



FINANCIAL STATEMENTS

JUNE 30, 2015



Leaf & Cole, LLP
Certified Public Accountants

**SAN DIEGO BLOOD BANK
FINANCIAL STATEMENTS
JUNE 30, 2015**

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

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

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

Independent Auditor's Report

To the Board of Directors
San Diego Blood Bank

Report on the Financial Statements

We have audited the accompanying financial statements of San Diego Blood Bank, which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Diego Blood Bank as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited San Diego Blood Bank's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 23, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Leaf & Cole LLP

San Diego, California
October 12, 2015

SAN DIEGO BLOOD BANK
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)

ASSETS

	<u>2015</u>	<u>2014</u>
<u>Current Assets:</u> (Notes 1 and 4)		
Cash and cash equivalents:		
Unrestricted	\$ 669,518	\$ 1,283,334
Temporarily restricted	646,711	427,542
Permanently restricted	265,632	415,632
Total cash and cash equivalents	<u>1,581,861</u>	<u>2,126,508</u>
Accounts receivable, net	5,644,148	4,217,682
Inventories:		
Whole blood and blood components	910,694	801,516
Supplies	541,147	402,798
Prepaid expenses and other	258,609	228,645
Total Current Assets	<u>8,936,459</u>	<u>7,777,149</u>
<u>Noncurrent Assets:</u> (Notes 1, 2, 3, 5, 7 and 8)		
Investments	365,997	363,735
Deposits	132,786	101,540
Property and equipment, net	23,765,473	23,103,225
Prepaid pension asset	1,887,689	2,675,102
Total Noncurrent Assets	<u>26,151,945</u>	<u>26,243,602</u>
TOTAL ASSETS	<u>\$ 35,088,404</u>	<u>\$ 34,020,751</u>

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

(Continued)

SAN DIEGO BLOOD BANK
STATEMENT OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)

LIABILITIES AND NET ASSETS

	<u>2015</u>	<u>2014</u>
<u>Current Liabilities:</u> (Notes 1 and 4)		
Accounts payable	\$ 1,836,031	\$ 1,453,963
Accrued salaries, payroll taxes and benefits	1,448,972	1,292,514
Deferred revenue	216,000	216,000
Line-of-credit payable	1,050,000	-
Blood deposits payable (Navy)	14,750	12,380
Advance blood deposits	15,000	25,000
Donor recognition	1,031,388	1,059,519
Current portion of noncurrent liabilities	551,574	529,644
Total Current Liabilities	<u>6,163,715</u>	<u>4,589,020</u>
<u>Noncurrent Liabilities:</u> (Notes 1, 5 and 7)		
Deferred revenue	282,122	530,468
Notes payable, net of current portion	10,425,435	9,666,630
Capital lease obligations, net of current portion	350,115	633,005
Total Noncurrent Liabilities	<u>11,057,672</u>	<u>10,830,103</u>
 Total Liabilities	 <u>17,221,387</u>	 <u>15,419,123</u>
 <u>Obligation Under Interest Rate Swap</u> (Notes 1 and 6)	 <u>674,057</u>	 <u>592,847</u>
 <u>Commitments and Contingencies</u> (Note 12)		
 <u>Net Assets:</u> (Notes 1, 9 and 10)		
Unrestricted	16,503,895	17,165,607
Temporarily restricted	273,433	427,542
Permanently restricted	415,632	415,632
Total Net Assets	<u>17,192,960</u>	<u>18,008,781</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 35,088,404</u>	 <u>\$ 34,020,751</u>

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

**SAN DIEGO BLOOD BANK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014)**

	2015			Total	2014
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>		
<u>Revenue and Support:</u>					
Processing fees	\$ 33,102,020	\$ -	\$ -	\$ 33,102,020	\$ 29,720,196
Blood services	4,216,779	-	-	4,216,779	3,900,354
Contributions	418,880	529,448	-	948,328	1,239,015
Research components	685,217	-	-	685,217	255,043
Lease income and other	437,048	-	-	437,048	409,581
In-kind contributions	27,935	-	-	27,935	39,884
Investment income (loss)	32	2,286	-	2,318	(4,701)
Contractual and family plan allowances	272	-	-	272	(10,857)
Net assets released from restrictions	685,843	(685,843)	-	-	-
Total Revenue and Support	<u>39,574,026</u>	<u>(154,109)</u>	<u>-</u>	<u>39,419,917</u>	<u>35,548,515</u>
<u>Operating Expenses:</u>					
Program Services:					
Drawing, processing, distribution and laboratory	36,613,018	-	-	36,613,018	33,084,742
Supporting Services:					
General and administrative	2,097,896	-	-	2,097,896	2,207,195
Fundraising	432,042	-	-	432,042	356,862
Total Supporting Expenses	<u>2,529,938</u>	<u>-</u>	<u>-</u>	<u>2,529,938</u>	<u>2,564,057</u>
Total Operating Expenses	<u>39,142,956</u>	<u>-</u>	<u>-</u>	<u>39,142,956</u>	<u>35,648,799</u>
Change in Net Assets From Operating Activities	431,070	(154,109)	-	276,961	(100,284)
<u>Nonoperating Income (Expenses):</u>					
Loan refinance costs	-	-	-	-	(132,131)
Loss on disposal of property and equipment	(3,665)	-	-	(3,665)	(28,106)
Pension related changes other than net periodic pension cost	(1,007,907)	-	-	(1,007,907)	1,464,705
Change in fair value of interest rate swaps	(81,210)	-	-	(81,210)	(540,135)
Total Nonoperating Income (Expenses)	<u>(1,092,782)</u>	<u>-</u>	<u>-</u>	<u>(1,092,782)</u>	<u>764,333</u>
Change in Net Assets	(661,712)	(154,109)	-	(815,821)	664,049
Net Assets at Beginning of Year	<u>17,165,607</u>	<u>427,542</u>	<u>415,632</u>	<u>18,008,781</u>	<u>17,344,732</u>
NET ASSETS AT END OF YEAR	<u>\$ 16,503,895</u>	<u>\$ 273,433</u>	<u>\$ 415,632</u>	<u>\$ 17,192,960</u>	<u>\$ 18,008,781</u>

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

SAN DIEGO BLOOD BANK
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014)

	2015				2014
	Drawing, Processing, Distribution and <u>Laboratory</u>	General and <u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>	
Salaries, related costs and benefits	\$ 17,285,439	\$ 1,538,706	\$ 229,530	\$ 19,053,675	\$ 18,815,781
Supplies	10,617,035	13,414	15,473	10,645,922	10,359,507
Blood purchases	3,043,832	-	-	3,043,832	264,386
Depreciation	1,101,986	46,721	4,081	1,152,788	1,156,110
Equipment maintenance	872,558	86,583	914	960,055	883,474
Lease expense	713,230	-	-	713,230	605,517
Courier	562,058	-	-	562,058	433,245
Community relations	408,494	10,568	-	419,062	348,409
Vehicle expenses and mileage	394,229	1,780	1,978	397,987	414,423
Advertising	384,891	367	892	386,150	485,436
Interest expense	325,939	21,604	3,117	350,660	358,764
Utilities	304,439	20,624	2,932	327,995	299,428
Insurance	263,072	13,518	1,950	278,540	236,042
Consultants	104,070	117,151	11,264	232,485	154,240
Telephone	161,303	8,126	1,107	170,536	137,731
Equipment rental	138,222	19,103	11,762	169,087	133,037
Shipping and postage	115,811	-	6,441	122,252	121,122
Donor cultivation	-	-	107,502	107,502	48,233
Dues and periodicals	18,586	70,241	-	88,827	105,938
Taxes	78,557	1,857	267	80,681	79,287
Sanitation	61,910	961	134	63,005	59,895
Legal	-	59,377	-	59,377	14,892
Travel, conference, and education	28,067	21,056	1,308	50,431	41,188
Permits and licenses	41,471	-	-	41,471	42,657
Audit	-	30,000	-	30,000	30,000
In-kind expenses	8,381	-	19,554	27,935	22,384
Bank charges	8,964	12,334	6,257	27,555	29,073
Security	22,725	1,610	232	24,567	23,836
Laundry	17,880	-	-	17,880	17,592
Printing	5,418	-	5,347	10,765	10,453
Programming	-	2,000	-	2,000	-
Miscellaneous	-	195	-	195	177
Bad debts (recovery)	(3,006)	-	-	(3,006)	349
Blood inventory adjustment	(109,177)	-	-	(109,177)	(10,579)
Earned discounts	(363,366)	-	-	(363,366)	(73,228)
TOTAL OPERATING EXPENSES	\$ <u>36,613,018</u>	\$ <u>2,097,896</u>	\$ <u>432,042</u>	\$ <u>39,142,956</u>	\$ <u>35,648,799</u>

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

SAN DIEGO BLOOD BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014)

	<u>2015</u>	<u>2014</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (815,821)	\$ 664,049
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	1,152,788	1,156,110
Unrealized (gain) loss on investment	(2,262)	10,174
Loss on disposal of property and equipment	3,665	28,106
Permanently restricted contributions	-	(1,600)
Change in fair value of interest rate swaps	81,210	540,135
(Increase) Decrease in:		
Accounts receivable, net	(1,426,466)	344,046
Inventories	(247,527)	103,751
Prepaid expenses and other	(29,964)	21,806
Prepaid pension asset	787,413	(1,551,867)
Deposits	(31,246)	(21,024)
Increase (Decrease) in:		
Accounts payable	382,068	371,533
Accrued salaries, payroll taxes and benefits	156,458	13,260
Deferred revenue	(248,346)	746,468
Blood deposits payable (Navy)	2,370	(1,512)
Advance blood deposits	(10,000)	-
Donor recognition	(28,131)	(80,169)
Net Cash (Used in) Provided by Operating Activities	<u>(273,791)</u>	<u>2,343,266</u>
<u>Cash Flows From Investing Activities:</u>		
Proceeds from sale of property and equipment	5,503	3,600
Purchase of property and equipment	(1,824,204)	(790,548)
Net Cash Used In Investing Activities	<u>(1,818,701)</u>	<u>(786,948)</u>
<u>Cash Flows From Financing Activities:</u>		
Line-of-credit advances (repayments), net	1,050,000	(350,000)
Proceeds from notes payable	1,027,500	10,000,000
Repayments on notes payable	(236,465)	(9,484,977)
Repayments on capital lease obligations	(293,190)	(280,537)
Repayment of obligation under interest rate swap	-	(318,000)
Permanently restricted contributions	-	1,600
Net Cash Provided by (Used In) Financing Activities	<u>1,547,845</u>	<u>(431,914)</u>

(Continued)

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

SAN DIEGO BLOOD BANK
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014)

	<u>2015</u>	<u>2014</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(544,647)	1,124,404
Cash and Cash Equivalents at Beginning of Year	<u>2,126,508</u>	<u>1,002,104</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>1,581,861</u>	\$ <u>2,126,508</u>
<u>Supplemental Disclosures of Cash Flow Information:</u>		
Cash paid for interest	<u>\$ 330,733</u>	<u>\$ 356,225</u>

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

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)

Note 1 - Organization and Significant Accounting Policies:

Organization

The San Diego Blood Bank (the “Blood Bank”) was incorporated under the laws of the state of California in 1950 as a Nonprofit Benefit Corporation. The Blood Bank collects, stores and distributes blood products. In addition, the Blood Bank provides the Southern California region’s hospitals with a wide range of blood banking services. These include blood collection, component preparation, plateletpheresis, plasmapheresis, leukapheresis, washed blood, frozen blood, autologous storage, designated donation services and a reference laboratory. The Cell Therapy Program of the Blood Bank operates the Cord Blood Program providing lifesaving stem cell transplants to patients worldwide. The Blood Bank acquires blood principally by donation and, to some extent, by purchase from other Blood Centers. The Blood Bank is also involved in saving lives into the future by collaborating with healthcare providers with a goal to improve community wellness along with researchers to assist with future medical advances.

Significant Accounting Policies

Method of Accounting

The financial statements of the Blood Bank have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

The financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

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

The FASB has issued reporting standards for endowments of not-for-profit Organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and enhanced disclosures for all endowment funds. The standards provide guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The standards also require additional disclosures about endowments (both donor-restricted funds and board-designated funds) to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of its endowment funds.

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)

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

Significant Accounting Policies (Continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.

The Blood Bank had no financial assets or liabilities required to be measured at fair value on a recurring basis at June 30, 2015 and 2014, except for its derivative instruments as described in Note 1 below and its Pension Plan assets disclosed at Note 8.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. The allowance for doubtful accounts totaled \$27,442 and \$32,418 at June 30, 2015 and 2014, respectively.

Inventories

The cost of whole blood and blood components inventory is determined by valuing blood using drawing and processing costs and certain purchased items but excluding distribution costs and general and administrative expenses.

Inventories of supplies are valued at the lower of cost or market, determined on the first-in, first-out basis.

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)

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

Significant Accounting Policies (Continued)

Capitalization and Depreciation

The Blood Bank capitalizes all expenditures in excess of \$1,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long these donated assets must be maintained, the Blood Bank reports expirations of donor restrictions when the donated or acquire assets are placed in service as instructed by the donor. The Blood Bank reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment is depreciated using the straight-line method over the estimated useful asset lives as follows:

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

Depreciation totaled \$1,152,788 and \$1,156,110 for the years ended June 30, 2015 and 2014, respectively.

Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of land, buildings and equipment, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale and any resultant gain or loss is credited or charged to earnings.

Impairment of Real Estate

The Blood Bank reviews its investment in real estate for impairment whenever events and changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of real estate exceeds the fair value of such property. There were no impairment losses recognized in 2015 or 2014.

Compensated Absences

Accumulated unpaid vacation totaling \$1,027,979 and \$924,924 at June 30, 2015 and 2014, respectively, are accrued when incurred and included in accrued salaries, payroll taxes and benefits.

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)

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

Significant Accounting Policies (Continued)

Blood Deposits (Navy)

The Blood Bank has a blood exchange agreement with the Naval Medical Center, San Diego. The Blood Bank supplies the Navy with processed blood in exchange for priority access to blood donors at specific Navy and Marine Corps installations. The exchange is based upon agreed credits for processed versus unprocessed units. The net credits receivable or payable are recorded at the Blood Banks cost and reported as blood deposits receivable or payable. The blood deposits payable (Navy) totaled \$14,750 and \$12,380 at June 30, 2015 and 2014, respectively.

Advance Blood Deposits

Through the Family Blood Plan, the Blood Bank provides supplemental coverage for all donors and their immediate families for processing costs for whole blood, packed red cells, platelet concentrates, plasma and cryoprecipitate. If the donor does not have insurance, the Family Blood Plan will cover the processing costs of the blood components listed above. All that is required is that one blood donation be made for the community supply within a twelve month period prior to the date the blood components are used. The Blood Bank reflects this cost as a reduction of revenue and accrues a liability for the estimated liability for advance blood deposits. The advance blood deposits totaled \$15,000 and \$25,000 at June 30, 2015 and 2014, respectively.

Donor Recognition

The Blood Bank has a reward program to recognize donors of blood. Donors who participate in The Donors 4 Life program receive points with every blood donation. With each donation of blood, donors move higher in life levels. The points can be redeemed for merchandise available through the Blood Bank's online store. The Blood Bank accrues a liability for unredeemed points based on the average redemption value of accumulated points. The donor recognition liability totaled \$1,031,388 and \$1,059,519 at June 30, 2015 and 2014, respectively.

Revenue Recognition

Revenue

Revenue is recognized in the period in which the related goods and services are provided. Deferred revenue is recorded when cash received for the payment of goods and services exceeds the revenue earned. Deferred revenue totaled \$498,122 and \$746,468 at June 30, 2015 and 2014, respectively.

Contributions

Contributions are recognized when the donor makes a promise to give to the Blood Bank that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)

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

Significant Accounting Policies (Continued)

Derivative Instruments

The accounting and reporting standards related to Derivative Instruments and Hedging Activities requires that every derivative instrument be recorded on the statement of financial position as either an asset or liability as measured at its fair value. The Blood Bank's interest rate swap agreements ("IRSA") as discussed in Note 6 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.

The IRSA's are considered Level 3 assets or liabilities. For the valuation of the IRSA's at June 30, 2015 and 2014, the Blood Bank used the income approach which involves using (i) quoted prices for economically equivalent swaps, or (ii) valuation methodologies, assumptions and inputs, which in the case of projected future cash flows, discount such cash flows to a single net present value amount. Various inputs are used to construct interest rate, currency exchange rate, commodity price or other curves that are placed into a valuation model to compute the valuation. The change in the fair value of the IRSA liability is as follows for the years ended June 30:

	<u>2015</u>	<u>2014</u>
Balance at Beginning of Year	\$ 592,847	\$ 370,712
Repayment	-	(318,000)
Change in Fair Value of Obligation Under Interest Rate Swaps	81,210	540,135
Balance at End of Year	<u>\$ 674,057</u>	<u>\$ 592,847</u>

Donated Services and Materials

The Blood Bank utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services for the years ended June 30, 2015 and 2014, did not meet the requirements above, therefore no amounts were recognized in the financial statements.

In-kind contributions consisting of donor cultivation supplies and other supplies with an estimated fair value of \$27,935 and \$39,884 for the years ended June 30, 2015 and 2014, respectively, have been recorded as in-kind contribution revenue and fundraising expenses in the statements of activities.

Allocated Expenses

Expenses by function have been allocated among program and supporting services classifications on the basis of internal records and estimates made by the Blood Bank's management.

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)

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

Significant Accounting Policies (Continued)

Income Taxes

The Blood Bank is a public charity and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, except on net income derived from unrelated business activities. The Blood Bank's unrelated business activity did not generate taxable income and no tax liability has been recorded at June 30, 2015 and 2014. The Blood Bank believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Blood Bank is not a private foundation.

The Blood Bank's Return of Organization Exempt from Income Tax and Exempt Organization Business Income Tax Returns for Tax for the years ended June 30, 2015, 2014, 2013 and 2012 are subject to examination by Internal Revenue Service and State taxing authorities, generally the three to four years after the returns were filed.

Concentration of Credit Risk

The Blood Bank maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Blood Bank has not experienced any losses in such accounts. The Blood Bank believes it is not exposed to any significant credit risk on cash and cash equivalents.

Essentially all of the Blood Bank's business is conducted with hospitals in Southern California. Substantially all of the accounts receivable balance was due from hospitals and was unsecured at June 30, 2015 and 2014. The Blood Bank's allowance for doubtful accounts has historically been adequate to cover existing credit risks.

Concentrations of Labor Subject to Collective Bargaining Agreements

Nurses employed by the Blood Bank are subject to a three-year collective bargaining agreement which took effect October 21, 2011. Nurses account for approximately 7% of the labor force employed by the Blood Bank. A new contract has been negotiated and is in the finalization phase. It is effective April 26, 2015 through September 30, 2017.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Blood Bank considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Certificates of deposit that may be redeemed without a significant penalty are considered cash and cash equivalents regardless of the maturity. The following is the composition of the combined amounts appearing in the statement of cash flows:

	<u>2015</u>	<u>2014</u>
Cash and money market funds	\$ 1,282,091	\$ 1,827,324
Certificates of deposit	<u>299,770</u>	<u>299,184</u>
Total Cash and Cash Equivalents	<u>\$ 1,581,861</u>	<u>\$ 2,126,508</u>

At June 30, 2015, certificates of deposit bear interest at rates ranging from .55% to 1.10% and mature between July, 2015 and December, 2016.

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)

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

Significant Accounting Policies (Continued)

Comparative Totals for June 30, 2014

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Blood Bank's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

Subsequent Events

In preparing these financial statements, the Blood Bank has evaluated events and transactions for potential recognition or disclosure through October 12, 2015, the date the financial statements were available to be issued.

Reclassification

The Blood Bank has reclassified certain prior year information to conform with the current year presentation.

Note 2 - 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 35 unrelated nonprofit organizations that have voting memberships in BCA at June 30, 2015. The Blood Bank owns approximately 2.86% of BCA and accounts for its investment using the equity method of accounting. The investment in BCA totaled \$350,000 at June 30, 2015 and 2014.

National Blood Collaborative, LLC

The Blood Bank is one of the founding members of National Blood Collaborative, LLC (NBC). A national network of leading blood centers coming together to provide capacity to respond to the increasing economic demands of hospitals and healthcare systems across the United States. The Blood Bank accounts for its investment using the equity method of accounting. The investment in NBC totaled \$15,997 and \$13,735 at June 30, 2015 and 2014, respectively.

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)

Note 3 - Property and Equipment:

Property and equipment consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Land and land improvements	\$ 6,565,063	\$ 6,216,135
Building and improvements	15,481,108	14,905,922
Equipment, furniture, and fixtures	8,123,888	7,945,769
Data processing equipment	6,785,178	6,607,168
Vehicles	3,098,928	2,821,987
Construction-in-progress	121,546	
Subtotal	<u>40,175,711</u>	<u>38,496,981</u>
Less: Accumulated depreciation	<u>(16,410,238)</u>	<u>(15,393,756)</u>
Property and Equipment, Net	<u>\$ 23,765,473</u>	<u>\$ 23,103,225</u>

Note 4 - Line-of-Credit:

The Blood Bank has a line-of-credit with City National Bank in the amount of \$3,000,000 at a variable interest rate (3.25% at June 30, 2015). The line-of-credit matures April 1, 2016 and is secured by inventory, accounts receivable and equipment. The outstanding borrowings on the line-of-credit totaled \$1,050,000 and \$-0- at June 30, 2015 and 2014, respectively.

Note 5 - Notes Payable:

Notes payable consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
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%, (1.62720% at June 30, 2015), except that effective December 20, 2013, the Blood Bank entered into an interest rate swap agreement (Note 6) 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 \$12,684 and \$12,785 at June 30, 2015 and 2014, respectively.	\$ 9,354,274	\$ 9,584,062

(Continued)

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)

Note 5 - Notes Payable: (Continued)

	<u>2015</u>	<u>2014</u>
<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%, (2.03400% at June 30, 2015), except that effective December 20, 2013, the Blood Bank entered into an interest rate swap agreement (Note 6) 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 due monthly. Principal and accrued interest are due January 1, 2024. Secured by a deed of trust on real property. Accrued interest payable totaled \$529 and \$532 at June 30, 2015 and 2014, respectively.</p>	\$ 312,357	\$ 319,034
<p>Note payable which originated May 18, 2015, is held by City National Bank in the original amount of \$1,027,500. Principal and accrued interest are payable in monthly installments of \$5,602, including interest at 4.25% beginning July 1, 2015. Principal and interest are due June 1, 2025. Secured by a deed of trust. Accrued interest totaled \$3,419 at June 30, 2015.</p>	<u>1,027,500</u>	<u>-</u>
Total Notes Payable	10,694,131	9,903,096
Less: Current portion	(268,696)	(236,466)
Notes Payable - Noncurrent	<u>\$ 10,425,435</u>	<u>\$ 9,666,630</u>

Future principal payments on the notes payable are as follows:

<u>Years Ended</u> <u>June 30</u>	
2016	\$ 268,696
2017	281,355
2018	293,336
2019	305,827
2020	318,171
Thereafter	<u>9,226,746</u>
Total	<u>\$ 10,694,131</u>

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
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Note 6 - Obligation Under Interest Rate Swaps:

The Blood Bank entered into two interest rate swap agreements (“IRSA”) with City National Bank in regards to the \$9,678,234 and \$321,766 notes payable described in Note 5. In accordance with the agreements, the Blood Bank pays interest at a fixed rate of 4.08% and 5.04%, respectively, through the termination date of January 1, 2024.

The fair value of the IRSA is recorded on the 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. The fair value of the obligation under interest rate swap liability totaled \$674,057 and \$592,847 at June 30, 2015 and 2014, respectively. Accrued interest payable totaled \$19,903 and \$4,104 at June 30, 2015 and 2014, respectively.

Note 7 - Capital Lease Obligations:

The Blood Bank leases equipment under capital leases. The economic substance of the leases is that the Blood Bank is financing the acquisition of the assets through the lease, and accordingly, it is recorded in the Blood Bank’s assets and liabilities. The leased property under the capital leases consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Cost	\$ 1,561,866	\$ 1,561,866
Less: Accumulated depreciation	<u>(371,668)</u>	<u>(272,430)</u>
Net Book Value	<u>\$ 1,190,198</u>	<u>\$ 1,289,436</u>

Future minimum capital lease payments are as follows:

<u>Years Ended</u> <u>June 30</u>	
2016	\$ 306,310
2017	200,919
2018	<u>165,834</u>
Total	673,063
Less: Amount representing interest	<u>(40,070)</u>
Capital Lease Obligations	<u>\$ 632,993</u>

Financial Statement Presentation at June 30:	<u>2015</u>	<u>2014</u>
Current portion of noncurrent liabilities	\$ 282,878	\$ 293,178
Capital lease obligations, net of current portion	<u>350,115</u>	<u>633,005</u>
	<u>\$ 632,993</u>	<u>\$ 926,183</u>

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
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Note 8 - Pension Plan:

The Blood Bank has a defined benefit pension plan (the "Plan") covering substantially all of its employees. Pension benefits are provided on a formula based on the employee's compensation during the five highest consecutive years of pay before retirement. The Blood Bank contributed \$-0- and \$17,630 to the Plan for the years ended June 30, 2015 and 2014, 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 (credit) totaling \$(220,494) and (\$69,532) for the years ended June 30, 2015 and 2014, respectively has been included in salaries, related costs and benefits. Effective June 30, 2009, the Blood Bank amended the Plan to freeze benefit accruals for all participants except those covered under terms of a collective bargaining agreement. Effective December 10, 2011, the Plan has been amended to freeze benefit accruals for participants covered under the terms of a collective bargaining agreement.

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

	<u>2015</u>	<u>2014</u>
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 16,563,687	\$ 16,077,498
Experience (gain)/loss	(18,519)	(78,439)
Service cost	1,118	906
Interest cost	1,135,589	1,103,842
Benefit paid	(878,155)	(631,675)
Assumption (gain)/loss	-	68,836
PBO at year-end	<u>453,464</u>	<u>22,719</u>
Benefit Obligation at End of Year	<u>17,257,184</u>	<u>16,563,687</u>
Change in Plan Assets:		
Fair value of plan assets at beginning of year	19,238,789	17,200,733
Actual return on plan assets	948,467	2,781,766
Fees paid	(164,228)	(129,665)
Employer contributions	-	17,630
Benefits paid	<u>(878,155)</u>	<u>(631,675)</u>
Fair Value of Plan Assets at End of Year	<u>19,144,873</u>	<u>19,238,789</u>
Funded Status Plan at End of Year (Underfunded):		
Prepaid (Accrued) Pension Asset (Liability)	<u>\$ 1,887,689</u>	<u>\$ 2,675,102</u>

Amounts recognized in non-operating expenses and unrestricted net assets but have not yet been recognized in net periodic pension costs at June 30:

	<u>2015</u>	<u>2014</u>
Unrecognized net actuarial loss	\$ 1,032,951	\$ 25,044
Total	<u>\$ 1,032,951</u>	<u>\$ 25,044</u>

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
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Note 8 - Pension Plan: (Continued)

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

	<u>2015</u>	<u>2014</u>
Discount rate	6.75%	7.00%
Expected return on plan assets	8.00%	8.00%
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 benefit obligation of the Plan would be approximately \$20.9 million and the underfunded liability would be approximately \$1.8 million if the Plan were to use a discount rate of 5% for the year ended June 30, 2015.

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

	<u>2015</u>	<u>2014</u>
Service cost	\$ 1,118	\$ 906
Interest cost	1,135,589	1,103,842
Load for expenses	150,000	172,000
Actual return on assets net of expenses	(934,239)	(2,824,101)
Deferral of assets (gain)/loss	(572,962)	1,477,821
Net Periodic Pension Cost (Credit)	<u>\$ (220,494)</u>	<u>\$ (69,532)</u>

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

	<u>2015</u>	<u>2014</u>
Recognition of (gain)/loss	\$ -	\$ -
Experience loss at beginning of year	(18,519)	(78,439)
Assumption gain at beginning of year	-	68,836
Assumption gain at end of year	453,464	22,719
Asset gain at end of year	572,962	(1,477,821)
Total Recognized in Non-operating (Income) Expenses	<u>\$ 1,007,907</u>	<u>\$ (1,464,705)</u>
Total Recognized in Net Periodic Benefit Cost	<u>\$ (1,228,401)</u>	<u>\$ 1,395,173</u>

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
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Note 8 - Pension Plan: (Continued)

Plan assets by category at June 30:

	<u>2015</u>	<u>2014</u>
Cash and money market funds	8%	0%
Equity securities and mutual funds	55%	67%
Debt securities and mutual funds	28%	25%
Insurance contracts	8%	8%
Other	1%	-
	100%	100%

The investment objective for the assets of the defined benefit pension plan portfolio is to generate a total rate of return, including income and capital appreciation, sufficient to enhance the ability of the plan to meet its obligations to plan participants and their beneficiaries when due without taking unnecessary risk of long-term capital decline.

Investment policies and strategies governing the assets of the plan are designed to achieve investment objectives within prudent risk parameters. Risk management practices include the use of an external investment manager and the maintenance of a portfolio diversified by asset class, investment approach and security holdings, and the maintenance of sufficient liquidity to meet benefit obligations as they come due.

Current policies for the plan target an asset mix of 50 - 70 percent in total equity securities and the remainder in fixed income securities.

The Plan's financial instruments are required to be measured at fair value on a recurring basis as follows:

- The investments in mutual and exchange traded funds are considered Level 1 assets and are reported at fair value based on quoted prices in active markets for identical assets at the measurement date.
- The Immediate Participation Guarantee Contract (the "Contract") is considered a Level 3 asset. The assets of the Contract are held as part of the general investment account of Principal Financial Group and are not segregated. Fair value is calculated using a cash-out factor based on an associated pool of general account assets. The value of the assets is determined on a book value basis. When a fund transfer occurs the contract provides it must be based on current investment value (or market value), an approximation of fair value. The cash-out factor is a ratio of asset investment value to asset book value. The cash-out factor is used to adjust fair value of supported liabilities impacting amounts the plan receives at measurement date. Cash flows are projected for each category of asset. This is done using contractual provisions for the assets, with adjustment for expected prepayments and call provisions. Projected cash flows are discounted to present value for each asset category. Interest rates for discounting are based on current rates on similar new assets in the general account based on asset category. The Plan has reported these insurance contracts at contract value, which is consistent with the requirements of Form 5500 and in accordance with generally accepted accounting standards.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)

Note 8 - Pension Plan: (Continued)

The following table summarizes assets held by the Plan measured at fair value by classification within the fair value hierarchy at June 30:

	2015			Balance at June 30, 2015
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Mutual and exchange traded funds:				
Bond funds	\$ 5,842,233	\$ -	\$ -	\$ 5,842,233
Equity funds	11,809,526	-	-	11,809,526
Immediate Participation Guarantee Contract, at contract value	-	-	1,466,608	1,466,608
Total Classified Investments	<u>\$ 17,651,759</u>	<u>\$ -</u>	<u>\$ 1,466,608</u>	
Cash				26,506
Total Plan Assets				<u>\$ 19,144,873</u>
	2014			Balance at June 30, 2014
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Mutual and exchange traded funds:				
Bond funds	\$ 3,516,030	\$ -	\$ -	\$ 3,516,030
Equity funds	14,207,872	-	-	14,207,872
Immediate Participation Guarantee Contract, at contract value	-	-	1,435,284	1,435,284
Total Classified Investments	<u>\$ 17,723,902</u>	<u>\$ -</u>	<u>\$ 1,435,284</u>	19,159,186
Cash				79,603
Total Plan Assets				<u>\$ 19,238,789</u>

The reconciliation for financial instruments held by the Plan measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is as follows for the years ended June 30:

	2015	2014
Balance, Beginning of Year at Contract Value	\$ 1,435,284	\$ 1,697,724
Add:		
Cash deposited	1,000,000	417,630
Investment income	54,153	63,903
Less:		
Benefits paid to participants	(878,155)	(631,675)
Expenses and other withdrawals	(144,674)	(112,298)
Balance, End of Year at Contract Value	<u>\$ 1,466,608</u>	<u>\$ 1,435,284</u>
Balance, End of Year at Fair Value	<u>\$ 1,538,361</u>	<u>\$ 1,535,413</u>

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)

Note 8 - Pension Plan: (Continued)

The Blood Bank does not expect to contribute to the Plan for the year ended June 30, 2015, since no minimum contributions are required.

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

<u>Years Ended June 30</u>	
2016	\$ 927,000
2017	999,000
2018	1,085,000
2019	1,184,000
2020	1,212,000
2021 - 2025	6,942,000

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

Note 9 - Temporarily Restricted Net Assets:

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

	<u>2015</u>	<u>2014</u>
Special Projects Fund	\$ 234,551	\$ 414,451
Stem Cell/Marrow Program	36,641	11,520
Education Funds	41	1,571
Capital Campaign	2,200	-
Total Temporarily Restricted Net Assets	<u>\$ 273,433</u>	<u>\$ 427,542</u>

Temporarily restricted net assets totaling \$685,843 were released from purpose restrictions during the year ended June 30, 2015.

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
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Note 10 - Endowment Net Assets:

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

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

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

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Blood Bank to retain as a fund of perpetual duration. There were no such deficiencies at June 30, 2015 and 2014.

The Blood Bank has adopted investment and spending policies for endowment funds that:

- Protect the invested assets
- Preserve spending capacity of the fund income
- Maintain a diversified portfolio of assets that meet investment return objectives while keeping risk at a minimum level
- Comply with applicable laws

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
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Note 10 - Endowment Net Assets: (Continued)

The Blood Bank's endowment funds are invested in cash, cash equivalents and land as follows at June 30:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 265,632	\$ 415,632
Land	150,000	-
Total	<u>\$ 415,632</u>	<u>\$ 415,632</u>

The Blood Bank's spending policy is to disburse funds available to meet the current program needs of the Blood Bank.

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

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment Net Assets at June 30, 2013	\$ -	\$ 414,032
Contributions	-	1,600
Interest income	1,578	-
Appropriation of endowment assets for expenditure	<u>(1,578)</u>	<u>-</u>
Endowment Net Assets at June 30, 2014	-	415,632
Interest income	2,286	-
Appropriation of endowment assets for expenditure	<u>(2,286)</u>	<u>-</u>
Endowment Net Assets at June 30, 2015	<u>\$ -</u>	<u>\$ 415,632</u>

Note 11 - Lease Income:

The Blood Bank owns the building located at 3636 Gateway Center Avenue, San Diego, California and leases the facility space to an unrelated party under an operating lease which expires on June 30, 2019. 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 February 2018. Lease income totaled \$436,950 and \$409,211 for the years ended June 30, 2015 and 2014, respectively.

Future minimum lease income is as follows:

<u>Years Ended June 30</u>	
2016	\$ 352,208
2017	362,775
2018	364,384
2019	<u>356,767</u>
Total	<u>\$ 1,436,134</u>

SAN DIEGO BLOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
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Note 12 - Commitments and Contingencies:

Retirement Plans

The Blood Bank offers employees the opportunity for participation in a 403(b) retirement plan. Employees may contribute to the 403(b) retirement plan up to the maximum amount allowed by the Internal Revenue Code. The Blood Bank does not make a contribution to the 403(b) retirement plan. Effective July 1, 2009, the Blood Bank established the San Diego Blood Bank Money Purchase Pension Plan (“MPP Plan”). The Blood Bank contributes an amount equal to 5% of a participant’s compensation earned while an eligible employee. Employees may not contribute to the MPP Plan. The Blood Bank contributed \$601,012 and \$621,350 to the MPP Plan for the years ended June 30, 2015 and 2014, respectively, which is included in salaries, related costs and benefits.

Operating Leases

The Blood Bank has several non-cancelable operating leases for facilities that expire at various dates through February 2024. These leases generally contain renewal options for periods ranging from five to ten years and require the Blood Bank to pay common area maintenance charges. Lease expense for these leases totaled \$713,230 and \$605,517 for the years ended June 30, 2015 and 2014, respectively.

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

Years Ended June 30	
2016	\$ 586,000
2017	520,659
2018	532,684
2019	486,296
2020	405,317
Thereafter	503,083
Total	<u>\$ 3,034,039</u>

Purchase Commitments

The Blood Bank has agreements with several suppliers obligating it to purchase a minimum amount of certain products. These agreements are related to certain equipment used by the Blood Bank in its operations.

Sales Commitments

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