

Hoxworth Blood Center

Independent Auditor's Reports and Financial Statements

June 30, 2015 and 2014





Dave Yost • Auditor of State

Members of the Board
Hoxworth Blood Center
PO Box 670055
3130 Highland Avenue
Cincinnati, Ohio 45267

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, 2014 through June 30, 2015. 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 black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 8, 2015

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Hoxworth Blood Center
June 30, 2015 and 2014

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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 ("University"), which are comprised of the statements of net position as of June 30, 2015 and 2014, 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, 2015 and 2014, 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 Blood Center as of June 30, 2015 and 2014, 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* to the financial statements, the financial statements of Hoxworth are intended to present the net position, changes in net position and cash flows of only that portion of the business-type activities of the University that is attributable to the transactions of Hoxworth. They do not purport to, and do not, present fairly the net position of the University as of June 30, 2015 and 2014, 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.

As discussed in *Note 1* to the financial statements, in 2015 Hoxworth adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. 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 and pension 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 13, 2015 on our consideration of 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 13, 2015

Hoxworth Blood Center

Management's Discussion and Analysis

June 30, 2015 and 2014

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 30 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 hospitals and other users 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 78,844 in fiscal year 2015, 87,086 in fiscal year 2014, and 91,580 in fiscal year 2013.

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, 2015, with total assets of \$40,783,517 and liabilities of \$16,194,300. Net position, which represents the residual interest in Hoxworth's assets after liabilities are deducted, decreased by \$11,881,739 to \$25,994,130 primarily due to adoption of new governmental accounting standards for reporting pensions which is discussed in *Note 1*.

Hoxworth Blood Center
Management's Discussion and Analysis
June 30, 2015 and 2014

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:

	2015	2014	2013
OPERATING REVENUES:			
Patient and community service	\$ 44,026,414	\$ 48,830,973	\$ 46,119,750
Other	1,117,208	307,694	813,237
Total operating revenues	<u>45,143,622</u>	<u>49,138,667</u>	<u>46,932,987</u>
OPERATING EXPENSES:			
Salaries and employee benefits	21,647,301	21,728,860	20,819,227
Routine supplies and facility maintenance	17,866,193	19,438,158	18,233,820
Blood component inventory support	1,762,461	1,512,645	998,658
General and administrative	3,506,545	4,014,087	3,889,474
Depreciation	1,465,823	1,436,560	1,414,791
Total operating expenses	<u>46,248,323</u>	<u>48,130,310</u>	<u>45,355,970</u>
OPERATING INCOME (LOSS)	<u>(1,104,701)</u>	<u>1,008,357</u>	<u>1,577,017</u>
NONOPERATING REVENUES (EXPENSES):			
Net increase (decrease) in fair value of cash equivalents	(451,601)	394,885	159,285
Interest income	576,629	606,228	335,860
Other	66,501	104,779	306,572
Total nonoperating revenues	<u>191,529</u>	<u>1,105,892</u>	<u>801,717</u>
INCREASE (DECREASE) IN NET POSITION	<u>(913,172)</u>	<u>2,114,249</u>	<u>2,378,734</u>
NET POSITION, beginning of year	37,875,869	35,761,620	33,382,886
Cumulative effect of change in accounting principle	(10,968,567)	-	-
NET POSITION, beginning of year, as restated	<u>26,907,302</u>	<u>35,761,620</u>	<u>33,382,886</u>
NET POSITION, end of year	<u>\$ 25,994,130</u>	<u>\$ 37,875,869</u>	<u>\$ 35,761,620</u>

Hoxworth Blood Center

Management's Discussion and Analysis

June 30, 2015 and 2014

Operating Revenues

Operating revenues decreased from \$49,138,667 for the year ended June 30, 2014 to \$45,143,622 for the year ended June 30, 2015. This decrease of \$3,995,045 or 8.1% is attributable to several factors. Blood and Blood Components revenue decreased by \$2,231,253, or 7.5% for the year ended June 30, 2015. The current economic environment faced by hospitals and a need for better patient blood management has decreased the demand for blood components. Medical advances have contributed to a lower need for transfusions during and after surgery. These impacts have negatively affected blood centers nationally and impacted Hoxworth locally. Transplantation Immunology decreased revenue by \$2,434,016 or 32.4% due to the loss of the Diagnostic Laboratories of Oklahoma and also a decrease in demand locally. Therapeutic Apheresis decreased \$543,423 or 8.1%. This is due to a drop in demand for Photopheresis procedures for Children's and Jewish hospitals. Other Operating revenue increased by \$809,514 due to an increase in research revenue.

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 Expenses

Operating expenses decreased by \$1,881,987 or 3.9%, from \$48,130,310 for the year ended June 30, 2014, to \$46,248,323 for the year ended June 30, 2015. Salaries and employee benefits decreased \$81,559, or 0.4% due to a decrease in overall full time equivalents. Routine supplies and facilities maintenance decreased \$1,571,965, or 8.1% due to a decrease in testing expenses, blood bags, blood & medical supplies, antisera & reagents, and overall volume decreases. Blood component inventory support increased \$249,816, or 16.5% due to an increase in the need for imported blood. General and administrative expenses decreased \$507,542, or 12.6% due to a decrease in blood transportation, the blood inventory expense account, advertising, and computing 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.

Hoxworth Blood Center

Management's Discussion and Analysis

June 30, 2015 and 2014

Nonoperating Revenues and Expenses

The fair value adjustment loss on our quasi-endowment fund in 2015 was \$451,601 compared to a fair value adjustment gain of \$394,885 in 2014. The decrease in the fair value adjustment relates to unfavorable 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 decreased \$29,599 due to market performance fluctuations. Other nonoperating revenue decreased \$38,278.

In 2014, the fair value adjustment gain on our quasi-endowment fund 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.

Increase in Net Position

For the year ended June 30, 2015, our net position decreased \$913,172 before the addition of the cumulative effect of change in accounting principle of \$10,968,567 due to the adoption of new governmental accounting standards for reporting pensions which is discussed in *Note 1*. The decrease in net position is compared to the increase in net position of \$2,114,249 for the year ended June 30, 2014. Net position increased \$2,378,734 for the year ended June 30, 2013.

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. 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>2015</u>	<u>2014</u>	<u>2013</u>
Current assets	\$ 28,259,831	\$ 30,284,588	\$ 28,328,436
Noncurrent assets - net	12,523,686	12,275,260	11,978,702
Total assets	40,783,517	42,559,848	40,307,138
Deferred outflows of resources	1,634,133	-	-
Total assets and deferred outflows of resources	42,417,650	42,559,848	40,307,138
Total liabilities	16,194,300	4,683,979	4,545,518
Deferred inflows of resources	229,220	-	-
Total net position	<u>\$ 25,994,130</u>	<u>\$ 37,875,869</u>	<u>\$ 35,761,620</u>

Hoxworth Blood Center

Management's Discussion and Analysis

June 30, 2015 and 2014

Assets

Total assets of the organization decreased \$1,776,331 to \$40,783,517 as of June 30, 2015, from \$42,559,848 as of June 30, 2014. Current assets decreased \$2,024,757, from \$30,284,588 as of June 30, 2014, to \$28,259,831 as of June 30, 2015. Cash and cash equivalents decreased \$1,162,798, from \$21,858,909 as of June 30, 2014, to \$20,696,111 as of June 30, 2015. The decrease in cash is explained in the discussion of cash flows below. Net accounts receivable decreased \$883,166, due to less revenue being generated and the timing of payments.

In 2014, 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.

Capital Assets

Capital assets, net, increased \$238,633, from \$12,067,260 as of June 30, 2014, to \$12,305,893 as of June 30, 2015. This increase is the result of capital purchases being more than depreciation expense during the year. Capital purchases in 2015 were \$1,704,456. Significant capital purchases made during fiscal year 2015 include a new irradiator, equipment for our Transplantation Immunology and Components laboratories, and furniture and build-out for our new downtown neighborhood donor center.

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.

Liabilities

Total liabilities increased \$11,510,321, to \$16,194,300 as of June 30, 2015, primarily as a result of the adoption of new governmental accounting standards for reporting pensions which is discussed in *Note 1*. Total liabilities increased \$138,461, to \$4,683,979 as of June 30, 2014 due to the timing of payments to vendors. As of June 30, 2013, total liabilities were \$4,545,518.

Hoxworth Blood Center
Management's Discussion and Analysis
June 30, 2015 and 2014

Net Position

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net investment in capital assets	\$ 12,305,893	\$ 12,067,260	\$ 11,846,061
Restricted-expendable	29,073	32,423	22,661
Unrestricted	<u>13,659,164</u>	<u>25,776,186</u>	<u>23,892,898</u>
 Total net position	 <u>\$ 25,994,130</u>	 <u>\$ 37,875,869</u>	 <u>\$ 35,761,620</u>

Investment in capital assets, net of depreciation and related debt, increased \$238,633 from \$12,067,260 as of June 30, 2014, to \$12,305,893 as of June 30, 2015. This increase is due to capital asset purchases of \$1,704,456. Net position restricted-expendable was \$32,423 at June 30, 2014 and \$29,073 at June 30, 2015. Net position unrestricted decreased \$12,117,022 from \$25,776,186 as of June 30, 2014, to \$13,659,164 as of June 30, 2015 as a result of the adoption of new governmental accounting standards for reporting pensions which is discussed in *Note 1*.

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.

Hoxworth Blood Center

Management's Discussion and Analysis

June 30, 2015 and 2014

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>2015</u>	<u>2014</u>	<u>2013</u>
Cash received from operations	\$ 46,026,788	\$ 48,430,364	\$ 46,958,491
Cash expended for operations	<u>45,677,472</u>	<u>46,784,617</u>	<u>43,510,127</u>
Net cash provided by operating activities	349,316	1,645,747	3,448,364
Net cash provided by noncapital financing activities	67,314	52,081	299,770
Net cash used for capital and related financing activities	(1,704,456)	(1,657,759)	(1,013,674)
Cash provided by investing activities	<u>125,028</u>	<u>1,001,113</u>	<u>495,145</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ (1,162,798)</u>	<u>\$ 1,041,182</u>	<u>\$ 3,229,605</u>

Cash Flows

For the year ended June 30, 2015, cash and cash equivalents decreased \$1,162,798. Cash provided by operations was \$349,316 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. Cash used for capital and financing activities was \$1,704,456 and consisted of cash paid for capital purchases. A fair value adjustment loss of \$451,601 and cash received from interest on investments of \$576,629 provided a net investment gain of \$125,028.

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.

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. In addition, Hoxworth Blood Center experienced a decrease in demand for our products and services during the year ended June 30, 2015. If this trend were to continue, the financial impact could be significant.

Hoxworth Blood Center
Statements of Net Position
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 20,696,111	\$ 21,858,909
Accounts receivable — net of allowance for doubtful accounts of approximately \$44,600 and \$151,800 at June 30, 2015 and 2014, respectively	5,898,257	6,781,423
Inventories	1,661,603	1,547,481
Prepaid expenses and other assets	<u>3,860</u>	<u>96,775</u>
Total current assets	<u>28,259,831</u>	<u>30,284,588</u>
CAPITAL ASSETS		
Land	816,197	816,197
Building	15,068,383	15,068,383
Furniture and equipment	16,871,978	15,571,694
Leashold improvements	1,457,386	1,361,603
Construction in progress	<u>519,348</u>	<u>464,666</u>
Total capital assets	34,733,292	33,282,543
Less accumulated depreciation	<u>22,427,399</u>	<u>21,215,283</u>
Capital assets — net	<u>12,305,893</u>	<u>12,067,260</u>
OTHER ASSETS		
Deposit with trustees for self-insurance	151,030	155,302
Other	<u>66,763</u>	<u>52,698</u>
Total other assets	<u>217,793</u>	<u>208,000</u>
TOTAL ASSETS	<u>40,783,517</u>	<u>42,559,848</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>1,634,133</u>	<u>-</u>
CURRENT LIABILITIES		
Accounts payable	2,003,011	2,430,334
Accrued salaries and benefits	1,922,790	2,122,033
Self-insurance liability	<u>127,992</u>	<u>131,612</u>
TOTAL CURRENT LIABILITIES	<u>4,053,793</u>	<u>4,683,979</u>
NET PENSION LIABILITY	<u>12,140,507</u>	<u>-</u>
TOTAL LIABILITIES	<u>16,194,300</u>	<u>4,683,979</u>
DEFERRED INFLOWS OF RESOURCES	<u>229,220</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	12,305,893	12,067,260
Restricted — expendable	29,073	32,423
Unrestricted	<u>13,659,164</u>	<u>25,776,186</u>
TOTAL NET POSITION	<u>\$ 25,994,130</u>	<u>\$ 37,875,869</u>

Hoxworth Blood Center
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2015 and 2014

	2015	2014
OPERATING REVENUES		
Patient and community service	\$ 44,026,414	\$ 48,830,973
Other	1,117,208	307,694
Total operating revenues	45,143,622	49,138,667
OPERATING EXPENSES		
Salaries and employee benefits	21,647,301	21,728,860
Routine supplies and facility maintenance	17,866,193	19,438,158
Blood component inventory support	1,762,461	1,512,645
General and administrative	3,506,545	4,014,087
Depreciation	1,465,823	1,436,560
Total operating expenses	46,248,323	48,130,310
OPERATING INCOME (LOSS)	(1,104,701)	1,008,357
NONOPERATING REVENUES		
Net increase (decrease) in the fair value of cash equivalents	(451,601)	394,885
Interest income	576,629	606,228
Other	66,501	104,779
Total nonoperating revenues	191,529	1,105,892
INCREASE (DECREASE) IN NET POSITION	(913,172)	2,114,249
NET POSITION		
Beginning of year, as previously reported	37,875,869	35,761,620
Cumulative effect of change in accounting principle (see <i>Note 1</i>)	(10,968,567)	-
Beginning of year, as restated	26,907,302	35,761,620
End of year	\$ 25,994,130	\$ 37,875,869

Hoxworth Blood Center
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES —		
Cash received from customers	\$ 44,909,580	\$ 48,186,044
Cash payments to suppliers for goods and services	(23,597,955)	(25,050,997)
Cash payments to employees for services	(22,079,517)	(21,733,620)
Other operating revenues	1,117,208	244,320
	<u>349,316</u>	<u>1,645,747</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES —		
Increase (decrease) in research endowment fund	14,065	(52,698)
Contributions received	53,249	104,779
	<u>67,314</u>	<u>52,081</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING		
ACTIVITIES — Acquisition and construction of capital assets	<u>(1,704,456)</u>	<u>(1,657,759)</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES — Net		
investment return	<u>125,028</u>	<u>1,001,113</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,162,798)	1,041,182
CASH AND CASH EQUIVALENTS — Beginning of year	<u>21,858,909</u>	<u>20,817,727</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 20,696,111</u>	<u>\$ 21,858,909</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH		
PROVIDED BY OPERATING ACTIVITIES —		
Operating income (loss)	\$ (1,104,701)	\$ 1,008,357
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,465,823	1,436,560
Pension	(232,973)	-
Changes in assets and liabilities:		
Accounts receivable	883,166	(644,929)
Inventories	(114,122)	(283,738)
Accrued salaries and benefits	(200,056)	(4,760)
Prepaid expenses and other assets	78,850	13,697
Unearned revenue	-	(59,757)
Accounts payable	(427,323)	183,773
Self-insurance	652	(3,456)
	<u>349,316</u>	<u>1,645,747</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 349,316</u>	<u>\$ 1,645,747</u>
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	<u>\$ 3,119</u>	<u>\$ 52,300</u>

Hoxworth Blood Center

Notes to Financial Statements

June 30, 2015 and 2014

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.

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 the Governmental Accounting Standards Board. 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 \$9,694,275 and \$9,983,457 at June 30, 2015 and 2014, 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

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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 shorter of the estimated remaining period of occupancy or useful life. 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

The University's 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. University employees earn vacation and sick leave benefits on a monthly basis. All accrued compensated absences are considered a current liability. Employees hired before January 1, 2015 may accrue vacation benefits up to a maximum of three years' credit. Employees hired on or after January 1, 2015 may accrue up to a maximum of 30 days of vacation benefits. Earned but unused vacation days are payable upon termination of employment. Sick leave benefits accrue without limit; however, unused days are payable only upon retirement from the university, subject to 30- or 60-day limits depending on the employees' date of hire. The termination payment method is utilized to compute the liability for sick leave.

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

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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 investment 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.

Hoxworth Blood Center
Notes to Financial Statements
June 30, 2015 and 2014

Change in Accounting Principle

During 2015, the University adopted the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and an amendment of this statement, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements establish new accounting and financial requirements for pension plans provided by the University to its employees. The University employees participate in cost-sharing, multiple-employer plans, which are within the scope of these statements. These statements require the University to recognize a net pension liability, 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 plan. Hoxworth's portion of the University's net pension liability, pension expense, and pension related deferred inflows and outflows of resources have been recognized in the accompanying financial statements.

Adoption of these statements resulted in a cumulative effect of accounting change reduction to the beginning net position as of July 1, 2014 of approximately \$10,969,000. The decrease is attributed to recognition of a net pension liability of \$11,901,000 and deferred outflows of resources related to Hoxworth's contributions made subsequent to the measurement date of \$932,000. The prior year financial statements were not restated as a result of this change in accounting principle due to sufficient information not being available to calculate the prior year effect.

Note 2: Deposits and Investments

The fair value of deposits and investments, by type, at June 30, 2015 and 2014 are as follows:

	2015	2014
Cash on deposit with the University of Cincinnati	\$ 11,001,836	\$ 11,875,452
Investment in University of Cincinnati pooled endowment fund	9,694,275	9,983,457
Total	\$ 20,696,111	\$ 21,858,909

Because Hoxworth has immediate access to these deposits and investments, all amounts are classified as cash and cash equivalents in Hoxworth'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.

Hoxworth Blood Center

Notes to Financial Statements

June 30, 2015 and 2014

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.

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 will not exceed three years. There is no stipulation for the endowment portfolio.

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

The University does not have exposure to 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 possession of an outside party. The University's investments are held in trust or by a custodian in the University's name or directly held in the University's name.

Hoxworth Blood Center
Notes to Financial Statements
June 30, 2015 and 2014

Note 3: Concentrations and Credit Risk

In the normal course of business, Hoxworth extends credit to various area hospitals. At June 30, 2015, four hospital groups accounted for approximately 40%, 18%, 17% and 11%, respectively, of accounts receivable. At June 30, 2014, three hospital groups accounted for approximately 34%, 19%, and 17%, respectively, of accounts receivable. Annual revenues recorded for these hospitals are consistent with the percentages listed above.

Note 4: Inventories

Inventories at June 30, 2015 and 2014, consist of the following:

	2015	2014
Blood components	\$ 638,229	\$ 535,100
Blood bags and accessories	843,859	860,864
Other supplies	179,515	151,517
 Total	 \$ 1,661,603	 \$ 1,547,481

Hoxworth Blood Center
Notes to Financial Statements
June 30, 2015 and 2014

Note 5: Capital Assets

Capital asset activity for the years ended June 30, 2015 and 2014, was as follows:

	Balance July 1, 2014	Additions	Disposals	Balance June 30, 2015
Land	\$ 816,197	\$ -	\$ -	\$ 816,197
Buildings	15,068,383	-	-	15,068,383
Furniture and equipment	15,571,694	1,553,991	253,707	16,871,978
Leasehold improvements	1,361,603	95,783	-	1,457,386
Construction in progress	464,666	54,682	-	519,348
Total	<u>33,282,543</u>	<u>1,704,456</u>	<u>253,707</u>	<u>34,733,292</u>
Less accumulated depreciation:				
Buildings	8,086,360	395,201	-	8,481,561
Furniture and equipment	12,086,104	917,092	253,707	12,749,489
Leasehold improvements	1,042,819	153,530	-	1,196,349
Total	<u>21,215,283</u>	<u>1,465,823</u>	<u>253,707</u>	<u>22,427,399</u>
Capital assets — net	<u>\$ 12,067,260</u>	<u>\$ 238,633</u>	<u>\$ -</u>	<u>\$ 12,305,893</u>
	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
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
Total	<u>31,711,324</u>	<u>1,657,759</u>	<u>86,540</u>	<u>33,282,543</u>
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
Total	<u>19,865,263</u>	<u>1,436,560</u>	<u>86,540</u>	<u>21,215,283</u>
Capital assets — net	<u>\$ 11,846,061</u>	<u>\$ 221,199</u>	<u>\$ -</u>	<u>\$ 12,067,260</u>

Hoxworth Blood Center
Notes to Financial Statements
June 30, 2015 and 2014

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 \$784,000 and \$769,000 in 2015 and 2014, respectively.

At June 30, 2015, estimated future lease payments under noncancelable leases are as follows:

2016	\$	656,000
2017		462,000
2018		365,000
2019		317,000
2020		281,000
2021		360,000
Total	\$	2,441,000

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 2015 and 2014, costs for such resources, including indirect overhead charges from the University, were approximately \$1,487,000 and \$1,451,000, 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 \$11,001,836 and \$11,875,452 at June 30, 2015 and 2014, respectively, and is included in cash and cash equivalents in the accompanying statements of net position. Interest of \$39,059 in 2015 and \$127,772 in 2014 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 \$9,694,275 and \$9,983,457 at June 30, 2015 and 2014, respectively. The fair value adjustment loss on this fund was approximately \$438,000 for the year ended June 30, 2015. The fair value adjustment gain on this fund was approximately \$391,000 for the year ended June 30, 2014. The fund also had interest income of approximately \$532,000 and \$465,000 for the years ended June 30, 2015 and 2014, respectively.

Hoxworth Blood Center

Notes to Financial Statements

June 30, 2015 and 2014

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 2015. 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 \$25,218,000 are adequate to cover estimated liabilities resulting from known claims and incidents and incurred-but-not-reported incidents as of June 30, 2015 for the University, Hoxworth and University of Cincinnati Physicians, Inc. Trust assets recorded on the University's financial report total \$4,281,000 included in current portion of other assets and liabilities of \$641,000 included in accrued liabilities in the Statement of Net Position as of June 30, 2015. 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 7*.

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 the University, \$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. 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 \$1,755,000 and \$1,591,000 for the years ended June 30, 2015 and 2014, respectively.

Hoxworth Blood Center

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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 2015 and 2014, respectively, was approximately \$78,154,000 and \$88,049,000. In addition, \$5,780,000 and \$6,912,000 was accrued for 2015 and 2014, respectively, 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 three contributory retirement plans. Employees not certified as teachers are covered by the Ohio Public Employees Retirement System (OPERS). Certified teachers are covered by the State Teachers Retirement System (STRS Ohio). Employees may opt out of OPERS and STRS Ohio and participate in the Alternative Retirement Plan (ARP) if they meet certain eligibility requirements.

OPERS and STRS Ohio are cost-sharing, multi-employer statewide retirement systems each comprised of three separate plans: (1) a defined benefit plan, (2) a defined contribution plan, and (3) a combined defined benefit/defined contribution plan. Each of the three options is discussed in greater detail in the following sections. In addition to retirement benefits, the systems also provide disability, survivor and postretirement health benefits to qualifying members of the defined benefit plan, combined plan and beneficiaries. Benefits provided under the plans are established by state statute.

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

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

Benefits Provided

Plan benefits for OPERS are established under Chapter 145 of the Ohio Revised Code (ORC). Members are categorized into three groups with varying provisions of the law applicable to each group. Members who were eligible to retire on January 7, 2013 and those eligible to retire no later than five years after that date comprise transition group A. Members who have 20 years of service credit prior to January 7, 2013 or are eligible to retire no later than 10 years after January 7, 2013 are included in transition group B. Group C includes those members who are not in either of the other groups and members who were hired on or after January 7, 2013. Additionally, OPERS has three separate divisions with varying degrees of benefits: (1) state and local, (2) law enforcement and (3) public safety. The University does not have any employees included in the public safety division.

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Benefits for state and local members are calculated on the basis of age, final average salary, and service credit. State and local members in transition groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. Group C for state and local is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For group C the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. Final average salary represents the average of the three highest years of earnings over a member's career for groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefit receive a percentage reduction in the benefit amount.

Members within the law enforcement division, as defined in ORC Chapter 145, are eligible for special retirement options under the defined benefit plan and are not eligible to participate in the defined contribution plan or combined plan. Group A law enforcement officers are eligible for full retirement at age 52 or older with 15 or more years of credited service. Law enforcement group B is eligible at age 48 or older with 25 years or at age 52 or older with 15 years of service. Law enforcement group C is eligible at age 48 or older with 25 years of service or at age 56 with 15 years of service. Annual benefits are calculated by multiplying 2.5% of final average salary by the actual years of service for the first 25 years of service credit, and 2.1% of final average salary for each year of service over 25 years. These options also permit early retirement under qualifying circumstances as early as age 48 with a reduced benefit.

OPERS offers a combined 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. Eligibility requirements under the combined plan for age and years of service are identical to the defined benefit plan described earlier. The benefit formula for the defined benefit component of the plan for state and local members in transition groups A and B applies a factor of 1.0% to the member's final average salary for the first 30 years of service. A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition group C applies a factor of 1.0% to the member's final average salary and the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit

A cost-of-living adjustment is provided each year and is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

Plan benefits for STRS Ohio are established by ORC Chapter 3307. The STRS Ohio defined benefit plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by 2% of the original base benefit. For members retiring August 1, 2013 or later, the first 2% is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service

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credit, or at age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 and five years of service on August 1, 2026.

STRS Ohio also offers a combined plan that features elements of both a defined benefit and a 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. The defined benefit portion payment is payable to the member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

An annual COLA adjustment is applied to each STRS Ohio retirement allowance subsequent to the employee's retirement date. For members retired before August 1, 2013, the annual COLA adjustment is 2.0% simple per year. For members retired or retiring after August 1, 2013, the annual 2.0% simple COLA adjustment is delayed until the fifth anniversary of retirement date.

Contributions

The ORC provides OPERS and STRS Ohio statutory authority over employee and employer contributions. The required contractually determined contribution rates, respectively of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The contractually required contribution rates for the employee and the University are as follows for the year ended June 30, 2015:

	OPERS (Staff)	OPERS (Law Enforcement Staff)	STRS Ohio
Employee	10%	13.00%	12%
University	14%	18.10%	14%

For the years ended June 30, 2015 and 2014, contributions to the pension plans from the University were \$21,736,000 and \$21,144,000, respectively, for OPERS and \$18,360,000 and \$18,040,000, respectively, for STRS Ohio. Hoxworth's portion of these contributions for the years ended June 30, 2015 and 2014 was \$1,873,063 and \$1,875,318, respectively, for OPERS and \$192,684 and \$184,413, respectively, for STRS Ohio.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the University reported a liability of \$135,910,000 and \$354,398,000 for OPERS and STRS Ohio, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014 for OPERS and June 30, 2014 for STRS Ohio and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers,

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actuarially determined. At June 30, 2015, the University's proportion was 1.13% for OPERS Traditional Pension Plan, 1.44% for OPERS Combined Plan and 1.46% for STRS Ohio.

At June 30, 2015, Hoxworth reported a liability of \$12,140,507 for OPERS for its proportionate share of the University's net pension liability. Hoxworth's proportionate share of the University's net pension liability was based on Hoxworth's percentage of the University's total OPERS earned wages. Hoxworth did not report a liability for STRS Ohio at June 30, 2015 as only one employee for Hoxworth participates in the plan, and the University has recorded this liability in its financial statements, rather than allocating the liability to Hoxworth..

For the year ended June 30, 2015, the University recognized pension expense of \$15,266,000 and \$16,373,000 for OPERS and STRS Ohio, respectively. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources		
	OPERS	STRS Ohio	Total
Differences between expected and actual experience	\$ -	\$ 3,412	\$ 3,412
Net difference between projected and actual earnings on pension plan investments	7,315	-	7,315
University's contributions subsequent to the measurement date	10,979	21,810	32,789
	<u>\$ 18,294</u>	<u>\$ 25,222</u>	<u>\$ 43,516</u>

	Deferred Inflows of Resources		
	OPERS	STRS Ohio	Total
Differences between expected and actual experience	\$ 2,566	\$ -	\$ 2,566
Net difference between projected and actual earnings on pension plan investments	-	65,565	65,565
	<u>\$ 2,566</u>	<u>\$ 65,565</u>	<u>\$ 68,131</u>

At June 30, 2015, the University reported \$10,979,000 and \$21,810,000 for OPERS and STRS Ohio, respectively, as deferred outflows of resources related to pensions resulting in University contributions subsequent to the measurement date that will be used as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2015 related to pensions will be recognized in pension expense as follows (in thousands):

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	<u>OPERS</u>	<u>STRS Ohio</u>	<u>Total</u>
2016	\$ 703	\$ (15,538)	\$ (14,835)
2017	703	(15,538)	\$ (14,835)
2018	1,624	(15,538)	\$ (13,914)
2019	1,809	(15,539)	\$ (13,730)
2020	(20)	-	\$ (20)
Thereafter	(70)	-	\$ (70)
	<u>\$ 4,749</u>	<u>\$ (62,153)</u>	<u>\$ (57,404)</u>

For the year ended June 30, 2015, Hoxworth recognized pension expense of \$1,363,711 for OPERS. At June 30, 2015, Hoxworth reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Differences between expected and actual experience	\$ -	\$ 229,220
Net difference between projected and actual earnings on pension plan investments	653,428	-
Hoxworth's contributions subsequent to the measurement date	980,705	-
	<u>\$ 1,634,133</u>	<u>\$ 229,220</u>

At June 30, 2015, Hoxworth reported \$980,705 for OPERS as deferred outflows of resources related to pensions resulting in Hoxworth's portion of the University's contributions subsequent to the measurement date that will be used as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2015 related to pensions will be recognized in pension expense as follows:

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	<u>OPERS</u>
2016	\$ 62,755
2017	62,755
2018	145,034
2019	161,565
2020	(1,792)
Thereafter	(6,109)
	<u>\$ 424,208</u>

Actuarial Assumptions

For OPERS, the total pension liability was determined by an actuarial valuation as of December 31, 2014, using the following actuarial assumptions, applied to all prior periods in the measurement:

OPERS	Traditional Plan	Combined Plan
Valuation date	December 31, 2014	December 31, 2014
Experience study	Period ended December 31, 2010	Period ended December 31, 2010
Inflation	3.75%	3.75%
Salary increases	4.25% - 10.05% including inflation at 3.75%	4.25% - 8.05% including inflation at 3.75%
Investment rate of return	8.00%	8.00%
Cost-of-living adjustments	3.00% simple	3.00% simple

For STRS Ohio, the total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

STRS Ohio	Traditional Plan
Valuation date	June 30, 2014
Experience study	Period ended June 30, 2012
Inflation	2.75%
Salary increases	12.25% at age 20 to 2.75% at age 70
Investment rate of return	7.75%, net of investment expenses
Cost-of-living adjustments	2.00% simple for members retiring before August 1, 2013; 2% simple delayed until fifth anniversary of retirement date for members retiring August 1, 2013 or later

Mortality rates for OPERS are the RP-2000 mortality table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% of the combined healthy female mortality rates were used. Mortality rates for STRS Ohio

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are the RP-2000 combined mortality table using Project Scale AA. For males, ages are set back two years through age 89 and no setback for age 90 and above. For females, those younger than age 80 are set back four years; one year set back from age 80 through 89 and no set back from age 90 and above.

The long-term expected rate of return on OPERS defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage, adjusted for inflation. STRS Ohio utilizes investment consultants to determine the long-term expected rate of return by developing best estimates of expected future real rates for each major asset class. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table.

Asset Class	OPERS		STRS Ohio	
	Allocation	Rate of Return	Allocation	Rate of Return
Domestic equities	20%	5.84%	31%	8.00%
International equities	19%	7.40%	26%	7.85%
Fixed income	23%	2.31%	18%	3.75%
Real estate	10%	4.25%	10%	6.75%
Alternative investments	10%	9.25%	14%	8.00%
Other investments	18%	4.59%	1%	3.00%
	100%		100%	

Discount Rate

The discount rate used to measure the total pension liability (asset) was 8.0% for OPERS and 7.75% for STRS Ohio. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that participating employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the University's proportionate share of the OPERS and STRS Ohio net pension liability (asset) calculated using a discount rate 1% higher and 1% lower than the plans' current rate (in thousands):

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	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
OPERS	\$ 251,124	\$ 135,910	\$ 38,903
STRS Ohio	\$ 507,359	\$ 354,398	\$ 225,044

The following presents Hoxworth's share of the University's OPERS net pension liability (asset) calculated using a discount rate 1% higher and 1% lower than the plans' current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
OPERS	\$ 22,432,307	\$ 12,140,507	\$ 3,475,077

Pension Plan Fiduciary Net Position

Detailed information about the pension plans' fiduciary net position is available in the separately issued OPERS and STRS Ohio financial report.

Defined Contribution Plans

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.

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 9.5% 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.

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

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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, 2015, there were 2,201 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 12%, respectively. The employer contribution rate for participants electing out of OPERS and STRS Ohio was 14% for 2015. During 2015, 2014, and 2013, the University's employer contributions were \$17,080,000, \$15,953,000, and \$16,174,000, respectively. A portion of the University's 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 2015 were 0.77% to OPERS and 4.5% to STRS Ohio. The University's employer contributions to the OPERS unfunded liability account during 2015, 2014, and 2013 were \$612,000, \$563,000, and \$538,000, respectively. The University's employer contributions to the STRS Ohio unfunded liability account during 2015, 2014, and 2013 were \$3,449,000, \$3,113,000, and \$2,457,000, respectively.

Payables to the Pension Plans

At June 30, 2015, the University reported a payable of \$3,388,000 and \$3,258,000 for OPERS and STRS Ohio, respectively, for the outstanding amount of contributions to the pension plans required for the year ended June 30, 2015.

Other Postemployment Benefits

OPERS provides postemployment health care benefits to retirees with ten or more years of qualifying 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. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code (ORC) permits, but does not require OPERS to provide Other Postemployment Benefits (OPEB) to its eligible benefit recipients. Authority to establish and amend health care coverage is provided in Chapter 145 of the ORC.

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, 2014, OPERS allocated 2.0% of the employer contribution rate to fund the health care program for members in the Traditional Pension Plan and Combined Plan. Payment amounts vary depending on the number of covered dependents and the coverage selected. University employer contributions to OPERS to fund OPEB for 2015, 2014, and 2013 were approximately \$3,079,000, \$1,550,000, and \$6,026,000 respectively.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing on January 1, 2014. OPERS expects to be able to consistently allocate 4.0% of the employer contributions toward the health care fund after the end of the transition period.

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STRS Ohio also provides access to health care coverage to eligible retirees who participate in the Defined Benefit and 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 ORC, 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.

For the fiscal years ended June 30, 2014 and 2013, STRS Ohio allocated employer contributions equal to 1.0% of covered payroll to a Health Care Stabilization Fund from which payments for health care benefits are paid. Effective July 1, 2014, no percentage of covered payroll was allocated to postemployment healthcare. University employer contributions to STRS Ohio to fund OPEB for 2014 and 2013 were approximately \$1,511,000 and \$1,350,000, respectively.

Required Supplementary Information

**Schedules of Hoxworth's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System (OPERS)
Last 10 Years*
(Dollar amounts in thousands)**

OPERS	2015
Hoxworth's proportion of the university's net pension liability	8.93%
Hoxworth's proportionate share of the university's net pension liability	\$ 12,141
Hoxworth's covered-employee payroll	\$ 13,338
Hoxworth's proportionate share of the net pension liability as a percentage of its covered-employee payroll	91.02%
Plan fiduciary net position as a percentage of the total pension liability	214.11%

**Schedules of Hoxworth's Contributions
Ohio Public Employees Retirement System (OPERS)
Last 10 Years*
(Dollar amounts in thousands)**

	OPERS
Contractually required contribution	\$ 1,873.1
Contributions in relation to the contractually required contributions in relation to the contractually required	1,873.1
Contribution deficiency (excess)	\$ -
Hoxworth's covered-employee payroll	13,338.0
Contributions as a percentage of covered-employee payroll	14.04%

***The amounts presented in the Schedules of Hoxworth's Proportionate Share of the Net Pension Liability (Asset) are presented as of December 31, 2014. The amounts presented in the Schedules of Hoxworth's Contributions are presented as of June 30, 2015.**

These are 10-year schedules – however, the information is not required to be presented retroactively. Years will be added to these schedules in future years until 10 years of information is available.

Notes to Required Supplementary Information

Changes of Benefit Terms

Amounts reported in 2015 for OPERS reflect the following plan changes:

- The minimum age and number of years of service required to receive an unreduced benefit were each increased by two years for members in the state and local divisions. The minimum retirement age required for law enforcement members did not change, however, the minimum retirement age was increased by two years.
- Final average salary (FAS) increased to the highest five years (up from three years).
- The benefit multiplier used for the first 30 years (2.2% of FAS) was increased to the first 35 years of service.
- Age and service reduction factors changed to represent actuarially determined rates for each year a member retires before attaining full retirement.
- The Cost of Living Adjustment (COLA) was changed for new retirees from a simple 3% applied to the benefit value at date of retirement, to a rate based on the change in the Consumer Price Index, not to exceed 3%.

Amounts reported in 2015 for OPERS reflect the following plan changes:

- No COLAs were granted for the fiscal year ended June 30, 2014 and reduced to 2% for future periods. COLA deferred until the fifth anniversary of retirement for members retiring after July 1, 2013.
- New members require five years of qualifying service credit to be eligible for survivor benefits and 10 years of service of qualifying service to be eligible for disability benefits.

Changes of Assumptions

There were no changes of assumptions for OPERS for the fiscal years presented.

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 statement of net position as of June 30, 2015, 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 basic financial statements, and have issued our report thereon dated October 13, 2015, which contained emphasis of matter paragraphs regarding the financial statements of Hoxworth as a department of the University of Cincinnati and the adoption of a new accounting pronouncement.

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 Hoxworth’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 Hoxworth's management in a separate letter dated October 13, 2015.

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 Hoxworth's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Cincinnati, Ohio
October 13, 2015



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
DECEMBER 22, 2015**