

# San Diego Blood Bank

## Consolidated Financial Statements and Supplemental Information

Years Ended June 30, 2020 and 2019



**SAN DIEGO BLOOD BANK**  
**Consolidated Financial Statements and Supplemental Information**  
Years Ended June 30, 2020 and 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 comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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, 2020 and 2019, and the changes in their net assets and their cash flows for the years 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, errors related to consigned inventory and recovered plasma inventory resulting in an overstatement of net assets without donor restrictions as of June 30, 2018 were discovered during the current year. Also, errors related to accounts receivable, property and equipment, and deferred revenue resulting in an overstatement of net assets without donor restrictions as of June 30, 2019 were discovered during the current year. Accordingly, the amount reported for net assets without donor restrictions has been restated as of June 30, 2019 to correct the errors. Our opinion is not modified with respect to these matters.

## INDEPENDENT AUDITORS' REPORT, CONTINUED

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

#### Changes in Accounting Principles

As discussed in Note 1 to the consolidated financial statements, in 2020, San Diego Blood Bank adopted Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (ASC Topic 230): Restricted Cash*, ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASC Topic 715)*, and ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASC Topic 958)*. Our opinion is not modified with respect to these matters.

#### COVID-19 Pandemic

As described in Note 1 to the financial statements, on March 11, 2020 the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is unmodified with respect to that matter.

### ***Other Matters***

#### Other Information

Our audits were 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 December 4, 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  
December 4, 2020

**SAN DIEGO BLOOD BANK**  
**Consolidated Statements of Financial Position**  
June 30, 2020 and 2019

	2020	2019 (Restated)
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 2,397,248	\$ 677,948
Restricted cash	226,943	359,527
Investments	-	165,069
Accounts receivable, net of allowance for returns and doubtful accounts	6,003,393	5,626,128
Accounts receivable - COVID-19 convalescent plasma	346,680	-
Promises to give	5,000	21,000
Inventories, net of inventory obsolescence	1,482,636	1,309,733
Prepaid expenses and other assets	300,255	411,795
Total Current Assets	10,762,155	8,571,200
Property and Equipment, net of accumulated depreciation	21,521,128	21,558,225
Investments, net of current portion	517,033	385,464
Deposits and Other Assets	5,814	11,991
Total Assets	\$ 32,806,130	\$ 30,526,880
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts payable	\$ 3,842,665	\$ 4,339,346
Accrued payroll	1,680,446	1,876,351
Accrued expenses	421,700	99,990
Deferred revenue	431,365	632,698
Line of credit	2,620,134	2,890,000
Customer deposits	30,000	30,000
Donor recognition	1,309,417	1,195,384
Notes payable	1,116,575	455,482
Accrued pension	665,996	333,128
Total Current Liabilities	12,118,298	11,852,379
Notes Payable, net of current portion	10,790,245	9,184,363
Interest Rate Swap	708,376	468,945
Accrued Pension, net of current portion	8,733,476	5,094,255
Total Liabilities	32,350,395	26,599,942
Net Assets:		
Without donor restrictions:		
Undesignated	223,792	3,425,367
Board designated	-	117,191
Total Without Donor Restrictions	223,792	3,542,558
With donor restrictions	231,943	384,380
Total Net Assets	455,735	3,926,938
Total Liabilities and Net Assets	\$ 32,806,130	\$ 30,526,880

**SAN DIEGO BLOOD BANK**  
**Consolidated Statement of Activities**  
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:			
Blood and blood components	\$ 35,764,557	\$ -	\$ 35,764,557
Research products	2,380,476	-	2,380,476
Revenue from government contracts	1,030,920	-	1,030,920
Contributions	204,050	585,584	789,634
Lease income	600,919	-	600,919
COVID-19 convalescent plasma	492,180	-	492,180
Other	246,860	-	246,860
Cell therapy	110,585	-	110,585
Net assets released from restrictions	738,021	(738,021)	-
<b>Total Revenue and Support</b>	<b>41,568,568</b>	<b>(152,437)</b>	<b>41,416,131</b>
Operating Expenses:			
Program services:			
Blood banking	31,072,563	-	31,072,563
Cell therapy and research	2,665,624	-	2,665,624
Supporting services:			
Management and general	6,308,503	-	6,308,503
Fundraising	381,860	-	381,860
<b>Total Operating Expenses</b>	<b>40,428,550</b>	<b>-</b>	<b>40,428,550</b>
<b>Income (Loss) from Operations</b>	<b>1,140,018</b>	<b>(152,437)</b>	<b>987,581</b>
Nonoperating Revenue (Expenses):			
Pension related changes other than net periodic pension cost	(4,304,922)	-	(4,304,922)
Change in fair value of interest rate swaps	(239,431)	-	(239,431)
Unrealized gain on investments	85,569	-	85,569
<b>Total Nonoperating Expenses</b>	<b>(4,458,784)</b>	<b>-</b>	<b>(4,458,784)</b>
<b>Change in Net Assets</b>	<b>(3,318,766)</b>	<b>(152,437)</b>	<b>(3,471,203)</b>
Net Assets, beginning	3,542,558	384,380	3,926,938
Net Assets, ending	\$ 223,792	\$ 231,943	\$ 455,735

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

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:			
Blood and blood components	\$ 33,694,152	\$ -	\$ 33,694,152
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>38,628,984</b>	<b>(22,848)</b>	<b>38,606,136</b>
Operating Expenses:			
Program services:			
Blood banking	29,884,392	-	29,884,392
Cell therapy and research	2,502,089	-	2,502,089
Supporting services:			
Management and general	6,418,215	-	6,418,215
Fundraising	382,076	-	382,076
<b>Total Operating Expenses</b>	<b>39,186,772</b>	<b>-</b>	<b>39,186,772</b>
<b>Loss from Operations</b>	<b>(557,788)</b>	<b>(22,848)</b>	<b>(580,636)</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 investments	(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>(1,735,231)</b>	<b>(22,848)</b>	<b>(1,758,079)</b>
Net Assets, beginning as previously stated	5,734,833	407,228	6,142,061
Restatement	(457,044)	-	(457,044)
Net Assets, beginning as restated	5,277,789	407,228	5,685,017
Net Assets, ending	<u>\$ 3,542,558</u>	<u>\$ 384,380</u>	<u>\$ 3,926,938</u>

**SAN DIEGO BLOOD BANK**  
**Consolidated Statement of Functional Expenses**  
Year Ended June 30, 2020

	Program Services		Supporting Services		Total
	Blood Banking	Cell Therapy and Research	Management and General	Fundraising	
Salaries, related costs and benefits	\$ 15,313,942	\$ 1,585,824	\$ 3,764,872	\$ 281,605	\$ 20,946,243
Supplies	4,920,850	423,012	43,000	3,717	5,390,579
Testing	4,644,247	31,317	-	-	4,675,564
Facility and equipment	1,405,832	400,819	433,320	5,415	2,245,386
Shipping	1,308,819	8,806	-	15	1,317,640
Depreciation	878,739	71,833	317,010	15,589	1,283,171
Marketing	700,963	19,056	48,328	26,249	794,596
Interest	374,549	30,169	179,604	8,228	592,550
Legal and settlements	-	3,030	544,208	-	547,238
Lease	540,845	-	-	-	540,845
Information technology	186,614	-	282,527	295	469,436
Insurance	214,354	11,864	65,798	3,236	295,252
Vehicle	287,559	-	-	-	287,559
Consultant	86,876	23,994	152,879	17,374	281,123
Miscellaneous	17,463	21,587	144,583	13,876	197,509
Taxes	-	-	175,767	-	175,767
Travel	89,929	28,589	27,298	2,342	148,158
Dues and subscriptions	74,938	1,744	51,841	3,919	132,442
Contract services	26,044	3,980	59,128	-	89,152
Bank and brokerage fees	-	-	18,340	-	18,340
<b>Total Expenses</b>	<b>\$ 31,072,563</b>	<b>\$ 2,665,624</b>	<b>\$ 6,308,503</b>	<b>\$ 381,860</b>	<b>\$ 40,428,550</b>

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

	Program Services		Supporting Services		Total
	Blood Banking	Cell Therapy and Research	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	897,325	4,888	1,795,088
Depreciation	965,568	65,910	365,501	17,975	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	121,700	-	134,806	-	256,506
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>\$ 29,884,392</b>	<b>\$ 2,502,089</b>	<b>\$ 6,418,215</b>	<b>\$ 382,076</b>	<b>\$ 39,186,772</b>

**SAN DIEGO BLOOD BANK**  
**Consolidated Statements of Cash Flows**  
Years Ended June 30, 2020 and 2019

	2020	2019 (Restated)
Cash Flows from Operating Activities:		
Change in net assets	\$ (3,471,203)	\$ (1,758,079)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,283,171	1,414,954
Unrealized loss on investments	33,500	6,015
Gain on disposal of property and equipment	(396)	-
Change in fair value of interest rate swaps	239,431	282,925
Changes in operating assets and liabilities:		
Accounts receivable, net	(377,265)	(526,113)
Accounts receivable - COVID-19 convalescent plasma	(346,680)	-
Promises to give	16,000	(21,000)
Inventories, net	(172,903)	(72,377)
Prepaid expenses and other assets	111,540	28,841
Deposits and other assets	6,177	(9,268)
Accounts payable	(496,681)	(667,026)
Accrued payroll	(195,905)	174,788
Accrued expenses	321,710	99,990
Deferred revenue	(201,333)	632,698
Advanced blood deposits	-	30,000
Donor recognition	114,033	(292,516)
Accrued pension	3,972,089	888,503
Net Cash Provided by Operating Activities	<u>835,285</u>	<u>212,335</u>
Cash Flows from Investing Activities:		
Purchases of property and equipment	(1,247,928)	(297,818)
Proceeds from sale of property and equipment	2,250	-
Purchases of investments	-	(13,445)
Net Cash Used by Investing Activities	<u>(1,245,678)</u>	<u>(311,263)</u>
Cash Flows from Financing Activities:		
Proceeds on line of credit	530,134	850,000
Payments on line of credit	(800,000)	-
Proceeds from notes payable	2,745,570	231,192
Payments on notes payable	(478,595)	(485,465)
Net Cash Provided by Financing Activities	<u>1,997,109</u>	<u>595,727</u>
Net Increase in Cash and Cash Equivalents and Restricted Cash	1,586,716	496,799
Cash and Cash Equivalents and Restricted Cash, beginning	<u>1,037,475</u>	<u>540,676</u>
Cash and Cash Equivalents and Restricted Cash, ending	<u>\$ 2,624,191</u>	<u>\$ 1,037,475</u>
Cash and Cash Equivalents and Restricted Cash Consists of:		
Cash and cash equivalents	\$ 2,397,248	\$ 677,948
Restricted cash	<u>226,943</u>	<u>359,527</u>
	<u>\$ 2,624,191</u>	<u>\$ 1,037,475</u>

See accompanying notes to consolidated financial statements.

**SAN DIEGO BLOOD BANK**  
**Consolidated Statements of Cash Flows, continued**  
Years Ended June 30, 2020 and 2019

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Supplemental Disclosures of Cash Flow Information:

Cash paid for interest	\$ <u>548,331</u>	\$ <u>595,096</u>
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**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Years Ended June 30, 2020 and 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 was 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. Neighbor Savers was dissolved during the year ended June 30, 2020.

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 Pronouncements

In November 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-18, *Statement of Cash Flows (ASC Topic 230): Restricted Cash*. This standard update clarifies the presentation of restricted cash in the consolidated statements of cash flows. During the year ended June 30, 2020, the Blood Bank adopted ASU 2016-18, *Statement of Cash Flows (ASC Topic 230): Restricted Cash*.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASC Topic 715)*. This standard update was issued primarily to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The amendments in this update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the consolidated statement of activities separately from the service cost component and outside a subtotal of change in net assets from operating activities, if one is presented.

Management analyzed the provisions of ASC Topic 715, and has concluded that no changes are necessary to conform with the new standard and the standard has not had a significant impact on the consolidated financial statements. Management presents service cost related to the postretirement plan as a portion of the employee benefits and all other components as pension and postretirement benefit cost amortization as shown in the consolidated statements of functional expenses for the years ended June 30, 2020 and 2019.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASC Topic 958)*. This standard update, along with related subsequently issued updates, clarifies and improves the scope and the accounting guidance for contributions received and contributions made under accounting principles generally accepted in the United States of America (US GAAP). During the year ended June 30, 2020, the Blood Bank adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASC Topic 958)*.

Management analyzed the provisions of ASC Topic 958 and has concluded that no changes are necessary to conform to the new standard and has implemented the new standard on a modified prospective basis.

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Years Ended June 30, 2020 and 2019

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

Financial Statement Presentation

The consolidated financial statements of the Blood Bank have been prepared in accordance with US GAAP, which require the Blood Bank to report information regarding their consolidated 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 years ended June 30, 2020 and 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 statements 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.

Cash and Cash Equivalents

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

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.

Cash with donor-imposed restrictions is reported as restricted cash.

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 returns and doubtful accounts for uncollectible amounts. The allowance for returns and doubtful accounts was \$95,325 and \$681 at June 30, 2020 and 2019, respectively.

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, excluding distribution costs. 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 \$0 and \$25,336 at June 30, 2020 and 2019, respectively.

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Years Ended June 30, 2020 and 2019

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

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 statements 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 statements 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 years ended June 30, 2020 and 2019.

Compensated Absences

Accumulated paid time off totaling \$1,248,406 and \$1,180,394 at June 30, 2020 and 2019, respectively, is accrued when incurred and included in accrued payroll.

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 years ended June 30, 2020 and 2019, \$154,028 and \$689,140 of donor points were written off due to expiration, respectively. The Blood Bank plans to terminate the program by December 31, 2020.

Revenue Recognition

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 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. All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the 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 statements of activities as net assets released from restrictions.

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
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**Note 1 – Blood Bank and Summary of Significant Accounting Policies, continued**

Revenue Recognition, continued

The Blood Bank recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Grants and conditional promises to give – that are, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

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 statements 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 statements of financial position as either an asset or liability as measured at its fair value. The Blood Bank's interest rate swap agreements (IRSA) as discussed in Note 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, 2020 and 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.

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

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 468,945	\$ 186,020
Change in Fair Value of Obligation Under Interest Rate Swaps	<u>239,431</u>	<u>282,925</u>
Balance, end of year	<u>\$ 708,376</u>	<u>\$ 468,945</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, related costs and benefits, which are allocated on the basis of supportable estimates of time and effort.

**SAN DIEGO BLOOD BANK**  
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**Note 1 – Blood Bank and Summary of Significant Accounting Policies, continued**

Income Taxes

The San Diego 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 years ended June 30, 2020 and 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 statements of activities, when applicable. Management has determined that the Blood Bank has no uncertain tax positions at June 30, 2020 and 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.

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, 2020 and 2019, due to the relative short maturities of these instruments.

**SAN DIEGO BLOOD BANK**  
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**Note 1 – Blood Bank and Summary of Significant Accounting Policies, continued**

Future Accounting Standards

The FASB has issued two 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, effective July 1, 2020. This assessment includes determining the effect of the new standard on the Blood Bank’s consolidated financial statements, accounting systems, business processes, and internal controls. 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. The Blood Bank is evaluating the effect that the provisions of ASU 2014-09 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 consolidated 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 consolidated 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, 2021. 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 consolidated 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 December 4, 2020, which is the date the consolidated financial statements were available to be issued.

**Note 2 – Liquidity and Availability**

The following reflects the Blood Bank’s financial assets as of the consolidated statements of financial position dates, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statements of financial position dates. 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.

	2020	2019
Cash and cash equivalents	\$ 2,397,248	\$ 677,948
Investments	-	165,069
Accounts receivable, net of allowance for returns and doubtful accounts	6,003,393	5,626,128
Accounts receivable - COVID-19 convalescent plasma	346,680	-
Promises to give	5,000	21,000
	<hr/>	<hr/>
Total Financial Assets	8,752,321	6,490,145
Less amounts not available to be used within one year:		
Board designated fund	-	(117,191)
	<hr/>	<hr/>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>8,752,321</u>	\$ <u>6,372,954</u>

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Years Ended June 30, 2020 and 2019

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**Note 2 – Liquidity and Availability, continued**

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 statements 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.

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, 2020 and 2019. The Blood Bank's allowance for returns and doubtful accounts has historically been adequate to cover existing credit risks. The Blood Bank had two customers that comprised 23% and 15% of total accounts receivable during the years ended June 30, 2020 and 2019, respectively.

Promises to Give

During the years ended June 30, 2020 and 2019, the Blood Bank had one and two donors that comprised 100% and 84% of total promises to give, respectively.

Revenue

During the years ended June 30, 2020 and 2019, the Blood Bank had one customer that comprised 12% and 17% of total revenue, respectively.

Revenue from Government Contracts

During the years ended June 30, 2020 and 2019, the Blood Bank had one grantor that comprised 100% of total revenue from government contracts.

Contributions

During the years ended June 30, 2020 and 2019, the Blood Bank had two donors that comprised 30% and 33% of total contributions, respectively.

Labor Subject to Collective Bargaining Agreements

Nurses employed by the Blood Bank are subject to a collective bargaining agreement which expires September 30, 2020. Nurses account for approximately 11% of the labor force employed by the Blood Bank.

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Years Ended June 30, 2020 and 2019

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**Note 4 – Promises to Give**

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

	2020	2019
Due in less than one year	\$ 5,000	21,000
Due in one to five years	-	3,853
	<u>\$ 5,000</u>	<u>24,853</u>

Long-term promises to give are included in deposits and other assets on the consolidated statements of financial position. No discount was considered necessary at June 30, 2020 and 2019 due to the minimal effect it would have on the consolidated financial statements. No allowance was considered necessary at June 30, 2020 and 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, 2020 and 2019. The Blood Bank owns approximately 3% of BCA. The investment in BCA was valued at \$488,683 and \$340,969 at June 30, 2020 and 2019, respectively.

National Blood Collaborative, LLC

The Blood Bank is one of the founding members of National Blood Collaborative, LLC (NBC), a national network of leading blood centers coming together to provide capacity to respond to the increasing economic demands of hospitals and healthcare systems across the United States. The Blood Bank owns approximately 14% of NBC. The investment in NBC was valued at \$28,350 and \$44,495 at June 30, 2020 and 2019, respectively.

Investments consist of the following as of June 30, 2020:

	Level 1	Level 2	Level 3	NAV	Total
Investment equity - BCA	\$ -	\$ -	\$ -	\$ 488,683	\$ 488,683
Investment equity - NBC	-	-	-	28,350	28,350
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 517,033</u>	<u>\$ 517,033</u>

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Years Ended June 30, 2020 and 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	-	-	-	340,969	340,969
Investment equity - NBC	-	-	-	44,495	44,495
	<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:

	2020	2019
Building and improvements	\$ 16,080,927	\$ 15,860,837
Land	6,565,063	6,565,063
Equipment, furniture, and fixtures	5,330,551	4,351,415
Vehicles	3,456,883	3,600,611
Data processing equipment	2,260,592	2,220,026
Software	534,473	534,473
Construction-in-progress	227,174	221,566
	<u>34,455,663</u>	<u>33,353,991</u>
Less accumulated depreciation	<u>(12,934,535)</u>	<u>(11,795,766)</u>
	<u>\$ 21,521,128</u>	<u>\$ 21,558,225</u>

**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 (6.00% and 6.50% at June 30, 2020 and 2019, respectively). 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.

**SAN DIEGO BLOOD BANK**  
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**Note 8 – Notes Payable**

Notes payable consists of the following at June 30:

	2020	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%, (1.620% and 3.432% at June 30, 2020 and 2019, respectively), 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 \$27,383 and \$28,340 at June 30, 2020 and 2019, respectively.	\$ 8,053,755	\$ 8,307,092
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 \$2,587 and \$2,709 at June 30, 2020 and 2019, respectively.	694,288	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%, (2.023% and 4.290% at June 30, 2020 and 2019, respectively), 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 \$1,148 and \$1,184 at June 30, 2020 and 2019, respectively.	273,446	281,302
Various notes payable which are held by various lenders which originated October 15, 2015 through June 1, 2020 in the original amount of \$750,746 and bear interest from 0% to 10%. Principal is payable monthly beginning October 15, 2015 through June 1, 2020 and is due September 5, 2018 through January 1, 2025. Secured by equipment.	324,531	289,190
Note payable under the Paycheck Protection Program (PPP) which is held by City National Bank was approved by the Small Business Administration on April 13, 2020, in the original amount of \$2,560,800 and bears interest at 1% per annum. Principal and interest are due in monthly principal and interest payments, net of any amounts forgiven, over 24 months. There are no prepayment penalties and the loan is unsecured. The Blood Bank intends to request forgiveness for loan proceeds used to pay qualifying expenses.	2,560,800	-
	11,906,820	9,639,845
Less current portion	(1,116,575)	(455,482)
	\$ 10,790,245	\$ 9,184,363

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Years Ended June 30, 2020 and 2019

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**Note 8 – Notes Payable, continued**

The Blood Bank is subject to compliance with certain debt covenants. Non-operating expenses caused certain covenants to be out of compliance at June 30, 2020. Late submission of the annual audit report caused a covenant to be out of compliance at June 30, 2019. The Blood Bank received waivers for covenant non-compliance for the years ended June 30, 2020 and 2019.

Future principal payments on notes payable as of June 30, 2020 are as follows:

Year Ending June 30,	
2021	\$ 1,116,575
2022	2,370,499
2023	422,154
2024	7,442,724
2025	60,617
Thereafter	<u>494,251</u>
	<u>\$ 11,906,820</u>

**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% per annum, respectively, through the termination date of January 1, 2024.

The fair value of the IRSA's are recorded on the consolidated statements of financial position as either an asset or liability at fair value with changes in the fair value recorded as a change in net assets in the period of the change. Accrued interest payable totaled \$28,531 and \$29,524 at June 30, 2020 and 2019, respectively.

**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 \$332,833 and \$309,136 to the Plan for the years ended June 30, 2020 and 2019, respectively. The Plan's assets are invested in an annuity contract with an insurance company and a diversified portfolio of stocks and bonds. The annual periodic benefit cost totaling \$396,661 and \$297,059 for the years ended June 30, 2020 and 2019, respectively, has been included in salaries, related costs and benefits in the consolidated statements of functional expenses.

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Years Ended June 30, 2020 and 2019

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**Note 10 – Pension Plan, continued**

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

	<u>2020</u>	<u>2019</u>
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 25,060,571	\$ 23,883,998
Interest cost	927,811	984,151
Benefit paid	(2,181,859)	(1,170,669)
Actuarial loss	3,611,137	1,363,091
Benefit obligation at end of year	<u>\$ 27,417,660</u>	<u>\$ 25,060,571</u>
Change in Plan Assets:		
Plan assets at beginning of year	\$ 19,633,188	\$ 19,345,118
Actual return on plan assets	234,026	1,149,603
Employer contributions	332,833	309,136
Benefits paid	(2,181,859)	(1,170,669)
Plan assets at end of year	<u>\$ 18,018,188</u>	<u>\$ 19,633,188</u>
Funded Status Plan at End of Year (Underfunded):		
Pension Liability	<u>\$ (9,399,472)</u>	<u>\$ (5,427,383)</u>

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:

	<u>2020</u>	<u>2019</u>
Unrecognized Net Actuarial Loss	<u>\$ 12,108,045</u>	<u>\$ 8,083,082</u>

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

	<u>2020</u>	<u>2019</u>
Discount rate	2.6%	3.8%
Expected return on plan assets	7.0%	7.0%
Rate of compensation increase	N/A	N/A

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

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
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**Note 10 – Pension Plan, continued**

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

	<u>2020</u>	<u>2019</u>
Service cost	\$ -	\$ -
Interest cost	927,811	984,151
Expected return on assets net of expenses	(1,046,211)	(1,149,603)
Deferral of assets loss	<u>398,359</u>	<u>462,511</u>
Net Periodic Pension Cost	<u>\$ 279,959</u>	<u>\$ 297,059</u>

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

	<u>2020</u>	<u>2019</u>
Assumption loss at end of year	\$ 780,523	\$ 398,359
Asset loss at end of year	<u>(398,359)</u>	<u>(462,511)</u>
Total Recognized in Non-operating Revenues (Expenses)	<u>\$ 382,164</u>	<u>\$ (64,152)</u>
Total Recognized in Net Periodic Benefit Cost	<u>\$ 662,123</u>	<u>\$ 232,907</u>

Plan assets by category at June 30:

	<u>2020</u>	<u>2019</u>
Equity securities and mutual funds	59%	57%
Debt securities and mutual funds	22%	37%
Other	<u>19%</u>	<u>6%</u>
	<u>100%</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.

Current policies for the plan target an asset mix of 65 percent in total equity securities and the remainder in fixed income securities.

The Blood Bank expects to make contributions totaling \$665,996 to the Plan for the year ended June 30, 2021.

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Years Ended June 30, 2020 and 2019

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**Note 10 – Pension Plan, continued**

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

Year Ending June 30,		
2021	\$	1,219,537
2022	\$	1,269,624
2023	\$	1,320,562
2024	\$	1,363,924
2025	\$	1,372,082
2026-2030	\$	7,184,841

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:

	2020	2019
Purpose restrictions:		
Core services - fleet of lifesaving vehicles	\$ 130,381	\$ 165,069
Greatest need - vehicles and equipment	36,482	-
Core services - apheresis machines	29,091	129,480
Precision medicine - critical equipment	15,808	50,000
Core services - critical equipment	10,181	9,978
Boy Scouts blood drives	5,000	5,000
	<u>226,943</u>	<u>359,527</u>
Time restricted:		
Core services - apheresis machines	5,000	-
Core services - blood collection	-	15,000
Greatest need	-	9,853
	<u>5,000</u>	<u>24,853</u>
	<u>\$ 231,943</u>	<u>\$ 384,380</u>

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Years Ended June 30, 2020 and 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 years ended June 30:

	<u>2020</u>	<u>2019</u>
Satisfaction of purpose restrictions:		
Core services - apheresis machines	\$ 498,976	\$ -
Core services - fleet of lifesaving vehicles	180,000	29,407
Precision medicine - critical equipment	34,192	-
Core services - critical equipment	-	35,375
Core services - blood collection	-	54,918
	<u>713,168</u>	<u>119,700</u>
Satisfaction of time restrictions:		
Core services - blood collection	15,000	30,000
Greatest need	9,853	281,355
	<u>24,853</u>	<u>311,355</u>
	<u>\$ 738,021</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 August 31, 2025 and is automatically renewed for four additional five-year terms unless written notice of intent to terminate is made. The Blood Bank leases a portion of its building to an unrelated party under an operating lease which expires on January 31, 2025, and provides for two renewal options through January 31, 2027. Lease income totaled \$600,919 and \$561,963 for the years ended June 30, 2020 and 2019, respectively.

Future minimum lease income as of June 30, 2020 is as follows:

<u>Year Ending June 30,</u>	
2021	\$ 578,363
2022	88,266
2023	90,039
2024	91,866
2025	60,220
Thereafter	<u>-</u>
	<u>\$ 908,754</u>

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Years Ended June 30, 2020 and 2019

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**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 up to 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. The plan was terminated during the year ended June 30, 2020. The Blood Bank contributed \$349,349 and \$57,694 to these retirement plans for the years ended June 30, 2020 and 2019, respectively, which is included in salaries, related costs and benefits on the consolidated statements of functional expenses.

Operating Leases

The Blood Bank has several non-cancelable operating leases for facilities that expire at various dates through October 2024. These leases generally contain renewal options for periods ranging from five to ten years and require the Blood Bank to pay common area maintenance charges. Leases and common area maintenance charges for these leases totaled \$540,845 and \$667,277 for the years ended June 30, 2020 and 2019, respectively.

Minimum future lease payments as of June 30, 2020 are due as follows:

Year Ending June 30,		
2021	\$	433,034
2022		367,574
2023		242,409
2024		130,075
Thereafter		-
	\$	<u>1,173,092</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.

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. Due to restrictions on local government issued construction permits, and limitations on availability of labor and facility access by laborers – all resulting from COVID-19 health restrictions – the improvement project has been delayed. No penalties are anticipated because of the delays.

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. Due to limitations on parts availability and availability of laborers – all resulting from COVID-19 health restrictions – manufacturing progress payments have been delayed and anticipated delivery of the bloodmobiles has been extended.

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

Sales Commitments

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

Loss Contingencies

Blood Bank is involved with two pending lawsuits for activity that took place prior to June 30, 2020. While those lawsuits have not been settled, management has determined that the loss is probable and can reasonably estimate an amount. Therefore, a loss contingency of \$421,700 has been accrued as of June 30, 2020 and has been included in accrued expenses on the consolidated statements of financial position.

**Note 14 – Subsequent Events**

In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. In response, the U.S. Government enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which includes significant provisions to provide relief and assistance to affected organizations. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of business closures, shelter-in-place orders, and the ultimate impact of the CARES Act and other governmental initiatives. It is at least reasonably possible that this matter will negatively impact the Blood Bank. However, the financial impact and duration cannot be reasonably estimated at this time.

COVID-19 health challenges resulted in new revenue streams for the Blood Bank through collection and distribution of COVID-19 Convalescent Plasma (CCP) under a government-sponsored program. Originally expected to end in October 2020, the program has been extended to at least March 2021 at reimbursement rates higher than anticipated. Research revenues also expanded through collaborations with local bio-research organizations interested in blood antibody testing.

**Note 15 – Financial Condition**

The Blood Bank had total net assets without donor restriction of \$223,792 at June 30, 2020, negative working capital of \$1,356,143 and net cash inflows from operating activities of \$835,285. To address the additional future funding requirements, primarily for the Blood Bank's long-term liabilities, since June 30, 2020 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
- Implemented a pension risk transfer strategy to reduce the short and long-term liabilities of the defined benefit pension plan
- Focus on reduction of accounts payable, line of credit and other short-term liabilities
- Submit application for forgiveness of Paycheck Protection Program loan proceeds of \$2,560,800
- Refine existing and develop new revenue streams around pandemic health initiatives

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.

**SAN DIEGO BLOOD BANK**  
**Notes to Consolidated Financial Statements**  
Years Ended June 30, 2020 and 2019

**Note 16 – Prior Period Adjustments**

During 2020, an internal inventory count resulted in the conclusion that the Blood Bank did not own rights or title to consigned inventory. The effect of this change decreased net assets without donor restrictions by \$422,370 as of June 30, 2018.

During 2020, an internal inventory count resulted in the conclusion that there was a discrepancy in recovered plasma inventory. The effect of this change decreased net assets without donor restrictions by \$34,674 as of June 30, 2018.

The effect of the restatements on the balance of net assets without donor restrictions as of June 30, 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions
Net assets, as previously stated	\$ 5,734,833	\$ 407,228
Restatement due to:		
Write-off of consigned inventory	(422,370)	-
Write-off of recovered plasma inventory	(34,674)	-
Net assets, as restated	<u>\$ 5,277,789</u>	<u>\$ 407,228</u>

During 2020, an accounts receivable balance of \$77,506 previously recorded was determined to not have existed, a property and equipment balance of \$97,317 previously capitalized was determined to be an expense, and a deferred revenue balance of \$505,000 previously considered to be earned was determined to not have been earned. The effect of these changes decreased net assets without donor restrictions by \$679,823 as of June 30, 2019.

The effect of the restatements on the change in net assets without donor restrictions and consolidated financial position, as of and for the year ended June 30, 2019 are as follows:

	As Previously Stated	Restatement	As Restated
Consolidated Statement of Financial Position:			
Accounts receivable, net of			
allowance for returns and doubtful accounts	\$ 5,703,634	\$ (77,506)	\$ 5,626,128
Property and equipment	\$ 21,655,542	\$ (97,317)	\$ 21,558,225
Deferred revenue	\$ 127,698	\$ 505,000	\$ 632,698
Net assets without donor restrictions	\$ 4,222,381	\$ (679,823)	\$ 3,542,558
Consolidated Statement of Activities:			
Blood and blood components revenue	\$ 34,276,658	\$ (582,506)	\$ 33,694,152
Supporting services - management and general	\$ 6,320,898	\$ 97,317	\$ 6,418,215
Change in net assets without donor restrictions	\$ (1,055,408)	\$ (679,823)	\$ (1,735,231)
Consolidated Statement of Functional Expenses:			
Facility and equipment expenses	\$ 1,697,771	\$ 97,317	\$ 1,795,088

**Note 17 – Reclassifications**

Certain amounts in the June 30, 2019 consolidated financial statements have been reclassified to conform to current year classifications. Specifically, prepaid expenses and other assets, deposits and other assets, accrued pension, and notes payable in the consolidated statements of financial position, information technology and depreciation in the consolidated statements of functional expenses. There was no impact on net assets or the changes in net assets from the reclassifications.

**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, 2020, 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 December 4, 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) as a basis for designing 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.

*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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a material weakness.

**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 financial statements. 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**

**San Diego 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 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  
December 4, 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, 2020. 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; 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 the 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, 2020.

**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.

**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, continued**

*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 a 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 2020-002 (Recurring), 2020-003 (Recurring), 2020-004 (Recurring), and 2020-005, 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  
December 4, 2020

**SAN DIEGO BLOOD BANK**  
**Schedule of Expenditures of Federal Awards**  
Year Ended June 30, 2020

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>950,120</u>
Total Expenditures of Federal Awards			\$ <u><u>950,120</u></u>

**SAN DIEGO BLOOD BANK**  
**Notes to Schedule of Expenditures of Federal Awards**  
Year Ended June 30, 2020

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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, 2020

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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?	No
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, 2020

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**Section II - Consolidated Financial Statement Findings**

<b>2020-001</b>	Year-End Financial Close Process
Criteria:	Organizations should develop and adopt closing procedures that facilitate accurate and timely reporting.
Condition:	During the audit, there were 34 adjusting and reclassifying journal entries, 16 of which were client-provided, and four of which were prior period adjustments. Substantially all of the entries were to correct bookkeeping errors or to make accruals that should have been made by the accounting department.
Context:	The Blood Bank has grown over the years and is at a size which necessitates robust closing procedures in order to facilitate accurate and timely reporting.
Cause:	Management's current closing procedures do not facilitate accurate and timely reporting.
Effect:	The results were delays in producing closing entries, reconciliations, account analyses, and other financial reports needed by management and the auditors.
Recommendation:	We recommend developing a more robust closing schedule that indicates which individuals will perform each procedure and when completion of each procedure is due and accomplished.
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**

**2020-002 (Recurring) 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.

**2020-003 (Recurring) 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, 2020

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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.

**2020-004 (Recurring) Payroll Approval**

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

Condition: During our audit, we tested payroll attributed to the major program, and while management implemented a policy to review time charged to the major program, review and approval was not consistently documented.

Context: Time charged to the major program tested was tracked, but review and approval was not consistently documented. Therefore, review and approval was not able to be verified for all pay periods under audit.

Cause: Management has a policy for review and approval of time charged to Federal programs, but documentation was not consistent.

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 that is consistently documented 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.

**2020-005 Cash Management**

Criteria: Non-federal entities must establish written procedures to implement the requirements of 2 CFR section 200.302(b)(6)). Program costs must be paid by non-federal entity funds before submitting a payment request (2 CFR section 200.305(b)(3)).

Condition: During our audit, we identified that the Blood Bank did not have an approved, documented cash management policy in place. Additionally, 14 out of 20 disbursements tested were not paid by the Blood Bank before requesting for reimbursement.

Context: While management does review for the allowability of expenses charged to the program by viewing supporting documentation, this review does not include ensuring payment has been made.

**SAN DIEGO BLOOD BANK**  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2020

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Cause: Management does not have an established cash management policy or process to ensure amounts have been paid with the organization's funds prior to the reimbursement request.

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

Recommendation: We recommend that the Blood Bank establish a written policy for cash management which aligns with federal requirements and implement controls to review supporting documents/schedules/reports to ensure amounts have been paid with the organization's funds prior to the reimbursement request.

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, 2020

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

<b>2019-001</b>	Pension Reporting
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.
Status:	Management is using discount rates that are representative of actual market conditions.
<b>2019-002</b>	Donor 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.
Status:	A process to track donor restrictions and satisfaction of donor-imposed restrictions has been implemented.
<b>2019-003</b>	Policies and Procedures
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.
Status:	Management has adopted key policies and procedures and is in the process of formally documenting them.
<b>2019-004</b>	Cash Receipts
Condition:	Duties are not segregated in the cash receipts process.
Status:	There were no similar findings for the year ended June 30, 2020.
<b>2019-005</b>	Journal Entries
Condition:	Journal entries posted by the Controller were not reviewed.
Status:	There were no similar findings for the year ended June 30, 2020.
<b>2019-006</b>	Deferred Revenue
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.
Status:	There were no similar findings for the year ended June 30, 2020.

**SAN DIEGO BLOOD BANK**  
**Schedule of Prior Year Findings**  
Year Ended June 30, 2020

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**2019-007**

Procurement Policy

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.

Status:

A procurement policy that is in line with current standards has not been adopted. See finding 2020-002 on the Statement of Findings and Questioned Costs.

**2019-008**

Suspension and Debarment Policy

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

Status:

Management is in the process of developing and documenting a suspension and debarment policy that is in line with current standards. See finding 2020-003 on the Statement of Findings and Questioned Costs.

**2019-009**

Payroll Approval

Condition:

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

Status:

A process has been implemented to review time charged to the federal award programs. However, this process was not in place for the entire year and is not documented. See finding 2020-004 on the Statement of Findings and Questioned Costs.



December 4, 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, 2020:

**1. Finding 2020-001 Year-End Financial Close Process**

- a. Program Information: N/A
- b. Criteria: Organizations should develop and adopt closing procedures that facilitate accurate and timely reporting.
- c. Condition: During the audit, there were 34 adjusting and reclassifying journal entries, 16 of which were client-provided. Substantially all of the entries were to correct bookkeeping errors or to make accruals that should have been made by the accounting department.

Response:

Management acknowledges the finding and will implement additional processes and procedures to reduce the number of adjustments.

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

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

**Completion date:** December 31, 2020

**2. Finding 2020-002 (Recurring) 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 acknowledges that while some progress had been made during the current fiscal year, improvements are still required in its vendor qualification and procurement policy. The Business Office and Quality Assurance and Regulatory Affairs Office will more fully refine this policy and process, and train appropriate personnel in its application.

**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, 2021



**3. Finding 2020-003 (Recurring) 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 acknowledges that while some progress had been made during the current fiscal year, improvements are still required in its suspension and debarment policy. The Business Office and Quality Assurance and Regulatory Affairs Office will more fully refine this policy and process, and train appropriate personnel in its application.

**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, 2021

**4. Finding 2020-004 (Recurring) Payroll Approval**

- a. Program Information: N/A
- b. Criteria: The Uniform Guidance requires that the non-Federal entity verify time charged to Federal programs.
- c. Condition: During our audit, we tested payroll attributed to the major program, and while management implemented a policy to review time charged to the major program, review and approval was not consistently documented.

**Response:**

Management acknowledges the finding and will augment its procedures to include higher level review of time/effort charged to the program, and for invoicing in general, to ensure consistency.

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

1. David W. Neal, CFO
2. Jeanette Lysse, Controller
3. Janet Villa, Director, Research Collections

**Completion date:** December 31, 2020

**5. Finding 2020-005 Cash Management**

- a. Program Information: N/A
- b. Criteria: Non-federal entities must establish written procedures to implement the requirements of 2 CFR section 200.302(b)(6)). Program costs must be paid by non-federal entity funds before submitting a payment request (2 CFR section 200.305(b)(3)).
- c. Condition: During our audit, we identified that the Blood Bank did not have an approved, documented cash management policy in place. Additionally, 14 out of 20 disbursements tested were not paid by the Blood Bank before requesting for reimbursement.



Response:

Management acknowledges the finding and will implement additional review procedures to ensure compliance.

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

1. David W. Neal, CFO
2. Jeanette Lysse, Controller
3. Janet Villa, Director, Research Collections

**Completion date:** December 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

