

# San Diego Blood Bank

Financial Statements

Years Ended June 30, 2018 and 2017



**SAN DIEGO BLOOD BANK**  
**Financial Statements**  
Years Ended June 30, 2018 and 2017

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Aldrich CPAs + Advisors LLP  
7676 Hazard Center Drive, #1300  
San Diego, California 92108

## INDEPENDENT AUDITORS' REPORT

To the Audit Committee of  
San Diego Blood Bank

We have audited the accompanying financial statements of San Diego Blood Bank (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to 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.

### ***Auditors' 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 2018 financial statements referred to above present fairly, in all material respects, the financial position of San Diego Blood Bank as of June 30, 2018, 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.

### ***Prior Period Financial Statements***

The financial statements of San Diego Blood Bank as of June 30, 2017, were audited by other auditors whose report dated December 22, 2017, expressed an unmodified opinion on those statements.

*Aldrich CPAs + Advisors LLP*

San Diego, California  
December 20, 2018

**SAN DIEGO BLOOD BANK**  
**Statements of Financial Position**  
June 30, 2018 and 2017

	2018	2017
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 540,676	\$ 1,352,594
Accounts receivable, net of allowance for doubtful accounts of \$1,534 (2018) and \$18,870 (2017)	5,100,015	4,785,582
Inventories:		
Whole blood and blood components	1,292,685	827,147
Supplies	401,715	450,998
Prepaid expenses and other	359,595	226,645
Total Current Assets	7,694,686	7,642,966
Property and Equipment, net of accumulated depreciation	22,675,361	24,147,550
Investments	543,103	349,631
Deposits	83,764	94,262
Total Assets	<u>\$ 30,996,914</u>	<u>\$ 32,234,409</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts payable	\$ 5,006,372	\$ 4,626,433
Accrued payroll	1,701,563	1,845,767
Current portion of deferred revenue	505,000	186,943
Line of credit	2,040,000	1,750,000
Blood deposits - Navy	-	46,757
Advance blood deposits	-	15,000
Current portion of donor recognition	471,675	317,000
Current portion of long-term liabilities	406,800	903,874
Total Current Liabilities	10,131,410	9,691,774
Deferred revenue, net of current portion	-	43,340
Donor recognition, net of current portion	1,016,225	708,467
Notes payable, net of current portion	9,355,335	9,702,906
Capital lease obligations, net of current portion	131,983	68,831
Interest rate swap	186,020	563,734
Accrued pension	269,335	13,280
Total Liabilities	21,090,308	20,792,332
Net Assets:		
Unrestricted	9,082,559	10,653,863
Temporarily Restricted	407,228	371,724
Permanently Restricted	416,819	416,490
Total Net Assets	9,906,606	11,442,077
Total Liabilities and Net Assets	<u>\$ 30,996,914</u>	<u>\$ 32,234,409</u>

See accompanying notes to financial statements.

**SAN DIEGO BLOOD BANK**  
**Statement of Activities**  
Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support:				
Processing fees	\$ 35,468,141	\$ -	\$ -	\$ 35,468,141
Blood services	4,437,644	-	-	4,437,644
Contributions	407,808	642,440	329	1,050,577
Research components	1,452,059	-	-	1,452,059
Lease income and other	629,045	-	-	629,045
In-kind contributions	30,891	-	-	30,891
Investment income	(6,466)	-	-	(6,466)
Contractual and family plan allowances	(68,564)	-	-	(68,564)
Net assets released from restrictions	606,936	(606,936)	-	-
<b>Total Revenue and Support</b>	<b>42,957,494</b>	<b>35,504</b>	<b>329</b>	<b>42,993,327</b>
Operating Expenses:				
Program Services:				
Drawing, processing, distribution and laboratory	40,861,212	-	-	40,861,212
Supporting services:				
Management and general	3,290,570	-	-	3,290,570
Loss on disposal of property and equipment	267,724	-	-	267,724
Fundraising	230,952	-	-	230,952
<b>Total Operating Expenses</b>	<b>44,650,458</b>	<b>-</b>	<b>-</b>	<b>44,650,458</b>
Nonoperating Income (Expense):				
Pension related changes other than net periodic pension cost	(256,055)	-	-	(256,055)
Change in fair value of interest rate swaps	377,715	-	-	377,715
<b>Total Nonoperating Income</b>	<b>121,660</b>	<b>-</b>	<b>-</b>	<b>121,660</b>
<b>Change in Net Assets</b>	<b>(1,571,304)</b>	<b>35,504</b>	<b>329</b>	<b>(1,535,471)</b>
Net Assets, beginning	10,653,863	371,724	416,490	11,442,077
Net Assets, ending	<u>\$ 9,082,559</u>	<u>\$ 407,228</u>	<u>\$ 416,819</u>	<u>\$ 9,906,606</u>

**SAN DIEGO BLOOD BANK**  
**Statement of Activities**  
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support:				
Processing fees	\$ 39,285,662	\$ -	\$ -	\$ 39,285,662
Blood services	4,393,819	-	-	4,393,819
Contributions	478,898	816,438	-	1,295,336
Research components	1,048,964	-	-	1,048,964
Lease income and other	456,167	-	-	456,167
In-kind contributions	28,430	-	-	28,430
Investment income	(55,476)	2,111	-	(53,365)
Contractual and family plan allowances	(94,558)	-	-	(94,558)
Net assets released from restrictions	990,104	(990,104)	-	-
<b>Total Revenue and Support</b>	<b>46,532,010</b>	<b>(171,555)</b>	<b>-</b>	<b>46,360,455</b>
Operating Expenses:				
Program Services:				
Drawing, processing, distribution and laboratory	44,960,864	-	-	44,960,864
Supporting services:				
Management and general	2,133,273	-	-	2,133,273
Fundraising	455,568	-	-	455,568
Loss on disposal of property and equipment	237,559	-	-	237,559
<b>Total Operating Expenses</b>	<b>47,787,264</b>	<b>-</b>	<b>-</b>	<b>47,787,264</b>
Nonoperating Income (Expense):				
Pension related changes other than net periodic pension cost	(240,934)	-	-	(240,934)
Change in fair value of interest rate swaps	562,852	-	-	562,852
<b>Total Nonoperating Income</b>	<b>321,918</b>	<b>-</b>	<b>-</b>	<b>321,918</b>
<b>Change in Net Assets</b>	<b>(933,336)</b>	<b>(171,555)</b>	<b>-</b>	<b>(1,104,891)</b>
Net Assets, beginning	11,587,199	543,279	416,490	12,546,968
Net Assets, ending	<u>\$ 10,653,863</u>	<u>\$ 371,724</u>	<u>\$ 416,490</u>	<u>\$ 11,442,077</u>

**SAN DIEGO BLOOD BANK**  
**Statement of Functional Expenses**  
Year Ended June 30, 2018

	Program Services	Supporting Services			Total
	Drawing, Processing, Distribution and Laboratory	Management and General	Fundraising		
Salaries, related costs and benefits	\$ 17,647,952	\$ 2,441,698	\$ 196,954	\$ 20,286,604	
Supplies	9,587,491	30,787	8,041	9,626,319	
Blood purchases	5,732,652	-	-	5,732,652	
Depreciation	2,028,909	66,361	-	2,095,270	
Equipment maintenance	1,056,183	92,285	1,849	1,150,317	
Occupancy	1,117,774	28,510	917	1,147,201	
Courier, shipping and postage	1,099,826	-	1,613	1,101,439	
Community and donor relations	1,010,720	3,398	-	1,014,118	
Consultants and professional fees	226,387	416,519	15,555	658,461	
Interest	503,214	40,666	-	543,880	
Vehicle expenses and mileage	294,995	1,397	297	296,689	
Insurance	253,948	-	-	253,948	
Telephone	227,011	25,210	774	252,995	
Equipment rental	119,096	48,652	-	167,748	
Taxes, permits and licenses	133,843	7,137	-	140,980	
Advertising	118,488	-	1,000	119,488	
Dues and periodicals	28,813	65,845	-	94,658	
Sanitation and laundry	66,796	2,797	105	69,698	
Travel, conference, and education	53,564	9,208	108	62,880	
In-kind	24,150	-	-	24,150	
Bank charges	1,275	10,100	3,739	15,114	
Printing	7,148	-	-	7,148	
Bad debt (recovery)	(10,136)	-	-	(10,136)	
Earned discounts	(63,514)	-	-	(63,514)	
Blood inventory adjustment	(405,373)	-	-	(405,373)	
<b>Total Expenses</b>	<b>\$ 40,861,212</b>	<b>\$ 3,290,570</b>	<b>\$ 230,952</b>	<b>\$ 44,382,734</b>	

**SAN DIEGO BLOOD BANK**  
**Statement of Functional Expenses**  
Year Ended June 30, 2017

	Program Services	Supporting Services			Total
	Drawing, Processing, Distribution and Laboratory	Management and General	Fundraising		
Salaries, related costs and benefits	\$ 18,162,396	\$ 1,360,233	\$ 189,387	\$	19,712,016
Blood purchases	10,655,088	-	-		10,655,088
Supplies	9,269,684	19,551	10,680		9,299,915
Depreciation	1,304,430	56,267	4,119		1,364,816
Equipment maintenance	989,778	97,535	3,756		1,091,069
Occupancy	960,212	20,068	2,863		983,143
Courier, shipping and postage	975,682	-	3,206		978,888
Consultants and professional fees	353,542	378,368	7,181		739,091
Community and donor relations	494,063	4,841	197,257		696,161
Advertising	656,499	780	700		657,979
Interest	493,189	31,771	4,583		529,543
Vehicle expenses and mileage	333,931	1,294	232		335,457
Insurance	242,548	13,759	1,984		258,291
Telephone	230,191	18,537	839		249,567
Equipment rental	147,945	21,200	430		169,575
Taxes, permits and licenses	136,727	2,060	284		139,071
Dues and periodicals	24,920	69,235	70		94,225
Sanitation and laundry	64,119	1,138	159		65,416
Travel, conference, and education	12,897	20,761	-		33,658
In-kind	8,529	-	19,901		28,430
Bank charges	6,152	15,663	4,868		26,683
Printing	2,740	-	3,069		5,809
Miscellaneous	-	212	-		212
Earned discounts	(341,318)	-	-		(341,318)
Blood inventory adjustment	(221,079)	-	-		(221,079)
Bad debt (recovery)	(2,001)	-	-		(2,001)
<b>Total Expenses</b>	<b>\$ 44,960,864</b>	<b>\$ 2,133,273</b>	<b>\$ 455,568</b>	<b>\$</b>	<b>47,549,705</b>

**SAN DIEGO BLOOD BANK**  
**Statements of Cash Flows**  
Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (1,535,471)	\$ (1,104,891)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	2,095,270	1,364,816
Unrealized (gain) loss on investments	(22,853)	15,977
Loss on disposal of property and equipment	267,724	237,559
Change in fair value of interest rate swaps	(377,715)	(562,852)
Changes in operating assets and liabilities:		
Accounts receivable, net	(314,433)	223,501
Inventories	(416,255)	(198,612)
Prepaid expenses and other	(132,950)	(33,329)
Deposits	10,498	739
Prepaid pension asset	-	358,936
Accounts payable	379,939	1,941,018
Accrued payroll	(144,204)	278,348
Deferred revenue	274,717	(36,687)
Other deposits	(61,757)	5,208
Donor recognition	462,433	15,160
Accrued pension	256,055	13,280
Net Cash Provided by Operating Activities	740,998	2,518,171
Cash Flows from Investing Activities:		
Purchases of property and equipment	(890,804)	(1,584,715)
Proceeds from sale of property and equipment	-	9,975
Purchases of investments	(170,619)	-
Net Cash Used by Investing Activities	(1,061,423)	(1,574,740)
Cash Flows from Financing Activities:		
Proceeds (Payments) on line of credit	290,000	(150,000)
Proceeds from notes payable	-	324,000
Payments on notes payable	(648,546)	(431,355)
Payments on capital lease obligations	(132,947)	(306,143)
Net Cash Used by Financing Activities	(491,493)	(563,498)
Net Increase (Decrease) in Cash and Cash Equivalents	(811,918)	379,933
Cash and cash equivalents, beginning	1,352,594	972,661
Cash and cash equivalents, ending	\$ 540,676	\$ 1,352,594

See accompanying notes to financial statements.

**SAN DIEGO BLOOD BANK**  
**Statements of Cash Flows**  
Years Ended June 30, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid for interest	\$ <u>543,880</u>	\$ <u>524,479</u>
<b>Supplemental Disclosures of Noncash Investing and Financing Activities</b>		
Property and equipment acquired through capital lease obligations	\$ <u>112,189</u>	\$ <u>33,545</u>

**SAN DIEGO BLOOD BANK**  
**Notes to Financial Statements**  
Years Ended June 30, 2018 and 2017

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**Note 1 – Organization and Summary of Significant Accounting Policies**

Nature of Activities

The San Diego Blood Bank (“Blood Bank”) was incorporated under the laws of the state of California in 1950 as a Nonprofit Benefit Corporation. Blood Bank collects, tests, processes, stores and distributes blood throughout the Southern California region. In addition, Blood Bank provides a wide range of additional blood banking services, including plateletpheresis, plasmapheresis, leukapheresis, and a reference laboratory. Blood Bank’s Cell Therapy Program operates the Cord Blood Program, providing live saving stem cell transplants to patients worldwide. SDBB’s vision is to have an even greater impact in our community’s health by improving community wellness and engaging with researchers to drive future medical advances.

Accounting Method

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 (U.S. GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

The Blood Bank reports information regarding its 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 represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Blood Bank may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

Financial Accounting Standards Board (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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, the actual results could differ from those estimates.

**Note 1 – Organization and Summary of Significant Accounting Policies, continued**

Fair Value Measurements

Accounting standards provide the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

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

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

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

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

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

Allowance for Doubtful Accounts

Accounts receivable arise in the normal course of business. It is the policy of management to review the outstanding accounts receivable at year end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts.

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 net realizable value, determined on the first-in, first-out basis.

Property and Equipment

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.

**Note 1 – Organization and Summary of Significant Accounting Policies, continued**

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
Software	5 years

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 2018 and 2017.

Compensated Absences

Accumulated paid time off totaling \$1,072,409 and \$1,109,725 at June 30, 2018 and 2017, respectively, are accrued when incurred and included in accounts payable and accrued expenses.

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 Bank's cost and reported as blood deposits receivable or payable. This agreement expired during the year-end June 30, 2018.

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. This plan was terminated during the year ended June 30, 2018.

Donor Recognition

The Blood Bank has a reward program to recognize donors of blood. Donors receive points with every blood donation. The points can be redeemed for merchandise available through the Blood Bank's online store. The Blood Bank accrues expenses for unredeemed points based on the average redemption value of accumulated points.

**SAN DIEGO BLOOD BANK**  
**Notes to Financial Statements**  
Years Ended June 30, 2018 and 2017

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**Note 1 – Organization and Summary of Significant Accounting Policies, continued**

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.

*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.

Derivative Instruments

The accounting and reporting standards related to derivative instruments and hedging activities requires that every derivative instrument be recorded on the statements of financial position as either an asset or liability as measured at its fair value. The Blood Bank's interest rate swap agreements ("IRSA") as discussed in Note 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, 2018 and 2017, 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>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 563,734	\$ 1,126,586
Change in Fair Value of Obligation Under Interest Rate Swaps	<u>(377,714)</u>	<u>(562,852)</u>
Balance, end of year	<u>\$ 186,020</u>	<u>\$ 563,734</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. In-kind contributions consisting of fundraising items, donor points donated back and other supplies have been recorded as in-kind contribution revenue and expenses in the statements of activities.

Functional 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**  
Years Ended June 30, 2018 and 2017

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**Note 1 – Organization and Summary of Significant Accounting Policies, continued**

Income Taxes

The Blood Bank is a qualified nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. However, the Blood Bank remains subject to taxes on any net income which is derived from a trade or business regularly carried on and unrelated to its exempt purpose. For the years ended June 30, 2018 and 2017, no such unrelated business taxable income was reported and, therefore, no provision for income taxes has been made. The Blood Bank is not a private foundation.

The Blood Bank follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Blood Bank recognizes accrued interest and penalties associated with uncertain tax positions as part of the statement of activities, when applicable. Management has determined that the Blood Bank has no uncertain tax positions at June 30, 2018 and therefore, no amounts have been accrued.

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, 2018 and 2017. 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 April 26, 2015 and expired September 30, 2017. A new agreement was reached effective September 21, 2018. Nurses account for approximately 11% of the labor force employed by the Blood Bank.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Blood Bank considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Certificates of deposit that may be redeemed without a significant penalty are considered cash and cash equivalents regardless of the maturity. The following is the composition of the combined amounts appearing in the statements of cash flows at June 30:

	2018	2017
Cash and money market funds	\$ 540,676	\$ 1,152,640
Certificates of deposit	-	199,954
Total Cash and Cash Equivalents	<u>\$ 540,676</u>	<u>\$ 1,352,594</u>

Subsequent Events

The Blood Bank has evaluated subsequent events through December 20, 2018, which is the date the financial statements were available to be issued.

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**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 32 unrelated nonprofit organizations that have voting memberships in BCA at June 30, 2018. The Blood Bank owns approximately 3.12% of BCA and accounts for its investment using the equity method of accounting. The investment in BCA totaled \$336,468 and \$328,445 at June 30, 2018 and 2017, respectively.

National Blood Collaborative, LLC

The Blood Bank is one of the founding members of National Blood Collaborative, LLC (NBC). A national network of leading blood centers coming together to provide capacity to respond to the increasing economic demands of hospitals and healthcare systems across the United States. The Blood Bank accounts for its investment using the equity method of accounting. The investment in NBC totaled \$36,016 and \$21,186 at June 30, 2018 and 2017, respectively.

SDBB Labs, Inc.

SDBB Labs, Inc. is a wholly owned subsidiary of the Blood Bank. It was incorporated during the year ended June 2018. Its focus will be on providing research and other services to outside organizations. The Blood bank invested \$1,267 in SDBB Labs, Inc. during the year ended June 30, 2018.

Neighbor Savers

Neighbor Savers is an organization set up for the purposes of enhancing deliveries of healthcare products to, from and between the Blood Bank, local hospitals and biotech companies. The Blood Bank is currently the only member of Neighbor Savers and invested \$5,000 during the year ended June 30, 2018.

The following table summarizes the Blood Bank's investments as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Fair Value</u>
Mutual Fund:					
Domestic Equity	\$ 164,352	\$ -	\$ -	\$ -	\$ 164,352
Investment Equity - BCA/NBC	-	-	-	372,484	372,484
Investment in Neighbor Savers	-	-	-	5,000	5,000
Investment in SDBB Labs, Inc.	-	-	-	1,267	1,267
	<u>\$ 164,352</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 378,751</u>	<u>\$ 543,103</u>

The following table summarizes the Blood Bank's investments as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Fair Value</u>
Investment Equity - BCA/NBC	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 349,631</u>	<u>\$ 349,631</u>

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**Note 3 – Property and Equipment**

Property and equipment consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Building and improvements	\$ 15,874,208	\$ 15,879,586
Land and land improvements	6,565,063	6,565,063
Equipment, furniture, and fixtures	4,348,103	7,140,367
Vehicles	3,183,644	3,217,538
Data processing equipment	2,191,025	2,523,908
Software	534,473	258,010
Construction-in-progress	<u>375,000</u>	<u>583,048</u>
	33,071,516	36,167,520
Less accumulated depreciation	<u>(10,396,155)</u>	<u>(12,019,970)</u>
	<u>\$ 22,675,361</u>	<u>\$ 24,147,550</u>

**Note 4 – Line of Credit**

The Blood Bank has a line of credit with a financial institution in the amount of \$3,000,000 at a variable interest rate (6.25% at June 30, 2018). The line-of-credit matures June 9, 2019 and is secured by inventory, accounts receivable and equipment.

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**Note 5 – Notes Payable**

Notes payable consists of the following:

	<u>2018</u>	<u>2017</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%, (3.06596% at June 30, 2018), except that effective December 20, 2013, the Blood Bank entered into an interest rate swap agreement (Note 7) 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 \$21,989 and \$17,145 at June 30, 2018 and 2017, respectively.	\$ 8,583,706	\$ 8,866,321
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%, (3.83246% at June 30, 2018), 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 \$927 and \$720 at June 30, 2018 and 2017, respectively.	289,521	297,983
Note payable which originated May 18, 2015, is held by City National Bank in the original amount of \$654,240. 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 on real property. Accrued interest totaled \$2,829 and \$3,470 at June 30, 2018 and 2017, respectively.	796,306	929,775
Note payable which originated March 16, 2017, is held by Walter J. and Betty C. Zable Foundation in the original amount of \$324,000. Interest accrues on the principal balance beginning March 16, 2017 at a rate of 2.00%. Principal and accrued interest are due March 31, 2018.	-	224,000
	<u>9,669,533</u>	<u>10,318,079</u>
Less current portion	<u>(314,198)</u>	<u>(615,173)</u>
	<u>\$ 9,355,335</u>	<u>\$ 9,702,906</u>

**SAN DIEGO BLOOD BANK**  
**Notes to Financial Statements**  
Years Ended June 30, 2018 and 2017

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**Note 5 – Notes Payable, continued**

Future principal payments on the notes payable as of June 30, 2018 are as follows:

Year Ending June 30,		
2019	\$	314,198
2020		326,593
2021		341,467
2022		355,999
2023		371,151
Thereafter		<u>7,960,125</u>
	\$	<u><u>9,669,533</u></u>

**Note 6 – Obligation under Interest Rate Swaps**

The Blood Bank entered into two interest rate swap agreements (“IRSA”) with a financial institution in regards to the \$9,678,234 and \$321,766 notes payable described in Note 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’s are 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. Accrued interest payable totaled \$7,565 and \$13,532 at June 30, 2018 and 2017, 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 asset and liabilities. Future minimum capital lease payments are as follows:

Year Ending June 30,		
2019	\$	103,041
2020		52,571
2021		49,200
2022		28,757
2023		<u>15,188</u>
		248,757
Less amount representing interest		<u>(24,172)</u>
	\$	<u><u>224,585</u></u>

**SAN DIEGO BLOOD BANK**  
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**Note 7 – Capital Lease Obligations, continued**

Financial Statement presentation at June 30:

	2018	2017
Current portion of capital lease obligations	\$ 92,602	\$ 288,701
Capital lease obligations, net of current portion	<u>131,983</u>	<u>68,831</u>
Total	<u>\$ 224,585</u>	<u>\$ 357,532</u>

**Note 8 – Pension Plan**

Effective June 30, 2009, the Blood Bank amended the defined benefit pension plan (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 Blood Bank did not contribute to the Plan for the years ended June 30, 2018 and 2017, 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 \$198,169 and \$131,282 for the years ended June 30, 2018 and 2017, respectively has been included in salaries, related costs and benefits.

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

	2018	2017
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 19,125,472	\$ 18,489,176
Service cost	-	-
Interest cost	1,159,868	1,168,583
Benefit paid	(1,007,790)	(1,071,176)
PBO at year-end	<u>336,903</u>	<u>538,889</u>
Benefit obligation at end of year	<u>\$ 19,614,453</u>	<u>\$ 19,125,472</u>
Change in Plan Assets:		
Plan assets at beginning of year	\$ 19,112,192	\$ 18,848,112
Actual return on plan assets	1,240,716	1,335,256
Benefits paid	<u>(1,007,790)</u>	<u>(1,071,176)</u>
Plan assets at end of year	<u>\$ 19,345,118</u>	<u>\$ 19,112,192</u>
Funded Status Plan at End of Year (Underfunded):		
Prepaid Pension Asset (Liability)	<u>\$ (269,335)</u>	<u>\$ (13,280)</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:

Unrecognized Net Actuarial Loss	<u>\$ 2,912,957</u>	<u>\$ 2,855,071</u>
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**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>2018</u>	<u>2017</u>
Discount rate	6.0%	6.25%
Expected return on plan assets	7.0%	7.0%
Rate of compensation increase	N/A	N/A

The Blood Bank reviews the assumptions used by the Plan on an annual basis. The rate of compensation increase does not apply to the Plan since the Plan has been frozen. The discount rate is an estimate used to discount future cash flows to the present to account for the time value of money and is one of the factors in determining the benefit obligation of the Plan. The discount rate used by the Plan is highly sensitive and changes to the discount rate can have a significant impact on the calculation of the benefit obligation of the Plan. The benefit obligation of the Plan would be approximately \$24.2 million and the underfunded liability would be approximately \$4.9 million if the Plan were to use a discount rate of 4.11% for the year ended June 30, 2018.

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

	<u>2018</u>	<u>2017</u>
Service cost	\$ -	\$ -
Interest cost	1,159,868	1,168,583
Actual return on assets net of expenses	(1,240,716)	(1,335,256)
Deferral of assets (gain)/loss	<u>279,017</u>	<u>297,955</u>
Net Periodic Pension Cost (Credit)	<u>\$ 198,169</u>	<u>\$ 131,282</u>

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

	<u>2018</u>	<u>2017</u>
Assumption gain at end of year	\$ 336,903	\$ 538,889
Asset gain at end of year	(279,017)	(297,955)
Experience loss at beginning of year	<u>-</u>	<u>-</u>
Total Recognized in Non-operating (Income) Expenses	<u>\$ 57,886</u>	<u>\$ 242,951</u>
Total Recognized in Net Periodic Benefit Cost	<u>\$ 256,055</u>	<u>\$ 372,216</u>

Plan assets by category at June 30:

	<u>2018</u>	<u>2017</u>
Cash and money market funds	-	-
Equity securities and mutual funds	57%	56%
Debt securities and mutual funds	38%	38%
Insurance contracts	<u>5%</u>	<u>6%</u>
	<u>100%</u>	<u>100%</u>

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**Note 8 – Pension Plan, continued**

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>June 30, 2018</u>
Mutual and exchange traded funds:				
Bond funds	\$ 7,289,449	\$ -	\$ -	\$ 7,289,449
Equity funds	<u>11,013,709</u>	<u>-</u>	<u>-</u>	<u>11,013,709</u>
Total Classified Investments	<u>\$ 18,303,158</u>	<u>\$ -</u>	<u>\$ -</u>	18,303,158
Cash				36,994
Immediate Participation Guarantee Contract, at contract value				<u>1,004,966</u>
Total Plan Assets				<u>\$ 19,345,118</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>June 30, 2017</u>
Mutual and exchange traded funds:				
Bond funds	\$ 7,203,745	\$ -	\$ -	\$ 7,203,745
Equity funds	<u>10,780,237</u>	<u>-</u>	<u>-</u>	<u>10,780,237</u>
Total Classified Investments	<u>\$ 17,983,982</u>	<u>\$ -</u>	<u>\$ -</u>	17,983,982
Cash				16,140
Immediate Participation Guarantee Contract, at contract value				<u>1,112,070</u>
Total Plan Assets				<u>\$ 19,112,192</u>

The Immediate Participation Guarantee Contract meets the fully benefit-responsive investment contract criteria and therefore is reported at contract value. Contract value is the relevant measure for fully benefit-responsive investment contracts because this is the amount received by participants if they were to initiate permitted transactions under the terms of the Plan. Contract value, as reported to the Plan by Principal Financial, represents contributions made under the contract, plus earnings, less participant withdrawals, and administrative expenses.

**SAN DIEGO BLOOD BANK**  
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**Note 8 – Pension Plan, continued**

The following is a summary of the activity in the Immediate Participation Guarantee Contract reported at contract value for the years ended June 30:

	2018	2017
Balance, Beginning of Year at Contract Value	\$ 1,112,070	\$ 1,131,785
Add:		
Cash deposited	950,000	1,250,000
Investment income	36,020	34,982
Less:		
Benefits paid to participants	(1,007,791)	(1,071,176)
Expenses and other withdrawals	(85,333)	(233,521)
Balance, End of Year at Contract Value	<u>\$ 1,004,966</u>	<u>\$ 1,112,070</u>

The Blood Bank expects to make a contribution of \$308,000 to the Plan for the year ended June 30, 2019.

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

Year Ending June 30,	
2019	\$ 1,248,952
2020	\$ 1,264,522
2021	\$ 1,301,885
2022	\$ 1,361,388
2023	\$ 1,396,751
2024-2028	\$ 7,342,915

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:

	2018	2017
Special Projects Fund	\$ 397,183	\$ 335,046
Stem Cell/Marrow Program	10,045	36,678
Total Temporarily Restricted Net Assets	<u>\$ 407,228</u>	<u>\$ 371,724</u>

**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.

**SAN DIEGO BLOOD BANK**  
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**Note 10 – Endowment Net Assets, continued**

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 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, 2018 and 2017.

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

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

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 116,819	\$ 216,490
Land	<u>300,000</u>	<u>200,000</u>
Total	<u>\$ 416,819</u>	<u>\$ 416,490</u>

**SAN DIEGO BLOOD BANK**  
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**Note 10 – Endowment Net Assets, continued**

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:

	Temporarily Restricted	Permanently Restricted
Endowment Net Assets at June 30, 2016	\$ -	\$ 416,490
Interest income	2,111	-
Appropriation of endowment assets for expenditure	<u>(2,111)</u>	<u>-</u>
Endowment Net Assets at June 30, 2017	-	416,490
Contributions	-	329
Interest income	3,345	-
Appropriation of endowment assets for expenditure	<u>(3,345)</u>	<u>-</u>
Endowment Net Assets at June 30, 2018	<u>\$ -</u>	<u>\$ 416,819</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, 2021, and provides for a renewal option through June 30, 2024. 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 2023 and is automatically renewed for four additional five year terms unless written notice of intent to terminate is made. Lease income totaled \$465,342 and \$456,138 for the years ended June 30, 2018 and 2017, respectively.

Future minimum lease income as of June 30, 2018 is as follows:

Year Ending June 30,	
2019	\$ 356,767
2020	367,470
2021	<u>378,494</u>
	<u>\$ 1,102,731</u>

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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 makes a 3% discretionary contribution. The Blood Bank has also 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. Effective April 1, 2016, the Blood Bank effectively froze the MPP Plan to new participants and discontinued contributions to the MPP Plan with the intention of terminating the MPP Plan. The Blood Bank contributed \$385,829 and \$384,901 to these retirement plans for the years ended June 30, 2018 and 2017, 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. Leases and common area maintenance charges for these leases totaled \$776,138 and \$651,577 for the years ended June 30, 2018 and 2017, respectively.

The following is a schedule of future minimum lease payments as of June 30, 2018 under the leases:

<u>Year Ending</u> <u>June 30,</u>		
2019	\$	580,839
2020		391,661
2021		310,634
2022		242,679
2023		86,578
Thereafter		<u>-</u>
	\$	<u><u>1,612,391</u></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.

**Note 13 – Subsequent Event**

Effective September 1, 2018, the Blood Bank changed its policy on donor recognition points. Previously, donor reward points did not expire, however, the change in policy stipulates that points expire if the donor has not donated blood in one year. This change in policy resulted in a write off of the Donor Recognition Liability of approximately \$441,000.

**Note 14 – Financial Condition**

The Blood Bank had a total net asset value of \$9,082,559 at June 30, 2018, negative working capital of \$2,272,372 and net cash inflows from operating activities of \$740,998. To address the additional future funding requirements, primarily for the Blood Bank's long-term liabilities, since June 30, 2018 the Blood Bank has undertaken the following:

- Developed a plan to carefully monitor expenditure commitments and eliminate unnecessary costs
- Focus on blood collections and donor retention
- Manage blood inventory more closely reducing blood purchases
- Focus more on selling products for research and actively seeking new research grants

With these actions, the Blood Bank is confident that it will be able to meet its commitments and support the planned level of expenditures for continued operations.