Grant Thornton

Consolidated Financial Statements, Schedule of Expenditures of Federal Awards and Auditors' Reports Required under Office of Management and Budget Uniform Guidance

# Blood Systems, Inc. and Affiliates

December 31, 2017

# Contents

Grant Thornton

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Report on the financial statements

We have audited the accompanying consolidated financial statements of Blood Systems, Inc., (a nonprofit organization) and Affiliates (the "Company"), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of revenues, expenses, and other changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company'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 that 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 Blood Systems, Inc. and Affiliates as of December 31, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Supplementary information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations (CFR) 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 supplementary 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. These additional procedures included comparing and reconciling the 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 supplementary 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 April 30, 2018, on our consideration of the Company'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 Company'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 the Company's internal control over financial reporting and compliance.

Grant Thornton LLP

Phoenix, Arizona
April 30, 2018

**Blood Systems, Inc. and Affiliates**

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**December 31, 2017**

ASSETS

| | |
|---|---|
| CURRENT ASSETS | |
| Cash and cash equivalents | $ 97,165,325 |
| Short-term investments (Note 3) | 203,835,842 |
| Accounts receivable, net | 205,227,562 |
| Inventories | |
| Products for patient use, net | 78,340,845 |
| Operating supplies | 7,769,624 |
| Total inventories | 86,110,469 |
| Prepaid expenses and other current assets | 10,475,098 |
| Total current assets | 602,814,296 |
| INVESTMENTS (Note 3) | 166,848,954 |
| PROPERTY AND EQUIPMENT - Net (Note 4) | 213,530,533 |
| OTHER LONG-TERM ASSETS - Net (Note 6) | 3,860,409 |
| RESTRICTED CASH | 1,928,984 |
| TOTAL ASSETS | $ 988,983,176 |

The accompanying notes are an integral part of this consolidated financial statement.

**Blood Systems, Inc. and Affiliates**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)**

**December 31, 2017**

LIABILITIES AND NET ASSETS

| | |
|---|---|
| CURRENT LIABILITIES | |
| Accounts payable | $ 76,157,253 |
| Accrued salaries, wages and vacations | 28,373,883 |
| Other accrued expenses | 92,183,652 |
| Accrued retirement plan expense | 7,152,539 |
| Current portion of long-term debt and capital leases (Note 5) | 68,949,823 |
| Total current liabilities | 272,817,150 |
| ACCRUED PENSION COSTS (Note 7) | 61,032,819 |
| ACCRUED POSTRETIREMENT HEALTH BENEFITS (Note 7) | 118,032 |
| LONG-TERM DEBT AND CAPITAL LEASES, less current portion (Note 5) | 83,044,287 |
| OTHER LONG-TERM LIABILITIES | 43,108,252 |
| SELF-INSURANCE RESERVES (Note 8) | 7,972,694 |
| Total liabilities | 468,093,234 |
| NET ASSETS | |
| Unrestricted | |
| Unrestricted | 368,371,649 |
| Board-designated | 29,958,599 |
| Non-controlling interest in CTS | - |
| Total unrestricted | 398,330,248 |
| Temporarily restricted | 122,459,694 |
| Permanently restricted | 100,000 |
| Total net assets | 520,889,942 |
| TOTAL LIABILITIES AND NET ASSETS | $ 988,983,176 |

The accompanying notes are an integral part of this consolidated financial statement.

## Blood Systems, Inc. and Affiliates

## CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN NET ASSETS

## Year Ended December 31, 2017

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Revenues and support | | | | |
| Blood and component service fees | $ 528,438,561 | $ - | $ - | $ 528,438,561 |
| Pharmaceutical products | 382,891,574 | 52,164,399 | - | 435,055,973 |
| Laboratory services | 245,685,871 | 76,578 | - | 245,762,449 |
| Plasma for fractionation | 33,913,035 | - | - | 33,913,035 |
| Grants and contributions — unrestricted | 20,086,176 | 257,024 | - | 20,343,200 |
| Other revenue | 8,029,886 | 960 | - | 8,030,846 |
| Net assets released from restriction | 42,353,586 | (42,353,586) | - | - |
| Total revenues and support | 1,261,398,689 | 10,145,375 | - | 1,271,544,064 |
| Operating expenses | | | | |
| Salaries, wages, taxes and benefits | 418,747,853 | - | - | 418,747,853 |
| Operating and testing supplies | 244,176,661 | - | - | 244,176,661 |
| Pharmaceutical products purchased | 398,208,331 | - | - | 398,208,331 |
| Donor recruitment and promotional items | 18,867,716 | - | - | 18,867,716 |
| Blood and component products purchased | 17,199,680 | - | - | 17,199,680 |
| Occupancy costs | 33,606,689 | - | - | 33,606,689 |
| Equipment leases and repairs and maintenance | 19,269,207 | - | - | 19,269,207 |
| Vehicle leases and repairs and maintenance | 10,107,442 | - | - | 10,107,442 |
| Professional services | 17,066,959 | - | - | 17,066,959 |
| Postage and freight | 20,899,644 | - | - | 20,899,644 |
| General and administrative | 21,089,780 | - | - | 21,089,780 |
| Depreciation and amortization | 29,687,151 | - | - | 29,687,151 |
| Community outreach and contributions expense | 6,079,596 | - | - | 6,079,596 |
| Other operating expenses | 17,887,493 | - | - | 17,887,493 |
| Total operating expenses | 1,272,894,202 | - | - | 1,272,894,202 |
| Operating income (loss) | (11,495,513) | 10,145,375 | - | (1,350,138) |
| Nonoperating income (expenses) | | | | |
| Interest and investment income | 6,771,786 | 1,545,307 | - | 8,317,093 |
| Net unrealized and realized gain on investments | 9,773,943 | 9,608,845 | - | 19,382,788 |
| Interest expense | (4,053,038) | - | - | (4,053,038) |
| Net gain on disposal of fixed assets | 143,163 | - | - | 143,163 |
| Inherent contribution-acquisition of blood centers | 24,561,714 | 101,207,213 | - | 125,768,927 |
| Other nonoperating expense | (3,943,017) | (48,472) | - | (3,991,489) |
| Total nonoperating income, net | 33,254,551 | 112,312,893 | - | 145,567,444 |
| Merger of net assets/miscellaneous items | (6,925,196) | - | - | (6,925,196) |
| Pension expense other than net periodic cost | 10,366,463 | - | - | 10,366,463 |
| INCREASE IN NET ASSETS | 25,200,305 | 122,458,268 | - | 147,658,573 |
| DISTRIBUTION OF EARNINGS | (29,850,218) | - | - | (29,850,218) |
| Net assets - beginning of year | 402,980,161 | 1,426 | 100,000 | 403,081,587 |
| Net assets - end of year | $ 398,330,248 | $ 122,459,694 | $ 100,000 | $ 520,889,942 |

The accompanying notes are an integral part of this consolidated financial statement.

**Blood Systems, Inc. and Affiliates**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**Year Ended December 31, 2017**

| | |
|---|---|
| Cash flows from operating activities: | |
| Increase in net assets | $ 147,658,573 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | |
| Depreciation and amortization | 29,687,151 |
| Net unrealized and realized gain on investments | (19,382,788) |
| Net gain on disposal of fixed assets | (143,163) |
| Amortization of deferred financing costs | 16,403 |
| Inherent contribution- acquisition of blood centers | (125,768,927) |
| Changes in operating assets and liabilities: | |
| Accounts receivable | 5,676,650 |
| Inventories | 6,409,925 |
| Prepaid expenses and other current assets | 4,646,903 |
| Accounts payable | (2,533,033) |
| Accrued salaries, wages and vacations | (7,097,916) |
| Other accrued expenses | 62,337,294 |
| Accrued pension costs | (17,164,869) |
| Accrued postretirement health benefits | (9,977) |
| Self-insurance reserves | 523,748 |
| Net cash provided by operating activities | 84,855,974 |
| Cash flows from investing activities: | |
| Receipt of restricted cash equivalents | (288,975) |
| Purchases of investments | (179,188,777) |
| Proceeds from sale of property and equipment | 1,184,834 |
| Proceeds from sale of investments | 131,836,873 |
| Purchase of property and equipment | (18,053,185) |
| Cash received for acquisition of ITxM, net of cash paid | 28,812,059 |
| Net cash used in investing activities | (35,697,171) |
| Cash flows from financing activities: | |
| Distribution of earnings | (5,212,642) |
| Principal payments on long-term debt and capital leases | (9,063,550) |
| Net activity on lines of credit | 5,875,321 |
| Proceeds from long-term debt | 6,611,105 |
| Net cash used in financing activities | (1,789,766) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 47,369,037 |
| Cash and cash equivalents - beginning of year | 49,796,288 |
| Cash and cash equivalents - end of year | $ 97,165,325 |
| Cash paid for interest | $ 3,686,604 |
| Cash paid for taxes | $ 3,979,302 |
| Supplemental data for non cash financing activities: | |
| Issuance of notes payable in lieu of distribution of capital | $ 3,579,139 |

The accompanying notes are an integral part of this consolidated financial statement.

**Blood Systems, Inc. and Affiliates**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2017**

## NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Blood Systems, Inc. ("BSI"), a nonprofit corporation, has been recognized by the Internal Revenue Service ("IRS") as an organization that is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code ("IRC"). BSI was originally formed in 1943 and is organized under the laws of the State of Arizona.

Founded in 1943 as the Salt River Valley Blood Bank in Scottsdale, Arizona, Blood Systems, Inc. ("BSI") is one of the nation's oldest and largest comprehensive transfusion medicine organizations. BSI serves health systems and hospitals across the country through delivery of life-saving biologics and therapeutics and related services. A modern transfusion medicine organization, BSI brings together the benefits of a lean and effective centralized support structure, a national scope and close-to-the-customer decision-making authority through a unique matrix-modeled corporate structure. BSI is comprised of four primary operating units (Blood Services, Blood Systems Research Institute, Creative Testing Solutions and BioCARE). BSI operates in approximately 160 locations in 28 states.

- Blood Services provides blood, blood components and transfusion related clinical services to hospitals and healthcare providers. Suitability to donate blood is set by federal regulations established by the Food and Drug Administration ("FDA") and other professional standards.
- Blood Systems Research Institute ("BSRI") is dedicated to research that helps assure safety in transfusion medicine and a safe and adequate blood supply. Current research efforts of BSRI focus on understanding and preventing transfusion-related viral infections, immunological consequences of transfusions and cellular therapeutics.
- Creative Testing Solutions ("CTS") operates three high volume donor testing laboratories located in the United States. CTS tests samples from each unit of collected blood for all of the viral marker and screening tests required by the FDA not only for the members of CTS, but also for other non-affiliated blood centers, hospitals and organizations
- BioCARE, Inc. is a specialty distributor and delivers specialty and therapeutic pharmaceutical products, which serve as adjunct therapies in transfusion medicine and healthcare. BioCARE also operates CanyonCare, Rx, a full-service pharmacy specializing in hemophilia and other bleeding disorders.

These consolidated financial statements include BSI, affiliates, subsidiary members, a joint venture, a wholly owned for-profit subsidiary, and a wholly owned captive insurance organization. The affiliate of BSI is Blood Bank of San Bernardino and Riverside Counties dba ("LifeStream"). BSI conducts business under the following trade names: Blood Centers of the Pacific ("BCP"), Inland Northwest Blood Center ("INBC"), Bloodsource, Bonfils Blood Center ("BBC"), LifeShare Community Blood Services ("LifeShare"), and Mid-South Regional Blood Center, dba ("LifeBlood"). Also included in the Blood Services Division is subsidiary member, Bergen Community Regional Blood Center, Inc. ("Bergen").

As of January 1, 2017, Bloodsource, Inc. and Bonfils, Inc. merged into Blood Systems, Inc. and the separate legal entities ceased to exist. On January 1, 2017, the Bonfils Blood Center Foundation dissolved.

## NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Nature of Business (continued)

As of January 1, 2017, the previous BioCARE division began operating as BioCARE, Inc.; a for-profit, wholly owned subsidiary.

On March 1, 2017, The Institute for Transfusion Medicine ("ITxM") and Affiliates: Central Blood Bank, LifeSource, Virginia Blood Services, ITxM Clinical Services, ITxM Diagnostics, Inc. and the Hemophilia Center of Western Pennsylvania ("Hemophilia") became a subsidiary of BSI, where BSI became the sole corporate member.

On January 1, 2010, BSI created a joint venture, Creative Testing Solutions ("CTS"), with OneBlood, Inc. ("OneBlood") in St. Petersburg, Florida. CTS is a nonprofit membership corporation and provides high-volume blood donor testing. CTS is an organization that has been determined by the IRS to be exempt from federal income taxes pursuant to Section 501(c)(3) of the IRC. As part of the joint venture agreement, BSI entered into a management contract with CTS, which outlined that BSI would provide certain administrative services to the operations of its three laboratories.

On March 1, 2017, ITxM entered into a Member Agreement with BSI whereby BSI became the sole corporate member of ITxM. As a result of the transaction, the 5% membership interest in CTS held by ITxM reverted back to BSI. The note receivable due from ITxM to BSI for the 5% interest in CTS was settled and a gain was recorded on the Company's books in the amount of $3.0 million.

As of June 1, 2017, BSI purchased the 5% interest held by BloodWorks, and resumed a 75% membership interest in CTS.

Membership interests in CTS are BSI at 75% and OneBlood at 25%, at December 31, 2017. For the year ended December 31, 2017, total revenues and expenses of CTS are reported in the consolidated financial statements of Blood Systems, Inc. and Affiliates. As of December 31, 2017, CTS distributed all of its equity in order to re-capitalize effective January 1, 2018.

Changes in CTS Unrestricted Net Assets

| | Controlling Interest | Non-Controlling Interest | Total |
|---|---|---|---|
| Balance, December 31, 2016 | $ 57,226,381 | $ 30,814,306 | $ 88,040,687 |
| Operating income | 19,274,024 | 6,424,675 | 25,698,699 |
| Nonoperating income, net | 4,246,114 | 1,415,372 | 5,661,486 |
| Sale of non-controlling interest to controlling member | 8,804,135 | (8,804,135) | - |
| Distribution of earnings and original equity contribution | (89,550,654) | (29,850,218) | (119,400,872) |
| Change in unrestricted net assets | (57,226,381) | (30,814,306) | (88,040,687) |
| Balance, December 31, 2017 | $ - | $ - | $ - |

## NOTE 1 -NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Nature of Business (continued)

Canyon State Insurance Company ("CSIC"), a captive insurance entity, was created on February 1, 2004, and is a wholly owned subsidiary of BSI. CSIC provides reimbursement within the Company's insurance retentions and deductibles for auto, professional liability, directors and officers difference in conditions, property, auto physical damage and workers' compensation insurance to BSI, its affiliates and subsidiary members.

Significant Accounting Policies

***Basis of Presentation*** - The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The accounts of the affiliate organizations, subsidiary members and the joint venture have been consolidated within these financial statements based on BSI's direct or indirect ownership through a majority voting interest or sole corporate membership status in the affiliates or subsidiary members. All significant inter-company transactions and balances have been eliminated (see Note 2).

***Use of Estimates*** - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates included in the consolidated financial statements include the self-insurance reserves for coverages provided by CSIC, employee medical; the allowance for doubtful accounts; the allowance for inventory obsolescence; and assumptions used in estimating accrued benefit liabilities for pension and postretirement health benefits. Actual results could differ from those estimates.

***Cash and Cash Equivalents*** - Cash and cash equivalents consist of cash on-hand and cash deposited with financial institutions, money market accounts, certificates of deposit and treasury bills with original maturities of three months or less.

***Restricted Cash*** - Restricted cash consists primarily of funds received in advance for a research grant.

***Fair Value Measurements*** - U.S. GAAP has established a framework for measuring fair value and established a fair value hierarchy based on the inputs used to measure fair value. This framework maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. This hierarchy is broken down into three levels based on the transparency of inputs as follows:

**Level 1** - Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

## NOTE 1 -NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Policies (continued)

***Fair Value Measurements (continued)***

**Level 2** - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

**Level 3** - Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Company.

The Company considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Company's perceived risk of that instrument.

The Company uses net asset value ("NAV") as a practical expedient to measure the fair value of certain investments. These investments were previously categorized within the fair value hierarchy as Level 2 investments depending on their redemption attributes.

***Fair Values of Financial Instruments*** – Investments are recorded at fair value. The carrying amount of accounts receivable, prepaid expenses and other current assets, accounts payable and other accrued expenses approximates fair value due to the short-term nature of these instruments. The carrying amount of long-term debt approximates its fair value, which is estimated based on current rates the Company believes it could receive for debt with the same or similar remaining maturities and terms. The carrying amount of long-term debt with fixed interest rates, are not materially different than the fair value of these liabilities.

***Accounts Receivable and Allowance for Doubtful Accounts*** - Accounts receivable related to revenues earned for products and other related services provided to its customers, primarily hospitals and blood centers, and made on credit without collateral. The Company's policy requires the Company to calculate and record an allowance for doubtful accounts based upon the amount of receivables open past 90 days and the customers' other open receivables. The reserve amount calculated represents the Company's best estimate of the amount required to reduce the receivable to net realizable value. Uncollectible accounts are written off when deemed uncollectible, and accounts receivable are presented net of an allowance for doubtful accounts. Historically, the Company has not had significant losses related to uncollectible accounts.

## NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Policies (continued)

***Accounts Receivable and Allowance for Doubtful Accounts (continued)***

The Company calculated and recorded an allowance of approximately $2,100,000 at December 31, 2017. During 2017, recoveries and write-offs were approximately $73,000 and $305,000, respectively. A reduction of bad debt expense was recorded of approximately $67,000 for the year ended December 31, 2017.

***Inventories*** - Inventories consist of blood products provided to hospitals for transfusion to patients; other products supplied to healthcare providers for patient use; and supplies used to recruit, collect, test, and process the blood product; and blood derivatives purchased and provided to hospitals and other healthcare providers for patient use. Inventories are managed using the first-in/first-out method with the majority of the blood products having a limited shelf life. Inventories are valued at the lower of cost or market. Due to the limited shelf-life of certain blood products and the need to maintain an adequate supply to meet all potential needs of patients, some of the blood products reflected in the year-end inventory valuation may not be utilized in the future. The Company has recorded a reserve for blood product inventory obsolescence of approximately $1,627,000 at December 31, 2017.

***Property and Equipment*** - Property and equipment, which includes assets under capital leases and renewals or betterments that extend the life of existing assets, are recorded at cost. Expenses for normal maintenance and repairs are expensed as incurred. Generally, the Company capitalizes property and equipment greater than $5,000. Depreciation is calculated using the straight-line method over the following estimated useful lives:

| | Estimated Useful Lives |
|---|---|
| Building | 20-40 years |
| Building improvements | Lesser of the useful life or the remaining life of the building |
| Furniture and equipment | 3-10 years |
| Leasehold improvements | Lesser of the useful life or remaining term of lease |
| Vehicles | 2-15 years |

***Long-Lived Assets*** - Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances would require a long-lived asset to be tested for possible impairment, the Company compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. No impairment was recorded as of December 31, 2017.

## NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Policies (continued)

***Net Assets*** - The Company classifies its net assets into three categories: unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets generally represent funds generated by revenues from providing services and other net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in accomplishing the primary objectives of the Company.

Temporarily restricted net assets at December 31, 2017, consist principally of Hemophilia net assets generated from two programs: factor program and government contracts related to hemophilia treatment. Net assets are temporarily restricted for use in the treatment and support of hemophilia patients, and/or to the promotion and maintenance of activities benefiting the community of hemophilia patients.

Other temporarily restricted net assets consist of income earned on permanently restricted endowments (unless the earnings are permanently restricted as well) and restricted contributions for items such as equipment, vehicles, job training or other operating expenses. These temporarily restricted net assets become unrestricted when the funds are used for their restricted purpose, at which time they are reported in the consolidated statement of revenues, expenses and other changes in net assets as net assets released from restriction.

Permanently restricted net assets consist of contributions made to endowment funds.

***Revenue Recognition*** - Revenues are recorded at the gross contract price for products provided to its customers, primarily hospitals, and recognized upon delivery of the product or services to the customer. Revenues are recorded in the period when the risk of loss and title to the product transfers to the purchaser or when the service has been provided. Revenues from federal agencies are generally reported as unrestricted grants and contributions once qualifying expenses are incurred under the respective agreements.

***In-Kind Contributions*** - The Company receives donations of goods or services to assist in the recruitment and promotion of blood donations. These goods are reported at fair value at the date of the gift and totaled approximately $4,900,000 for the year ended December 31, 2017, and are most commonly in the form of movie theater tickets and grocery store vouchers used within the Blood Center Division for donor recruitment efforts or radio station advertising. These contributions are recorded at their fair value at the time of receipt and recorded as contribution revenue with an offset to recruitment expense in the accompanying consolidated statement of revenues, expenses and other changes in net assets.

***Contributions*** - All contributions are considered unrestricted and available for general use, unless specifically restricted by the donor. Contributions with temporary restrictions that are received and used within the same year are included in unrestricted activities. Contributions received, including unconditional promises to give, are recognized as revenues in the period the promise is received.

***Advertising Expense*** - Advertising expense is recorded in the period in which the costs are incurred and is primarily for the purpose of soliciting blood donors in periods when there is a shortage of blood or type of blood in a community. Advertising expense for the year ended December 31, 2017, was approximately $5,700,000.

## NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Policies (continued)

***Operating Revenues and Expenses*** - The Company defines operating revenues as those generated by the sale of products and other related services performed during the normal course of business in fulfilling its mission. Operating expenses are those costs and expenses incurred to generate the products or to provide those services.

***Concentration of Credit Risk*** - Cash, cash equivalents and investments are exposed to various risks, such as interest rate, market and credit. The Company maintains its cash and cash equivalents in various bank deposit accounts which, at times, may exceed federally insured limits. The Federal Deposit Insurance Corporation ("FDIC") insures only the first $250,000 of funds at member banks. A portion of the Company's cash balances are in foreign bank accounts that are not federally insured by the United States of America. The Company has not experienced any losses in such accounts with these financial institutions.

Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the fair value of investments reported in the consolidated statement of financial position as of December 31, 2017. To minimize such risks, the Company has a diversified portfolio in a variety of asset classes managed by independent investment managers. The diversification of the Company's invested assets among these various asset classes should mitigate the impact of any dramatic change on any one asset class. The Company regularly evaluates its investments including performance. Due to inherent risks and potential volatility in investment valuations, the amounts reported in the accompanying consolidated financial statements can vary substantially from year to year.

***Recent Accounting Pronouncements*** - From time to time, new accounting pronouncements are issued by Financial Accounting Standards Board (the "FASB") or other accounting standard setting bodies, which the Company may adopt as of the specified date required by each standard. While the Company believes the impact of recently issued standards that are not yet effective will not have a material impact on its consolidated financial statements upon adoption, certain Accounting Standards Updates ("ASU") have not been fully evaluated.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. This standard will eliminate the transaction- and industry-specific revenue recognition guidance under current U.S. GAAP and replace it with a principle-based approach for determining revenue recognition. The shift from primarily rules-based U.S. GAAP requires entities to apply significantly more judgment, and with that increase in management judgment, U.S. GAAP also will require expanded disclosures surrounding revenue recognition. This ASU is effective for annual reporting periods beginning on or after December 15, 2018, and can be early adopted in certain circumstances. This ASU can be adopted using either a retrospective approach to each prior period presented, subject to certain practical expedients, or a retrospective approach with a cumulative effect adjustment to opening equity in the period of initial adoption. The Company is in the process of evaluating the impact of this ASU on its operations.

## NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Policies (continued)

### *Recent Accounting Pronouncements (continued)*

In May 2015, FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This ASU removes the requirement to categorize investments measured using net asset value ("NAV") practical expedient within the fair value hierarchy. The basis of the Standard will show the carrying amount of investments measured using the NAV practical expedient as a reconciling item between the total investments measured at fair value on the face of the financial statements. The Standard exempts investments measured using the NAV practical expedient from categorization within the fair value hierarchy and related disclosures. The Standard is effective for annual reporting periods beginning on or after December 15, 2016, and early adoption is permitted. This Standard should be applied prospectively in the in the period of adoption. The Company has applied this standard in the accompanying financial statements.

In July 2015, FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*. This ASU helps to eliminate the complexity that exists today where entities have to calculate multiple outcomes under "lower of cost or market". The basis of the standard assumes net realizable value equals estimated selling prices less reasonably predictable costs of completion, disposal and transportation. The standard is effective for annual reporting periods beginning on or after December 15, 2016, and early adoption is permitted. This standard should be applied prospectively in the period of adoption. The Company has applied this standard in the accompanying financial statements with no significant impact.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958)*. The provisions of this ASU include a change from three classes of net assets to two, net assets with donor restrictions and net assets without donor restrictions. Certain enhanced disclosures are also required. The amendments in this update are effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Company is in the process of evaluating the impact of this ASU on its operations.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows - Classification of Certain Receipts and Payments (Topic 230)*. The provisions of this ASU provide additional clarity on the classification of specific events on the statement of cash flows including debt prepayment and extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from settlement of insurance claims, distributions received from equity method investees and beneficial interests in securitization transactions. The amendments in this update are effective for fiscal years beginning after December 15, 2018, and early adoption is permitted. The Company is in the process of evaluating the impact of this ASU on its operations.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The core principal of this ASU is that a lessee should recognize an asset and a liability for all leases, in most instances. Lessees should recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing their right to use the underlying asset for the lease term. The amendments in this update are effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is in the process of evaluating the impact of this ASU on its operations.

## NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Policies (continued)

***Recent Accounting Pronouncements (continued)***

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715).* The provisions of this ASU require the change in presentation of the service cost component and other components of net periodic pension cost in the consolidated statement of revenues, expenses and other changes in net assets. The service cost component will be presented in operating expenses with other compensation costs and all other pension costs components will be included in a new separate line item described as other components of net periodic pension cost (income). The amendments in this update are effective for fiscal years beginning after December 15, 2018, and early adoption is permitted. The Company is in the process of evaluating the impact of this ASU on its operations.

***Subsequent Events*** - Management has evaluated subsequent events through April 30, 2018, the date these consolidated financial statements were available to be issued.

## NOTE 2 - AFFILIATION AND MEMBER AGREEMENTS

BSI has entered into a number of affiliation agreements and member substitution agreements with other blood-banking and related organizations as part of its strategy to expand its geographic footprint. Generally, when affiliation agreements or member substitution agreements are entered, the new affiliate or member amends its articles of incorporation and bylaws to establish BSI as the sole corporate member. Each affiliate or member maintains a separate board of directors and officers. Affiliate purchases of blood products, testing services and other services from BSI and other related entities, as well as rent paid by BSI to certain affiliates and members for space utilized by the research division, are eliminated in these consolidated financial statements. In addition, BSI and its affiliates and members make payments related to insurance premiums to CSIC, which are used to fund the Company's self-insured retention related to its professional liability coverage and the Company's deductible programs.

Listed below are the affiliates and members of BSI:

| Date | Affiliate/Member | Location | Organization Type | Exempt from Federal Taxes |
|---|---|---|---|---|
| July 1, 2014 | Blood Bank of San Bernardino and Riverside Counties | Coachella Valley, CA | CA non-profit | 501(c)(3) |
| February 1, 2015 | Bergen Community Regional Blood Center | Montvale, NJ | NJ non-profit | 501(c)(3) |
| January 1, 2017 | BioCARE, Inc. | Phoenix, AZ | AZ for-profit | n/a |
| March 1, 2017 | ITxM and Affiliates | Pittsburgh, PA | non-profit | 501(c)(3) |

## NOTE 2 - AFFILIATION AND MEMBER AGREEMENTS (continued)

The Company accounted for becoming the sole corporate member of its newest member, ITxM, using the acquisition method of accounting. The Company will incur future cash contributions of $19,553,000. This future contribution is payable to and contingent upon the Blood Science Foundation remaining a Type III Supporting organization to BSI. Investments were recorded at fair value. Long-term debt was deemed to approximate fair value as of the effective date. Fixed assets (property and equipment) were evaluated using a combination of real estate valuations and fair value comparisons of similar assets and have been adjusted to approximate fair value. The beginning balances are identified below as:

| | | | |
|---|---|---|---|
| Cash | $ 48,364,000 | | |
| Investments | 95,283,000 | | |
| AR | 21,721,000 | Accounts payable | $ 4,958,000 |
| Inventory | 7,615,000 | Accrued expenses | 28,999,000 |
| Other assets | 3,539,000 | Debt | 38,126,000 |
| Fixed assets, net | 65,525,000 | Pension liabilities | 24,642,000 |
| Total assets | $ 242,047,000 | Total Liabilities | $ 96,725,000 |

The difference between assets and liabilities recorded, less consideration is reflected as an inherent contribution in the consolidated statement of revenues, expenses and other changes in net assets.

The results of the operations of all affiliates and members are included in the Company's consolidated results from the date of the respective agreements.

## NOTE 3 - INVESTMENTS

Net unrealized and realized gain on investments is classified as a non-operating activity in the accompanying consolidated statement of revenues, expenses and other changes in net assets. For the year ended December 31, 2017, investment gain is comprised of the following:

| | 2017 |
|---|---|
| Unrealized gain | $ 25,794,406 |
| Realized loss | (6,411,618) |
| Net unrealized and realized gain on investments | $ 19,382,788 |

Investment expenses of approximately $439,000 were incurred and recorded in other non-operating expenses in the accompanying consolidated statement of revenues, expenses and other changes in net assets for the year ended December 31, 2017.

## NOTE 3 – INVESTMENTS (continued)

The following table summarizes investment levels as of December 31, 2017:

| | Total | Level 1 | Level 2 | Level 3 | NAV |
|---|---|---|---|---|---|
| Equity index trust | $108,947,232 | $108,947,232 | $ - | $ - | $ - |
| Fixed income funds | 152,521,407 | 62,498,590 | 16,864,988 | - | 73,157,829 |
| International equity | 59,316,148 | 59,316,148 | - | - | - |
| U.S. equity | 26,908,929 | 26,908,929 | - | - | - |
| U.S. small cap equity | 15,443,177 | 15,443,177 | - | - | - |
| Alternative investments | 4,109,990 | - | - | - | 4,109,990 |
| Cash and cash equivalents | 2,963,846 | 2,963,846 | - | - | - |
| Investment in HemeXcel and IT Synergistics | 474,067 | - | - | 474,067 | - |
| Total | $370,684,796 | $276,077,922 | $ 16,864,988 | $ 474,067 | $ 77,267,819 |

The Company selects managers from among those registered with the Securities & Exchange Commission and in relation to the performance and strategy of similar managers and the marketplace for similar assets in trusts or funds. Mutual funds or commingled funds may be used only if the investment strategies of those funds are similar to the Company's overall investment guidelines and must be approved by the Company's Investment Committee ("Committee"). There are no unfunded commitments in relation to the investments above. For the investments measured at NAV, approximately 95% of those investments can be redeemed the next day with no restrictions. The remaining 5% of NAV investments can be redeemed on the first day of each calendar quarter with 62-day notice. Level 3 investments could not be redeemed immediately, but would take longer to divest.

The Company diversifies its investments both by asset class and within asset class. As a general practice, the investments and external investment managers are monitored by an investment consulting firm. The Company's equity funds are invested in either publicly traded equities, which are listed on national exchanges, or in equities that are traded on other regulated markets. The Company's fixed income funds include corporate and government bonds.

At the beginning of 2010, an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") became effective for the Company. The Board of Trustees has interpreted the law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. None of the funds have donor stipulations that override the restriction described in subsection 4(a) of UPMIFA. The change in law did not result in a change in the net asset classification of the Company's endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

## NOTE 3 - INVESTMENTS (continued)

The Committee is responsible for establishing the investment program for the Company's endowment funds, setting overall objectives and policy guidelines and selecting and monitoring managers. The long-term target asset allocation is determined by the Committee to facilitate the achievement of its long-term investment objective within established risk parameters based on asset category. The established spending rate is 5.0% of the average year-end market value of the previous three years, which focuses on protecting the corpus, preserving spending power, maintaining a diversified portfolio of assets while balancing risk and reward for its possible investment returns and complying with applicable law. Investment restrictions and guidelines are outlined in the Company's investment policies.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Company to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2017.

The long-term portion of investment balances includes the balance of the Board-designated endowment fund. Of the Company's net assets, $29,958,599 was segregated and maintained in a Board-designated endowment fund at December 31, 2017.

Board-designated and other endowments by net asset classification as of December 31, 2017, are composed of:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor restricted | $ - | $ - | $ 100,000 | $ 100,000 |
| Board designated | 29,958,599 | - | - | 29,958,599 |
| Total | $ 29,958,599 | $ - | $ 100,000 | $ 30,058,599 |

## NOTE 3 - INVESTMENTS (continued)

Changes in the board-designated and other endowments by net asset classification include the following at December 31, 2017:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Board-designated and other endowments, beginning of year | $ 27,276,482 | $ - | $ 100,000 | $ 27,376,482 |
| Investment return: | | | | |
| Investment income | 699,741 | - | - | 699,741 |
| Net gain (realized and unrealized | 3,436,038 | - | - | 3,436,038 |
| Total investments return | 4,135,779 | - | - | 4,135,779 |
| Other changes: | | | | |
| Transfer of annual research support to BSRI | (1,307,333) | - | - | (1,307,333) |
| Deconsolidation | (146,329) | - | - | (146,329) |
| Board-designated and other endowments, end of year | $ 29,958,599 | $ - | $ 100,000 | $ 30,058,599 |

## NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017, consisted of the following:

| | |
|---|---|
| Buildings | $ 178,477,555 |
| Furniture and equipment | 144,985,393 |
| Land | 30,123,238 |
| Leasehold improvements | 21,391,260 |
| Vehicles | 20,769,826 |
| | 395,747,272 |
| Accumulated depreciation and amortization | (191,113,262) |
| Asset development in progress | 8,896,523 |
| Property and equipment – net | $ 213,530,533 |

## NOTE 5 - DEBT AND CAPITAL LEASES

Debt and capital leases at December 31, 2017, consisted of the following:

| | 2017 |
|---|---|
| Bank of America line of credit up to $75 million, interest rate of LIBOR plus 1.05% (2.62% at December 31, 2017) due July, 2018; collateralized under the Master Trust Indenture. | $ 51,104,593 |
| Illinois Finance Authority revenue bonds, held by JP Morgan Chase Bank, payable in semi-annual installments plus interest at a rate of 3.6% for the first ten years, then interest to be determined; collateralized by land and buildings. | 22,790,000 |
| Arizona Health Care Facilities Authority revenue bonds, held by JP Morgan Chase Bank, payable in annual installments; fixed interest rate of 2.51%, due through December 31, 2025; collateralized by land and buildings. | 18,875,000 |
| California Municipal Finance Authority revenue bonds, held by Umpqua Bank, payable in monthly installments plus interest at a rate of LIBOR plus 1.62%, (3% at December 31, 2017) due through April 2028; collateralized by land and buildings. | 14,922,923 |
| Bank of America equipment lease for hardware/software, at a fixed rate of 1.32%; due July 1, 2020; collateralized by the equipment. | 15,831,671 |
| Revenue bonds, Series 2013A, held by JPMorgan Chase Bank, payable in semi-annual installments plus interest at a fixed rate of 2.65%; collateralized by capital equipment. | 8,500,000 |
| Revenue bonds, Series 2013B, held by JPMorgan Chase Bank, interest only payments through October 2023, and then semi-annual principal payments at a variable rate of 68% x LIBOR + 92 BPS (1.98% at December 31, 2017). | 5,000,000 |
| Fidelity line of credit up to $7.5 million, interest rate of 2.5% at December 31, 2017; secured by marketable securities. | 4,402,008 |
| Notes payable to a blood center, interest rate of LIBOR plus 1.05%, adjusted on October 1st of each calendar year, (2.28% as of December 31, 2017). | 3,579,139 |
| Wells Fargo Bank accounts receivable factoring line of credit up to $4.5 million, with interest of LIBOR + 3.25%, (4.81% at December 31, 2017), due August 15, 2018. | 2,361,457 |
| Pacific Premier Bank, note payable in monthly principal and interest payments; fixed interest rate of 4.25% until maturity, due October 1, 2022; secured by building. | 2,321,150 |
| Pacific Premier Bank, note payable in monthly principal and interest payments; fixed interest rate of 4.25% until maturity, due October 1, 2022; secured by building. | 1,072,851 |
| Pacific Premier Bank, note payable in monthly principal and interest payments; fixed interest rate of 4.25% until maturity, due October 1, 2022; secured by building. | 970,287 |

## NOTE 5 - DEBT AND CAPITAL LEASES (continued)

| | 2017 |
|---|---|
| Various capital lease obligations, payable in monthly installments with varying rates of imputed interest rates, maturing at various dates through 2019. | $ 287,930 |
| Security Bank, note payable for a bus; nine monthly interest only payments; 59 monthly principal and interest payments; fixed interest rate of 4% until maturity, due January 1, 2020. | 89,909 |
| Deferred financing costs | (114,808) |
| Total | 151,994,110 |
| Less current portion | 68,949,823 |
| Long-term debt and capital leases - net | $ 83,044,287 |

Aggregate annual principal payments applicable to all debt at December 31, 2017, are as follows:

| Year ending December 31, | |
|---|---|
| 2018 | $ 68,949,823 |
| 2019 | 11,028,352 |
| 2020 | 9,434,518 |
| 2021 | 7,780,274 |
| 2022 | 7,676,294 |
| Thereafter | 47,124,849 |
| | $ 151,994,110 |

The outstanding bonds and lines of credit presented above contain certain covenants that, among other things, require the Company to maintain a minimum net worth, liquidity and working capital ratio covenants. As of December 31, 2017, BSI was in compliance with the required covenants.

## NOTE 6 - OTHER LONG-TERM ASSETS

Other long-term assets at December 31, 2017, consisted of the following:

| | |
|---|---|
| Notes receivable due to the sale of a building, net of current portion | $ 2,143,948 |
| Long term security deposits | 749,989 |
| Notes receivable due from membership organization termination | 448,947 |
| Deferred compensation | 383,306 |
| Lease intangible asset, net of accumulated amortization | 76,920 |
| Other long term notes receivable | 57,299 |
| Total | $ 3,860,409 |

## NOTE 7 - PENSION PLANS AND OTHER POSTRETIREMENT BENEFIT PLANS

Pension Benefits

BSI has a noncontributory qualified defined benefit pension plan for all employees meeting certain age and service requirements. The plan is designed to provide retirement benefits to vested employees of the Company. The amount of an employee's retirement benefit is calculated based upon the length of service and the average monthly compensation received by the employee during the 60 consecutive months out of the previous 120 months of employment, which produced the highest average monthly compensation. The plan was frozen as of December 31, 2011.

BCP has a defined benefit cash balance pension plan that is available to all employees who have attained age 21 and completed one year of service. Benefits are fully vested after three years of service. The plan was frozen as of February 28, 2011.

Substantially all ITxM employees are covered by a defined benefit cash balance pension plan.

The BSI, BCP and ITxM defined benefit pension plans were consolidated into one plan as of December 30, 2017.

For the year ended December 31, 2017, the Company recorded other changes in its plan assets and benefit obligations as a change in unrestricted net assets as follows:

| | |
|---|---|
| BSI pension | $ (15,090,962) |
| BCP pension | 4,051,319 |
| ITxM pension | 841,771 |
| BSI supplemental pension | 117,060 |
| BSI post-retirement | (285,651) |
| Decrease in unrestricted net assets | $ (10,366,463) |

As of December 31, 2017, the following table indicates the pension plan's funded status, net periodic pension cost and certain assumptions used in determining the funded status. Benefits paid during the year were $6,534,976.

| | Consolidated Pension Plans |
|---|---|
| Funded status: | |
| Fair value of plan assets | $ 209,883,327 |
| Benefit obligation | (270,916,146) |
| | $ (61,032,819) |
| Net periodic benefit cost | $ 3,617,097 |

## NOTE 7 - PENSION PLANS AND OTHER POSTRETIREMENT BENEFIT PLANS (continued)

Pension Benefits (continued

The Company's pension plan weighted-average asset allocations as of December 31, 2017, by asset category, are as follows:

| | |
|---|---|
| Equity securities | 58% |
| Debt securities | 38% |
| Real estate | 4% |
| Total | 100% |

The Investment Committee of BSI is responsible for establishing the investment programs for the plans, setting overall objectives and policy guidelines and selecting and monitoring managers. The BSI Board of Trustees has hired the services of an investment consulting firm to assist them in the development of policies and selecting and monitoring the managers.

The overall rate of return objective for the pension plans is to exceed the return of a custom index consisting of 38% S&P 500 Index, 5% Russell 2000 Index, 20% Morgan Stanley Capital International, Inc. Europe Australasia and the Far East ("MSCI EAFE") Index and 37% Barclays Capital Aggregate Bond Index, net of fees ("Custom Index"). The pension plan's asset allocation policy is designed to provide the highest probability of meeting or exceeding the pension plan's return objectives at the lowest possible risk, and targets an allocation of 63% equity securities and 37% fixed income assets.

The Company uses the fair value hierarchy for classifying fair value measurements of investments as outlined in Note 1. The following table summarizes investment levels of the defined benefit plan's investments as of December 31, 2017:

| | Total | Level 1 | Level 2 | Level 3 | NAV |
|---|---|---|---|---|---|
| U.S. equity funds | $ 78,409,976 | $ 63,537,659 | $ 5,943,090 | $ - | $ 8,929,227 |
| International equities | 22,931,135 | 22,931,135 | - | - | - |
| Common stock (domestic and foreign) | 19,317,737 | 19,317,737 | - | - | - |
| Corporate Bonds | 4,517,264 | - | 4,517,264 | - | - |
| Asset backed securities | 358,915 | 358,915 | - | - | - |
| U.S. government agency securities | 4,944,661 | - | 4,944,661 | - | - |
| Fixed income funds | 69,510,351 | 8,351,538 | 61,158,813 | - | - |
| Cash and cash equivalents | 772,621 | 772,621 | - | - | - |
| Real estate investment trust | 9,120,667 | 9,120,667 | - | - | - |
| Total | $209,883,327 | $124,390,272 | $76,563,828 | $ - | $ 8,929,227 |

## NOTE 7 - PENSION PLANS AND OTHER POSTRETIREMENT BENEFIT PLANS (continued)

Pension Benefits (continued

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

| | |
|---|---|
| 2018 | $ 11,443,000 |
| 2019 | 11,863,000 |
| 2020 | 12,666,000 |
| 2021 | 13,404,000 |
| 2022 | 13,849,000 |
| 2023 - 2027 | 71,225,000 |

The actuarial present value of benefit obligations recognized in the accompanying consolidated statement of financial position at December 31, 2017, was as follows:

| | |
|---|---|
| Amounts recognized in the consolidated statement of financial position consisted of: | |
| Accrued pension costs | $ 60,697,134 |
| Amount recognized in unrestricted net assets consisted of: | |
| Net loss | $ 72,863,955 |
| Amount in unrestricted net assets expected to be recognized in net periodic benefit cost in next fiscal year: | |
| Amortization of net loss | $ 2,449,397 |

Supplemental Pension Plan

The Company has a supplemental pension plan for certain highly compensated employees. The supplemental pension plan was designed in response to limitations imposed on January 1, 1994, on the compensation that could be included for pension calculations under the Omnibus Budget Reconciliation Act of 1993. Total accrued benefits payable related to this supplemental plan as of December 31, 2017, was $335,685 and is recorded in the accompanying consolidated statement of financial position. The plan was frozen as of December 31, 2011.

## NOTE 7 - PENSION PLANS AND OTHER POSTRETIREMENT BENEFIT PLANS (continued)

Supplemental Pension Plan (continued)

The status of the supplemental pension plan as of December 31, 2017, is set forth below:

| | | |
|---|---|---|
| Benefit obligation – end of year | $ | 335,685 |
| Change in plan assets | | |
| Fair value of plan assets – beginning of year | $ | - |
| Company contributions | | 843,964 |
| Settlement payments | | (843,964) |
| Benefits paid | | - |
| Fair value of plan assets – end of year | | - |
| Funded status | $ | (335,685) |

The actuarial present value of the supplemental pension plan benefit obligations recognized in the accompanying consolidated statement of financial position at December 31, 2017, were as follows:

| | | |
|---|---|---|
| Amounts recognized in the consolidated statement of financial position consisted of: | | |
| Current liabilities | $ | (261,636) |
| Accrued pension costs | | (74,049) |
| Amount recognized in unrestricted net assets consisted of: | | |
| Net loss | $ | 117,060 |
| Amount in unrestricted net assets expected to be recognized in net periodic benefit cost in next fiscal year: | | |
| Amortization of net loss | $ | 3,164 |

Postretirement Healthcare Plan

BSI sponsors a postretirement healthcare plan for employees who retired directly from active service at age 55 or older and with 10 or more credited years of service. The healthcare portion of the plan is contributory with retiree contributions adjusted annually. The life insurance portion of the plan is noncontributory. Benefits are no longer available to employees who retire after December 31, 1997. Healthcare benefits remain available to retirees participating at December 31, 1997.

## NOTE 7 - PENSION PLANS AND OTHER POSTRETIREMENT BENEFIT PLANS (continued)

Postretirement Healthcare Plan (continued)

The net periodic postretirement benefit cost for the year ended December 31, 2017, included the following components:

| | | |
|---|---|---|
| Interest cost | $ | 4,617 |
| Amortization of net gain | | (44,246) |
| Net periodic postretirement benefit cost | $ | (39,629) |

The status of the postretirement healthcare plan as of December 31, 2017, is set forth below:

| | | |
|---|---|---|
| Change in benefit obligation | | |
| Benefit obligation – beginning of year | $ | 128,009 |
| Interest cost | | 4,617 |
| Participant contributions | | 11,691 |
| Benefits paid | | (42,363) |
| Actuarial loss | | 16,078 |
| Benefit obligation – end of year | $ | 118,032 |
| Fair value of plan assets – beginning of year | $ | - |
| Company contributions | | 30,672 |
| Participant contributions | | 11,691 |
| Benefits paid | | (42,363) |
| Fair value of plan assets – end of year | $ | - |
| Funded status | $ | (118,032) |

The postretirement healthcare plan benefits expected to be paid are as follows:

| | | |
|---|---|---|
| 2018 | $ | 25,000 |
| 2019 | | 24,000 |
| 2020 | | 22,000 |
| 2021 | | 21,000 |
| 2022 | | 20,000 |
| 2023-2027 | | 70,000 |
| | $ | 182,000 |

## NOTE 7 - PENSION PLANS AND OTHER POSTRETIREMENT BENEFIT PLANS (continued)

Postretirement Healthcare Plan (continued)

The actuarial present value of benefit obligations recognized in the accompanying consolidated statement of financial position at December 31, 2017, for the postretirement healthcare plan were as follows:

| | |
|---|---|
| Amounts recognized in the consolidated statement of financial position consisted of: | |
| Accrued postretirement health benefits | $ (118,032) |
| Amount recognized in unrestricted net assets consisted of: | |
| Net gain | $ (285,651) |
| Amount in unrestricted net assets expected to be recognized in net periodic benefit cost in next fiscal year: | |
| Amortization of net gain | $ (39,459) |

Pension, Supplemental Pension and Postretirement Healthcare Plans Measurement Date

The Company uses a December 31 measurement date for its pension and other postretirement plans.

Weighted-Average Assumptions

Weighted-average assumptions used to determine benefit obligations as of December 31, 2017, were as follows:

| | Pension Benefits | Other Benefits |
|---|---|---|
| Discount rate | 3.80% | 3.26% |
| Rate of compensation increase | N/A | N/A |
| Healthcare cost trend rate assumed each year | N/A | 7.80% |
| Ultimate healthcare cost trend rate | N/A | 6.10% |
| Year that the rate reaches the ultimate trend rate | N/A | 2027 |

## NOTE 7 - PENSION PLANS AND OTHER POSTRETIREMENT BENEFIT PLANS (continued)

Weighted-Average Assumptions (continued)

Weighted-average assumptions used to determine net periodic benefit cost for the year ended December 31, 2017, were as follows:

| | Pension Benefits | Other Benefits |
|---|---|---|
| Discount rate | 3.80% | 4.00% |
| Expected long-term return on plan assets | 6.50% | N/A |
| Rate of compensation increase | N/A | N/A |
| Healthcare cost trend rate for next year | N/A | 8.00% |
| Ultimate healthcare cost trend Rate | N/A | 6.10% |
| Year that the rate reaches the ultimate trend rate | N/A | 2027 |

Defined Contribution Plans and Deferred Compensation Plans

BSI and CTS have defined contribution plans covering substantially all salaried employees of the companies who have one month of service. Participant contributions are permissible up to limitations under the IRC. The companies automatically deduct 3% from new employees' pay as a contribution to the plan unless the employee opts out. The companies match 100% of the first 3% deferral plus 50% of the next 2% deferral. In addition, the companies contribute a non-matching portion once a year based on an age and service formula ranging from 2% to 4% of the employee's pay.

LifeStream has a 403(b) plan with a voluntary employer match at 50% of employee contributions up to 6%.

Bergen has a 403(b) plan covering substantially all employees who have completed one full year of service and work 1,000 hours annually. Employees may contribute up to 100% of their compensation subject to limitations under the IRC. Bergen does not make any discretionary contributions to the plan. Bergen also implemented a 457(b) plan for the benefit of an officer. Bergen is to contribute an amount equal to 5% of the officer's base salary up to the IRS limit during each year of the agreement.

ITxM has a 403(b) defined contribution plan that covers substantially all employees. Employee contributions are matched at the rate of 75% on the first 3% and 25% on the next 3% of the employee's salary contributed.

Employer contributions to these plans totaled approximately $15,700,000 for the year ended December 31, 2017.

BSI also offers a 457(b) plan to certain eligible employees. Employee contributions to the plan are voluntary and BSI has no matching of funds.

LifeStream has a 457(f) plan for certain executives and other highly compensated employees. The plan is funded with discretionary annual contributions after one year of employment for executives and at time of employment for other participants.

## NOTE 7 - PENSION PLANS AND OTHER POSTRETIREMENT BENEFIT PLANS (continued)

Multi-Employer Defined Pension Plan

ITxM also contributes to a union-sponsored multi-employer defined benefit pension plan under the terms of a collective-bargaining agreement that cover its union-represented employees. The risks of participating in a multi-employer plan are different from a single employer plan in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If ITxM chooses to stop participating in its multi-employer plan, ITxM may be required to pay that plan an amount based on the under-funded status of the plan, referred to as a withdrawal liability.

ITxM's participation in this plan for the year ended December 31, 2017 is outlined in the table below. The Employer Identification Number ("EIN")/Pension Plan Number are provided. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available at December 31, 2017 is based on the plan's year-end at December 31, 2015. Information for the plan year ended December 31, 2017, was not available as of the issuance of these financial statements. The zone status is based on information that was received from the plan and is certified by the plan's actuary. Among other factors, a plan in the red zone is generally less than 65% funded, a plan in the yellow zone is less than 80% funded and a plan in the green zone is at least 80% funded. The "FIP or RP Status" column indicates the plan's status of implementing either a Financial Improvement Plan ("FIP") or a Rehabilitation Plan ("RP"). The expiration of the Collective Bargaining Agreement ("CBA") lists the expiration date of the collective bargaining agreement to which the plan is subject.

| Pension Fund | EIN/ Pension Plan Number | Pension Protection Act Zone Status 2017/ 2016 | Pension Protection Act Zone Status 2015 | FIP/RP Status Pending/ Implemented | Contributions by the Company 2017 | Surcharge Imposed | Expiration of CBA | 5% of Contribution |
|---|---|---|---|---|---|---|---|---|
| Western PA Teamsters and Employer's Pension Fund | 25-6029946 | * | Red | RP Implemented | $ 205,000 | No | 4/30/2020 | No |

*At the date the consolidated financial statements were issued, Form 5500 was not available for the above plan for the year ended 2017. Plan actuarial reports were not available 2017 or 2016. As a result, this information has been omitted from the above disclosure.

ITxM's contributions to the plan in the above table did not exceed 5% of the total contributions to the plan for the year ended December 31, 2017.

## NOTE 8 - COMMITMENTS AND CONTINGENCIES

Professional Liability

The Company's claims experience over the past several years has been related to allegations of injuries incurred during the donation process. In the past, the Company has been the defendant in lawsuits resulting from providing blood or blood-related components, which were used for transfusion purposes. At December 31, 2017, the Company has recorded self-insurance reserves in the accompanying consolidated statement of financial position of approximately $2,480,000 to cover its estimated liability for the self-insured portion of medical professional claims.

Workers' Compensation - Letter of Credit

Beginning in 2002, the Company began to carry a high deductible that is reimbursed by CSIC for workers' compensation claims. At December 31, 2017, the Company had letters of credit outstanding of $5,890,000 in connection with its workers' compensation insurance program. At December 31, 2017, the Company has recorded self-insurance reserves of approximately $4,752,000 to cover its estimated liability for self-insured workers' compensation claims.

Auto Liability

Beginning in 2005, the Company began to carry a high deductible that is reimbursed by CSIC for auto liability claims. At December 31, 2017, the Company has recorded self-insurance reserves of approximately $577,000 to cover its estimated liability for auto liability claims. Beginning November 1, 2013, the Company began to carry unlimited auto physical damage coverage that is reimbursed by CSIC. The Company has recorded self-insurance reserve of $129,000 as of December 31, 2017.

Property

Beginning November 1, 2013, the Company began to carry a deductible of $50,000 for property coverage that is reimbursed by CSIC. The Company has recorded a self-insurance reserve of approximately $34,000 as of December 31, 2017.

Employee Medical and Dental Liability

At December 31, 2017, other accrued expenses include approximately $3,525,000 of estimated outstanding liabilities related to the Company's employee medical and dental program.

Government Grants

Costs charged to the federal government under cost-reimbursement grants and contracts are subject to government audit. Therefore, all such costs are subject to adjustment. Management believes that adjustments, if any, would not have a significant effect on these consolidated financial statements.

Other Litigation - General Disclosure

In the ordinary course of business, the Company is subject to various legal proceedings and claims. In the opinion of management, the eventual outcome of the current proceedings and claims against the Company will not materially affect the Company's financial position, results of operations or cash flows.

## NOTE 8 - COMMITMENTS AND CONTINGENCIES (continued)

Leases

Approximate future minimum payments required under operating lease agreements are payable as follows:

| | |
|---|---|
| 2018 | $ 17,219,000 |
| 2019 | 13,395,000 |
| 2020 | 11,922,000 |
| 2021 | 10,578,000 |
| 2022 | 9,248,000 |
| Thereafter | 41,958,000 |
| Total minimum lease payments | $ 104,320,000 |

Certain of these operating lease agreements provide for annual rent escalations and renewal options. Rent expense for the year ended December 31, 2017, was approximately $18,183,000.

## NOTE 9 - OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

The Company's operating expenses by functional classification for the year ended December 31, 2017, is approximately as follows:

| | |
|---|---|
| Blood banking services | $ 469,907,000 |
| Laboratory services | 249,118,000 |
| Research | 15,642,000 |
| Pharmaceutical products | 415,232,000 |
| Administration | 122,995,000 |
| | $1,272,894,000 |

The Company's expenses are charged to program services and management and general categories based on expenditures incurred. Any expenditure not directly chargeable to a functional expense category is allocated based on appropriate allocation methods, such as percentage of time spent or percentage of space used.

## NOTE 10 - INCOME TAXES

The Company has been recognized by the IRS as an organization that is exempt from federal income taxes for activities related to its exempt function under IRC Section 501(c)(3). Income taxes would be provided on revenues in excess of costs and expenses from activities unrelated to the Company's exempt function. For the year ended December 31, 2017, management believes substantially all revenues were derived from tax-exempt activities.

At December 31, 2017, the Company evaluated whether it had uncertain tax positions that should be recognized or derecognized based on a 'more likely than not' threshold for tax positions taken or expected to be taken in a tax return, including those tax positions that would not be sustained upon examination in accordance with guidance related to Accounting for Uncertainty in Income Taxes. The tax years for the Company that are subject to audit by the IRS and state departments of revenue are generally the tax years ended December 31, 2014, through the current tax year except in certain states where the open tax years generally begin with the tax year ended December 31, 2013. The Company is evaluating whether the distribution of certain recombinant products creates any unrelated business income tax exposure. However, as of December 31, 2017, the Company has not identified any uncertain tax positions that would require the recording of a tax liability. The Company does not anticipate a change in uncertain tax positions for the 12 months following the year ended December 31, 2017.

BioCARE, Inc., a newly formed for-profit subsidiary, is subject to federal income taxes. Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. There were no deferred tax assets or liabilities recorded in the consolidated financial statements as of December 31, 2017. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. At December 31, 2017, there were no temporary or permanent differences between current year taxable income and income before current year tax expense. As of December 31, 2017 the Company had no uncertain tax positions, or interest and penalties that qualified for either recognition or disclosure in the financial statements. Total tax expense in 2017 was approximately $4.0 million. As of December 31, 2017 the Company had approximately $900,000 in taxes payable.

The 2017 Tax Act was signed into law on December 22, 2017. The 2017 Tax Act significantly revised the U.S. corporate income tax by, among other things, lowering the statutory corporate tax rate from 35% to 21%, eliminating certain deductions, and introducing new tax regimes. The 2017 Tax Act also enhanced and extended through 2026 the option to claim accelerated depreciation deductions on qualified property. We have completed our determination of the accounting implications of the 2017 Tax Act and have determined that there is no material impact on our tax accruals.

## NOTE 11 - SUBSEQUENT EVENTS

Effective January 1, 2018, CTS recapitalized its membership interest as follows: BSI and The American National Red Cross each hold a 40% membership interest in CTS and OneBlood holds a 20% membership interest in CTS. Beginning in 2018, CTS will no longer be consolidated in the Company's financial statements.

**Blood Systems, Inc. and Affiliates**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Year Ended December 31, 2017**

| | Federal CFDA Number | Federal Contract Number | Contractor's Number | Grouping Subtotals | Total Expenditures | Pass-through |
|---|---|---|---|---|---|---|
| **RESEARCH AND DEVELOPMENT CLUSTER:** | | | | | | |
| **U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES** | | | | | | |
| **National Heart, Lung & Blood Institute:** | | | | | | |
| Recipient Epidemiology and Donor Evaluation Study-III (REDS-III) - Central Laboratory | 93.UNKNOWN | HHSN268201100001I | N/A | | 1,470,697 | 283,855 |
| Recipient Epidemiology and Donor Evaluation Study-III (REDS-III) - International Site | 93.UNKNOWN | HHSN268201100007I | N/A | | 1,197,001 | 574,865 |
| Subcontract from University of California/San Francisco (EIN 946036493) Recipient Epidemiology and Donor Evaluation Study-lll (REDS-III) - Domestic Sites | 93.UNKNOWN | HHSN268201100005I | 6576sc; 7554sc | | 273,759 | |
| Recipient Epidemiology and Donor Evaluation Study III (REDS III) -Domestic Sites - Phase II | 93.UNKNOWN | HHSN268201100004I | N/A | | 350,829 | 171,262 |
| Recipient Epidemiology and Donor Evaluation Study III (REDS III) -Domestic Sites - Phase III | 93.UNKNOWN | HHSN268201100004I | N/A | | 20,262 | |
| Subcontract from University of California/San Francisco (EIN 946036493) Recipient Epidemiology and Donor Evaluation Study-lll (REDS-III) - International Site | 93.UNKNOWN | HHSN268201100009I | 6573sc; 7584sc | | 105,303 | |
| Validating the link between NXPH2 and alloimmunization | 93.837 | R21HL124260 | N/A | 100,584 | | |
| Effects of blood conservation and donor characteristics on transfused patient outcomes in a large community hospital network | 93.837 | R01HL126130 | N/A | 4,010 | | 3,714 |
| Mechanisms regulating alloimmunization and tolerance with pathogen reduction and transfusion of allogeneic platelets | 93.837 | R01HL133024 | N/A | 416,030 | | |
| **Total CFDA 93.837** | | | | | 520,624 | |
| Metagenomic Detection of Emerging Viruses in the Blood Supply | 93.839 | R01HL105770 | N/A | 1,423 | | |
| Clinical Outcomes of Zika Virus in Sickle Cell Disease | 93.839 | R21HL137439 | N/A | 65,353 | | 41,668 |
| Subcontract from Kaiser Foundation Research Institute (EIN 941105628) Effects of blood conservation and donor characteristics on transfused patient outcomes in a large community hospital network | 93.839 | R01HL126130 | 209203-002 | 26,362 | | |
| Subcontract from Immunetics, Inc. (acquired by Oxford Immunotech - EIN208528566) Antigen detection assay for blood screening | 93.839 | R44HL127698 | N/A | 123,079 | | |
| Subcontract from Mayo Clinic (EIN 416011702) Point-of-Care RBC Washing to Prevent Transfusion-Related Pulmonary Complications | 93.839 | R01HL121232 | 63880760 | 45,055 | | |
| Subcontract from Emory University (EIN 580566256) Adverse effects of RBC transfusions: A unifying hypothesis | 93.839 | R01HL095479 | T666335 | 18,566 | | |
| Subcontract from Emory University (EIN 580566256) Serious Hazards of Transfusion & Cellular Therapies: Mechanisms and Interventions | 93.839 | P01HL086773 | T691932 | 17,138 | | |
| Subcontract from University of Pittsburgh Trial Using Epsilon Aminocaproic Acid Therapy in Thrombocytopenia | 93.839 | 5U01HL122894-02 | 412141 | 29,100 | | |
| **Total CFDA 93.839** | | | | | 326,076 | |
| **National Institute on Drug Abuse:** | | | | | | |
| Subcontract from The Regents of the University of New Mexico, Health Sciences Center Acute Hepatitis C Infection in Young Injectors | 93.279 | R01DA016017 | 3RV39 | | 127,836 | |
| **National Institute of Neurological Disorders and Stroke:** | | | | | | |
| Subcontract from The Regents of the University of California, San Francisco (EIN 946036493) Compartmentalized CSF viral escape and the CNS HIV reservoir | 93.853 | R01NS094067 | 9090sc | 36,510 | | |
| Subcontract from The Wistar Institute (EIN 236434390) Exploring cell-free glycomic interactions in HIV-associated neurological Disorders | 93.853 | R21NS106970 | 25471-03-381 | 13,494 | | |
| **Total CFDA 93.853** | | | | | 50,004 | |
| **National Institute of Allergy and Infectious Diseases:** | | | | | | |
| Subcontract from Duke University (EIN 560532129) External Quality Assurance Program Oversight Laboratory (EQAPOL) | 93.UNKNOWN | HHSN272201000045C | 2035826 | | 170,564 | |
| **National Institute of Allergy and Infectious Diseases:** | | | | | | |
| Subcontract from Duke University (EIN 560532129) External Quality Assurance Program Oversight Laboratory (EQAPOL) | 93.UNKNOWN | HHSN272201700061C | | | 32,857 | |
| Subcontract from NCIRE, The Veterans Health Research Institute (EIN 943084159) Tissue Reservoirs of HIV in Victims of Sudden Death | 93.855 | R56AI116342 | WONG1924-01 | 44,753 | | |
| Protective B-cell responses in chikungunya virus infection | 93.855 | R56AI119056 | N/A | 490,499 | | 121,367 |
| Subcontract from The Regents of the University of California, San Francisco (EIN 946036493) Characterization of Exosomes From Semen of Uninfected and HIV-Infected Men | 93.855 | R21AI122821 | 9285sc | 71,657 | | |
| Viral etiology of idiopathic chronic diarrhea in rhesus macaques | 93.855 | R01AI123376 | N/A | 299,606 | | 64,289 |
| Subcontract from Immunetics, Inc. (acquired by Oxford Immunotech - EIN208528566) Rapid Test for Recent HIV Infection | 93.855 | R44AI098567 | N/A | 40,516 | | |

**Blood Systems, Inc. and Affiliates**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Year Ended December 31, 2017**

| | Federal CFDA Number | Federal Contract Number | Contractor's Number | Grouping Subtotals | Total Expenditures | Pass-through |
|---|---|---|---|---|---|---|
| Subcontract from Beth Israel Deaconess Medical Center, Inc. (EIN 042103881) | | | | | | |
| Measurement of Antibody Epitope Signatures by Peptide Microarrays to Determine Recency of HIV Infection | 93.855 | R21AI122938 | 1029108 | 9,994 | | |
| Subcontract from the Board of Regents of the University System of Georgia (EIN 581353149) by and on behalf of the University of Georgia | | | | | | |
| Multiplex Treatment Outcomes Test for Chagas Disease | 93.855 | R01AI125738 | RR374-126/S001204 | 113,246 | | |
| Subcontract from The Regents of the University of California, San Francisco (EIN 946036493) | | | | | | |
| UCSF-GVI Center for AIDS Research | 93.855 | P30AI027763 | 10535sc | 12,271 | | |
| Subcontract from The Regents of the University of California, San Francisco (EIN 946036493) | | | | | | |
| UCSF-GVI Center for AIDS Research | 93.855 | P30AI027763 | 8895sc | 13,073 | | |
| **Total CFDA 93.855** | | | | | 1,095,615 | |
| **National Institute of Mental Health** | | | | | | |
| Effects of Human Galectin-9 on the CNS HIV Reservoir | 93.242 | R01MH112457 | N/A | 407,165 | | 256,710 |
| Subcontract from University of Illinois (EIN 376000511) | | | | | | |
| Sex Differences in Cognitive Response to A Hydrocortisone Challenge in HIV | 93.242 | R21MH099978 | 063164-00001 | 27,922 | | |
| **Total CFDA 93.242** | | | | | 435,087 | |
| **National Institute of General Medical Sciences:** | | | | | | |
| Subcontract from the University of Maryland, Baltimore (EIN 521362793) | | | | | | |
| Syndecan shedding after trauma and hemorrhagic shock | 93.859 | R01GM107482 | 1500643/11929/12778 | 4,798 | | |
| Modulation of Pulmonary Vascular Permeability and Inflammation by Mesenchymal Stem Cells (MSCs) in Hemorrhagic Shock | 93.859 | R01GM111899 | N/A | 150,652 | | |
| Effects of Cell-Intrinsic Immunity on Establishment and Reversal of HIV latency | 93.859 | R01GM117901 | N/A | 284,096 | | |
| **Total CFDA 93.859** | | | | | 439,546 | |
| **National Institute of Dental & Craniofacial Research** | | | | | | |
| Subcontract from The Regents of the University of California, San Francisco (EIN 946036493) | | | | | | |
| Neoronal Regulation of Salivary Stem Cells | 93.121 | R01DE024188 | 8186sc | 15,485 | | |
| Subcontract from J. David Gladstone Institutes (EIN 237203666) | | | | | | |
| Novel model for HIV Latency in Oral Primary Lymphoid Tissues | 93.121 | R01DE026010 | R2415-A | 902 | | |
| Subcontract from Buck Institute for Research on Aging (EIN 943030609) | | | | | | |
| Novel model for HIV Latency in Oral Primary Lymphoid Tissues | 93.121 | R01DE026010 | SA14005-BS | 54,846 | | |
| **Total CFDA 93.121** | | | | | 71,233 | |
| **CDC/OD/OCOO/PGO** | | | | | | |
| Subcontract from The Regents of the University of California, San Francisco (EIN 946036493) | | | | | | |
| GH113-1328,HQ, Technical Assistance to Countries Supported by the PEPFAR and Global | 93.067 | U2GGH000977 | 9341sc | | 61,668 | |
| Subcontract from Children's Hospital of Philadelphia | | | | | | |
| Community Counts: Public Health Surveillance for Bleeding Disorders | 93.184 | 5NU27DD001155-02-00 | 8901210917 | 9,917 | | |
| Subcontract from Children's Hospital of Philadelphia | | | | | | |
| Community Counts: Public Health Surveillance for Bleeding Disorders | 93.184 | 5NU27DD001155-03-00 | 8901210918 | 4,108 | | |
| **Total CFDA 93.184** | | | | | 14,025 | |
| **Food and Drug Administration** | | | | | | |
| Transfusion-Transmissible Infections Monitoring System (TTIMS) | | | | | | |
| Laboratory and Risk Factor Coordinating Center (LRCC) | 93.UNKNOWN | HHSF223201510149C | N/A | 158,445 | | 120,055 |
| Subcontract from the American National Red Cross (EIN 530196605) | | | | | | |
| Transfusion-Transmissible Infections Monitoring System (TTIMS) Donation Database Coordinating Center (DDCC) | 93.UNKNOWN | HHSF223201510165C | 01 | 142,557 | | |
| Transfusion-Transmissible Infections Monitoring System (TTIMS) | | | | | | |
| Laboratory and Risk Factor Coordinating Center (LRCC) | 93.UNKNOWN | HHSF223201610043I | N/A | 1,029,644 | | 387,917 |
| **Total Food and Drug Administration** | | | | | 1,330,646 | |
| Subcontract from Children's Hospital of Philadelphia | | | | | | |
| Hemophilia Treatment Centers (SPRANS) | 93.110 | 6 H30MC240500601 | 27007-3209610518 | | 30,550 | |
| **Total U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES** | | | | | **8,124,182** | |
| **U.S. DEPARTMENT OF DEFENSE** | | | | | | |
| Subcontract from Clinical Research Management, Inc. (EIN 541716562) | | | | | | |
| Performance Standards for Manufacturing, Warehousing, and Delivery of a Cryopreserved Platelets (CPP) Product to Support Efforts to Obtain FDA Licensure | 12.UNKNOWN | W81XWH-13-C-0167 | BSRI-16-01 | | 1,861,245 | |
| Subcontract from Oregon Health & Science University (EIN 931176109) | | | | | | |
| Mesenchymal Stem Cells for the Prevention of Acute Respiratory Distress Syndrome after Pulmonary Contusion and Hemorrhagic Shock | 12.420 | W81XWH-16-2-0036 | 1008335_BSRI | 463,975 | | |
| US Army Medical Research Acquisition Act | | | | | | |
| Platelets Modulate Vascular Stability: Assessing the Biological Properties and Function of Apheresis Platelets Stored at 22oC vs 4oC | 12.420 | W81XWH-16-2-0035 | N/A | 140,386 | | |
| **Total CFDA 12.420** | | | | | 604,361 | |
| **Total U.S. DEPARTMENT OF DEFENSE** | | | | | **2,465,606** | |
| **Total RESEARCH AND DEVELOPMENT CLUSTER** | | | | | **$ 10,589,788** | **$ 2,025,702** |

**Blood Systems, Inc. and Affiliates**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**December 31, 2017**

## NOTE 1 - GENERAL

The Schedule of Expenditures of Federal Awards (the "Schedule") presents the activity of all federal award programs of Blood Systems, Inc. and its affiliated organizations: Bonfils Blood Center; Blood Bank of San Bernardino and Riverside Counties (d/b/a LifeStream); Bergen Community Regional Blood Center; Blood Source; Institute for Transfusion Medicine ("ITxM"); Hemophilia Center of Western Pennsylvania; Canyon State Insurance Company; and Creative Testing Solutions ("CTS") (collectively, "BSI" or the "Company"). Federal financial award activities are reported as grants and contributions – unrestricted in the consolidated financial statements of the Company.

All federal grants received by BSI relate to research and development. As such, these grants are considered a cluster under the provisions of U.S. Office of Management and 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 - BASIS OF ACCOUNTING AND REPORTING ENTITY

The Schedule is presented using the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the Company, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Company.

BSI utilizes approved indirect costs rates and has not elected to use the 10% de minimus cost rate as covered in 2 CFR 200.4 indirect (F&A) costs.

## NOTE 3 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the respective grant and contract agreements. The CFDA numbers were compared to the 2017 Catalog of Federal Domestic Assistance. Instances where CFDA numbers are not available relate primarily to federal contracts. In these instances, the Company reports the awarding agency's 2-digit prefix, followed by UNKNOWN as well as the federal contract number as an additional identifier.

## NOTE 4 – CREATIVE TESTING SOLUTIONS

Blood Systems, Inc. is a majority owner of the Creative Testing Solutions ("CTS") joint venture owning 75% and therefore consolidates CTS into the BSI consolidated financial statements and into the BSI Schedule of Expenditures of Federal Awards. Awards from BSI to CTS, as CTS is a separate 501(c)(3) organization, are included as pass-through funding on the Schedule of Expenditures of Federal Awards.

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# REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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Board of Trustees
Blood Systems, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Blood Systems, Inc. and Affiliates (the "Company"), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of revenues, expenses, and other changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2018.

## Internal control over financial reporting

In planning and performing our audit of the consolidated financial statements, we considered the Company's internal control over financial reporting ("internal control") to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Company'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 Company's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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Compliance and other matters

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

Intended purpose

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

Grant Thornton LLP

Phoenix, Arizona
April 30, 2018

REPORT ON COMPLIANCE FOR MAJOR FEDERAL PROGRAM

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Board of Trustees
Blood Systems, Inc.

**Report on compliance for major federal program**

We have audited the compliance of Blood Systems, Inc. and Affiliates (the "Company") with the types of compliance requirements described in the U.S. Office of Management and Budget's *OMB Compliance Supplement* that could have a direct and material effect on the major federal program for the year ended December 31, 2017. The Company's major federal program is 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 the Company's federal programs.

Auditor's responsibility

Our responsibility is to express an opinion on compliance for the Company's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Company'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 the major federal program. However, our audit does not provide a legal determination of the Company's compliance.

Opinion on mayor federal program

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2017.

Other matters

The results of our audit procedures disclosed instances of noncompliance, described in the accompanying schedule of findings and questioned costs as item 2017-001, that is required to be reported in accordance with the Uniform Guidance. Our opinion on the major federal program is not modified with respect to these matters.

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

**Report on internal control over compliance**

Management of the Company 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 Company's internal control over compliance with the types of compliance requirements that could have a direct and material effect on the major federal program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 the Company's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or 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 a material weaknesses. However, we identified certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a significant deficiency in the Company's internal control over compliance.

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

Grant Thornton LLP

Phoenix, Arizona
April 30, 2018

**Blood Systems, Inc. and Affiliates**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**December 31, 2017**

## SECTION I - SUMMARY OF AUDITOR'S RESULTS

### Financial Statements

Type of auditor's report issued: ..... Unmodified

Internal control over financial reporting:

- Material weakness identified? ..... None reported
- Significant deficiencies identified that are not considered to be material weaknesses? ..... None reported

Noncompliance material to financial statements noted? ..... None reported

### Federal Awards

Internal control over major programs:

- Material weakness identified? ..... None reported
- Significant deficiencies identified that are not considered to be material weaknesses? ..... Yes

Type of auditor's report issued on compliance for major programs: ..... Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ..... Yes

Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster |
|---|---|
| Various | Research and Development Cluster |

Dollar threshold used to distinguish between type A and type B programs: ..... $750,000

Auditee qualified as low-risk Auditee? ..... Yes

## SECTION II - FINANCIAL STATEMENT FINDINGS SECTION

None reported.

## SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### Finding 2017-001

Research and Development Cluster

| | |
|---|---|
| 93.UNKNOWN | Receipent Epidemiology and Donor Evaluation Study III (REDS III) |
| 93.839 | Trial Using Epsilon Aminocaproic Acid Therapy in Thrombocytopenia |
| 93.184 | Community Counts: Public Health Surveillance for Bleeding Disorders |

Pass through entity: University of Pittsburgh

SIGNIFICANT DEFICIENCY

*Criteria*
Multiple control deficiencies were identified throughout the testing of the research and development cluster at the Institute for Transfusion Medicine location of Blood Systems, Inc. that when considered in the aggregate were deemed a significant deficiency. The following control deficiencies' criteria are listed below:

Allowable Costs/Allowable Activities/Period of Performance

The Company is responsible for establishing and maintaining controls and procedures in place to ensure that expenditures are allowable per 2 CFR part 230 and within the correct period of performance for each award.

Reporting/Cash Management

The Uniform Guidance requires the Company to have controls in place to ensure that the financial reports that are submitted to the awarding agency are accurate, in accordance with each award document.

Suspension & Debarment

The *2017 OMB Compliance Supplement* states that when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity, as defined in 2 CFR section 180.995, is not suspended or debarred or otherwise excluded from participating in the transaction.

Subrecipient Monitoring

Per 2 CFR section 200.331(f) pass through entities must verify that every subrecipient is audited as required by Subpart F – Audit Requirements when it is expected that the subrecipient's federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in 2 CFR section 200.501.

*Condition/Context*

Allowable Costs/Allowable Activites/Period of Performance

We selected a sample of 12 ITxM payroll related expenditures for testing (from the ITxM population of 113). We noted 7 instances of payroll expenditures that did not have evidence of review by appropriate personnel prior to submission to the awarding agency. Each of the 7 instances related to salaried employees. If appropriate controls are not established, program funds could be expended inappropriately or outside of the period of performance. During our testing it appeared these payroll expenditures were directly related to the programs to which they were charged.

Reporting/Cash Management

We selected a sample of 9 ITxM financial reports for testing (from the ITxM population of 34). We noted 2 instances of reports that did not have evidence of review by appropriate personnel prior to submission to the awarding agency. Both instances related to an award that is submitted through a different process than the rest of the population. If appropriate controls are not established, ITxM may not receive reimbursement for all grant expenditures or could file inaccurate reports. During our testing, we did not identify any inaccuracies in the tested reports.

Suspension & Debarment

We selected ITxM's only vendor above the $25,000 threshold for testing, that received $171,262 in federal funds from ITxM. ITxM had not established a control to ensure that funds were not expended on suspended or debarred vendors. If appropriate controls are not established, program funds could be expended on vendors that are suspended or debarred. During our testing, we noted that this vendor was not listed as being suspended or debarred.

Subrecipient Monitoring

We selected ITxM's only subrecipient that received federal funding from ITxM for testing. ITxM did not obtain and review their subrecipient's most recent federal single audit report, in accordance with Uniform Guidance. During the course of the audit, we obtained and reviewed the subrecipient's most recent single audit report, noting no findings associated with their Research and Development programs.

*Cause/Effect*

ITxM did not have internal control procedures that were operating effectively to ensure: allowability of costs, allowability of activities, expenditures were made within the period of performance, financial reports were accurate, vendors were not suspended or debarred, and subrecipients were audited when required. No instances of noncompliance were identified, relating to these requirements, as a result of internal control procedures not operating effectively.

*Questioned costs*

None

*Identification as a repeat finding, if applicable*

Not applicable

*Recommendation*

We recommend that management makes steps to ensure that there are effective internal controls in place that are operating effectively to ensure proper approval of transactions to ensure allowability of costs, allowability of activities, correct period of performance of costs, accurate reporting, suspended and debarred vendors are identified and not utilized, and review of subrecipient's single audits.

*Views of responsible officials and planned corrective actions (unaudited)*

The Company concurs with these findings.

As an immediate fix to rectify these issues, and to enhance controls around compliance, the following have been implemented:

With respect to payroll expenditures, we have developed and implemented a process to certify salaried employees' time charged to grant awards, on each submitted invoice.

All submission for reimbursement, financial reports, and grant invoices will be reviewed and approved by a member of the ITxM financial management team prior to submission.

Finance and purchasing will implement a mechanism for checking vendors against the suspended and debarred listing, as part of the new vendor set up process and existing vendor review process.

**Blood Systems, Inc. and Affiliates**

**SCHEDULE OF PRIOR-YEAR FINDINGS AND QUESTIONED COSTS**

**December 31, 2017**

## SECTION IV - STATUS OF PRIOR-YEAR FINDINGS AND QUESTIONED COSTS

No prior-year findings reported.

**Blood Systems, Inc.**

6210 E. Oak Street / P.O. Box 1867 / Scottsdale, AZ 85252-1867
(480) 946-4201 / FAX (480) 675-5767

**Corrective Action Plan**

**Single Audit**

**For Fiscal Year Ended December 31, 2017**

**Fiscal Year: 2017**
**Finding Number: 2017-001**
**Finding and Corrective Action Plan:**

**Finding:** The Company's internal controls were inadequate to ensure allowability of costs, allowability of activities, expenditures were made within the period of performance, financial reports were authorized, and vendors were not suspended or debarred.

**Questioned Costs:** None

**Status:** Corrective action in progress

**Corrective action**: The Company recognizes the significance and priority of effective internal controls . As an immediate fix to rectify these issues, and enhance controls around compliance, the following has been implemented:

With respect to payroll expenditures, we have developed and implemented a process to certify salaried employees' time charged to grant awards, on each submitted invoice.

All submission for reimbursement, financial reports, and grant invoices will be reviewed and approved by a member of the ITxM Financial Management tea prior to submission.

Finance and purchasing will implement a mechanism for checking vendors against the suspended and debarred listing, as part of the new vendor set up process and existing vendor review process.

**Completion Date**: Estimated May 31, 2018

Respectfully submitted,

Tanya Perry

Tanya Perry, EVP/CFO