

# **Hoxworth Blood Center**

Auditor's Reports and Financial Statements

June 30, 2014 and 2013







# Dave Yost • Auditor of State

Members of the Board  
Hoxworth Blood Center  
PO Box 670055  
3130 Highland Ave  
Cincinnati, OH 45267-0055

We have reviewed the *Independent Auditor's Report* of the Hoxworth Blood Center, Hamilton County, prepared by BKD, LLP, for the audit period July 1, 2013 through June 30, 2014. 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.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost  
Auditor of State

November 6, 2014

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**Hoxworth Blood Center**  
**June 30, 2014 and 2013**

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying basic financial statements of Hoxworth Blood Center ("Hoxworth"), a department of the University of Cincinnati, which are comprised of the statements of net position as of June 30, 2014 and 2013, and the statements of revenues, expenses and changes in net position and statements of cash flows and the related notes to the basic financial statements for the years ended June 30, 2014 and 2013, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hoxworth as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements of Hoxworth are intended to present the net position, the changes in net position and cash flows of only that portion of the business-type activities of the University of Cincinnati that is attributable to the transactions of Hoxworth. They do not purport to, and do not, present fairly the net position of the University of Cincinnati as of June 30, 2014 and 2013, the changes in its net position or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2014, on our consideration of the Hoxworth's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hoxworth's internal control over financial reporting and compliance.

*BKD, LLP*

Cincinnati, Ohio  
October 10, 2014



# **Hoxworth Blood Center**

## **Management's Discussion and Analysis**

### **June 30, 2014 and 2013**

#### ***Introduction***

Hoxworth Blood Center ("Hoxworth") is the community blood center for the Greater Cincinnati area. Serving a 17-county area in Ohio, Kentucky, and Indiana, Hoxworth collects, tests, processes, and distributes blood and blood components to 31 health care facilities. Our purpose is to enhance the well-being of patients in our service area by assuring a reliable and economical supply of the safest possible blood, by providing innovative hemotherapy services, and by promoting research and education programs in transfusion medicine. To help us meet this goal, Hoxworth is governed by the University of Cincinnati Board of Trustees. The University of Cincinnati is considered a component unit of the State of Ohio. Hoxworth also has its own community advisory board and a medical/technical advisory committee. Hoxworth is licensed and regulated by the U.S. Food and Drug Administration and accredited by the American Association of Blood Banks, the American Society for Histocompatibility and Immunogenetics, and the Foundation for the Accreditation of Cellular Therapy. Hoxworth is also a member of America's Blood Centers and Blood Centers of America.

Hoxworth receives whole units of blood and apheresis products from individual donors. Hoxworth processes and tests the blood and distributes various blood products to hospitals and other users for patient care purposes. Fees are charged to cover the cost of acquiring, processing, testing, and distributing blood components and other blood services. These fees are recorded as revenue at the time such products and services are provided. In the past three years, blood units donated have totaled 87,086 in fiscal year 2014, 91,580 in fiscal year 2013 and 96,719 in fiscal year 2012.

#### ***Using the Financial Statements***

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

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

#### ***Financial Position***

Hoxworth's financial position remained strong at June 30, 2014, with total assets of \$42,559,848 and liabilities of \$4,683,979. Net position, which represents the residual interest in Hoxworth's assets after liabilities are deducted, increased by \$2,114,249 to \$37,875,869.

**Hoxworth Blood Center**  
**Management's Discussion and Analysis**  
**June 30, 2014 and 2013**

***Statement of Revenues, Expenses, and Changes in Net Position***

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUES:</b>			
Patient and community service	\$ 48,830,973	\$ 46,119,750	\$ 42,079,027
Other	307,694	813,237	527,964
	<hr/>	<hr/>	<hr/>
Total operating revenues	49,138,667	46,932,987	42,606,991
	<hr/>	<hr/>	<hr/>
<b>OPERATING EXPENSES:</b>			
Salaries and employee benefits	21,728,860	20,819,227	19,477,610
Routine supplies and facility maintenance	19,438,158	18,233,820	16,684,796
Blood component inventory support	1,512,645	998,658	835,026
General and administrative	4,014,087	3,889,474	3,429,049
Depreciation	1,436,560	1,414,791	1,342,084
	<hr/>	<hr/>	<hr/>
Total operating expenses	48,130,310	45,355,970	41,768,565
	<hr/>	<hr/>	<hr/>
<b>OPERATING INCOME</b>	<b>1,008,357</b>	<b>1,577,017</b>	<b>838,426</b>
	<hr/>	<hr/>	<hr/>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Net increase (decrease) in fair value of cash equivalents	394,885	159,285	(320,231)
Interest income	606,228	335,860	325,454
Other	104,779	306,572	208,698
	<hr/>	<hr/>	<hr/>
Total nonoperating revenues	1,105,892	801,717	213,921
	<hr/>	<hr/>	<hr/>
<b>INCREASE IN NET POSITION</b>	<b>2,114,249</b>	<b>2,378,734</b>	<b>1,052,347</b>
	<hr/>	<hr/>	<hr/>
<b>NET POSITION, beginning of year</b>	<b>35,761,620</b>	<b>33,382,886</b>	<b>32,330,539</b>
	<hr/>	<hr/>	<hr/>
<b>NET POSITION, end of year</b>	<b>\$ 37,875,869</b>	<b>\$ 35,761,620</b>	<b>\$ 33,382,886</b>
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# **Hoxworth Blood Center**

## **Management's Discussion and Analysis**

### **June 30, 2014 and 2013**

#### ***Operating Revenues***

Operating revenues increased from \$46,932,987 for the year ended June 30, 2013, to \$49,138,667 for the year ended June 30, 2014. This increase of \$2,205,680 or 4.7% is attributable to several factors. Transplantation Immunology Division revenue increased by \$1,118,590 due to increased testing for Diagnostic Laboratories of Oklahoma. Apheresis revenue increased by \$1,080,469 due to the increased volume of Photopheresis procedures ordered by Children's and University Hospitals, offset by a decrease in procedures ordered by Jewish Hospital. Cellular Therapies revenue increased by \$422,861 due to increased testing for Children's and University Hospitals.

Operating revenues increased from \$42,606,991 for the year ended June 30, 2012, to \$46,932,987 for the year ended June 30, 2013. This increase of \$4,325,996 or 10.2% is attributable to several factors. Blood and Blood Components revenue increased \$648,945 primarily due to a price increase and an increase in fresh frozen plasma and platelet usage. Plasma for fractionation decreased \$157,224 due to a higher transfusable demand for fresh frozen plasma from the hospitals leaving less for the manufacturing of recovered plasma. Transplantation Immunology Division revenue increased by \$301,923 due to the addition of testing for Diagnostic Laboratories of Oklahoma and Children's Hospital. There was also an increase in testing for University Transplant. The Apheresis revenue also increased by \$3,104,553 for the year ended June 30, 2013. This is primarily due to a \$2,706,435 increase in Photopheresis procedures and \$457,517 increase in Therapeutic Pheresis procedures.

#### ***Operating Expenses***

Operating expenses increased \$2,774,340 or 6.1%, from \$45,355,970 for the year ended June 30, 2013, to \$48,130,310 for the year ended June 30, 2014. Salaries and employee benefits increased \$909,633, or 4.4% due to the annual pay increase for certain classified employees, fringe benefit rate increases, and an increase in overall full time equivalents. Routine supplies and facilities maintenance increased \$1,204,338, or 6.6% due to an increase in medical supplies, chemicals & solutions, lab supplies, and overall volume increases. Blood component inventory support increased \$513,987, or 51.5% due to an increase in the need for imported blood. General and administrative expenses increased \$124,613, or 3.2% due to an increase in insurance expense, the blood inventory expense account, and solicited lab tests.

Operating expenses increased \$3,587,405 or 8.6%, from \$41,768,565 for the year ended June 30, 2012, to \$45,355,970 for the year ended June 30, 2013. Salaries and employee benefits increased \$1,341,617, or 6.9% due to the annual pay increase, fringe benefit rate increase, and an increase in overall full time equivalents. Routine supplies and facilities maintenance increased \$1,549,024, or 9.3% due to an increase in medical supplies, and antisera & reagents expenses, and overall volume increases. Blood component inventory support increased \$163,632, or 19.6% due to an increase in the need for imported blood. General and administrative expenses increased \$460,425, or 13.4% due to an increase in insurance expense, promotional items, and computer services.

# Hoxworth Blood Center

## Management's Discussion and Analysis

### June 30, 2014 and 2013

#### ***Nonoperating Revenues and Expenses***

The fair value adjustment gain on our quasi-endowment fund in 2014 was \$394,885 compared to a fair value adjustment gain of \$159,285 in 2013. The increase in the fair value adjustment relates to favorable market conditions for the assets being held in a pooled investment account managed by the University of Cincinnati, as disclosed in Note 1. Interest income increased \$270,368 due to market performance fluctuations. Other nonoperating revenue decreased \$201,793.

In 2013, the fair value adjustment gain on our quasi-endowment fund was \$159,285 compared to a fair value adjustment loss of \$320,231 in 2012. The increase in the fair value adjustment relates to favorable market conditions for the assets being held in a pooled investment account managed by the University of Cincinnati, as disclosed in Note 1. Interest income increased \$10,406 due to market performance fluctuations. Other nonoperating revenue increased \$97,874.

#### ***Increase in Net Position***

For the year ended June 30, 2014, our net position increased \$2,114,249 compared with an increase in net position of \$2,378,734 for the year ended June 30, 2013. Net position increased \$1,052,347 for the year ended June 30, 2012.

#### ***Statement of Net Position***

The statement of net position represents the financial position of Hoxworth at the end of the fiscal year. Net position represents the difference between total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Hoxworth did not have any deferred outflows or inflows of resources as of June 30, 2014, 2013 and 2012. Net position is one indicator of the overall financial condition of Hoxworth, while the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One exception is capital assets, which are stated at historical cost less an allowance for depreciation. A summarized comparison of Hoxworth's assets, liabilities, and net position at June 30 follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current assets	\$ 30,284,588	\$ 28,328,436	\$ 25,236,913
Noncurrent assets - net	<u>12,275,260</u>	<u>11,978,702</u>	<u>12,349,366</u>
Total assets	42,559,848	40,307,138	37,586,279
Current and total liabilities	<u>4,683,979</u>	<u>4,545,518</u>	<u>4,203,393</u>
Net position	<u>\$ 37,875,869</u>	<u>\$ 35,761,620</u>	<u>\$ 33,382,886</u>

# **Hoxworth Blood Center**

## **Management's Discussion and Analysis**

### **June 30, 2014 and 2013**

#### **Assets**

Total assets of the organization increased \$2,252,710 to \$42,559,848 as of June 30, 2014, from \$40,307,138 as of June 30, 2013. Current assets increased \$1,956,152, from \$28,328,436 as of June 30, 2013, to \$30,284,588 as of June 30, 2014. Cash and cash equivalents increased \$1,041,182, from \$20,817,727 as of June 30, 2013, to \$21,858,909 as of June 30, 2014. The increase in cash is explained in the discussion of cash flows below. Net accounts receivable increased \$644,929, due to timing of payments.

In 2013, total assets of the organization increased \$2,720,859 to \$40,307,138 as of June 30, 2013, from \$37,586,279 as of June 30, 2012. Current assets increased \$3,091,523, from \$25,236,913 as of June 30, 2012, to \$28,328,436 as of June 30, 2013. Cash and cash equivalents increased \$3,229,605, from \$17,588,122 as of June 30, 2012, to \$20,817,727 as of June 30, 2013. The increase in cash is explained in the discussion of cash flows below. Net accounts receivable decreased \$258,873, due to timing of payments.

#### **Capital Assets**

Capital assets, net, increased \$221,199, from \$11,846,061 as of June 30, 2013, to \$12,067,260 as of June 30, 2014. This increase is the result of capital purchases being more than depreciation expense during the year. Capital purchases in 2014 were \$1,657,759. Significant capital purchases made during fiscal year 2014 include a new bloodmobile, automated blood collection machines, lab equipment for our Transplantation Immunology Department, and instruments for our Therapeutic Apheresis Department.

Capital assets, net, decreased \$394,315, from \$12,240,376 as of June 30, 2012, to \$11,846,061 as of June 30, 2013. This decrease is the result of capital purchases being less than depreciation expense during the year and net disposals of \$25,941. Capital purchases in 2013 were \$1,046,417 and the net gain on disposals was \$6,802. Significant capital purchases made during fiscal year 2013 include improvements to leased space, automated blood collection machines, lab equipment for our Transplantation Immunology Department, instruments for our Therapeutic Apheresis Department, and new security cameras.

#### **Liabilities**

Total liabilities increased \$138,461, to \$4,683,979 as of June 30, 2014 due to the timing of payments to vendors. Total liabilities increased \$342,125, to \$4,545,518 as of June 30, 2013 due to the timing of payments to vendors and an increase in accrued salaries and benefits. As of June 30, 2012, total liabilities were \$4,203,393.

**Hoxworth Blood Center**  
**Management's Discussion and Analysis**  
**June 30, 2014 and 2013**

***Net Position***

Net position represents the residual interest in Hoxworth's assets and liabilities. Hoxworth's net position is summarized below:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net investment in capital assets	\$ 12,067,260	\$ 11,846,061	\$ 12,240,376
Restricted-expendable	32,423	22,661	22,651
Unrestricted	<u>25,776,186</u>	<u>23,892,898</u>	<u>21,119,859</u>
 Total net position	 <u>\$ 37,875,869</u>	 <u>\$ 35,761,620</u>	 <u>\$ 33,382,886</u>

Investment in capital assets, net of depreciation and related debt, increased \$221,199 from \$11,846,061 as of June 30, 2013, to \$12,067,260 as of June 30, 2014. This increase is due to capital asset purchases of \$1,657,759. Net position restricted-expendable was \$22,661 at June 30, 2013 and \$32,423 at June 30, 2014. Net position unrestricted increased \$1,883,288 from \$23,892,898 as of June 30, 2013, to \$25,776,186 as of June 30, 2014.

Investment in capital assets, net of depreciation and related debt, decreased \$394,315, from \$12,240,376 as of June 30, 2012, to \$11,846,061 as of June 30, 2013. This decrease is due to depreciation expense exceeding capital asset purchases of \$1,046,417. Net position restricted-expendable was \$22,651 as of June 30, 2012 and \$22,661 at June 30, 2013. Net position unrestricted increased \$2,773,039 from \$21,119,859 as of June 30, 2012, to \$23,892,898 as of June 30, 2013.

# Hoxworth Blood Center

## Management's Discussion and Analysis

### June 30, 2014 and 2013

#### **Statement of Cash Flows**

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cash received from operations	\$ 48,430,364	\$ 46,958,491	\$ 42,227,115
Cash expended for operations	<u>46,784,617</u>	<u>43,510,127</u>	<u>39,920,908</u>
Net cash provided by operating activities	1,645,747	3,448,364	2,306,207
Net cash provided by noncapital financing activities	52,081	299,770	28,106
Net cash used for capital and related financing activities	(1,657,759)	(1,013,674)	(1,108,239)
Cash provided by investing activities	<u>1,001,113</u>	<u>495,145</u>	<u>5,223</u>
Net increase in cash and cash equivalents	<u>\$ 1,041,182</u>	<u>\$ 3,229,605</u>	<u>\$ 1,231,297</u>

#### **Cash Flows**

For the year ended June 30, 2014, cash and cash equivalents increased \$1,041,182. Cash provided by operations was \$1,645,747 and consisted primarily of cash received from customers offset by cash paid to suppliers and employees. Cash provided by noncapital financing activities was primarily from contributions and the establishment of a research endowment fund. Cash used for capital and financing activities was \$1,657,759 and consisted of cash paid for capital purchases. A fair value adjustment gain of \$394,885 and cash received from interest on investments of \$606,228 provided a net investment gain of \$1,001,113.

For the year ended June 30, 2013, cash and cash equivalents increased \$3,229,605. Cash provided by operations was \$3,448,364 and consisted primarily of cash received from customers offset by cash paid to suppliers and employees. Cash provided by noncapital financing activities was primarily from increased contributions. Cash used for capital and financing activities was \$1,013,674 and consisted of cash paid for capital purchases. A fair value adjustment gain of \$159,285 and cash received from interest on investments of \$335,860 provided a net investment gain of \$495,145.

#### **Economic Factors Affecting the Future**

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

**Hoxworth Blood Center**  
**Statements of Net Position**  
**June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 21,858,909	\$ 20,817,727
Accounts receivable — net of allowance for doubtful accounts of approximately \$151,800 and \$152,500 at June 30, 2014 and 2013, respectively	6,781,423	6,136,494
Inventories	1,547,481	1,263,743
Prepaid expenses and other assets	96,775	110,472
Total current assets	30,284,588	28,328,436
<b>CAPITAL ASSETS</b>		
Land	816,197	816,197
Building	15,068,383	15,068,383
Furniture and equipment	15,571,694	14,507,938
Leashold improvements	1,361,603	1,318,806
Construction in progress	464,666	-
Total capital assets	33,282,543	31,711,324
Less accumulated depreciation	21,215,283	19,865,263
Capital assets — net	12,067,260	11,846,061
<b>OTHER ASSETS</b>		
Deposit with trustees for self-insurance	155,302	132,641
Other	52,698	-
Total other assets	208,000	132,641
<b>TOTAL ASSETS</b>	<b>42,559,848</b>	<b>40,307,138</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	2,430,334	2,246,561
Accrued salaries and benefits	2,122,033	2,126,793
Self-insurance liability	131,612	112,407
Unearned revenue	-	59,757
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,683,979</b>	<b>4,545,518</b>
<b>NET POSITION</b>		
Net investment in capital assets	12,067,260	11,846,061
Restricted — expendable	32,423	22,661
Unrestricted	25,776,186	23,892,898
<b>TOTAL NET POSITION</b>	<b>\$ 37,875,869</b>	<b>\$ 35,761,620</b>



**Hoxworth Blood Center**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>OPERATING REVENUES</b>		
Patient and community service	\$ 48,830,973	\$ 46,119,750
Other	307,694	813,237
Total operating revenues	49,138,667	46,932,987
<b>OPERATING EXPENSES</b>		
Salaries and employee benefits	21,728,860	20,819,227
Routine supplies and facility maintenance	19,438,158	18,233,820
Blood component inventory support	1,512,645	998,658
General and administrative	4,014,087	3,889,474
Depreciation	1,436,560	1,414,791
Total operating expenses	48,130,310	45,355,970
<b>OPERATING INCOME</b>	1,008,357	1,577,017
<b>NONOPERATING REVENUES</b>		
Net increase in the fair value of cash equivalents	394,885	159,285
Interest income	606,228	335,860
Other	104,779	306,572
Total nonoperating revenues	1,105,892	801,717
<b>INCREASE IN NET POSITION</b>	2,114,249	2,378,734
<b>NET POSITION</b>		
Beginning of year	35,761,620	33,382,886
End of year	\$ 37,875,869	\$ 35,761,620

**Hoxworth Blood Center**  
**Statements of Cash Flows**  
**Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
CASH FLOWS FROM OPERATING ACTIVITIES —		
Cash received from customers	\$ 48,186,044	\$ 46,271,502
Cash payments to suppliers for goods and services	(25,050,997)	(22,976,726)
Cash payments to employees for services	(21,733,620)	(20,533,401)
Other operating revenues	244,320	686,989
	<u>1,645,747</u>	<u>3,448,364</u>
Net cash provided by operating activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES —		
Increase in research endowment fund	(52,698)	-
Contributions received	104,779	299,770
	<u>52,081</u>	<u>299,770</u>
Net cash provided by noncapital financing activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES — Acquisition and construction of capital assets	<u>(1,657,759)</u>	<u>(1,013,674)</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES — Interest income and gain from investment in cash and cash equivalents	<u>1,001,113</u>	<u>495,145</u>
INCREASE IN CASH AND CASH EQUIVALENTS	1,041,182	3,229,605
CASH AND CASH EQUIVALENTS — Beginning of year	<u>20,817,727</u>	<u>17,588,122</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 21,858,909</u>	<u>\$ 20,817,727</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES —		
Operating income	\$ 1,008,357	\$ 1,577,017
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,436,560	1,414,791
Changes in assets and liabilities:		
Accounts receivable	(644,929)	258,873
Inventories	(283,738)	(153,012)
Accrued salaries and benefits	(4,760)	285,826
Prepaid expenses and other assets	13,697	32,221
Unearned revenue	(59,757)	(122,640)
Accounts payable	183,773	158,896
Self-insurance	(3,456)	(3,608)
	<u>1,645,747</u>	<u>3,448,364</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,645,747</u>	<u>\$ 3,448,364</u>
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	<u>\$ 52,300</u>	<u>\$ 10,924</u>

# Hoxworth Blood Center

## Notes to Financial Statements

### June 30, 2014 and 2013

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

##### ***Nature of Operations***

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

Approximately 42% of Hoxworth’s labor force is covered under a collective bargaining agreement that expired in January 2014. A new agreement is currently being negotiated.

##### ***Basis of Accounting and Presentation***

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by GASB. Hoxworth reports as a special purpose government engaged primarily in business type activities (BTA), as defined by GASB, on the accrual basis. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods and services. In accordance with BTA reporting, Hoxworth presents Management’s Discussion and Analysis, Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, and Notes to the Financial Statements.

##### ***Estimates***

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

##### ***Cash and Cash Equivalents***

Hoxworth presents its unrestricted portion of the University’s pooled cash account as cash and cash equivalents. In addition, Hoxworth maintains an unrestricted quasi-endowment fund consisting of cash and cash equivalents and marketable securities amounting to \$9,983,457 and \$4,455,219 at June 30, 2014 and 2013, respectively, in the University’s pooled investment account. The University’s pooled investment 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.

Investment income consists of interest and dividend income and the net change for the year in the fair value of the quasi-endowment fund.

# Hoxworth Blood Center

## Notes to Financial Statements

### June 30, 2014 and 2013

#### ***Accounts Receivable***

Accounts receivable are stated at the amount billed to customers plus any accrued and unpaid interest. Hoxworth provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

#### ***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 (FIFO) method.

#### ***Capital Assets***

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

#### ***Compensated Absences***

University policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

#### ***Unearned Revenue***

Unearned revenue includes the amounts received from grant sponsors that have not yet been earned under the terms of the agreement. Hoxworth recognizes such amounts into revenue in the fiscal year when these services are provided.

# Hoxworth Blood Center

## Notes to Financial Statements

### June 30, 2014 and 2013

#### ***Net Position***

Hoxworth's financial resources are classified for accounting and reporting purposes into the following three net position categories:

- Net Investment in Capital Assets: Capital assets, net of accumulated depreciation.
- Restricted purposes:
  - Expendable – The net position whose use by the Hoxworth is subject to externally-imposed restrictions that can be fulfilled by actions of the Hoxworth pursuant to those restrictions or that expire by the passage of time are classified as expendable net position. Such assets include noncapital assets that must be used for bone marrow registry testing and assets held for self-insurance arrangements.
- Unrestricted: The remaining net position that is neither the net invested in capital assets or restricted for expendable purposes. Hoxworth's unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

#### ***Revenue Recognition***

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

#### ***Contributed Services***

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

#### ***Income Taxes***

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

#### ***Reclassifications***

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on the change in net position.

**Hoxworth Blood Center**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Note 2: Deposits and Investments**

The fair value of deposits and investments, by type, at June 30, 2014 and 2013 are as follows:

	<b>2014</b>	<b>2013</b>
Cash on deposit with the University of Cincinnati	\$ 11,875,452	\$ 16,362,508
Investment in University of Cincinnati pooled endowment fund	9,983,457	4,455,219
Total	\$ 21,858,909	\$ 20,817,727

Because the Center has immediate access to these deposits and investments, all amounts are classified as cash and cash equivalents in the Center's Statement of Net Position.

***Endowment Investments***

Diversification is a fundamental risk management strategy for the endowment portfolio. Accordingly, the portfolio includes investments in domestic and non-U.S. stocks, bonds and loans; real estate; and limited partnerships for investments in real estate, private equity, and hedge funds. The approved asset mix may range from 70% to 90% variable investments and 10% to 30% fixed income investments, at any one time, at the discretion of the University's investment committee.

The University has an established set of endowment investment guidelines for alternative investments related to targeted asset allocation and allowable ranges. The maximum allowable percentages the portfolio can hold for alternative investments is: private real estate 3%, private equity including natural resources 17%, and hedge funds 20%. The University's investment committee has established the target allocations at the maximum allowable percentages.

Effective June 1, 2009, Ohio's version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) replaced the Ohio Uniform Management of Institutional Funds Act. UPMIFA provides statutory rules for the management and investment of endowment funds owned and controlled by charitable institutions. The University's endowment policies are governed and authorized under University rules and are structured to meet or exceed UPMIFA requirements.

***Off-Balance-Sheet Risk***

The University's investment strategy incorporates certain financial instruments which involve, to varying degrees, elements of risk in excess of amounts reported on the financial statements. These risks include interest rate, credit and custodial. Policies established by the University have been developed to balance the University's exposure to risk while maximizing investment returns.

**Hoxworth Blood Center**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

***Interest Rate Risk***

Interest rate risk is the risk an investment portfolio may face should rate variances affect the fair value of investments. The University's investment policy minimizes the risk of the loss of value due to changing interest rates through the use of target durations. University investment policy stipulates that the weighted average maturity of investments in the temporary investment pool and endowment portfolio will not exceed six years and 20 years, respectively.

***Credit Risk***

Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. The University's risk of loss in the event of counterparty default is typically limited to the amounts reported on the Statement of Net Position and is not represented by the contract or notional amounts of the instruments. In accordance with the University's investment policy, the University's bond and other fixed income investments are rated by nationally recognized rating organizations.

***Custodial Credit Risk***

Custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, a government entity will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the University's \$1,080,531,000 total investments, endowment investments of \$536,340,000 and Treasury Inflation Protected investments of \$495,310,000 are subject to custodial credit risk. These investments are uninsured, not registered in the name of the University, and are held by a counterparty or a counterparty's trust departments or agent but not in the University's name. The University does not have a policy for custodial credit risk.

**Note 3: Concentrations and Credit Risk**

In the normal course of business, Hoxworth extends credit to various area hospitals. At June 30, 2014, three hospital groups accounted for approximately 34%, 19%, and 17%, respectively, of accounts receivable. At June 30, 2013, three hospital groups accounted for approximately 29%, 21%, and 19%, respectively, of accounts receivable. Annual revenues recorded for these hospitals are consistent with the percentages listed above.

**Note 4: Inventories**

Inventories at June 30, 2014 and 2013, consist of the following:

	<u>2014</u>	<u>2013</u>
Blood components	\$ 535,100	\$ 660,879
Blood bags and accessories	860,864	474,106
Other supplies	<u>151,517</u>	<u>128,758</u>
Total	<u>\$ 1,547,481</u>	<u>\$ 1,263,743</u>

**Hoxworth Blood Center**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Note 5: Capital Assets**

Capital asset activity for the years ended June 30, 2014 and 2013, was as follows:

	<b>Balance July 1, 2013</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance June 30, 2014</b>
Land	\$ 816,197	\$ -	\$ -	\$ 816,197
Buildings	15,068,383	-	-	15,068,383
Furniture and equipment	14,507,938	1,150,296	86,540	15,571,694
Leasehold improvements	1,318,806	42,797	-	1,361,603
Construction in progress	-	464,666	-	464,666
<b>Total</b>	<b>31,711,324</b>	<b>1,657,759</b>	<b>86,540</b>	<b>33,282,543</b>
Less accumulated depreciation:				
Buildings	7,674,080	412,280	-	8,086,360
Furniture and equipment	11,294,928	877,716	86,540	12,086,104
Leasehold improvements	896,255	146,564	-	1,042,819
	<b>19,865,263</b>	<b>1,436,560</b>	<b>86,540</b>	<b>21,215,283</b>
Capital assets — net	<b>\$ 11,846,061</b>	<b>\$ 221,199</b>	<b>\$ -</b>	<b>\$ 12,067,260</b>
	<b>Balance July 1, 2012</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance June 30, 2013</b>
Land	\$ 816,197	\$ -	\$ -	\$ 816,197
Buildings	15,068,383	-	-	15,068,383
Furniture and equipment	14,012,760	730,417	235,239	14,507,938
Leasehold improvements	1,002,806	316,000	-	1,318,806
<b>Total</b>	<b>30,900,146</b>	<b>1,046,417</b>	<b>235,239</b>	<b>31,711,324</b>
Less accumulated depreciation:				
Buildings	7,250,526	423,554	-	7,674,080
Furniture and equipment	10,604,147	900,079	209,298	11,294,928
Leasehold improvements	805,097	91,158	-	896,255
	<b>18,659,770</b>	<b>1,414,791</b>	<b>209,298</b>	<b>19,865,263</b>
Capital assets — net	<b>\$ 12,240,376</b>	<b>\$ (368,374)</b>	<b>\$ 25,941</b>	<b>\$ 11,846,061</b>



**Hoxworth Blood Center**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Note 6: Operating Leases**

Hoxworth is obligated under a number of operating leases, principally for neighborhood donor centers, expiring at various dates through 2021. Total operating lease expense under noncancelable leases was approximately \$769,000 and \$692,000 in 2014 and 2013, respectively.

At June 30, 2014, estimated future lease payments under noncancelable leases are as follows:

2015	\$	622,000
2016		473,000
2017		283,000
2018		269,000
2019		221,000
Thereafter		272,000
 Total	 \$	 <u><u>2,140,000</u></u>

**Note 7: Related Party Transactions**

The relationship between Hoxworth and the University requires that common resources, such as facilities, computing services, insurance, and other administrative services, be shared at a cost to Hoxworth. In 2014 and 2013, costs for such resources, including indirect overhead charges from the University, were approximately \$1,451,000 and \$1,574,000, 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 \$11,875,452 and \$16,362,508 at June 30, 2014 and 2013, respectively, and is included in cash and cash equivalents in the accompanying statements of net position. Interest of \$127,772 in 2014 and \$21,134 in 2013 was earned by Hoxworth on the pooled cash account. In addition, the University maintains a quasi-endowment fund for Hoxworth. As disclosed in Note 1, this quasi-endowment fund consisted of cash, cash equivalents, and marketable securities amounting to \$9,983,457 and \$4,455,219 at June 30, 2014 and 2013, respectively. The fair value adjustment gain on this fund was approximately \$391,000 for the year ended June 30, 2014. The fair value adjustment gain on this fund was approximately \$156,000 for the year ended June 30, 2013. The fund also had interest income of approximately \$465,000 and \$306,000 for the years ended June 30, 2014 and 2013, respectively.

# Hoxworth Blood Center

## Notes to Financial Statements

### June 30, 2014 and 2013

#### **Note 8: Risk Management and Self-Insurance Funds**

The University is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. Settled claims have not exceeded commercial coverage in any of the three preceding years. The state of Ohio self-insures workers' compensation benefits for all state employees, including University employees. Workers' compensation claims are administered by CareWorks.

The University provides for medical professional and general liability insurance through a combination of an actuarially funded self-insurance program sponsored by the University and has purchased commercial insurance in excess of the self-insurance amount. The medical professional liability insurance program also includes Hoxworth and qualified not-for-profit physician practice corporations, largely subsumed into University of Cincinnati Physicians, Inc. Medical professional self-insurance limits were \$4 million per occurrence for 2014. An additional \$30 million in commercial excess professional liability insurance was provided above the self-insured retention.

The University's self-insurance program is based on calculations by independent actuaries and funds are deposited directly into two irrevocable self-insurance trust funds, one for medical and professional liability and one for general liability. In the opinion of management, trust assets totaling approximately \$24,788,000 are adequate to cover estimated liabilities resulting from known claims and incidents and incurred-but-not-reported incidents as of June 30, 2014 for the University, Hoxworth and University of Cincinnati Physicians, Inc. Trust assets recorded on the University's financial report total \$4,106,000 included in current portion of other assets and liabilities of \$739,000 included in accrued liabilities in the Statement of Net Position as of June 30, 2014. Amounts paid by Hoxworth to the University for medical professional and general liability coverage, including its allocated share of commercial insurance premiums and trust fund contributions, are included in the overhead charges from the University discussed in Note 6.

General liability coverage is also provided as part of a group insurance program of Ohio state universities known as the Inter-University Council of Ohio Insurance Consortium (IUC-IC). This program provided for \$10 million retention per occurrence with the first \$100,000 funded by UC, \$900,000 funded by pooled funds held through the IUC-IC and \$9 million reinsured through a commercial reinsurance agreement. Excess commercial coverage for general liability was provided with total limits of \$50 million shared with the other participating universities. In addition, educators' legal liability coverage was provided through the IUC-IC program with \$35 million in total limits also shared among the participating institutions. The IUC-IC self-insurance pools are funded by an agreed formula among the participating universities. This program qualifies as a public entity risk pool as defined by GASB standards and is classified as a risk-sharing pool. Under this arrangement, there is a transfer of risk from the University to the pool. Therefore, there is no recognition in the University's financial statements of assets or liabilities related to the IUC-IC program.

Property insurance is also provided through the IUC-IC program, consisting of commercial property insurance with a \$350,000 retention, and a self-insurance pool to fund retained losses subject to a \$100,000 University deductible. Total insurance expense paid through the IUC-IC program was \$1,591,000.

# Hoxworth Blood Center

## Notes to Financial Statements

### June 30, 2014 and 2013

The University is also self-insured for a portion of medical, dental, and pharmacy benefits provided to employees. The cost of such self-insured benefits provided during 2014 was approximately \$88,049,000. In addition, \$6,912,000 was accrued for 2014, for estimated claims incurred but not reported.

#### **Note 9: Employee Retirement Plans and Other Postemployment Benefits**

Retirement benefits are available for substantially all employees under one of several contributory retirement plans. Prior to July 1, 1977, when the University became a state institution, employees were covered by either the City of Cincinnati Retirement System (CRS) or the Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). Certified teachers appointed on or after July 1, 1977, are covered by the State Teachers Retirement System (STRS Ohio). Non-certified employees appointed on or after that date are covered by the Ohio Public Employees Retirement System (OPERS). Employees may opt out of STRS Ohio and OPERS and participate in the Alternative Retirement Plan (ARP) if they meet certain eligibility requirements.

STRS Ohio and OPERS are statewide systems that offer three separate plans: (1) a defined benefit plan, (2) a defined contribution plan, and (3) a combined plan. Each of the three options is discussed in greater detail in the following sections.

#### ***Defined Benefit Plans***

The OPERS and STRS Ohio plans are cost-sharing, multiple-employer, defined-benefit, public-employee retirement systems. Each provides retirement, disability, and survivor 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.

OPERS provides postemployment health care benefits to retirees with ten or more years of qualifying Ohio service credit under the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. The plan benefits include a medical plan, prescription drug program and Medicare Part B premium reimbursement. The Ohio Revised Code permits, but does not mandate, OPERS to provide Other Post Employment Benefits (OPEB) to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to Chapter 3307 of the Ohio Revised Code, STRS Ohio has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of monthly premiums.

# **Hoxworth Blood Center**

## **Notes to Financial Statements**

### **June 30, 2014 and 2013**

Both plans issue separate, publicly available financial reports that include financial statements and required supplementary information. These reports may be obtained by contacting each organization as follows:

OPERS  
277 East Town Street, Columbus, Ohio 43215-4642  
Telephone (800) 222-7377  
[www.opers.org](http://www.opers.org)

STRS Ohio  
275 East Broad Street, Columbus, Ohio 43215-3771  
Telephone (888) 227-7877  
[www.strsoh.org](http://www.strsoh.org)

#### ***Defined Contribution Plans***

On June 23, 1998, pursuant to Ohio House Bill 586, the University created an Ohio Alternative Retirement Plan (ARP), which is designed to aid the University in recruiting and retaining employees by offering a portable retirement option. The ARP is a defined contribution plan that provides full and immediate vesting of all contributions made on behalf of the participant. Contributions are directed to one of eight investment management companies, which allow the participant to manage the investment of all retirement funds. New employees who qualify for the ARP have 120 days from the date of hire to elect the ARP option. Once this window has passed, the employee will not have the option to elect into the ARP. ARP does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

At June 30, 2014, there were 2,068 members in the plan. Under the provisions of ARP, the required rate for plan participants electing out of OPERS and STRS Ohio was 10% and 11%, respectively. The employer contribution rate for participants electing out of OPERS and STRS Ohio was 14% for 2014. During 2014, 2013, and 2012, the employer contributions were \$15,953,000, \$16,174,000, and \$15,476,000, respectively. A portion of the employer contribution rate for those employees that elect to participate in the ARP is directed to the unfunded liability accounts for both OPERS and STRS Ohio. The rates for fiscal year 2014 were 0.77% to OPERS and 4.5% to STRS Ohio. The employer contributions to the OPERS unfunded liability account during 2014, 2013, and 2012 were \$563,000, \$538,000, and \$524,000, respectively. The employer contributions to the STRS Ohio unfunded liability account during 2014, 2013, and 2012 were \$3,113,000, \$2,457,000, and \$2,292,000, respectively.

OPERS also offers a defined contribution plan, the Member-Directed Plan (MD). The MD plan does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

# Hoxworth Blood Center

## Notes to Financial Statements

### June 30, 2014 and 2013

STRS Ohio also offers a defined contribution plan in addition to its long established defined benefit plan. All employee contributions and employer contributions at a rate of 10.5% are placed in an investment account directed by the employee. Disability benefits are limited to the employee's account balance. Employees electing the defined contribution plan receive no postretirement health care benefits.

#### **Combined Plans**

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

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

#### **Funding Policy**

The Ohio Revised Code provides OPERS and STRS Ohio statutory authority over employer and employee contributions. The required actuarially determined contribution rates (as a percentage of covered payroll) for the employee and the University are as follows for the year ending June 30, 2014:

	<u>OPERS</u> <u>(staff)</u>	<u>OPERS (Law</u> <u>Enforcement</u> <u>staff)</u>	<u>STRS Ohio</u>
<u>Employee:</u>			
Entire fiscal year	10%		11%
7/13 – 12/13		12.60%	
1/14 – 6/14		13.00%	
<u>University:</u>			
Entire fiscal year	14%	18.10%	14%

The University's contributions, representing 100% of employer contributions for the year ended June 30, 2014, and for each of the two preceding years are as follows (*in thousands*):

<u>Fiscal Year</u>	<u>OPERS</u>	<u>STRS</u> <u>Ohio</u>
2014	\$21,144	\$18,040
2013	\$21,114	\$18,399
2012	\$20,897	\$17,840

# Hoxworth Blood Center

## Notes to Financial Statements

### June 30, 2014 and 2013

Hoxworth's contributions to OPERS for the years ended June 30, 2014, 2013, and 2012 were \$1,875,318, \$1,853,587, and \$1,772,078, respectively. Hoxworth's contributions to STRS Ohio for the years ended June 30, 2014, 2013, and 2012 were \$184,413, \$180,329, and \$166,868, respectively.

OPERS Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For the calendar year ended December 31, 2013, OPERS allocated 1.0% of the employer contribution rate to fund the health care program for members in both the Traditional Plan and Combined Plan. Effective January 1, 2014, the portion of employer contributions allocated to healthcare was raised to 2.0% for both plans. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. University employer contributions to OPERS to fund OPEB for 2014, 2013, and 2012 were approximately \$1,550,000, \$6,026,000, and \$6,115,000 respectively.

For the fiscal year ended June 30, 2014, STRS Ohio allocated employer contributions equal to 1.0% covered payroll to a Health Care Stabilization Fund from which payments for health care benefits are paid. University employer contributions to STRS Ohio to fund OPEB for 2014, 2013, and 2012 were approximately \$1,511,000, \$1,350,000, and \$1,274,000, respectively.

#### **Note 10: Future Change in Accounting Principle**

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, to establish new accounting and financial requirements for pension plans provided by the University to its employees. University employees participate in cost-sharing multiple employer plans, which are within the scope of this Statement. This Statement will require the University to recognize a net pension liability (or asset), pension expense, and pension-related deferred inflows and outflows of resources based on the University's proportionate share of collective amounts for all participating employers in the plans. The requirements of this Statement are for periods beginning after June 15, 2014. Hoxworth will recognize its pro-rata share of these liabilities upon implementation of this standard. Management believes there will be a significant impact on the financial statements related to the implementation of this Statement, but is still evaluating the overall effect.

## **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With Government Auditing Standards**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of Hoxworth Blood Center (“Hoxworth”), which comprise the statements of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 10, 2014.

### ***Internal Control Over Financial Reporting***

Management of Hoxworth is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered Hoxworth’s internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hoxworth’s internal control. Accordingly, we do not express an opinion on the effectiveness of Hoxworth’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization’s financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Hoxworth's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the Hoxworth's management in a separate letter dated October 10, 2014.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hoxworth's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*BKD, LLP*

Cincinnati, Ohio  
October 10, 2014





# Dave Yost • Auditor of State

**HOXWORTH BLOOD CENTER**

**HAMILTON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 18, 2014**