

# San Diego Blood Bank

## Consolidated Financial Statements and Supplemental Information

Year Ended June 30, 2019



**SAN DIEGO BLOOD BANK**  
**Consolidated Financial Statements**  
Year Ended June 30, 2019

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## INDEPENDENT AUDITORS' REPORT

To the Audit Committee of  
San Diego Blood Bank

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of San Diego Blood Bank (a nonprofit organization), which are comprised of the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of San Diego Blood Bank as of June 30, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Correction of an Error**

As discussed in Note 16 to the consolidated financial statements, an error resulting in an overstatement of net assets without donor restrictions related to the pension liability, an error resulting in an understatement of net assets without donor restrictions related to deferred revenue, and an error resulting in both an overstatement of net assets with donor restrictions and an understatement of net assets without donor restrictions related to what was previously reported as an endowment, as of June 30, 2018 was discovered during the current year. Accordingly, the amounts reported for net assets without donor restrictions and net assets with donor restrictions has been restated as of June 30, 2018 to correct the errors. Our opinion is not modified with respect to these matters.

## INDEPENDENT AUDITORS' REPORT, continued

### **Emphasis-of-Matter Regarding a Change in Accounting Principle**

As discussed in Note 1 to the consolidated financial statements, San Diego Blood Bank adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958); Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

### **Other Matters**

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2020, on our consideration of San Diego Blood Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the San Diego Blood Bank's 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 San Diego Blood Bank's internal control over financial reporting and compliance.

*Aldrich CPAs + Advisors LLP*

San Diego, California  
January 21, 2020

**SAN DIEGO BLOOD BANK**  
**Consolidated Statement of Financial Position**  
June 30, 2019

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**ASSETS**

Current Assets:	
Cash and cash equivalents	\$ 1,037,475
Investments	165,069
Accounts receivable, net of allowance for doubtful accounts	5,703,634
Promises to give	21,000
Inventories, net of inventory obsolescence	1,766,777
Prepaid expenses and other assets	<u>330,754</u>
Total Current Assets	9,024,709
Property and Equipment, net of accumulated depreciation	21,655,542
Investments, net of current portion	385,464
Deposits and Other Assets	<u>93,032</u>
Total Assets	<u>\$ 31,158,747</u>

**LIABILITIES AND NET ASSETS**

Current Liabilities:	
Accounts payable	\$ 4,339,346
Accrued payroll	1,876,351
Accrued expenses	99,990
Deferred revenue	127,698
Line of credit	2,890,000
Advance blood deposits	30,000
Donor recognition	1,195,384
Current portion of notes payable	<u>455,482</u>
Total Current Liabilities	11,014,251
Notes Payable, net of current portion	9,184,363
Interest Rate Swap	468,945
Accrued Pension	<u>5,427,383</u>
Total Liabilities	26,094,942
Net Assets:	
Without donor restrictions:	
Undesignated	4,562,234
Board designated	<u>117,191</u>
Total Without Donor Restrictions	4,679,425
With donor restrictions	<u>384,380</u>
Total Net Assets	<u>5,063,805</u>
Total Liabilities and Net Assets	<u>\$ 31,158,747</u>

**SAN DIEGO BLOOD BANK**  
**Consolidated Statement of Activities**  
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:			
Blood and blood components	\$ 34,276,658	\$ -	\$ 34,276,658
Research products	1,702,164	-	1,702,164
Revenue from government contracts	955,935	-	955,935
Cell therapy	724,933	-	724,933
Lease income	561,963	-	561,963
Contributions	137,423	408,207	545,630
Other	421,359	-	421,359
Net assets released from restrictions	431,055	(431,055)	-
<b>Total Revenue and Support</b>	<b>39,211,490</b>	<b>(22,848)</b>	<b>39,188,642</b>
Operating Expenses:			
Program services:			
Blood banking	29,408,773	-	29,408,773
Cell therapy/DRS	2,469,272	-	2,469,272
Supporting services:			
Management and general	6,847,309	-	6,847,309
Fundraising	364,101	-	364,101
<b>Total Operating Expenses</b>	<b>39,089,455</b>	<b>-</b>	<b>39,089,455</b>
Nonoperating Expenses:			
Pension related changes other than net periodic pension cost	(888,503)	-	(888,503)
Change in fair value of interest rate swaps	(282,925)	-	(282,925)
Unrealized loss on investment	(6,015)	-	(6,015)
<b>Total Nonoperating Expenses</b>	<b>(1,177,443)</b>	<b>-</b>	<b>(1,177,443)</b>
<b>Change in Net Assets</b>	<b>(1,055,408)</b>	<b>(22,848)</b>	<b>(1,078,256)</b>
Net Assets, beginning as previously stated	9,082,559	824,047	9,906,606
Restatement	(3,347,726)	(416,819)	(3,764,545)
Net Assets, beginning as restated	5,734,833	407,228	6,142,061
Net Assets, ending	\$ 4,679,425	\$ 384,380	\$ 5,063,805

**SAN DIEGO BLOOD BANK**  
**Consolidated Statement of Functional Expenses**  
Year Ended June 30, 2019

	Program Services		Supporting Services		Total
	Blood Banking	Cell Therapy/DRS	Management and General	Fundraising	
Salaries, related costs and benefits	\$ 14,404,479	\$ 1,936,276	\$ 3,866,091	\$ 228,819	\$ 20,435,665
Supplies	5,924,370	290,049	108,650	12,002	6,335,071
Testing	4,398,205	66,350	-	-	4,464,555
Facility and equipment	838,404	54,471	895,761	4,888	1,793,524
Depreciation	611,649	33,093	770,212	-	1,414,954
Shipping	1,040,817	230	-	-	1,041,047
Lease	667,277	-	-	-	667,277
Interest	373,196	31,116	182,298	8,486	595,096
Marketing	330,178	618	6,129	93,712	430,637
Insurance	199,117	14,812	82,138	4,040	300,107
Consultant	53,428	3,600	216,289	4,858	278,175
Miscellaneous	117,948	1,712	150,992	6,824	277,476
Vehicle	267,637	-	-	-	267,637
Information technology	-	-	160,753	-	160,753
Dues and subscriptions	58,382	6,898	94,627	35	159,942
Travel	98,859	19,453	11,005	437	129,754
Legal	-	10,594	114,815	-	125,409
Taxes	-	-	99,386	-	99,386
Contract services	24,827	-	59,568	-	84,395
Bank and brokerage fees	-	-	28,595	-	28,595
<b>Total Expenses</b>	<b>\$ 29,408,773</b>	<b>\$ 2,469,272</b>	<b>\$ 6,847,309</b>	<b>\$ 364,101</b>	<b>\$ 39,089,455</b>

**SAN DIEGO BLOOD BANK**  
**Consolidated Statement of Cash Flows**  
Year Ended June 30, 2019

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Cash Flows from Operating Activities:

Change in net assets	\$ (1,078,256)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	1,414,954
Unrealized loss on investments	6,015
Change in fair value of interest rate swaps	282,925
Changes in operating assets and liabilities:	
Accounts receivable, net	(603,619)
Promises to give	(21,000)
Inventories, net	(72,377)
Prepaid expenses and other assets	28,841
Deposits and other assets	(9,268)
Accounts payable	(667,026)
Accrued payroll	174,788
Accrued expenses	99,990
Deferred revenue	127,698
Advanced blood deposits	30,000
Donor recognition	(292,516)
Accrued pension	888,503
	<hr/>
Net Cash Provided by Operating Activities	309,652

Cash Flows from Investing Activities:

Purchases of property and equipment	(395,135)
Purchases of investments	(13,445)
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Net Cash Used by Investing Activities	(408,580)

Cash Flows from Financing Activities:

Proceeds on line of credit	850,000
Proceeds from notes payable	231,192
Payments on notes payable	(485,465)
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Net Cash Provided by Financing Activities	595,727

Net Decrease in Cash and Cash Equivalents	496,799
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Cash and cash equivalents, beginning	<hr/> 540,676
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Cash and cash equivalents, ending	\$ <u><u>1,037,475</u></u>
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Supplemental Disclosure of Cash Flow Information:

Cash paid for interest	\$ <u><u>595,096</u></u>
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**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Year Ended June 30, 2019

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**Note 1 – Blood Bank and Summary of Significant Accounting Policies**

Nature of Activities

The San Diego Blood Bank is a nonprofit public benefit corporation established under the laws of the state of California in 1950. The San Diego Blood Bank collects, tests, processes, stores and distributes blood throughout the Southern California region. In addition, the San Diego Blood Bank provides a wide range of additional blood banking services, including plateletpheresis, plasmapheresis, leukapheresis, and a reference laboratory. The San Diego Blood Bank's Cell Therapy Program operates the Cord Blood Program, providing live saving stem cell transplants to patients worldwide. The San Diego Blood Bank's vision is to have an even greater impact in the community's health by improving community wellness and engaging with researchers to drive future medical advances.

The consolidated financial statements include the accounts of SDBB Labs, Inc. (SDBB Labs) and Neighbor Savers, Inc. (Neighbor Savers), both of which were incorporated during the year ended June 30, 2019. SDBB Labs is a wholly owned subsidiary of the San Diego Blood Bank focused on providing research and other services to outside entities. Neighbor Savers is a nonprofit organization set up for the purposes of enhancing deliveries of healthcare products to, from and between the San Diego Blood Bank, local hospitals and biotech companies.

Basis of Consolidation

The consolidated financial statements include the accounts of the San Diego Blood Bank, SDBB Labs, and Neighbor Savers (collectively, Blood Bank). All significant intercompany balances and transactions have been eliminated.

New Accounting Pronouncement

During the year ended June 30, 2019, the Blood Bank adopted ASU No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the consolidated financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset with donor restrictions until the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets with donor restrictions, liquidity, and expenses by both their natural and functional classification.

Financial Statement Presentation

The consolidated financial statements of the Blood Bank have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP), which require the Blood Bank to report information regarding their financial position and activities according to the following net asset classifications:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Blood Bank. These net assets may be used at the discretion of Blood Bank's management and the board of directors.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Blood Bank or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Blood Bank did not have any donor restrictions that were perpetual in nature for the year ended June 30, 2019.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statement of activities.

Use of Estimates

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

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Year Ended June 30, 2019

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Blood Bank considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Certificates of deposit that may be redeemed without a significant penalty are considered cash and cash equivalents regardless of the maturity.

Investment return on restricted assets is reported as an increase in net assets without donor restrictions if the asset restriction expires in the reporting period in which the income is recognized. All other restricted investment return is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction.

Accounts Receivable

Accounts receivable arise in the normal course of business. It is the policy of management to review the outstanding accounts receivable at year end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts. The allowance for doubtful accounts was \$681 at June 30, 2019.

Promises to Give

Promises to give that are expected to be collected within one year are recorded at their net realizable value. Promises to give that are expected to be collected in future years are discounted to their estimated net present value. After promises to give are originally recorded, an allowance for uncollectible promises to give may be established based on specific circumstances.

Inventories

The cost of whole blood and blood components inventory is determined by valuing blood using drawing and processing costs and certain purchased items, but excluding distribution costs and general and administrative expenses. Inventories of supplies are valued at the lower of cost or net realizable value, determined on the first-in, first-out basis. The allowance for inventory obsolescence was \$25,336 at June 30, 2019.

Property and Equipment

Acquisitions of property and equipment of \$1,000 or more are capitalized. Property and equipment are stated at cost, or if donated, at the approximate fair market value on the date of donation. Expenditures for maintenance and repairs are charged against operations. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, ranging from three to 40 years, or, in the case of leasehold improvements, over the lesser of the useful lives of the related assets or the lease term.

Investments

The Blood Bank carries investments in marketable securities with readily determinable fair values and all investments in debt securities at fair values in the consolidated statement of financial position. Investments acquired by gift are recorded at their fair market value at the date of the gift. Alternative investments, for which quoted market prices are not readily available, are valued at fair value by the investment manager based on factors deemed relevant by the manager including, but not limited to, market conditions, purchase price, estimated liquidation value, restrictions on transfer and meaningful third-party transactions in the private market. Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material. Realized and unrealized gains and losses are included in the changes in net assets in the consolidated statement of activities.

Impairment of Long-Term Assets

The Blood Bank reviews its investment in long-term assets for impairment whenever events and changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the long-term asset to the estimated proceeds from the eventual disposition of the long-term asset. If the long-term asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of long-term asset exceeds the fair value of such property. There were no impairment losses recognized for the year ended June 30, 2019.

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Year Ended June 30, 2019

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

Compensated Absences

Accumulated paid time off totaling \$1,180,394 at June 30, 2019, is accrued when incurred and included in accrued payroll.

Advance Blood Deposits

Through the Family Blood Plan, the Blood Bank provides supplemental coverage for all donors and their immediate families for processing costs for whole blood, packed red cells, platelet concentrates, plasma and cryoprecipitate. If the donor does not have insurance, the Family Blood Plan will cover the processing costs of the blood components listed above. All that is required is that one blood donation be made for the community supply within a twelve-month period prior to the date the blood components are used. The Blood Bank reflects this cost as a reduction of revenue and accrues a liability for the estimated liability for advance blood deposits. This plan was terminated during the year ended June 30, 2018, but Blood Bank continues to pay out accrued liabilities.

Donor Recognition

The Blood Bank has a reward program to recognize donors of blood. Donors receive points with every blood donation. The points can be redeemed for merchandise available through the Blood Bank's online store. The Blood Bank accrues expenses for unredeemed points based on the average redemption value of accumulated points. Donor points expire if the donor has not donated blood in one year. For the year ended June 30, 2019, \$689,140 of donor points were written off due to expiration.

Revenue Recognition

*Revenue* – Revenue is recognized in the period in which the related goods and services are provided. Deferred revenue is recorded when cash received for the payment of goods and services exceeds the revenue earned.

*Contributions* – Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Donated Services and Materials

The Blood Bank utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the consolidated financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. In-kind contributions consisting of fundraising items, donor points donated back and other supplies have been recorded as in-kind contribution revenue and expenses in the consolidated statement of activities.

Derivative Instruments

The accounting and reporting standards related to derivative instruments and hedging activities requires that every derivative instrument be recorded on the consolidated statement of financial position as either an asset or liability as measured at its fair value. The Blood Bank's interest rate swap agreements (IRSA) as discussed in Note 9 are considered a cash flow hedge and are measured at fair value. The gains and losses on cash flow hedges are recognized as a change in net assets in the period of the change. The Blood Bank enters into total return swaps to manage risks on the changes in market interest rates.

The IRSA's are considered Level 3 assets or liabilities. For the valuation of the IRSA's at June 30, 2019, the Blood Bank used the income approach which involves using (i) quoted prices for economically equivalent swaps, or (ii) valuation methodologies, assumptions and inputs, which in the case of projected future cash flows; discount such cash flows to a single net present value amount. Various inputs are used to construct interest rate, currency exchange rate, commodity price or other curves that are placed into a valuation model to compute the valuation.

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Year Ended June 30, 2019

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

The change in the fair value of the IRSA liability is as follows for the year ended June 30, 2019:

Balance, beginning of year	\$	186,020
Change in Fair Value of Obligation Under Interest Rate Swaps		<u>282,925</u>
Balance, end of year	\$	<u><u>468,945</u></u>

Functional Expense Allocations

The Blood Bank's accounting system is established to record expenses by fund, department, and natural expense. The expense function is determined by either fund alone or by a combination of fund and department. One fund is used to accumulate expenses considered to be either management and general or fundraising in nature. Within that fund, the department determines whether the expense is management and general or fundraising in nature. The remaining funds accumulate expenses considered to be programmatic in nature. In the event certain costs are mistakenly captured within the program funds, such as investment brokerage fees or professional fundraising fees, they are reallocated as appropriate to either management and general or fundraising costs.

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. If not directly identifiable to program services, types of expenses that are allocated include depreciation, interest, and insurance, which are allocated on a square-footage basis, as well as salaries and related expenses, which are allocated on the basis of supportable estimates of time and effort.

Income Taxes

The Blood Bank is a qualified nonprofit blood bank that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. However, the Blood Bank remains subject to taxes on any net income which is derived from a trade or business regularly carried on and unrelated to its exempt purpose. For the year ended June 30, 2019, no such unrelated business taxable income was reported and, therefore, no provision for income taxes has been made. The Blood Bank is not a private foundation.

The Blood Bank follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Blood Bank recognizes accrued interest and penalties associated with uncertain tax positions as part of the consolidated statement of activities, when applicable. Management has determined that the Blood Bank has no uncertain tax positions at June 30, 2019 and therefore, no amounts have been accrued.

Fair Value Measurements

The Blood Bank defines fair value as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market. The Blood Bank applies fair value measurements to assets and liabilities that are required to be recorded at fair value under generally accepted accounting principles. Fair value measurement techniques maximize the use of observable inputs and minimize the use of unobservable inputs, and are categorized in a fair value hierarchy based on the transparency of inputs.

The three levels are defined as follows:

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

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

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

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Year Ended June 30, 2019

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

Fair Value Measurements, continued

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

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

The carrying value of cash, receivables, inventory, and payables approximates fair value as of June 30, 2019, due to the relative short maturities of these instruments.

Future Accounting Standards

The Financial Accounting Standards Board (FASB) has issued three substantial ASUs which will become effective in future years.

The amendments in ASU 2014-09 *Revenue from Contracts with Customers* and subsequent updates require that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Adoption of the new standard is to be applied on a full retrospective basis or modified retrospective basis. The Blood Bank is in the process of assessing how this new ASU and subsequent updates will affect the Blood Bank's reporting of revenues. This assessment includes determining the effect of the new standard on the Blood Banks's consolidated financial statements, accounting systems, business processes, and internal controls. Based on its assessment to date, the Blood Bank does not currently expect adoption to have a material effect on their revenues. Adoption of ASU 2014-09 will also require enhanced consolidated financial statement disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This update is effective for fiscal years beginning after December 15, 2018.

In June 2018, ASU 2018-08 *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* was issued to provide guidance on the accounting and reporting of grants and contributions. This guidance will assist nonprofit organizations in evaluating if a transaction is an exchange transaction or a contribution. Clarification was also added to determine if a contribution is conditional or unconditional and how each of these should be recorded. This update is effective for transactions in which the entity serves as the resource recipient for fiscal years beginning after December 15, 2018. The Blood Bank is evaluating the effect that the provisions of ASU 2018-08 will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02 *Leases*. The primary change in US GAAP addressed by ASU 2016-02 is the requirement for a lessee to recognize on the statement of financial position a liability to make lease payments ("lease liability") and a right-of-use asset representing its right to use the underlying asset for the lease term. ASU 2016-02 also requires qualitative and quantitative disclosures to enable users of the financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2020. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, although there are optional practical expedients that entities may elect to apply. The Blood Bank is evaluating the effect that the provisions of ASU 2016-02 will have on its consolidated financial statements and related disclosures.

Subsequent Events

The Blood Bank has evaluated subsequent events through January 21, 2020, which is the date the consolidated financial statements were available to be issued.

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Year Ended June 30, 2019

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**Note 2 – Liquidity and Availability**

The following reflects the Blood Bank's financial assets as of the consolidated statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statement of financial position date. Amounts not available include amounts set aside for long-term investing in the Board designated fund that could be drawn upon if the governing board approves that action. While allowable upon governing board approval, the Blood Bank does not anticipate a distribution from the Board designated fund during the next fiscal year.

Cash and cash equivalents	\$ 1,037,475
Investments	165,069
Accounts receivable, net of allowance for doubtful accounts	5,703,634
Promises to give	<u>21,000</u>
Total Financial Assets	6,927,178
Less amounts not available to be used within one year:	
Restricted by donor with purpose or time restrictions	(378,380)
Board designated fund	<u>(117,191)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,431,607</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Blood Bank considers all expenditures related to its ongoing activities of blood banking and distribution, research, and public service as well as the conduct of services undertaken to support those activities to be general expenditures.

The Blood Bank is partially supported by donor-restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Blood Bank must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year.

The Blood Bank regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Blood Bank has various sources of liquidity at its disposal, including cash and cash equivalents, conversion of investments, collection of accounts receivable, conversion and usage of inventories, and if needed, a revolving line of credit. See Note 7 for more information on the line of credit.

In addition to financial assets available to meet general expenditures over the next 12 months, the Blood Bank operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the consolidated statement of cash flows which identifies the sources and uses of the Blood Bank's cash.

**Note 3 – Concentrations of Credit Risk**

Cash

The Blood Bank maintains cash accounts at various financial institutions. The balances at times may exceed Federal Deposit Insurance Corporation (FDIC) limits. Accounts at each financial institution are insured by the FDIC up to \$250,000.

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Year Ended June 30, 2019

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**Note 3 – Concentrations of Credit Risk, continued**

Accounts Receivable

Essentially all of the Blood Bank's business is conducted with hospitals in Southern California. Substantially all of the accounts receivable balance was due from hospitals and was unsecured at June 30, 2019. The Blood Bank's allowance for doubtful accounts has historically been adequate to cover existing credit risks. The Blood Bank had no significant accounts receivable concentrations for the year ended June 30, 2019.

Promises to Give

During the year ended June 30, 2019, the Blood Bank had two donors that comprised 84% of total promises to give.

Contributions

During the year ended June 30, 2019, the Blood Bank had two donors that comprised 33% of total contributions.

Labor Subject to Collective Bargaining Agreements

Nurses employed by the Blood Bank are subject to a three-year collective bargaining agreement which took effect April 26, 2015 and expired September 30, 2017. An agreement was reached effective September 20, 2018 and expires September 30, 2020. Nurses account for approximately 11% of the labor force employed by the Blood Bank.

**Note 4 – Promises to Give**

Promises to give consist of the following as of June 30, 2019:

Due in less than one year	\$	21,000
Due in one to five years		<u>3,853</u>
	\$	<u><u>24,853</u></u>

Long-term promises to give are included in deposits and other assets on the consolidated statement of financial position. No discount was considered necessary at June 30, 2019 due to the minimal effect it would have on the consolidated financial statements. No allowance was considered necessary at June 30, 2019 because management believes that all amounts are collectible.

**Note 5 – Investments and Fair Value Measurement**

Blood Centers of America, Inc.

The Blood Bank purchased a voting membership in Blood Centers of America, Inc., (BCA). BCA is a cooperative representing community blood centers located throughout the United States. BCA's focus is on improving the operations and business activities of the member blood centers. BCA provides contract management for the purchase and sale of medical plastics, therapeutic proteins, and recovered plasma. BCA provides an active blood exchange that assures an adequate supply of blood to all member centers and shares excesses with other nonmember centers. BCA provides technology partnering for product development, clinical trials, product testing and implementation work groups. Voting members have (i) the right to vote, (ii) the right to share in any patronage dividend or other distributions made by BCA, and (iii) the right to share in the assets of BCA upon liquidation. There are currently approximately 32 unrelated nonprofit Blood Banks that have voting memberships in BCA at June 30, 2019. The Blood Bank owns approximately 3% of BCA and accounts for its investment using the equity method of accounting. The investment in BCA totaled \$340,969 at June 30, 2019.

National Blood Collaborative, LLC

The Blood Bank is one of the founding members of National Blood Collaborative, LLC (NBC), a national network of leading blood centers coming together to provide capacity to respond to the increasing economic demands of hospitals and healthcare systems across the United States. The Blood Bank owns approximately 14% of NBC accounts for its investment using the equity method of accounting. The investment in NBC totaled \$44,495 at June 30, 2019.

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Year Ended June 30, 2019

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**Note 5 – Investments and Fair Value Measurement, continued**

Investments consist of the following as of June 30, 2019:

	Level 1	Level 2	Level 3	NAV	Total
Domestic equity	\$ 165,069	\$ -	\$ -	\$ -	\$ 165,069
Investment equity - BCA/NBC	-	-	-	385,464	385,464
	<u>\$ 165,069</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 385,464</u>	<u>\$ 550,533</u>

**Note 6 – Property and Equipment**

Property and equipment consist of the following at June 30, 2019:

Building and improvements	\$ 15,860,837
Land and land improvements	6,565,063
Equipment, furniture, and fixtures	4,448,732
Vehicles	3,600,611
Data processing equipment	2,220,026
Software	534,473
Construction-in-progress	221,566
	<u>33,451,308</u>
Less accumulated depreciation	<u>(11,795,766)</u>
	<u>\$ 21,655,542</u>

Depreciation expense on property and equipment was \$1,414,954 for the year ended June 30, 2019.

**Note 7 – Line of Credit**

The Blood Bank has a line of credit with a financial institution in the amount of \$3,000,000 at a variable interest rate (6.50% at June 30, 2019). The line of credit matured October 31, 2019 and was renewed in the amount of \$4,000,000 with a new maturity date of October 9, 2021. It is secured by commercial property at 3636 Gateway Center Ave, San Diego, CA 92102.

**Note 8 – Notes Payable**

Notes payable consists of the following at June 30, 2019:

Note payable which is held by City National Bank in the original amount of \$9,678,234 and bears interest at the variable rate of 80% LIBOR plus 1.48%, (3.432% at June 30, 2019), except that effective December 20, 2013, the Blood Bank entered into an interest rate swap agreement (Note 9) that fixed the interest rate of the note at 4.08% per annum. Payments of principal (fixed monthly amounts ranging from \$17,826 to \$28,040, with one balloon payment in the amount of \$6,941,298) and interest are due monthly. Principal and accrued interest are due January 1, 2024. Secured by a deed of trust on real property. Accrued interest payable totaled \$28,340 at June 30, 2019.	\$ 8,307,092
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**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Year Ended June 30, 2019

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**Note 8 – Notes Payable, continued**

Note payable which is held by City National Bank which originated May 18, 2015 in the original amount of \$654,240 and bears interest at 4.25% beginning July 1, 2015. Payments of principal (fixed monthly amount of \$5,602) and interest are due monthly. Principal and interest are due June 1, 2025. Secured by a deed of trust on real property. Accrued interest totaled \$2,709 at June 30, 2019. \$ 762,261

Note payable which is held by City National Bank in the original amount of \$321,766 and bears interest at the variable rate of LIBOR plus 1.85%, (4.29% at June 30, 2019), except that effective December 20, 2013, the Blood Bank entered into an interest rate swap agreement (Note 9) that fixed the interest rate of the note at 5.04% per annum. Payments of principal (fixed monthly amounts ranging from \$506 to \$892, with one balloon payment in the amount of \$238,755) and interest are due monthly. Principal and accrued interest are due January 1, 2024. Secured by a deed of trust on real property. Accrued interest payable totaled \$1,184 at June 30, 2019. 281,302

Various notes payable which are held by various lenders which originated October 15, 2015 through December 22, 2018 in the original amount of \$565,976 and bear interest from 0.25% to 10%. Principal is payable monthly beginning October 15, 2015 through December 22, 2018 and is due September 5, 2018 through January 5, 2023. Secured by equipment. 157,255

Note payable which is held by Balboa Capital which originated March 25, 2019 in the original amount of \$150,000 and does not bear interest. Principal is payable quarterly beginning June 1, 2019 and is due March 31, 2021. Secured by a vehicle. 131,935

9,639,845

Less current portion (455,482)

\$ 9,184,363

The Blood Bank is subject to compliance with certain debt covenants. The Blood Bank received a waiver for covenant non-compliance for the year ended June 30, 2019 due to late completion of the annual audit.

Future principal payments on notes payable as of June 30, 2019 are as follows:

Year Ending June 30,		
2020	\$	455,482
2021		454,682
2022		383,751
2023		387,046
2024		384,797
Thereafter		<u>7,574,087</u>
	\$	<u>9,639,845</u>

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Year Ended June 30, 2019

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**Note 9 – Obligation under Interest Rate Swaps**

The Blood Bank entered into two interest rate swap agreements (IRSA) with a financial institution in regards to the \$9,678,234 and \$321,766 notes payable described in Note 8. In accordance with the agreements, the Blood Bank pays interest at a fixed rate of 4.08% and 5.04%, respectively, through the termination date of January 1, 2024.

The fair value of the IRSA's are recorded on the consolidated statement of financial position as either an asset or liability at fair value with changes in the fair value recorded as a change in net assets in the period of the change. Accrued interest payable totaled \$4,677 at June 30, 2019.

**Note 10 – Pension Plan**

Effective June 30, 2009, the Blood Bank amended the defined benefit pension plan (Plan) to freeze benefit accruals for all participants except those covered under terms of a collective bargaining agreement. Effective December 10, 2011, the Plan has been amended to freeze benefit accruals for participants covered under the terms of a collective bargaining agreement. The Blood Bank contributed \$309,136 to the Plan for the year ended June 30, 2019. The Plan's assets are invested in an annuity contract with an insurance company and a diversified portfolio of stocks and bonds. The annual periodic benefit cost totaling \$297,059 for the year ended June 30, 2019 has been included in salaries, related costs and benefits in the consolidated statement of functional expenses.

The changes in projected benefit obligations and fair value of plan assets are as follows at June 30, 2019:

Change in Benefit Obligation:

Benefit obligation at beginning of year	\$ 23,883,998
Interest cost	984,151
Benefit paid	(1,170,669)
Acturaial loss	<u>1,363,091</u>
Benefit obligation at end of year	<u>\$ 25,060,571</u>

Change in Plan Assets:

Plan assets at beginning of year	\$ 19,345,118
Actual return on plan assets	1,149,603
Employer Contributions	309,136
Benefits paid	<u>(1,170,669)</u>
Plan assets at end of year	<u>\$ 19,633,188</u>

Funded Status Plan at End of Year (Underfunded):

Pension Liability	<u>\$ (5,427,383)</u>
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Amounts recognized in non-operating expenses and net assets without donor restrictions but have not yet been recognized in net periodic pension costs at June 30, 2019:

Unrecognized Net Actuarial Loss	<u>\$ 8,083,082</u>
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**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Year Ended June 30, 2019

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**Note 10 – Pension Plan, continued**

The following weighted-average assumptions were used to determine benefit obligations and net periodic benefit costs as of and for the year ended June 30, 2019:

Discount rate	3.8%
Expected return on plan assets	7.0%
Rate of compensation increase	N/A

The Blood Bank reviews the assumptions used by the Plan on an annual basis. The rate of compensation increase does not apply to the Plan since the Plan has been frozen. The discount rate is an estimate used to discount future cash flows to the present to account for the time value of money and is one of the factors in determining the benefit obligation of the Plan. The discount rate used by the Plan is highly sensitive and changes to the discount rate can have a significant impact on the calculation of the benefit obligation of the Plan.

The components of net periodic pension cost are as follows for the year ended June 30, 2019:

Service cost	\$ -
Interest cost	984,151
Actual return on assets net of expenses	(1,149,603)
Deferral of assets loss	<u>462,511</u>
Net Periodic Pension Cost	<u>\$ 297,059</u>

Other changes in amounts included in non-operating expenses and net assets for the year ended June 30, 2019:

Assumption loss at end of year	\$ 398,359
Asset loss at end of year	(462,511)
Experience loss at beginning of year	<u>-</u>
Total Recognized in Non-operating Expenses	<u>\$ (64,152)</u>
Total Recognized in Net Periodic Benefit Cost	<u>\$ 232,907</u>

Plan assets by category at June 30, 2019:

Equity securities and mutual funds	57%
Debt securities and mutual funds	37%
Other	<u>6%</u>
	<u>100%</u>

The investment objective for the assets of the defined benefit pension plan portfolio is to generate a total rate of return, including income and capital appreciation, sufficient to enhance the ability of the plan to meet its obligations to plan participants and their beneficiaries when due without taking unnecessary risk of long-term capital decline.

Investment policies and strategies governing the assets of the plan are designed to achieve investment objectives within prudent risk parameters. Risk management practices include the use of an external investment manager and the maintenance of a portfolio diversified by asset class, investment approach and security holdings, and the maintenance of sufficient liquidity to meet benefit obligations as they come due.

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Year Ended June 30, 2019

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**Note 10 – Pension Plan, continued**

Current policies for the plan target an asset mix of 60 percent in total equity securities and the remainder in fixed income securities.

The Blood Bank expects to make a contribution of \$333,128 to the Plan for the year ended June 30, 2020.

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

<u>Year Ending June 30,</u>		
2020	\$	1,301,100
2021	\$	1,316,851
2022	\$	1,374,541
2023	\$	1,418,521
2024	\$	1,454,301
2025-2029	\$	7,468,979

These amounts are based on current data and assumptions and reflect expected future services, as appropriate.

**Note 11 – Restrictions on Net Assets**

Net assets with donor restrictions consist of the following at June 30, 2019:

Purpose restrictions:

Core services - fleet of lifesaving vehicles	\$	165,069
Core services - trima machines		129,480
Core services - critical equipment		9,978
Precision medicine - critical equipment		50,000
Boy Scouts blood drives		5,000
		<u>359,527</u>

Time restricted:

Greatest need		9,853
Core services - blood collection		15,000
		<u>24,853</u>
	<u>\$</u>	<u>384,380</u>

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Year Ended June 30, 2019

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**Note 11 – Restrictions on Net Assets, continued**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended June 30, 2019:

Satisfaction of purpose restrictions:

Core services - fleet of lifesaving vehicles	\$ 29,407
Core services - critical equipment	35,375
Core services - blood collection	<u>54,918</u>
	119,700

Satisfaction of time restrictions:

Greatest need	281,355
Core services - blood collection	<u>30,000</u>
	<u>311,355</u>
	<u>\$ 431,055</u>

**Note 12 – Lease Income**

The Blood Bank owns the building located at 3636 Gateway Center Avenue, San Diego, California and leases the facility space to an unrelated party under an operating lease which expires on June 30, 2021, and provides for a renewal option through June 30, 2024. The lease includes scheduled rent increases and an additional charge for common area maintenance costs. The Blood Bank leases rooftop space on its building at 3636 Gateway Center, San Diego, California under an operating lease which expires in February 2023 and is automatically renewed for four additional five year terms unless written notice of intent to terminate is made. Lease income totaled \$561,963 for the year ended June 30, 2019.

Future minimum lease income as of June 30, 2019 is as follows:

Year Ending June 30,	
2020	\$ 504,496
2021	520,711
2022	30,707
2023	20,876
Thereafter	<u>-</u>
	<u>\$ 1,076,790</u>

**Note 13 – Commitments and Contingencies**

Retirement Plans

The Blood Bank offers employees the opportunity for participation in a 403(b) retirement plan. Employees may contribute to the 403(b) retirement plan up to the maximum amount allowed by the Internal Revenue Code. The Blood Bank makes a 3% discretionary contribution. The Blood Bank has also established the San Diego Blood Bank Money Purchase Pension Plan (MPP Plan). The Blood Bank contributes an amount equal to 5% of a participant's compensation earned while an eligible employee. Employees may not contribute to the MPP Plan. Effective April 1, 2016, the Blood Bank effectively froze the MPP Plan to new participants and discontinued contributions to the MPP Plan with the intention of terminating the MPP Plan. The Blood Bank contributed \$57,694 to these retirement plans for the year ended June 30, 2019, which is included in salaries, related costs and benefits.

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Year Ended June 30, 2019

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**Note 13 – Commitments and Contingencies, continued**

Operating Leases

The Blood Bank has several non-cancelable operating leases for facilities that expire at various dates through February 2023. These leases generally contain renewal options for periods ranging from five to ten years and require the Blood Bank to pay common area maintenance charges. Leases and common area maintenance charges for these leases totaled \$667,277 for the year ended June 30, 2019.

Minimum future lease payments as of June 30, 2019 are due as follows:

<u>Year Ending</u> <u>June 30,</u>		
2020	\$	391,661
2021		259,638
2022		242,679
2023		114,955
Thereafter		<u>-</u>
	\$	<u>1,008,933</u>

Purchase Commitments

The Blood Bank has agreements with several suppliers obligating it to purchase a minimum amount of certain products. These agreements are related to certain equipment used by the Blood Bank in its operations.

Sales Commitments

The Blood Bank has agreements with several hospitals to provide blood products.

**Note 14 – Subsequent Events**

Subsequent to June 30, 2019, the Blood Bank entered into a \$4.3 million contract for a building improvement project at its headquarters. The project includes conversion to light-emitting diode (LED) lighting throughout the building, roofing repair and upgrade to reflective coating, addition of rooftop solar panels, covered parking (also incorporating solar panels), electric vehicle charging stations, maintenance and upkeep resulting in a power generation system engineered to supply the majority of the Blood Banks's current and future electricity requirements. Initially, neither the improvements nor the corresponding liability is recorded on the Blood Bank's books, however full ownership of the improvements pass to the Blood Bank after the 6<sup>th</sup> year of the agreement. The project is financed through a government-sponsored program whereby semi-annual property tax assessments are paid over a 25-year period. The annual tax assessment total is projected to be less than the current annual payments to the electric utility provider.

Also subsequent to June 30, 2019, the Blood Bank entered into a \$900,000 purchase agreement to acquire two new Bloodmobiles to update their fleet. The new vehicles incorporate modern technology, including solar-powered generators that replace pollution causing diesel generators that power the vehicle while at the mobile collection site. After evaluation of internal needs, one or both old vehicles may be donated to worthwhile organizations to further their mission of blood collection in underserved populations around the world.

In November 2019, the Blood Bank liquidated a portion of investments generating cash proceeds of approximately \$187,000. The stock had a cost basis of approximately \$96,000 and had been held in a brokerage account for approximately two years.

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Year Ended June 30, 2019

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**Note 15 – Financial Condition**

The Blood Bank had total net assets without donor restriction of \$4,679,425 at June 30, 2019, negative working capital of \$1,989,542 and net cash inflows from operating activities of \$309,652. To address the additional future funding requirements, primarily for the Blood Bank’s long-term liabilities, since June 30, 2019 the Blood Bank has undertaken the following:

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

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

**Note 16 – Prior Period Adjustments**

During 2019, it was noted that the discount rate selected for pension reporting was not in accordance with US GAAP. The discount rate selected did not reflect market rates currently applicable to settling the benefit obligation or the rates of return on high quality fixed income securities at the measurement date. The original discount rate selected resulted in a lower projected benefit obligation (liability) than if the actuary recommended rate was used by a material amount. The effect of this change decreased net assets without donor restrictions by \$4,269,545 as of June 30, 2018.

During the year, a balance previously reported as deferred revenue was determined to have been earned. The effect of this change increased net assets without donor restrictions by \$505,000 as of June 30, 2018.

During the year, an evaluation of funds resulted in the conclusion that what was previously reported as endowment funds were instead Board designated funds. The effect of this change decreased net assets with donor restrictions by \$416,819 and increased net assets without donor restrictions by \$416,819 as of June 30, 2018.

The Blood Bank has restated net assets as of June 30, 2018 as noted below:

	Without Donor Restrictions	With Donor Restrictions
Net assets, as previously stated	\$ 9,082,559	\$ 824,047
Restatement due to:		
Change in accrued pension liability	(4,269,545)	-
Deferred revenue recognition	505,000	-
Previously reported endowment funds	416,819	(416,819)
Net assets, as restated	<u>\$ 5,734,833</u>	<u>\$ 407,228</u>

**SUPPLEMENTAL AWARD INFORMATION**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Audit Committee  
San Diego Blood Bank

We have audited, in accordance with the 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 consolidated financial statements of the San Diego Blood Bank (Blood Bank) (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 21, 2020.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Blood Bank's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Blood Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Blood Bank's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 entity's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-001 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2019-002, 2019-003, 2019-004, 2019-005, and 2019-006 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Blood Bank's consolidated financial statements are free from 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*.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS, CONTINUED**

**Blood Bank's Response to Findings**

The Blood Bank's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Blood Bank's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

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

*Aldrich CPAs + Advisors LLP*

San Diego, California  
January 21, 2020

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Audit Committee  
San Diego Blood Bank

**Report on Compliance for Each Major Federal Program**

We have audited the San Diego Blood Bank's (Blood Bank) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Blood Bank's major federal programs for the year ended June 30, 2019. Blood Bank's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Blood Bank's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Blood Bank's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Blood Bank's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Blood Bank complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE, CONTINUED**

**Report on Internal Control over Compliance**

Management of the Blood Bank is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Blood Bank's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Blood Bank's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2019-007, 2019-008, and 2019-009, that we consider to be significant deficiencies.

The Blood Bank's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Blood Bank's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Aldrich CPAs + Advisors LLP*

San Diego, California  
January 21, 2020

**SAN DIEGO BLOOD BANK**  
**Schedule of Expenditures of Federal Awards**  
Year Ended June 30, 2019

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Federal/Pass-Through Grantor and Program Title	Federal CFDA Number	Agency or Pass-Through Grantor No.	Expenditures
<u>Research and Development Cluster:</u>			
<u>U.S. Department of Health &amp; Human Services</u>			
Pass-through The Scripps Research Institute:			
Trans-NIH Research Support	93.310	N/A	\$ <u>779,144</u>
Total Expenditures of Federal Awards			\$ <u><u>779,144</u></u>

**SAN DIEGO BLOOD BANK**  
**Notes to Schedule of Expenditures of Federal Awards**  
Year Ended June 30, 2019

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**Note 1 – Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the San Diego Blood Bank and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

**Note 2 – Summary of Significant Accounting Policies**

San Diego Blood Bank elected to use the 10% de minimus cost rate as covered in the Uniform Guidance 2 CFR section 200.414 Indirect costs.

**SAN DIEGO BLOOD BANK**  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2019

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**Section I - Summary of Auditors' Results**

**Consolidated Financial Statements**

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	Yes
Noncompliance material to the consolidated financial statements noted?	No

**Federal Awards**

Internal control over major program:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Type of auditors' report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, 2 CFR section 200.516(a)?	Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.310	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee under the Uniform Guidance, 2 CFR section 200.520?	No

**SAN DIEGO BLOOD BANK**  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2019

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**Section II - Consolidated Financial Statement Findings**

**Material Weakness**

<b>2019-001</b>	Pension Reporting
Criteria:	For pension accounting in accordance with US GAAP, the discount rate selected must reflect either the market rates currently applicable to settling the benefit obligation or the rates of return on high quality fixed income securities at the measurement date.
Condition:	During our audit, we inquired with management regarding their discount rate assumption used in the valuation of the defined-benefit pension plan and noted it was high given the guidance for setting assumptions under ASC 715 and current market conditions.
Context:	Since 2015, Blood Bank management, in conjunction with its Finance Committee, has been aware of the impact of the discount rate and projected earning's rate upon the valuation and liability presented for the defined benefit pension plan. Ongoing discussions and plans of action included a systematic annual reduction of the discount rate to bring the Plan's valuation and liability into closer alignment with market values. The Blood Bank's June 30, 2018 audit report included footnotes that referenced the potential underfunded liability using an advisor-recommended published discount rate that was representative at the time; a higher rate, however, was utilized for the underfunded liability included in the actual consolidated financial statements at that date.
Cause:	The original discount rate selected resulted in a lower projected benefit obligation (liability) than if the actuary-recommended rate was used by a material amount.
Effect:	The discount rate assumed results in a lower project benefit obligation (liability).
Recommendation:	We recommend using a discount rate that is supported by reasonable assumptions and actual market conditions and documenting the rationale to support the discount rate used.
Questioned Costs:	None
Views of Responsible Officials:	Management agrees with the audit finding and a response is included in the corrective action plan.

**Significant Deficiencies**

<b>2019-002</b>	Donor Restrictions
Criteria:	Per US GAAP, net assets are required to be reported based on the presence or absence of donor-imposed restrictions.
Condition:	During our audit, we noted that management does not have an established process to properly track donor intent when gifts are made and satisfaction of donor-imposed restrictions.
Context:	While a tracking system was implemented after year-end, a schedule was not maintained during the year due to employee turnover and had to be re-created based on known facts and circumstances.

**SAN DIEGO BLOOD BANK**  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2019

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**Cause:** Management does not have an established process to properly track donor intent when gifts are made, and satisfaction of donor-imposed restrictions.

**Effect:** Spending of donor-restricted gifts could possibly not be in alignment with donor intent.

**Recommendation:** We recommend developing and implementing a process to properly track donor intent when gifts are made and satisfaction of donor-imposed restrictions.

**Questioned Costs:** None

**Views of Responsible Officials:** Management agrees with the audit finding and a response is included in the corrective action plan.

**2019-003** Policies and Procedures

**Criteria:** Organizations should adopt policies applicable to their organizational activities, should document and distribute them within their organization, and should ensure the security and accessibility of financial information.

**Condition:** During our audit, we noted that some key policies have not been adopted, such as gift acceptance, policies and procedures are either not documented at all or not fully documented, and individual employees had the only access to key schedules supporting financial information.

**Context:** The Blood Bank has grown over the years and is at a size which necessitates certain policies and procedures to obtain operational efficiency, security of information, and transfer of knowledge.

**Cause:** While management may review current policies on a regular basis for continued applicability, there is not a process to review for new policies that should be adopted based on current operations. Individual employees may follow a consistent process for completing work, however, these have not been documented and standardized by management for use throughout the organization. There is not a policy in place regarding information sharing and storage of key financial schedules, so employees utilize spreadsheets independent of the accounting system which are not housed on a shared drive which would provide accessibility to other accounting staff in their absence or due to turnover.

**Effect:** Without a gift acceptance policy, the Blood Bank may accept a gift that their infrastructure cannot currently support, one with high administrative costs, or one that is not in alignment with the mission and vision of the organization. Without documented procedures, processes were inconsistent throughout the year due to turnover. There are key financial spreadsheets that are maintained by an individual user, making transferring of roles difficult and accessibility of information limited. Support for certain requests were delayed due to the absence of the only individual who had knowledge and access to the support.

**Recommendation:** We recommend developing, adopting, and implementing policies and procedures throughout the organization. Written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A well-devised accounting manual can also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management.

**SAN DIEGO BLOOD BANK**  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2019

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A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees of some accounting functions management performs. In addition, identifying and documenting significant operational and accounting processes can help reduce operational inefficiencies due to the absence of key employees.

Questioned Costs: None

Views of Responsible Officials: Management agrees with the audit finding and a response is included in the corrective action plan.

**2019-004** Cash Receipts

Criteria: Duties should be segregated, where possible, to reduce the risk of errors or fraud.

Condition: Duties are not segregated in the cash receipts process.

Context: During review of the cash receipts process, for part of the year, we noted the accounts receivable (A/R) clerk opens mail, compiles checks, posts payments, and deposits payments. The only supervision of this process is a periodic review of the A/R aging schedule and review of a daily deposit list which does not contain detail of individual deposits.

Cause: There is no policy to segregate duties for key processes.

Effect: This lack of segregation of duties and oversight exposes the Blood Bank to error or fraud.

Recommendation: Proper segregation is not always possible in an organization with a small accounting department, but limited segregation to the extent possible can and should be implemented to reduce the risk of errors or fraud. We recommend that cash receipts be opened and controlled by a person independent of the person responsible for the accounts receivable subsidiary ledger. The accounts payable clerk could open the mail, endorse the checks, and prepare the deposit slip and daily list of receipts. The cash and deposit slip would then be forwarded to the controller for deposit. The daily list of receipts would be forwarded to the accounts receivable clerk to post to customer's accounts. Alternatively, we also recommend that management consider using a lockbox system for processing receipts. We recommend that management review the current assignment of accounting functions and, where possible, segregate duties to reduce the risk of errors or fraud.

Questioned Costs: None

Views of Responsible Officials: Management agrees with the audit finding and a response is included in the corrective action plan.

**2019-005** Journal Entries

Criteria: Part of a strong system of internal controls is review of journal entries as it provides segregation of duties between the individual posting the entry and the one conducting the review which can aid in preventing errors and fraud.

Condition: Journal entries posted by the Controller were not reviewed.

**SAN DIEGO BLOOD BANK**  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2019

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**Context:** Prior to the conversion of the accounting system, there was no review or approval process for journal entries. Since the conversion, Aldrich noted that within the accounting system, all journal entries posted by accountants must be reviewed and approved by the Controller, Chief Financial Officer, or Chief Executive Officer before they are posted. However, there is no review and approval process for journal entries posted by the Controller.

**Cause:** There is no policy to review journal entries posted by the Controller.

**Effect:** This lack of journal entry review exposes the Blood Bank to error or fraud.

**Recommendation:** We recommend adopting a policy of reviewing journal entries posted by the Controller which can be achieved by reviewing before posting or by reviewing entries posted on a weekly, monthly, or other regular basis. Documentation of the review should also be kept.

**Questioned Costs:** None

**Views of Responsible Officials:** Management agrees with the audit finding and a response is included in the corrective action plan.

**2019-006** Deferred Revenue

**Criteria:** Per US GAAP, revenue should be recognized when realized and earned, not necessarily when received. Generally, an organization records deferred revenue when it receives consideration from a customer before achieving certain criteria that must be met for revenue to be recognized in conformity with US GAAP.

**Condition:** During our audit, we identified a deferred revenue balance that should have been recognized as revenue in a prior period based billing, payment, and service detail for the customer. We also identified current period deferred revenues that should have been recognized by year-end.

**Context:** Prior year balances were not reviewed for continued appropriateness. In addition, an accounting system conversion during the year did not initially correctly capture all data from the prior system, which caused confusion when applying payments to customer balances.

**Cause:** Prepayments made by the customer were not recognized as good and services were exchanged due to delay in reconciliation.

**Effect:** Deferred revenue for was overstated since revenue was not recognized timely in accordance with US GAAP.

**Recommendation:** We recommend developing procedures to track customer prepayments and corresponding billings in order to align revenue recognition with when goods are provided or when services are performed. Accounts should be reconciled timely and reviewed consistently to avoid delay in recognition.

**Questioned Costs:** None

**Views of Responsible Officials:** Management agrees with the audit finding and a response is included in the corrective action plan.

**Section III – Federal Award Findings and Questioned Costs**

**2019-007** Procurement Policy

Criteria: Non-federal entities must follow the procurement standards set out at 2 CFR sections 200.318 through 200.326. They must use their own documented procurement procedures, which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal statutes and the procurement requirements identified in 2 CFR part 200.

Condition: During our audit, we inquired with management regarding their procurement policy and identified that the Blood Bank did not have an approved, documented procurement policy in place as of July 1, 2017, which was the required date.

Context: The procurement policy provides guidance and requirements that must be followed for all procurements, but specifically any procurements related to Federal awards.

Cause: Management was not aware of the requirement to have a written policy in place for procurement.

Effect: The Blood Bank was not in compliance with updated Uniform Guidance procurement requirements.

Recommendation: We recommend that the Blood Bank develop, adopt, and implement a procurement policy immediately in order to be in compliance with the Uniform Guidance.

Questioned Costs: None

Views of Responsible Officials: Management agrees with the audit finding and a response is included in the corrective action plan.

**2019-008** Suspension and Debarment Policy

Criteria: The Uniform Guidance requires that, for covered transactions, the non-Federal entity verify that entities are not suspended, debarred, or otherwise excluded.

Condition: During our audit, we inquired with management regarding their suspension and debarment policy and identified that the Blood Bank did not have a policy in place to ensure that their vendors are not suspended or debarred. Blood Bank has a vendor qualification policy in place, but it does not cover all of the required criteria in 2 CFR part 200

Context: Ensuring that the Blood Bank's vendors are not suspended or debarred should be part of the expense approval process, not only completed for new vendors. Auditors tested a selection of expenses to determine if any of the selected vendors were suspended or debarred. None were identified as suspended or debarred in this testing.

Cause: Management was not aware of the requirement to verify that vendors were not suspended or debarred.

Effect: The Blood Bank was not in compliance with Uniform Guidance requirements.

**SAN DIEGO BLOOD BANK**  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2019

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Recommendation: We recommend that the Blood Bank implement controls over compliance related to suspension and debarment.

Questioned Costs: None

Views of Responsible Officials: Management agrees with the audit finding and a response is included in the corrective action plan.

**2019-009** Payroll Approval

Criteria: The Uniform Guidance requires that the non-Federal entity verify time charged to Federal programs.

Condition: During our audit, we reviewed payroll attributed to the major program test and noted there was no review of time charged to the program.

Context: Time charged to the major program tested was tracked, but the hours were not reviewed and approved.

Cause: Management has no policy for review and approval of time charged to Federal programs.

Effect: The Blood Bank was not in compliance with Uniform Guidance requirements.

Recommendation: We recommend that the Blood Bank develop, adopt, and implement a review process over time charged to Federal programs to ensure the Blood Bank is in compliance with Uniform Guidance.

Questioned Costs: None

Views of Responsible Officials: Management agrees with the audit finding and a response is included in the corrective action plan.

**SAN DIEGO BLOOD BANK**  
**Schedule of Prior Year Findings**  
Year Ended June 30, 2019

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**Section IV – Schedule of Prior Year Findings**

No single audit was performed in the prior year.



January 21, 2020

Aldrich CPAs & Advisors LLP  
7676 Hazard Center Drive, Suite 1300  
San Diego, California 92108

RE: Corrective Action Plan

Dear Aldrich CPAs & Advisors LLP,

The following are responses to the findings in The San Diego Blood Bank audit for the year ended June 30, 2019:

**1. Finding 2019-001 Pension Reporting**

- a. Program Information: N/A
- b. Criteria: For pension accounting in accordance with US GAAP, the discount rate selected must reflect either the market rates currently applicable to settling the benefit obligation or the rates of return on high quality fixed income securities at the measurement date.
- c. Condition: During our audit, we inquired with management regarding their discount rate assumption used in the valuation of the defined-benefit pension plan and noted it was high given the guidance for setting assumptions under ASC 715 and current market conditions.

Response:

Management concurs with the finding and, for the June 30, 2019 audit report, has selected a discount rate from reliable published sources of timely and representative rates that it believes more accurately represents the Plan's valuation at the measurement date. Management intends to revisit the same or similar data sources for future valuation purposes.

**Contact person(s) responsible for corrective action:**

- 1. Dr. David Wellis, CEO
- 2. David W. Neal, CFO

**Completion date:** December 20, 2019

**2. Finding 2019-002 Donor Restrictions**

- a. Program Information: N/A
- b. Criteria: Per US GAAP, net assets are required to be reported based on the presence or absence of donor-imposed restrictions.
- c. Condition: During our audit, we noted that management does not have an established process to properly track donor intent when gifts are made and satisfaction of donor-imposed restrictions.

Response:

Management concurs with the finding and has established monthly meetings between the accounting department and foundation (development department) to track and reconcile new donor gifts and expenditures to ensure donor intent is followed. Management has segregated new donation activity into a separate bank account and releases those funds only upon identification of approved expenditures. New donations are categorized by fund and restriction when entered into the general ledger.

**Contact person(s) responsible for corrective action:**

- 1. David W. Neal, CFO
- 2. Jeanette Lysse, Controller
- 3. Sherry Serio, VP Development

**Completion date:** November 1, 2019



**3. Finding 2019-003 Policies and Procedures**

- a. Program Information: N/A
- b. Criteria: Organizations should adopt policies applicable to their organizational activities, should document and distribute them within their organization, and should ensure the security and accessibility of financial information.
- c. Condition: During our audit, we noted that some key policies have not been adopted, such as gift acceptance, policies and procedures are either not documented at all or not fully documented, and individual employees had the only access to key schedules supporting financial information.

**Response:**

Management concurs with the finding and is developing and implementing new policies and procedures to improve upon accuracy and timeliness when recording transactions. A written manual to assist with documentation, training and cross-training will be developed and updated as policies and procedures are added.

**Contact person(s) responsible for corrective action:**

1. David W. Neal, CFO
2. Jeanette Lysse, Controller

**Completion date:** Partial completion at December 31, 2019; Full manual completion intended for June 30, 2020; Continuous process improvement updates, as needed.

**4. Finding 2019-004 Cash Receipts**

- a. Program Information: N/A
- b. Criteria: Duties should be segregated, where possible, to reduce the risk of errors or fraud.
- c. Condition: Duties are not segregated in the cash receipts process.

**Response:**

Management acknowledges that, for the beginning part of current fiscal year, cash receipt logging was potentially at risk due to single party processing of data. Approximately mid-year, controls were implemented to segregate those duties. The accounts payable clerk now has primary responsibility for opening mail, with posting to customer accounts by the Accounts Receivable clerk, thus maintaining an appropriate separation of duties. Further, most incoming receipts now arrive via automated clearing house (ACH) or check to an offsite bank-maintained lockbox, with images and data downloaded by the accounts receivable clerk for posting to customer accounts, and subsequently transferred by the bank to the general operating account. Activity in the lockbox and general accounts is monitored daily, and the accounts are reconciled monthly by the Controller and reviewed by the Chief Financial Officer (CFO).

**Contact person(s) responsible for corrective action:**

1. David W. Neal, CFO
2. Jeanette Lysse, Controller

**Completion date:** July 1, 2019

**5. Finding 2019-005 Journal Entries**

- a. Program Information: N/A
- b. Criteria: Part of a strong system of internal controls is review of journal entries as it provides segregation of duties between the individual posting the entry and the one conducting the review which can aid in preventing errors and fraud.
- c. Condition: Journal entries posted by the Controller were not reviewed.

**Response:**

Management concurs with the finding and recognizes the importance of appropriate review of entries into the general ledger. With the onboarding of a new Chief Financial Officer in December 2019 (a position vacant for 4 months) adequate staffing levels and separation duties were restored. Processes now exist for entry and approval of general ledger information at all levels of input.

**Contact person(s) responsible for corrective action:**

1. David W. Neal, CFO
2. Jeanette Lysse, Controller

**Completion date:** December 2, 2019

**6. Finding 2019-006 Deferred Revenue**

- a. Program Information: N/A
- b. Criteria: Per US GAAP, revenue should be recognized when realized and earned, not necessarily when received. Generally, an organization records deferred revenue when it receives consideration from a customer before achieving certain criteria that must be met for revenue to be recognized in conformity with US GAAP.
- c. Condition: During our audit, we identified a deferred revenue balance that should have been recognized as revenue in a prior period based billing, payment, and service detail for the customer. We also identified current period deferred revenues that should have been recognized by year-end.

**Response:**

Management concurs with the finding and will institute a new procedure for recording and review of deferred revenue transactions and balances.

**Contact person(s) responsible for corrective action:**

1. David W. Neal, CFO
2. Jeanette Lysse, Controller

**Completion date:** March 31, 2020

**7. Finding 2019-007 Procurement Policy**

- a. Program Information: N/A
- b. Criteria: Non-federal entities must follow the procurement standards set out at 2 CFR sections 200.318 through 200.326. They must use their own documented procurement procedures, which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal statutes and the procurement requirements identified in 2 CFR part 200.
- c. Condition: During our audit, we inquired with management regarding their procurement policy and identified that the Blood Bank did not have an approved, documented procurement policy in place as of July 1, 2017, which was the required date.

**Response:**

Management concurs with the finding and is researching the applicable standards to create a documented policy and process over procurement. The research and documentation will be conducted jointly with Blood Bank's Quality Assurance and Compliance Department to ensure conformance with the requirements.

**Contact person(s) responsible for corrective action:**

1. David W. Neal, CFO
2. Jeanette Lysse, Controller
3. Helen Bixenman, VP Quality & Regulatory Affairs

**Completion date:** March 31, 2020

**8. Finding 2019-008 Suspension and Debarment Policy**

- a. Program Information: N/A
- b. Criteria: The Uniform Guidance requires that, for covered transactions, the non-Federal entity verify that entities are not suspended, debarred, or otherwise excluded.
- c. Condition: During our audit, we inquired with management regarding their suspension and debarment policy and identified that the Blood Bank did not have a policy in place to ensure that their vendors are not suspended or debarred. Blood Bank has a vendor qualification policy in place, but it does not cover all of the required criteria in 2 CFR part 200.

Response:

Management concurs with the finding and is researching the applicable standards to create a documented policy and process to ensure Blood Bank's conformance over vendor qualifications. The research and documentation will be conducted jointly with Blood Bank's Quality Assurance and Compliance Department to ensure conformance with the requirements.

**Contact person(s) responsible for corrective action:**

1. David W. Neal, CFO
2. Jeanette Lysse, Controller
3. Helen Bixenman, VP Quality & Regulatory Affairs

**Completion date:** March 31, 2020

**9. Finding 2019-009 Payroll Approval**

- a. Program Information: CFDA 93.310 Trans-NIH Research Support
- b. Criteria: The Uniform Guidance requires that the non-Federal entity verify time charged to Federal programs.
- c. Condition: During our audit, we reviewed payroll attributed to the major program test and noted there was no review of time charged to the program.

Response:

Management concurs with the finding and is researching the applicable standards to create a documented policy and process around review and approval of time charged to Federal programs. The research and documentation will be conducted jointly with Blood Bank's Quality Assurance and Compliance Department to ensure conformance with the requirements.

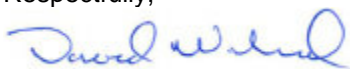
**Contact person(s) responsible for corrective action:**

1. David W. Neal, CFO
2. Jeanette Lysse, Controller
3. Helen Bixenman, VP Quality & Regulatory Affairs

**Completion date:** March 31, 2020

If there are additional questions or clarifications needed, please feel free to contact me via email ([dneal@sandiegobloodbank.org](mailto:dneal@sandiegobloodbank.org)) or phone (619.400.8235).

Respectfully,



David W. Neal  
Chief Financial Officer  
San Diego Blood Bank