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

To the Audit Committee
San Diego Blood Bank

Engagement Service Team:

Leaf & Cole, LLP uses a client service team to bring a board range of competencies to our engagements. The client service team will include:

- Julie A. Firl - Partner, Engagement Reviewer
- Steven W. Northcote - Partner, Concurring Reviewer
- Jill Branch - Senior Staff
- Fernanda Tapia - Staff

All members will be actively involved and available for the duration of the assigned services, and additional staff members will be assigned and available as needed. All staff have experience with San Diego Blood Bank and not-for-profit organizations. Should there be any management staff changes we will discuss them with you prior to implementation.

Scope of Services

As stated in our engagement letter dated April 30, 2015, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

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Management is responsible for the fair presentation in the statements of financial position, activities and changes in net assets, and cash flows in conformity with generally accepted accounting principles. Management is also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

Our services include:

- Audit and report on San Diego Blood Bank's financial statements as of June 30, 2016.
- Issue a report to management commenting on San Diego Blood Bank's internal controls, fiscal management practices, and other observations resulting from the audit.
- Meet with the Audit Committee before and after the audit, and at other times deemed appropriate. Report to the audit committee significant accounting policies, management judgments, accounting estimates, audit adjustments, and major issues discussed with management during the course of the audit.
- Preparation of information returns (Forms 990, 990-T, 199, 109 and RF-1).

Audit Approach and Significant Audit Areas:

Leaf & Cole uses a risk-based audit approach tailored to San Diego Blood Bank. Our procedures will include gaining an understanding of internal controls, testing select identified controls, and performing substantive and analytical audit procedures. Our documentation is entirely electronic and we emphasize using client-prepared schedules to the maximum extent. This, combined with our practice of assisting clients to increase self-sufficiency, can be important factors in controlling fees. With the extensive involvement of our key audit personnel and our risk-based audit process, we are able to concentrate our audit work on important areas and make the audit process more productive.

- Accounts receivable and allowance for doubtful accounts.
- Cash and investments.
- Inventory-observation and testing.
- Accounts payable and accrued expenses.
- Pension liability and assumptions.
- Debt and swap valuation / refinance.
- Donor restrictions on contributions.
- Net assets - Including analysis of changes in temporarily and permanently restricted net assets.
- Allocation of expenses between program and supporting services.
- Controls associated with significant transaction cycles.
- Compliance with laws and regulations that could have a material effect on the financial statements.

Professional and Regulatory Changes:

New Accounting and Auditing Standards

FASB ASU No. 2013-06 Not –for-Profit Entities (Topic 958) – Services Received from Personnel of an Affiliate (a consensus of the FASB Emerging Issues Task Force)

The objective of the ASU is to resolve the diversity in practice about the guidance that non-for-profit entities should apply for recognizing and measuring personnel services received from an affiliate, that is, a party that directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with the recipient non-for-profit entity.

The amendments in this ASU apply to the standalone financial statements of not-for-profit entities, including not-for-profit business-oriented health care entities, that receive personnel services from an affiliate and for which the affiliate does not seek compensation from the recipient not-for-profit entity. The ASU requires a recipient not-for-profit entity to recognize in its standalone financial statements all personnel services received from an affiliate that directly benefit the recipient not-for-profit entity. Those services would be measured at the cost recognized by the affiliate for the personnel providing those services.

FASB ASU No. 2014-09 Revenue Recognition – Revenue from Contracts with Customers (Topic 606)

ASU No. 2014-09 introduces a comprehensive, principles-based framework for recognizing revenue in FASB ASC 606, and supersedes FASB ASC 605 and virtually all industry-specific revenue guidance in the FASB ASC, including FASB ASC 958. ASU No. 2014-09 is effective for nonpublic entities for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted.

FASB ASU No. 2015-01 Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items

Effective for fiscal years beginning after December 15, 2015, ASU No. 2015-01 eliminates the concept of extraordinary items from GAAP. As a result, an organization will no longer be required to segregate and separately present an extraordinary item in its statement of activities. However, ASU No. 2015-01 does not affect the reporting and disclosure requirements for an event that is unusual in nature or that occurs infrequently. ASU No. 2015-01 may be implemented early.

FASB ASU No. 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40)

Prior to this ASU evaluation of an organization's ability to continue as a going concern was an auditing matter; GAAP only addressed going concern from the perspective of it being presumed as the basis for preparing financial statements until the liquidation basis of accounting is required. (Presentation of financial statements using the liquidation basis is discussed beginning at paragraph 1202.16.) With the issuance of ASU No. 2014-15, GAAP establishes that the evaluation of an organization's ability to continue as a going concern is management's responsibility. In addition, it provides standards regarding when management is required to disclose certain matters related to going concern. ASU No. 2014-15 is effective for annual periods ending after December 15, 2016, with early implementation permitted.

FASB ASU No. 2016-02 – Leases (Topic 842)

The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. All leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, *Elements of Financial Statements*, and, therefore, recognition of those lease assets and lease liabilities represents an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases.

A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. When measuring assets and liabilities arising from a lease, a lessee (and a lessor) should include payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. Similarly, optional payments to purchase the underlying asset should be included in the measurement of lease assets and lease liabilities only if the lessee is reasonably certain to exercise that purchase option. *Reasonably certain* is a high threshold that is consistent with and intended to be applied in the same way as the *reasonably assured* threshold in the previous leases guidance.

In addition, also consistent with the previous leases guidance, a lessee (and a lessor) should exclude most variable lease payments in measuring lease assets and lease liabilities, other than those that depend on an index or a rate or are in substance fixed payments.

For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. There continues to be a differentiation between finance leases and operating leases. However, the principal difference from previous guidance is that the lease assets and lease liabilities arising from operating leases should be recognized in the statement of financial position.

For finance leases, a lessee is required to do the following:

1. Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position.
2. Recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of comprehensive income.
3. Classify repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows.

For operating leases, a lessee is required to do the following:

1. Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position.
2. Recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis.
3. Classify all cash payments within operating activities in the statement of cash flows.

The amendments in this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for any of the following:

1. A public business entity.
2. A not-for-profit entity that has issued, or is a conduit bond obligor for securities that are traded, listed, or quoted on an exchange or an over the-counter market.
3. An employee benefit plan that files financial statements with the U.S. Securities and Exchange Commission (SEC).

For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application of the amendments in this Update is permitted for all entities.

Proposed Accounting and Auditing Standards

Not-For-Profit Financial Reporting Project

The Financial Accounting Standards Board ("FASB") has a project in process to reexamine existing standards for financial statement presentation by not-for-profit entities, focusing on improving:

1. Net asset classification requirements.

2. Information provided in financial statements and notes about liquidity, financial performance, and cash flows.

The FASB has reached the following tentative decisions, which do not yet change current accounting:

1. Replace the existing requirements to present totals for each of three classes of net assets on the face of a statement of financial position and for changes in each of those classes on the face of a statement of activities with similar requirements for each of two classes of net assets that convey net assets with donor-imposed restrictions and without donor-imposed restrictions. The Board also decided to make conforming changes to the terminology and definitions of the net asset classes.

2. Retain the current requirement to provide information about the nature and amounts of different types of donor-imposed restrictions but modify the requirement to (a) remove the hard-line distinction between temporary restrictions and permanent restrictions and (b) focus instead on describing differences in the nature with a focus on both how and when the resources (net assets) can be used.

3. Require disclosure of information about the amount and purposes of board designations of net assets without donor-imposed restrictions.

4. Define an intermediate operating measure on the basis of two key dimensions:

    a. A mission dimension based on whether resources are from or directed at carrying out an NFP's purpose for existence.

    b. An availability dimension based on whether resources are available for current period activities, and reflecting both external limitations and internal actions of an NFP's governing board.

5. Require the Direct Method of presenting operating cash flows and no longer require the Indirect Method (reconciliation).

6. Revise the components of the cash flow classes as follows:

   a. Interest and dividends received as investing cash flows, rather than operating cash flows (unless from program/mission lending activity).

   b. Interest paid as financing cash flows, rather than operating cash flows.

   c. Construction/acquisition/purchases of long-lived assets, and proceeds of gifts for such, as operating cash flows rather than investing/financing and cash flows.

Independence:

Leaf & Cole ensures that it meets professional standards in maintaining independence with respect to its clients. Leaf & Cole and all of its partners, managers, and professional staff are required to follow the independence rules of the American Institute of Certified Public Accountants and the California State Board of Accountancy. We will report to you any relationships between the Organization and our firm that may reasonably impair our independence.

We are not aware of any existing relationships with the Organization that could create independence issues and prevent us from signing an unqualified audit opinion.

Service Timeline:

We will work with management to determine a detailed timeline for our audit procedures. Our general timing is as follows:

- Pre-audit meeting with the Audit Committee and management to obtain further understanding of the Organization and develop a work plan, including discussion of the audit plan – April 22, 2016.

- Planning the preliminary fieldwork, including risk assessment, tests of internal controls and preliminary assessments – July.

- Fieldwork for the Organization – August 1-5.

- Delivery of draft audit report to the Organization – mid-August.

- Presentation of the audit results to the Audit Committee – early September.

- Delivery of draft tax returns to the Organization – mid-October.

Engagement Fees:

Description of Services		Proposed Fees
Audit and report on the Organization's financial statements as of June 30, 2016	$	16,500
Preparation of information returns for the year ended June 30, 2016		1,500
Presentation and audit plan and results to the Audit Committee		-
Auditor's recommendations for improvements in efficiencies and internal controls		-
Attendance at Audit Committee and Board meetings		-
Discussions with management throughout the year		-
Total Fees	$	18,000

The estimate is based upon the presumption that San Diego Blood Bank's books and records will be in good condition and that accounting and finance staff will provide assistance to us throughout the audit. Fees for other services not listed above would generally be at our standard, prevailing rates, subject to San Diego Blood Bank's approval prior to commencing the work.

Leaf & Cole LLP

San Diego, California
April 22, 2016