Hoxworth Blood Center

Report on Audits of Financial Statements for the Years Ended June 30, 2000 and 1999

STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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The Board of Trustees of the University of Cincinnati; and
The Community Advisory Board of Hoxworth Blood Center

We have reviewed the independent auditor's report of the Hoxworth Blood Center, Hamilton County, prepared by Pricewaterhouse Coopers LLP, for the audit period July 1, 1999 through June 30, 2000. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

JIM PETRO
Auditor of State

November 28, 2000

PRICEWATERHOUSECOOPERS

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Report of Independent Accountants

To: Mr. Jim Petro,
Auditor of State of Ohio;
The Board of Trustees of
the University of Cincinnati; and
The Community Advisory Board of
Hoxworth Blood Center

In our opinion, the accompanying balance sheets and the related statements of operations of unrestricted funds, changes in fund balances, and cash flows of unrestricted funds present fairly, in all material respects, the financial position of Hoxworth Blood Center ("Hoxworth") (a division of the University of Cincinnati) at June 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Hoxworth's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

August 16, 2000

Hoxworth Blood Center
Balance Sheets
at June 30, 2000 and 1999

	2000	1999
ASSETS		
Unrestricted Funds:		
Current assets:		
Cash and cash equivalents	$ 5,923,600	$ 8,416,372
Accounts receivable, net of allowance for doubtful accounts of approximately $28,000 and $25,000 at June 30, 2000 and 1999, respectively	3,811,521	2,814,210
Inventories	405,751	550,936
Prepaid expenses and other assets	16,569	2,277
Total current assets	10,157,441	11,783,795
Property and equipment:		
Land and buildings	14,585,982	14,473,291
Furniture and equipment	6,757,860	5,982,985
Leasehold improvements	334,755	333,771
	21,678,597	20,790,047
Less accumulated depreciation	6,694,835	5,568,813
Property and equipment, net	14,983,762	15,221,234
Assets whose use is limited by bond indenture	1,031,177	1,029,656
Total assets	$ 26,172,380	$ 28,034,685
Restricted Funds:		
Cash and cash equivalents	$ 8,994	$ 1,071
Total assets	$ 8,994	$ 1,071

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

Hoxworth Blood Center
Balance Sheets, Continued
at June 30, 2000 and 1999

	2000	1999
LIABILITIES AND FUND BALANCES		
Unrestricted Funds:		
Current liabilities:		
Current portion of bonds payable	$ 617,870	$ 582,870
Accounts payable	1,012,874	1,471,372
Accrued salaries and benefits	1,387,943	919,914
Accrued interest payable	23,349	26,640
Total current liabilities	3,042,036	3,000,796
Bonds payable, net of current portion	4,594,758	5,212,634
Total liabilities	7,636,794	8,213,430
Unrestricted fund balance	18,535,586	19,821,255
Total liabilities and unrestricted fund balance	$ 26,172,380	$ 28,034,685
Restricted Funds:		
Fund balance	$ 8,994	$ 1,071

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

Hoxworth Blood Center
Statements of Operations of Unrestricted Funds
for the years ended June 30, 2000 and 1999

	2000	1999
Operating revenues:		
Patient and community service	$ 22,652,363	$ 22,774,858
Other	477,845	555,896
Total operating revenues	23,130,208	23,330,754
Operating expenses:		
Salaries and employee benefits	13,546,599	12,485,115
Routine supplies and facility maintenance	7,297,517	6,986,000
Blood component inventory support	666,037	1,522,184
General and administrative	1,697,852	1,800,253
Depreciation	1,222,102	1,049,272
Total operating expenses	24,430,107	23,842,824
Loss from operations	(1,299,899)	(512,070)
Non-operating revenues (expenses):		
Interest income	385,488	317,347
Interest expense	(378,365)	(415,535)
Other	7,107	35,902
Total non-operating revenues (expenses), net	14,230	(62,286)
Deficiency of revenues over expenses	$ (1,285,669)	$ (574,356)

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

Hoxworth Blood Center
Statements of Changes in Fund Balances
for the years ended June 30, 2000 and 1999

	Unrestricted Funds	Restricted Funds
Fund balances at June 30, 1998	$ 20,395,611	$ 37,447
Deficiency of revenues over expenses	(574,356)	-
Expenditures in excess of contributions for restricted purposes	-	(36,376)
Fund balances at June 30, 1999	19,821,255	1,071
Deficiency of revenues over expenses	(1,285,669)	-
Contributions in excess of expenditures for restricted purposes	-	7,923
Fund balances at June 30, 2000	$ 18,535,586	$ 8,994

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

Hoxworth Blood Center
Statements of Cash Flows of Unrestricted Funds
for the years ended June 30, 2000 and 1999

	2000	1999
Cash flows from operating activities:		
Loss from operations	$ (1,299,899)	$ (512,070)
Adjustments to reconcile loss from operations to net cash (used in) provided by operating activities:		
Depreciation	1,222,102	1,049,272
(Increase) decrease in accounts receivable	(997,311)	21,638
Decrease (increase) in inventories	145,185	(82,656)
(Increase) decrease in prepaid expenses and other assets	(14,292)	37,594
(Decrease) increase in accounts payable	(458,498)	228,986
Increase (decrease) in accrued salaries and benefits	468,029	(105,792)
Total adjustments	365,215	1,149,042
Net cash (used in) provided by operating activities	(934,684)	636,972
Cash flows from non-capital financing activities:		
Contributions received	13,779	6,101
Cash flows from capital and related financing activities:		
Capital expenditures	(991,303)	(1,336,843)
Proceeds from sale of equipment	-	12,600
(Increase) decrease in assets whose use is limited	(1,521)	1,751
Principal payments on bonds payable	(635,000)	(595,000)
Principal payments on capital lease obligation	-	(4,311)
Interest paid on bonds payable	(329,531)	(366,416)
Net cash used in capital and related financing activities	(1,957,355)	(2,288,219)
Cash flows from investing activities:		
Interest income	385,488	317,347
Net decrease in cash and cash equivalents	(2,492,772)	(1,327,799)
Cash and cash equivalents at beginning of year	8,416,372	9,744,171
Cash and cash equivalents at end of year	$ 5,923,600	$ 8,416,372
Non-cash activities:		
Contributions of property and equipment	$ -	$ 38,803

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

1. Summary of Significant Accounting Policies:

a. **Organization:** Hoxworth Blood Center (“Hoxworth”), a division of the University of Cincinnati (the “University”), a state of Ohio assisted governmental institution, provides blood components and related services to area hospitals.

b. **Financial Statements:** The accompanying financial statements have been prepared in accordance with the principles contained in "Health Care Organizations" published by the American Institute of Certified Public Accountants. As a governmental institution, Hoxworth applies standards applicable to governmental units as prescribed in statements issued by the Governmental Accounting Standards Board (“GASB”) and other recognized authoritative sources. Hoxworth also applies the Financial Accounting Standards Board's Statements and Interpretations issued prior to November 30, 1989, unless those pronouncements conflict with GASB pronouncements. The statements of cash flows have been prepared in accordance with GASB Statement No. 9, “Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting.”

c. **Assets Whose Use is Limited:** At June 30, 2000 and 1999, assets whose use is limited consists principally of debt securities, the use of which is limited by bond indenture. These securities are carried at amortized cost. Gains or losses on sales of securities are based on average cost.

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

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

f. **Restricted Funds:** Restricted funds consist of externally restricted donations for use in bone marrow registry testing.

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

h. **Cash Equivalents:** Hoxworth considers its unrestricted and undesignated portion of the University's pooled cash account to be cash and cash equivalents. The University's pooled cash account includes investments in U.S. Government agency issues; U.S. Treasury bonds, notes and bills; corporate notes and bonds; preferred and common stocks; and other marketable securities.

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

j. **Income Taxes:** Through its affiliation with the University, Hoxworth is a tax-exempt organization under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the accompanying financial statements.

k. **Estimates:** The preparation of the financial statements in conformity with generally accepted accounting principles 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.

2. Concentrations and Credit Risk:

In the normal course of business, Hoxworth extends credit to various area hospitals. At June 30, 2000 and 1999, one hospital group accounted for approximately 57% and 49% of accounts receivable, respectively, and another hospital accounted for 12% and 16%, respectively.

3. Inventories:

Inventories at June 30 consist of the following:

	2000	1999
Blood components	$ 325,524	$ 390,255
Blood bags and accessories	48,948	121,129
Other supplies	31,279	39,552
	$ 405,751	$ 550,936

4. Assets Whose Use is Limited:

Assets whose use is limited consist of amounts held on deposit, in the name of the University, under an indenture agreement by an independent trustee in connection with the $4,415,000 University of Cincinnati General Receipts Bonds, Series R-11 (see Note 5).

At June 30, the carrying amount and market value of assets whose use is limited are as follows:

	2000		1999	
	Carrying Amount	Market Value	Carrying Amount	Market Value
By Bond Indenture:				
Cash and cash equivalents	$ 67	$ 67	$ 58	$ 58
U.S. agency obligations	1,024,338	945,939	1,016,134	956,556
Accrued interest	6,772	6,772	13,464	13,464
	$ 1,031,177	$ 952,778	$ 1,029,656	$ 970,078

5. Bonds Payable:

Bonds payable at June 30 consist of the following:

	2000	1999
Series K General Receipts Bonds, with interest ranging from 6.5% to 6.6%, with various maturities through 2002, net of unamortized discount of approximately $19,000 and $29,000, at June 30, 2000 and 1999, respectively	$ 1,261,000	$ 1,836,496
Series R-11 General Receipts Bonds; with interest ranging from 4.1% to 5%; with various maturities through 2007; net of unamortized deferred loss on bond refunding of approximately $304,000 and $347,000, unamortized premium of approximately $19,000 and $22,000, and unamortized issuance costs of approximately $13,000 and $15,000 at June 30, 2000 and 1999, respectively	3,951,628	3,959,008
Less current portion	617,870	582,870
	$ 4,594,758	$ 5,212,634

The Series K bonds were issued in 1991 to provide funds to construct a new facility for Hoxworth and to pay the cost of the issuance of the bonds. On February 1, 1998, the University issued $4.415 million in Series R-11 General Obligation Bonds with interest rates ranging from 3.7 percent to 5.0 percent to advance refund $4.045 million of the outstanding 1991 Series K bonds with an interest rate of 6.9 percent and a maturity of June 1, 2007. The net proceeds of $4.422 million (after payment of approximately $26,000 of issuance costs and accrued interest) were used to purchase U.S. Treasury obligations. Those securities were deposited in an escrow fund to provide for future debt service payments for the advance refunded portion of the 1991 Series K bonds. As a result, this portion of the 1991 Series K bonds are considered to be defeased and the liability for those bonds has been removed from long-term debt. On June 30, 2000, $4.045 million of bonds outstanding are considered defeased.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $434,000. The difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through 2007 using the straight-line method. The advance refunding reduced Hoxworth's total debt service payments through 2007 by approximately $302,000 and caused an economic gain (difference between the present values of the old and new debt service payments) of approximately $246,000.

The bonds are collateralized by the general receipts of the University. Interest expense related to the bonds was approximately $378,000 and $416,000 for 2000 and 1999, respectively.

Principal cash amounts due, excluding unamortized premium, on the debt outstanding at June 30, 2000, are as follows:

2001	$ 670,000
2002	710,000
2003	760,000
2004	795,000
2005	825,000
Thereafter	1,770,000
	$ 5,530,000

6. Operating Leases:

Hoxworth is obligated under a number of operating leases, principally for neighborhood donor centers, expiring at various dates through 2005. Total operating lease expense for 2000 and 1999 was approximately $222,000 and $164,000, respectively.

Estimated future lease payments under noncancelable leases approximate the following:

2001	$ 198,000
2002	142,000
2003	121,000
2004	95,000
2005	57,000
Total	$ 613,000

7. Related Party Transactions:

The relationship between Hoxworth and the University requires that common resources, such as facilities, computing services, and other administrative services, be shared at a cost to Hoxworth. In 2000 and 1999, costs for such resources, including indirect overhead charges from the University, were approximately $1,104,000 and $1,227,000, respectively.

Additionally, cash receipts of Hoxworth are deposited into the University's pooled cash account. Disbursements are made from this account as required. Hoxworth's share of the University's pooled cash account was approximately $5,788,000 and $8,171,000 at June 30, 2000 and 1999, respectively, and is included in cash and cash equivalents in unrestricted funds in the accompanying balance sheets. Interest of approximately $333,000 in 2000 and $300,000 in 1999 was earned by Hoxworth on the pooled cash account.

8. Self-Insurance Funds:

Hoxworth currently provides for medical professional and general liability insurance, along with the University, through a combination of actuarially funded self-insurance and purchased commercial insurance in excess of the self-insurance amount. Additionally, several Physician Practice Plans are covered under the medical professional insurance program. Medical professional liability self-insurance retention limits were $1.5 million per occurrence and $5 million in the aggregate for 2000 and 1999. Excess commercial professional liability coverage in the amount of $10 million existed at June 30, 2000 and 1999. Excess commercial general liability coverage in the amount of $50 million existed at June 30, 2000 and 1999.

Funding for Hoxworth, the University, and the Physician Practice Plans is determined by independent actuaries and is made directly to a Self-Insurance Trust Fund (the “Trust”), which is administered by an independent trustee.

The Trust is divided into two separate funds, one for professional liability and one for general liability. Separate amounts by participating entity are not maintained since the assets of each fund are available for claims of all participants. Accordingly, the assets of the Trust and related reserves are not included in the accompanying Hoxworth balance sheet. In the opinion of management, Trust assets are adequate to cover estimated liabilities resulting from known claims and incidents, and incurred but not reported incidents, at June 30, 2000.

Trust assets and funds at June 30 approximate the following:

	2000		1999	
	Cost	Market Value	Cost	Market Value
Cash and short-term investments	$ 1,720,000	$ 1,720,000	$ 230,000	$ 230,000
U.S. Treasury bonds and notes	1,057,000	1,042,000	1,151,000	1,186,000
Federal agency bonds and notes	2,667,000	2,511,000	2,643,000	2,556,000
Corporate obligations	6,775,000	6,225,000	6,790,000	6,416,000
Total	$ 12,219,000	$ 11,498,000	$ 10,814,000	$ 10,388,000

9. Employee Retirement Plans and Other Post Employment Benefits:

Public Employee Retirement Plans

Retirement benefits are available for substantially all employees under one of several contributory retirement plans. Prior to July 1, 1977, when the University became a state institution, employees were covered by either the City of Cincinnati Retirement System (CRS) or the Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). Full-time certified teachers appointed on or after July 1, 1977, are covered by the State Teachers' Retirement System (STRS). Non-certified full-time employees appointed on or after that date are covered by the Public Employees Retirement System (PERS). Both STRS and PERS are statewide systems.

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

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

The Ohio Revised Code and the Cincinnati Municipal Code provide PERS, STRS and CRS statutory authority, respectively, over employer and employee contributions. The required, actuarially determined contribution rates for the University and for employees are 13.31% (4.2% relating to health care benefits) and 8.5% of covered payroll, respectively, for PERS; 14% (2% relating to health care benefits) and 9.3%, respectively, for STRS; and 7% and 7%, respectively, for CRS. The University's contributions, representing 100% of employer contributions for the year ended June 30, 2000, and for each of the two preceding years are as follows:

Fiscal Year	PERS	STRS	CRS
1998	15,107,000	13,567,000	1,940,000
1999	14,829,000	12,894,000	1,112,000
2000	13,890,000	13,450,000	635,000

PERS and STRS provide postretirement and postemployment health care benefits in addition to the retirement benefits described above. PERS Other Post Employment Benefits (OPEB) are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. Expenditures for OPEB during 1999 were \$523,599,000. As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were \$9,870,286,000. The number of benefit recipients eligible for OPEB at December 31, 1999, was 118,062. During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

STRS has discretionary authority, pursuant to the Revised Code, over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium. The balance in the Health Care Reserve Fund was \$2,783,000,000 at June 30, 1999 (the latest information available). For the year ended June 30, 1999, the net health care costs paid by STRS were \$249,929,000. There were 95,796 eligible benefit recipients.

In addition to the pension benefits described above, the University provides postretirement healthcare and dental benefits (under its labor agreement with the American Association of University Professors) to all retirees who are participants of TIAA-CREF when they retire. During 2000, 1999 and 1998, the net cost of these benefits recorded on a pay-as-you-go basis totaled approximately \$1,855,000, \$987,000 and \$1,200,000, respectively.

Ohio Alternative Retirement Plan

On June 23, 1998, pursuant to Ohio House Bill 586, the University created an Ohio Alternative Retirement Plan (ARP) which is designed to aid the University in recruiting and retaining employees by offering a portable retirement option. The ARP is a defined-contribution plan that provides full and immediate vesting of all contributions made on behalf of the participant. Contributions are directed to one of eight investment management companies that allows the participant to manage the investment of all retirement funds. New employees who qualify for the ARP have 90 days from the date of hire to elect the ARP option. Once this window has passed, the employee will not have the option to elect into the ARP.

At June 30, 2000, there were 1,146 members of the plan. During fiscal year 2000, the employer contributions were $5,098,000. The employee contribution rates were 8.5% for participants electing out of PERS and 9.3% for participants electing out of STRS. As required by law, a portion of the employer contributions goes to PERS and STRS, respectively, to fund past service liabilities. For the period from July 1, 1999, to April 30, 2000, the contribution rates for PERS and STRS were 6%. Effective May 1, 2000, there was no longer a requirement to contribute to PERS and the contribution rate for STRS was reduced to 5.76%.

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Report of Independent Accountants on Internal Control

August 16, 2000

The Community Advisory Board of
Hoxworth Blood Center and
The Board of Trustees of the
University of Cincinnati

We have audited the financial statements of Hoxworth Blood Center ("Hoxworth") (a division of the University of Cincinnati) as of and for the year ended June 30, 2000, and have issued our report thereon dated August 16, 2000. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

In planning and performing our audit, we considered Hoxworth's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

PricewaterhouseCoopers LLP

STATE OF OHIO
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HOXWORTH BLOOD CENTER

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 2, 2001