ended June 30, 2008, to $40,139,198 for the year ended June 30, 2009. Salaries and employee benefits increased $459,266, or 3% due to the annual pay increase and positions filled. Routine supplies and facilities maintenance increased $2,037,083, or 14% due to an increase in antisera and reagents costs, an increase in test kits costs, and an increase in blood bag costs. Blood component inventory support decreased $361,771 due to a decrease in the need for imported blood due to increased local collections. General and administrative expenses increased $274,716, due to increases in advertising, printing, and blood transportation costs.

Nonoperating Revenues and Expenses — The fair value adjustment gain on our quasi-endowment fund in 2010 was $30,663 compared to a fair value adjustment loss of $1,097,124 in 2009. The increase in the fair value adjustment relates to the assets being held in a pooled investment account managed by the University of Cincinnati, as disclosed in Note 1. Interest income decreased $87,115 due to market performance fluctuations. Other revenue increased $30,301. In 2009, the fair value adjustment loss on our quasi-endowment fund was $1,097,124 compared to a fair value adjustment gain of $470,001 in 2008. The increase in the fair value adjustment loss relates to the assets being held in a pooled investment account managed by the University of Cincinnati, as disclosed in Note 1, and was due to severe financial market conditions during fiscal year 2009. Interest income decreased $134,032 due to market performance fluctuations. Other revenue increased $24,181.

Increase in Net Assets — For the year ended June 30, 2010, our net assets increased $2,745,774 compared with an increase in net assets of $526,504 for the year ended June 30, 2009. For the year ended June 30, 2009, our net assets increased $526,504 compared with an increase in net assets of $766,747 for the year ended June 30, 2008.

STATEMENT OF NET ASSETS

The statement of net assets represents the financial position of Hoxworth Blood Center at the end of the fiscal year. Net assets represent the difference between total assets and total liabilities. Net assets are one indicator of the overall financial condition of Hoxworth, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One exception is capital assets, which are stated at historical cost less an allowance for depreciation. A summarized comparison of Hoxworth's assets, liabilities and net assets at June 30 follows:

	2010	2009	2008
Current assets	$ 22,859,085	$ 18,448,824	$ 17,888,157
Noncurrent assets — capital assets — net	12,240,467	12,322,043	13,104,883
Total assets	35,099,552	30,770,867	30,993,040
Current and total liabilities	4,584,634	3,001,723	3,750,400
Net assets	$ 30,514,918	$ 27,769,144	$ 27,242,640

Assets — Total assets of the organization increased $4,328,685 to $35,099,552 as of June 30, 2010, from $30,770,867 as of June 30, 2009. Current assets increased $4,410,261, from $18,448,824 as of June 30, 2009, to $22,859,085 as of June 30, 2010. Cash and cash equivalents increased $3,895,038, from $12,012,579 as of June 30, 2009, to $15,907,617 as of June 30, 2010. The increase in cash is explained in our discussion of cash flows below. Net accounts receivable increased $345,125, due to timing of payments. In 2009, total assets of the organization decreased $222,173 to $30,770,867 as of June 30, 2009, from $30,993,040 as of June 30, 2008. Current assets increased $560,667, from $17,888,157 as of June 30, 2008, to $18,448,824 as of June 30, 2009. Cash and cash equivalents increased $884,610, from $11,127,969 as of June 30, 2008, to $12,012,579 as of June 30, 2009. The increase in cash is explained in our discussion of cash flows below. Net accounts receivable decreased $276,254, due to timing of payments.

Capital Assets — Capital assets, net, decreased $81,576, from $12,322,043 as of June 30, 2009, to $12,240,467 as of June 30, 2010. This decrease is the result of depreciation expenses exceeding capital purchases during the year. Capital purchases in 2010 were $997,906. Significant capital purchases made during fiscal year 2010 include a new bloodmobile, four apheresis systems, an ultracentrifuge, and a new photopheresis system. Capital purchases in 2009 were $372,995. Significant capital expenditures made during fiscal year 2009 include a cryogenic freezer, hematology analyzer, controlled rate freezer, and three vehicles. Capital assets, net, decreased $782,841, from $13,104,884 as of June 30, 2008, to $12,322,043 as of June 30, 2009. This decrease is the result of depreciation expenses exceeding capital purchases during the year.

Liabilities — Total liabilities increased $1,582,911, to $4,584,634 as of June 30, 2010 due to the timing of payments to vendors, an increase in accrued salaries, and an increase in deferred revenue. As of June 30, 2009, total liabilities were $3,001,723. Total liabilities decreased $748,677 to $3,001,723 as of June 30, 2009 from the June 30, 2008 liabilities balance of $3,750,400.

Net Assets — Net assets represent the residual interest in Hoxworth's assets after liabilities are deducted. Hoxworth's net assets are summarized below:

	2010	2009	2008
Invested in capital assets — net of related debt	$ 12,240,467	$ 12,322,043	$ 13,104,884
Restricted-expendable	5,868	5,868	5,868
Unrestricted	18,268,583	15,441,233	14,131,888
Total net assets	$ 30,514,918	$ 27,769,144	$ 27,242,640

Net assets invested in capital assets, net of related debt, decreased $81,576, from $12,240,467 as of June 30, 2010, to $12,322,043 as of June 30, 2009. This decrease is due to depreciation expense exceeding capital purchases, as well as fixed asset purchases of $997,906. Net assets restricted-expendable remained the same from $5,868 as of June 30, 2009, to $5,868 as of June 30, 2010. Net assets unrestricted increased $2,827,350 from $15,441,233 as of June 30, 2009, to $18,268,583 as of June 30, 2010.

In 2009, net assets invested in capital assets, net of related debt, decreased $782,841, from $13,104,884 as of June 30, 2008, to $12,322,043 as of June 30, 2009. This decrease is due to depreciation expense exceeding capital purchases, as well as fixed asset purchases of $372,995. Net assets restricted-expendable remained the same from $5,868 as of June 30, 2008, to $5,868 as of June 30, 2009. Net assets unrestricted increased $1,309,345 from $14,131,888 as of June 30, 2008, to $15,441,233 as of June 30, 2009.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides additional information about Hoxworth's financial results by reporting the major sources and uses of cash. A comparative summary of the statement of cash flows for the years ended June 30 follows:

	2010	2009	2008
Cash received from operations	$43,359,487	$41,551,870	$37,208,666
Cash expended for operations	39,522,716	39,628,794	36,294,428
Net cash provided by operating activities	3,836,771	1,923,076	914,238
Net cash provided by non-capital financing activities	717,878	36,907	107,238
Net cash used for capital and related financing activities	(997,906)	(372,995)	(372,957)
Cash from investing activities	338,295	(702,377)	58,778
Net increase (decrease) in cash and cash equivalents	$ 3,895,038	$ 884,611	$ 707,297

Cash Flows — For the year ended June 30, 2010, cash and cash equivalents increased $3,895,038. Cash provided by operations was $3,836,771 and consisted primarily of cash received from customers offset by cash paid to suppliers and employees. Cash received through contributions and an increase in unearned revenue was $717,878. Cash used for capital and financing activities was $997,906 and consisted of cash paid for capital purchases. A fair value adjustment of $30,663 and cash received from interest on investments of $307,632 provided a net investment gain of $338,295. For the year ended June 30, 2009, cash and cash equivalents increased $884,611. Cash provided by operations was $1,923,076 and consisted primarily of cash received from customers offset by cash paid to suppliers and employees. Cash received through contributions was $36,907. Cash used for capital and financing activities was $372,995 and consisted of cash paid for capital purchases. A fair value adjustment of $1,097,124 and cash received from interest on investments of $394,747 provided a net investment loss of $702,377.

ECONOMIC FACTORS AFFECTING THE FUTURE

Hoxworth Blood Center is reliant on blood donors from the community to continue to donate blood. Hoxworth would be adversely affected if we were to see a decrease in our donor base. This would result in Hoxworth having to resource share with other blood centers to meet the local demand in this community. The financial impact of this could be significant.

HOXWORTH BLOOD CENTER

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2010 AND 2009

	2010	2009
CURRENT ASSETS:		
Cash and cash equivalents	$ 15,907,617	$ 12,012,579
Accounts receivable — net of allowance for doubtful accounts of approximately $44,400 at June 30, 2010 and 2009 and 2009, respectively	5,942,063	5,596,938
Inventories	824,005	779,867
Prepaid expenses and other assets	185,400	59,440
Total current assets	22,859,085	18,448,824
CAPITAL ASSETS:		
Land and building	15,761,346	15,735,073
Furniture and equipment	11,935,963	11,328,066
Leasehold improvements	934,916	896,843
Total capital assets	28,632,225	27,959,982
Less accumulated depreciation	16,391,758	15,637,939
Capital assets — net	12,240,467	12,322,043
TOTAL ASSETS	$ 35,099,552	$ 30,770,867
CURRENT LIABILITIES:		
Accounts payable	$ 2,233,360	$ 1,463,619
Accrued salaries and benefits	1,778,081	1,538,104
Unearned revenue	573,193	
TOTAL CURRENT LIABILITIES	$ 4,584,634	$ 3,001,723
NET ASSETS:		
Invested in capital assets — net of related debt	$ 12,240,467	$ 12,322,043
Restricted — expendable	5,868	5,868
Unrestricted	18,268,583	15,441,233
TOTAL NET ASSETS	$ 30,514,918	$ 27,769,144

See notes to financial statements.

HOXWORTH BLOOD CENTER

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
OPERATING REVENUES:		
Patient and community service	$43,203,412	$40,552,169
Other	501,200	724,303
Total operating revenues	43,704,612	41,276,472
OPERATING EXPENSES:		
Salaries and employee benefits	18,755,124	17,391,327
Routine supplies and facility maintenance	16,726,174	16,103,082
Blood component inventory support	1,541,718	2,373,836
General and administrative	3,339,320	3,115,117
Depreciation	1,056,705	1,155,836
Total operating expenses	41,419,041	40,139,198
OPERATING INCOME	2,285,571	1,137,274
NONOPERATING REVENUES (EXPENSES):		
Net increase (decrease) in the fair value of cash equivalents	30,663	(1,097,124)
Interest income	307,632	394,747
Other	121,908	91,607
Total nonoperating revenues (expenses) — net	460,203	(610,770)
INCREASE IN NET ASSETS	2,745,774	526,504
NET ASSETS:		
Beginning of year	27,769,144	27,242,640
End of year	$30,514,918	$27,769,144

See notes to financial statements.

HOXWORTH BLOOD CENTER

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 42,858,287	$ 40,827,567
Cash payments to suppliers for goods and services	(21,007,569)	(22,276,105)
Cash payments to employees for services	(18,515,147)	(17,352,689)
Other operating revenues	501,200	724,303
Net cash provided by operating activities	3,836,771	1,923,076
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES - Contributions received and increase in unearned revenue	717,878	36,907
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES--Acquisition and construction of capital assets	(997,906)	(372,995)
CASH FLOWS FROM INVESTING ACTIVITIES — Interest income and gain (loss) from investment in cash and cash equivalents	338,295	(702,377)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,895,038	884,611
CASH AND CASH EQUIVALENTS — Beginning of year	12,012,579	11,127,968
CASH AND CASH EQUIVALENTS — End of year	$ 15,907,617	$ 12,012,579
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 2,285,571	$ 1,137,274
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,056,705	1,155,836
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(345,125)	276,254
(Increase) decrease in inventories	(44,138)	56,424
Increase in accrued salaries and benefits	239,977	38,638
(Increase) in prepaid expenses and other assets	(125,960)	(8,735)
Increase (decrease) in accounts payable	769,741	(732,615)
Total adjustments	1,551,200	785,802
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,836,771	$ 1,923,076

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — Hoxworth Blood Center ("Hoxworth"), a division of the University of Cincinnati (the "University"), which is a component unit of the State of Ohio, provides blood components, cellular and apheresis therapies, transplantation immunology, and compatibility and reference laboratory services to area hospitals, health care facilities, and patients.

Financial Statements — The accompanying financial statements have been prepared in accordance with the principles contained in *Health Care Organizations* published by the American Institute of Certified Public Accountants. As a governmental institution, Hoxworth applies standards applicable to governmental units as prescribed in statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. Hoxworth also applies the Financial Accounting Standards Board's (FASB) Statements and Interpretations issued prior to November 30, 1989, unless those pronouncements conflict with GASB pronouncements. The statements of cash flows have been prepared in accordance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, which was amended by GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*. The University has elected not to apply those FASB pronouncements issued after November 30, 1989.

Cash and Cash Equivalents — Hoxworth considers its unrestricted portion of the University's pooled cash account to be cash and cash equivalents. The University's pooled cash account includes investments in U.S. government agency issues; U.S. Treasury bonds, notes and bills; corporate notes and bonds; preferred and common stocks; and other marketable securities. In addition, Hoxworth maintains an unrestricted quasi-endowment fund consisting of cash and cash equivalents amounting to $3,993,154 and $3,876,110 at June 30, 2010 and 2009, respectively.

Inventories — Blood components inventory is stated at net realizable value, which is defined as sales price (net of an allowance for spoilage) less distribution costs. Such valuation treatment approximates the lower of cost or market. Blood bags, accessories, and other supplies are stated at cost, which is determined by the first-in, first-out method.

Capital Assets — Capital assets are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the assets, ranging from 3 to 30 years for furniture and equipment and 25 to 39 years for buildings. Leasehold improvements are amortized on a straight-line basis over the estimated remaining period of occupancy. Maintenance, repairs, and minor renewals are charged to expense as incurred, while major renewals and betterments are capitalized. The cost and related accumulated depreciation for assets retired or otherwise disposed of are removed from the related accounts, and any resulting gains or losses are reflected in income.

Restricted Net Assets — Restricted net assets consist of assets whose use is restricted by externally restricted donations for use in bone marrow registry testing.

Unrestricted Net Assets—Unrestricted net assets consist of net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Revenue Recognition — Hoxworth has arrangements with organized groups and individuals under which it receives whole units of blood donated for processing and ultimate distribution in various forms to hospitals and other users for patient care purposes. Fees are charged to cover the cost of acquiring, processing, and distributing blood components and other blood services. These fees are recorded as revenue at the time such products and services are provided.

Contributed Service — A substantial number of unpaid volunteers have made significant contributions of their time to develop and sustain Hoxworth's programs. The value of this contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

Unearned Revenues —Unearned revenue includes the amounts received from grant sponsors that have not yet been earned under the terms of the agreement. Hoxworth will recognize such amounts into revenue when these services are provided over the coming fiscal years.

Income Taxes — As a department of the University, Hoxworth is tax-exempt under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the accompanying financial statements.

Estimates — The preparation of the 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.

Operating Activities — As reported on the statements of revenues, expenses, and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of Hoxworth's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement 35, including gifts and investment income.

2. CONCENTRATIONS AND CREDIT RISK

In the normal course of business, Hoxworth extends credit to various area hospitals. At June 30, 2010, four hospital groups accounted for approximately 30%, 27%, 15%, and 10%, respectively, of accounts receivable. At June 30, 2009, three hospital groups accounted for approximately 35%, 28%, and 7%, respectively, of accounts receivable.

3. INVENTORIES

Inventories at June 30, 2010 and 2009, consist of the following:

	2010	2009
Blood components	$ 412,246	$ 421,715
Blood bags and accessories	373,257	322,240
Other supplies	38,502	35,912
Total	$ 824,005	$ 779,867

4. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2010 and 2009, was as follows:

	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010
Land and buildings	$ 15,735,073	$ 26,273		$ 15,761,346
Furniture and equipment	11,328,066	903,730	295,832	11,935,964
Leasehold improvements	896,844	67,903	29,832	934,915
Total	27,959,983	997,906	325,664	28,632,225
Less accumulated depreciation:				
Buildings	5,966,047	424,473		6,390,520
Furniture and equipment	8,913,918	591,033	288,632	9,216,319
Leasehold improvements	757,975	41,199	14,255	784,919
Total accumulated depreciation	15,637,940	1,056,705	302,887	16,391,758
Capital assets — net	$ 12,322,043	$ (58,799)	$ 22,777	$ 12,240,467

	Balance July 1, 2008	Additions	Retirements	Balance June 30, 2009
Land and buildings	$ 15,733,249	$ 1,824	$ -	$ 15,735,073
Furniture and equipment	11,004,576	355,239	31,749	11,328,066
Leasehold improvements	880,912	15,932		896,844
Total	27,618,737	372,995	31,749	27,959,983
Less accumulated depreciation:				
Buildings	5,531,087	434,960		5,966,047
Furniture and equipment	8,309,440	636,227	31,749	8,913,918
Leasehold improvements	673,326	84,649		757,975
Total accumulated depreciation	14,513,853	1,155,836	31,749	15,637,940
Capital assets — net	$ 13,104,884	$ (782,841)	$ -	$ 12,322,043

5. OPERATING LEASES

Hoxworth is obligated under a number of operating leases, principally for neighborhood donor centers, expiring at various dates through 2016. Total operating lease expense under noncancelable leases was approximately $571,000 and $547,000 in 2010 and 2009, respectively.

At June 30, 2010, estimated future lease payments under noncancelable leases are as follows:

Years Ending June 30	
2011	$ 460,000
2012	422,000
2013	374,000
2014	370,000
2015	223,000
Thereafter	437,000
Total	$ 2,286,000

6. RELATED-PARTY TRANSACTIONS

The relationship between Hoxworth and the University requires that common resources, such as facilities, computing services, insurance, and other administrative services, be shared at a cost to Hoxworth. In 2010 and 2009, costs for such resources, including indirect overhead charges from the University, were approximately $1,548,000 and $1,612,500, respectively.

Additionally, cash receipts of Hoxworth are deposited into the University's pooled cash account. Disbursements are made from this account as required. Hoxworth's share of the University's pooled cash account was $11,913,763 and $8,135,769 at June 30, 2010 and 2009, respectively, and is included in cash and cash equivalents in the accompanying statements of net assets. Interest of approximately $2,500 in 2010 and $70,500 in 2009, was earned by Hoxworth on the pooled cash account. In addition, the University maintains a quasi-endowment fund for Hoxworth. As disclosed in Note 1, this quasi-endowment fund consisted of cash, cash equivalents, and marketable securities amounting to $3,993,154 and $3,876,110 at June 30, 2010 and 2009, respectively. The fair value adjustment gain on this fund was approximately $31,000 and the fair market loss on this fund was $1,097,000 for the years ended June 30, 2010 and 2009, respectively. The fund also had interest income of $302,000 and $329,000 for the years ended June 30, 2010 and 2009, respectively.

7. SELF-INSURANCE FUNDS

As a department of the University, Hoxworth is covered by the University's insurance programs.

The University currently provides for medical professional and general liability insurance through a combination of an actuarially funded self-insurance program sponsored by the University and purchased commercial insurance in excess of the self-insurance amount. The medical professional liability insurance program also includes several qualified not-for-profit departmental (physician) practice corporations. Medical professional self-insurance limits were $4 million per occurrence for 2010. An additional $15 million in commercial excess professional liability insurance was provided above the self-insured retention.

General liability coverage is also provided as part of a group insurance program of Ohio state universities known as the Inter-University Council of Ohio Insurance Consortium (IUC-IC). This program provided for $1 million retention per occurrence with the first $100,000 funded by the University, and the remaining $900,000 funded by pool funds held through the IUC. Excess commercial coverage for general liability was provided with total limits of $50 million, of which $45 million was shared with the other participating universities. In addition, educators' legal liability coverage was provided through the IUC program with $25 million in total limits, of which $20 million was shared among the participating institutions. The IUC-IC self-insurance pools are funded by an agreed formula among the participating universities.

UC's self-insurance funding is based on calculations by independent actuaries and funds are deposited directly into two irrevocable self-insurance trust funds, one for medical professional liability, and one for general liability. Separate amounts by participating entities are not maintained since the assets of each fund are available for claims of all participants. The assets of the Trusts and related reserves are not included in the accompanying Hoxworth statements of net assets because such assets are considered part of the University and not separately attributable to divisions. In the opinion of University and Hoxworth management, trust assets are adequate to cover estimated liabilities resulting from known claims and incidents and incurred-but-not-reported incidents as of June 30, 2010. Amounts paid by Hoxworth to the University for medical professional and general liability coverage, including its allocated share of commercial insurance premiums and trust fund contributions are included in the overhead charges from the University discussed in Note 6. There were no claims outstanding against Hoxworth as of June 30, 2010 that required a reserve to be reported on Hoxworth's statements of net assets.

Property insurance is also provided through the IUC-IC program, consisting of commercial property insurance with a $350,000 retention, and a self-insurance pool to fund losses between $100,000 and $350,000.

The University, and thereby Hoxworth, is also self-insured for a portion of medical, dental, and pharmacy benefits provided to employees beginning in fiscal year 2007 with the addition of self-insured prescription benefits during fiscal year 2008. The total costs to Hoxworth for participation in these programs are included in the indirect overhead charges discussed in Note 6 and are not separable from the other elements of those charges.

8. EMPLOYEE RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS

Retirement benefits are available for substantially all employees under one of several contributory retirement plans. Prior to July 1, 1977, when the University became a state institution, employees were covered by either the City of Cincinnati Retirement System (CRS) or the Teachers' Insurance and Annuity Association — College Retirement Equities Fund (TIAA-CREF). Certified teachers appointed on or after July 1, 1977, are covered by the State Teachers' Retirement System (STRS). Non-certified employees appointed on or after that date are covered by the Ohio Public Employees Retirement System (OPERS). Both STRS and OPERS are statewide systems that offer three separate plans: (1) a defined benefit plan, (2) a defined contribution plan, and (3) a combined plan. Each of the three options is discussed in greater detail in the following sections.

Defined Benefit Plans — The OPERS, STRS and CRS plans are cost-sharing, multiple-employer, defined-benefit, public-employee retirement systems. Each provides retirement, disability, and death benefits to plan members and beneficiaries. These plans also provide health care benefits to vested retirees. Benefits provided under the plans are established by State statute or the Cincinnati Municipal Code.

All three plans issue separate, publicly available financial reports that include financial statements and required supplementary information. These reports may be obtained by contacting each system as follows: Public Employee Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215, Telephone (614) 466-2085; State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215, Telephone (614) 227-4090; and City of Cincinnati Retirement System, 801 Plum Street, Cincinnati, Ohio 45202, Telephone (513) 352-3227.

The Ohio Revised Code and the Cincinnati Municipal Code provide OPERS, STRS, and CRS statutory authority, respectively, over employer and employee contributions. The required, actuarially determined contribution rates for the University and for employees are 14.0% (5.0% relating to health care benefits) and 10.0% of covered payroll, respectively, for OPERS; 14.0% (1% relating to health care benefits) and 10.0%, respectively, for STRS; and 17.0% and 7.0%, respectively, for CRS for the year ended June 30, 2010. The University's contributions, representing 100% of employer contributions for the year ended June 30, 2010, and for each of the two preceding years are as follows (in thousands):

Fiscal Year	**OPERS**	**STRS**	**CRS**
2008	$ 20,155	$ 15,417	$ 278
2009	20,904	16,733	162
2010	20,543	17,334	118

Hoxworth's contributions to OPERS for the years ended June 30, 2010, 2009, and 2008, were $1,722,773, $1,606,702, and $1,555,884, respectively. Hoxworth's contributions to STRS for the years ended June 30, 2010, 2009, and 2008, were $184,717, $166,763, and $178,028, respectively.

OPERS and STRS provide postretirement and postemployment health care benefits in addition to the retirement benefits described above. OPERS Other Postemployment Benefits (OPEB) is advance funded on an actuarially determined basis. The assumptions and calculation below were based on the system's latest actuarial review performed as of December 31, 2008. The individual entry age actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarially-determined accrued liability. All investments are carried at market value. For valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets not to exceed a 12% corridor. The actuaries' assumptions were as follows: investment return, 6.5%; annual wage increase (compounded annually), 4%; and health care costs, 4%. At December 31, 2008, the actuarial value of the Retirement System's net assets available for OPEB was $10.7 billion. The actuarially-determined accrued liability and the unfunded actuarially-determined accrued liability, based on the actuarial cost method used, were $29.6 billion and $18.9 billion, respectively. There are 356,388 active contributing participants. Of the $20,543,000 University employer contributions to OPERS for 2010, $7,337,000 was to fund OPEB.

STRS has discretionary authority, pursuant to the Ohio Revised Code, over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium. The balance in the Health Care Reserve Fund was $2.7 billion at June 30, 2009 (the latest information available). For the year ended June 30, 2009, the net health care costs paid by STRS were $298,110,000. There were 129,659 eligible benefit recipients.

In addition to the pension benefits described above, the University provides postretirement health care and dental benefits (under its labor agreement with the American Association of University Professors) to all who are participants of TIAA-CREF when they retire. During 2010, 2009, and 2008, the net cost of these benefits recorded on a pay-as-you-go basis totaled approximately $2,922,000, $3,148,000, and $3,010,000, respectively.

Defined Contribution Plans — On June 23, 1998, pursuant to Ohio House Bill 586, the University created an Ohio Alternative Retirement Plan (ARP), which is designed to aid the University in recruiting and retaining employees by offering a portable retirement option. The ARP is a defined contribution plan that provides full and immediate vesting of all contributions made on behalf of the participant. Contributions are directed to one of eight investment management companies, which allows the participant to manage the investment of all retirement funds. New employees who qualify for the ARP have 120 days from the date of hire to elect the ARP option. Once this window has passed, the employee will not have the option to elect into the ARP.

At June 30, 2010, there were 1,877 members of the plan. During 2010, 2009, and 2008, the employer contributions were $14,221,000, $13,956,000, and $13,730,000, respectively. The employer contribution rate for participants electing out of OPERS and STRS was 14% for both 2010 and 2009.

Combined Plans — STRS offers a combined plan with features of both a defined contribution plan and a defined benefit plan. In the combined plan, employee contributions are invested in self directed investments, and the employer contribution is used to fund a reduced defined benefit. Employees electing the combined plan receive postretirement health care benefits.

OPERS also offers a combined plan. This is a cost-sharing, multiple-employer defined benefit plan that has elements of both a defined benefit and defined contribution plan. In the combined plan, employee contributions are invested in self-directed investments, and the employer contribution is used to fund a reduced defined benefit. Employees electing the combined plan receive postretirement health care benefits. OPERS provides retirement, disability, survivor and postretirement health benefits to qualifying members of the combined plan.

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

To Ms. Mary Taylor, Auditor of State of Ohio;
Board of Trustees of the University of
Cincinnati; and the Community Advisory
Board of Hoxworth Blood Center:

We have audited the financial statements of Hoxworth Blood Center ("Hoxworth"), as of and for the year ended June 30, 2010, and have issued our report thereon dated October 13, 2010, wherein we noted Hoxworth is a division of the University of Cincinnati, which is a component unit of the State of Ohio. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hoxworth's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hoxworth's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hoxworth's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses.

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hoxworth's financial statements are free of 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 determination of financial statement amounts. 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*.

This report is intended solely for the information and use of the Board of Trustees of the University of Cincinnati, the Community Advisory Board of Hoxworth Blood Center, management and the Auditor of the State of Ohio and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

October 13, 2010

Mary Taylor, CPA
Auditor of State

HOXWORTH BLOOD CENTER

HAMILTON COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 14, 2010