

THE BLOOD CONNECTION,  
INCORPORATED

Financial Statements

August 31, 2009 and 2008

( with Independent Auditors'  
Report thereon )

**THE BLOOD CONNECTION, INCORPORATED**

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## Independent Auditors' Report

Board of Trustees  
The Blood Connection, Incorporated  
Greenville, South Carolina

We have audited the accompanying statements of financial position of The Blood Connection, Incorporated as of August 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of The Blood Connection Incorporated's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Blood Connection, Incorporated as of August 31, 2009 and 2008, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Dixon Hughes PLLC*

November 30, 2009

**THE BLOOD CONNECTION, INCORPORATED**

## Statements of Financial Position

August 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b><u>Assets</u></b>		
Cash and cash equivalents	\$ 4,043,062	\$ 2,706,968
Accounts receivable	2,448,163	2,944,490
Donated lease receivable	112,617	114,881
Accrued interest receivable	841	7,846
Inventories	460,018	535,632
Prepaid expenses	409,322	477,392
Property and equipment, net	14,429,414	13,627,343
Bond issuance costs, net	107,538	114,258
Notes receivable	206,361	153,902
Investments	9,589,075	14,035,860
	<hr/>	<hr/>
Total assets	\$ 31,806,411	\$ 34,718,572
	<hr/> <hr/>	<hr/> <hr/>
<b><u>Liabilities and Net Assets</u></b>		
Accounts payable	\$ 557,442	\$ 688,832
Accrued salaries and benefits	229,017	293,213
Accrued self-funded insurance	-	50,500
Accrued compensated absences	575,666	520,294
Other accrued liabilities	29,464	22,184
Deferred compensation liability	414,298	337,764
Capital lease liability	13,146	-
Bonds payable	5,160,000	5,385,000
Interest rate swaps	344,903	185,535
Total liabilities	7,323,936	7,483,322
	<hr/>	<hr/>
Net assets		
Unrestricted	24,369,858	27,120,369
Temporarily restricted	112,617	114,881
Total net assets	24,482,475	27,235,250
	<hr/>	<hr/>
Total liabilities and net assets	\$ 31,806,411	\$ 34,718,572
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

**THE BLOOD CONNECTION, INCORPORATED**

Statements of Activities

For the Years Ended August 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues and support:		
Blood service fees	\$ 23,385,043	\$ 23,376,664
Laboratory testing and services	113,754	191,529
Donated rent revenue	11,402	13,235
Other	560,664	369,207
Net assets released from restriction	<u>2,264</u>	<u>18,470</u>
Total operating revenues and support	<u>24,073,127</u>	<u>23,969,105</u>
Expenses:		
Salaries, payroll taxes and fringe benefits	9,895,042	9,634,110
Advertising and promotions	713,731	886,925
Equipment	67,682	100,983
Depreciation and amortization	1,078,360	922,723
Freight	275,427	297,131
Independent contractors	855,975	1,456,630
Maintenance	722,087	663,649
Operating leases and rentals	69,536	81,532
Professional	61,042	56,601
Risk management	741,417	794,882
Supplies	8,760,866	7,673,728
Telecommunications	247,181	240,286
Training and education	67,913	109,936
Utilities	<u>282,529</u>	<u>263,671</u>
Total expenses	<u>23,838,788</u>	<u>23,182,787</u>
Income from operations	<u>234,339</u>	<u>786,318</u>
Nonoperating revenues (expenses):		
Investment earnings	311,741	451,959
Investment fees	(92,843)	(98,954)
Interest expense	(96,506)	(181,717)
Net cash settlements of interest rate swap	(127,000)	(42,675)
Change in fair value of interest rate swap	(159,368)	(83,565)
Loss on disposal of asset	(118,977)	-
Unrealized losses on investments	(767,588)	(1,313,038)
Realized losses on investments	<u>(1,934,309)</u>	<u>(339,397)</u>
Total nonoperating revenues (expenses)	<u>(2,984,850)</u>	<u>(1,607,387)</u>
Decrease in unrestricted net assets	(2,750,511)	(821,069)
Change in temporarily restricted net assets:		
Net assets released from restriction	<u>(2,264)</u>	<u>(18,470)</u>
Change in net assets	(2,752,775)	(839,539)
Net assets at beginning of year	<u>27,235,250</u>	<u>28,074,789</u>
Net assets at end of year	<u>\$ 24,482,475</u>	<u>\$ 27,235,250</u>

The accompanying notes are an integral part of these financial statements.

**THE BLOOD CONNECTION, INCORPORATED**

Statements of Cash Flows

For the Years Ended August 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (2,752,775)	\$ (839,539)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Unrealized losses on investments	767,588	1,313,038
Realized losses on investments	1,934,309	339,397
Loss on disposal of asset	118,977	-
Donated lease receivable	2,264	18,470
Depreciation and amortization	1,078,360	922,723
Interest rate swap fair value adjustment	159,368	83,565
Net changes in operating assets and liabilities:		
Accounts receivable	496,327	(700,564)
Accrued interest receivable	7,005	11,803
Inventories	75,614	(64,173)
Prepaid expenses	(50,907)	(21,151)
Accounts payable	(131,390)	(92,131)
Accrued liabilities	(52,044)	(121,529)
Deferred compensation liability	76,534	37,654
Net cash provided by operating activities	<u>1,729,230</u>	<u>887,563</u>
Cash flows from investing activities:		
Net advances on notes receivable	(52,459)	(33,504)
Sale of investments	5,644,989	8,020,344
Purchases of investments	(3,900,101)	(9,311,208)
Additions to property and equipment	<u>(1,873,711)</u>	<u>(1,251,743)</u>
Net cash used in investing activities	<u>(181,282)</u>	<u>(2,576,111)</u>
Cash flows from financing activities:		
Capital lease liability	13,146	-
Repayment of bonds payable	<u>(225,000)</u>	<u>(215,000)</u>
Net cash used in financing activities	<u>(211,854)</u>	<u>(215,000)</u>
Net increase (decrease) in cash	1,336,094	(1,903,548)
Cash at beginning of year	<u>2,706,968</u>	<u>4,610,516</u>
Cash at end of year	<u>\$ 4,043,062</u>	<u>\$ 2,706,968</u>
Supplemental disclosure of cash flow information:		
Donation of in-kind rent	<u>\$ 13,666</u>	<u>\$ 31,705</u>
In-kind rent expenses	<u>\$ (13,666)</u>	<u>\$ (31,705)</u>

The accompanying notes are an integral part of these financial statements.

# THE BLOOD CONNECTION, INCORPORATED

## Notes to Financial Statements

August 31, 2009 and 2008

### (1) Summary of Significant Accounting Policies

**Organization** - The Blood Connection, Incorporated (hereafter “The Blood Connection”) is a full-service community blood program operating in South Carolina and Georgia. The Blood Connection has been recognized by the Internal Revenue Service as exempt from income taxes under IRC Section 501(c)(3) and, consequently, also is recognized as a tax exempt organization by the South Carolina Tax Commission.

**Cash and Cash Equivalents** - Cash and cash equivalents include cash on hand, and demand deposits at financial institutions, with an original maturity of three months or less when purchased.

**Investments** - Investments consist of equity securities and certificates of deposit with an original maturity of greater than three months. The equity securities are managed by an investment firm that utilizes seven money managers. Equity securities are recorded at fair market value, which is based on net asset price as quoted in published sources. Certificates of deposit are reported at cost which approximates market value. Investment interest in the limited liability corporation is accounted for using the equity method. Investment interest in the insurance cooperative is accounted for using the cost method.

**Accounts Receivable** - Accounts and notes receivable are stated at the amount The Blood Connection expects to collect from outstanding balances. Management considers all material balances to be fully collectible. It is The Blood Connection’s policy to charge off uncollectible receivables when management determines they will not be collected.

**Inventories** - Inventories consist of processed blood products and operational supplies. The processed blood products are valued based on the costs to collect, process and test the products. Operational supplies are valued at cost.

**Property and Equipment** - Property and equipment are recorded at cost or, if donated, at the approximate fair value at the date of donation. Additions with a value of \$1,000 or greater are capitalized and expenditures for repairs and maintenance are expensed when incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets as follows:

Buildings	15-40 years
Furniture and fixtures	7-20 years
Equipment	7-10 years
Computers equipment and software	3-10 years
Vehicles	4-10 years

**Bond Issuance Costs** - Bond issuance costs are being amortized over the life of the loan.

**Software Development Costs** - Capitalization of software developed for internal use follows the provisions of SOP 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.

**Revenues** - Revenue from blood processing fees is recognized when the blood or blood components are delivered, net of returns, to service clients: hospitals, blood banks, clinics, dialysis centers, biologics and laboratory reagent suppliers.

**Advertising and Promotions** - Advertising and promotion costs are expensed as incurred.

**Risk Management** - The Blood Connection is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; regulatory sanctions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health benefits. When available, commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The Blood Connection is insured for professional malpractice liability claims and judgments, as discussed in Note 8.

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

**Non-Cash Contributions** - The Blood Connection records non-cash contributions at their fair value at the date of the contribution. Donated services or volunteers' time are not recorded in the financial statements as there is no objective basis for valuing the services or time.

**Restricted and Unrestricted Revenue and Support** - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

**Reclassifications** - Certain 2008 financial statement amounts have been reclassified to conform to the 2009 financial statement presentation.

**New Accounting Pronouncements** – In 2006, The Financial Accounting Standards Board issued new Generally Accepted Accounting Principles for accounting for the recognition and measurement of uncertainties in income taxes for all entities, including not-for-profit organizations. The provisions were deferred for all nonpublic entities until fiscal years beginning after December 15, 2008. The Blood Connection has elected to defer application of the provisions of accounting for uncertainty in income taxes as of and for the year ended August 31, 2009. The Blood Connection will be required to adopt the provisions for the year ended August 31, 2010. The Blood Connection has not yet determined the effects the adoption of the provisions will have on the financial statements.

(2) **Investments**

Investments are comprised of the following at August 31:

	<u>2009</u>	<u>2008</u>
Carried at fair value:		
Money market funds	\$ 1,180,838	\$ 1,092,731
Equity securities	7,510,387	10,039,033
Certificates of deposit	698,978	2,723,578
Carried at lower of cost or fair value:		
Investment in BCx	88,764	88,764
Carried at equity method:		
Investment in IT Synergistics, LLC	<u>110,108</u>	<u>91,754</u>
Total investments	<u>\$ 9,589,075</u>	<u>\$ 14,035,860</u>

All certificates of deposit included in investments at August 31, 2009 and 2008 mature within one year.

The Blood Connection maintains professional and general liability insurance coverage from The Community Blood Centers' Exchange, Inc ("BCx"), which provides insurance in a cost-effective manner specifically to independent blood centers. As a member of BCx, a onetime capitalization amount is required, which is equal to the sum of 50% of the first year's premium and 50 cents per annual donation. The total amount is refundable upon withdrawal, subject to certain restrictions. At August 31, 2009 and 2008, the one-time capitalization amount of \$88,764 is included in investments.

During 2005, The Blood Connection entered into an operating agreement with five other blood centers to form a limited liability company called I.T. Synergistics, LLC ("ITSy). The purpose of the company is to pursue ventures associated with the development, use, maintenance, support, marketing, sale and other activities related to blood bank industry software and systems. The Blood Connection has a 17% ownership interest and the future allocation of profits and losses, if any, will be allocated in proportion to the value of the capital account

balances of the members. Total capital contributions of \$72,956 and \$15,000 were made for the years ended August 31, 2009 and 2008, respectively. The Blood Connection's portion of the net loss recognized by the limited partnership was \$54,602 and \$43,779 at August 31, 2009 and 2008, respectively. The balance of the investment was \$110,108 and \$91,754 at August 31, 2009 and 2008, respectively. In April 2009, ITSy began providing monthly maintenance services to the six blood centers, including The Blood Connection, for the blood bank industry software. Total monthly maintenance expense paid to ITSy for the year ended August 31, 2009 was \$70,555. There were no amounts payable to ITSy at August 31, 2009. Subsequent to year end, ITSy is developing an annual contract to provide these services to the six blood centers on an ongoing basis.

(3) **Notes Receivable**

Notes receivable consist of the following at August 31:

	<b><u>2009</u></b>	<b><u>2008</u></b>
Systec Computer Associates, Inc.	\$ 100,000	\$ 100,000
The Community Blood Centers' Exchange, Inc (BCx)	102,597	52,103
Other miscellaneous	<u>3,764</u>	<u>1,799</u>
	<u>\$ 206,361</u>	<u>\$ 153,902</u>

The Blood Connection entered into a contract with a consultant, Systec Computer Associates, Inc., to develop a new version of its software for the blood banking industry. Within that agreement, The Blood Connection agreed to establish a line of credit in the amount of \$100,000 for use by the consultant to further the development of the software. Repayment of the note was scheduled to be made on an annual basis, on or before January 31 of each calendar year, in equal amounts of \$20,000 each year beginning January 31, 2006 based on completion of the software development. If, at the time that the annual maintenance contract for the new software is due to be amended each year, the parties agree to such renewal, then the annual note payment due in that year shall be forgiven and the note receivable balance shall be reduced by the amount of the forgiven payment. During 2008, the software was placed in service and The Blood Connection began negotiations with I.T. Synergistics LLC (see Note 2) for an annual maintenance contract and transfer of the outstanding note receivable to I.T. Synergistics LLC as a capital contribution. Subsequent to year end, the negotiations were finalized and the note was transferred.

As discussed in Note 2, The Blood Connection is a member of BCx for its professional and general liability insurance coverage. As part of the membership agreement, a subscriber savings account is established for the member to hold any discretionary allocations of annual profits of BCx, which is then loaned back to BCx. The note pays interest annually and principal will be repaid to the member upon withdrawal of membership, beginning five years after the date of withdrawal over a five year period.

(4) **Property and Equipment**

Property and equipment consist of the following at August 31:

	<b><u>2009</u></b>	<b><u>2008</u></b>
Land	\$ 1,312,469	\$ 966,735
Buildings	9,392,555	9,392,555
Furniture and fixtures	856,902	831,536
Equipment	3,429,370	3,366,620
Computers equipment and software	2,155,045	1,822,855
Vehicles	1,761,369	1,297,870
Construction in progress	<u>769,944</u>	<u>129,671</u>
	19,677,654	17,807,842
Less accumulated depreciation	<u>5,248,240</u>	<u>4,180,499</u>
	<u>\$ 14,429,414</u>	<u>\$ 13,627,343</u>

(5) **Bonds Payable**

The Blood Connection obtained \$6,000,000 of South Carolina Jobs-Economic Development Authority Economic Development Revenue Bonds (The Blood Connection, Incorporated Project) Series 2005, dated August 25, 2005 for the construction of a 47,500 square foot headquarters facility located in Greenville County, South Carolina. The bonds are payable in annual principal installments ranging from \$195,000 to \$435,000 with a weekly variable interest rate set by a bank (floating interest rate based on USD-LIBOR-BBA), and monthly interest payments. The bonds mature September, 2025 and are collateralized by a first mortgage on the Facility and related property.

A summary of bonds payable at August 31 follows:

	<b><u>2009</u></b>	<b><u>2008</u></b>
South Carolina Jobs – Economic Development Authority Bonds (Series 2005)	\$ 5,160,000	\$ 5,385,000

The bonds have certain restrictive covenants pertaining to the debt service coverage ratio, tangible net worth, the ratio of debt to tangible net worth and minimum liquidity. The Blood Connection is also limited as to maximum indebtedness incurred each year. For the year ended August 31, 2009, a waiver for violation of the debt service coverage ratio has been received from the creditor. As of August 31, 2008, The Blood Connection was in compliance with all covenants or has obtained appropriate waivers.

The aggregate annual maturities of the bonds subsequent to August 31, 2008 are as follows:

2010	\$ 235,000
2011	240,000
2012	250,000
2013	265,000
2014	275,000
Thereafter	<u>3,895,000</u>
	<u>\$ 5,160,000</u>

Total interest paid including net cash settlements on the interest rate swap amounted to approximately \$223,000 during 2009 and \$224,000 during 2008.

(6) **Employee Benefit Plans**

The Blood Connection sponsors a 401(k) plan covering all employees who have completed one year of service or at least 1,000 hours and have attained age twenty-one. The Blood Connection contributes dollar for dollar on the first 3% of eligible employees' contributions and fifty cents per dollar on the next 2% of eligible employees' contributions. Also, the Blood Connection contributes 6% of the eligible employees' gross annual salary as a discretionary amount for a potential total contribution of 10% for eligible employees. Net contribution expense for the retirement plans for the years ended August 31, 2009 and 2008 was approximately \$555,000 and \$498,000, respectively.

The Blood Connection also sponsors a non-qualified 457(f) deferred compensation plan and a deferred compensation agreement for the chief executive officer, and a non-qualified 457(b) deferred compensation plan for the chief executive officer and vice-presidents. Contributions to the deferred compensation plans are made to trust funds pursuant to the underlying supplemental retirement agreements. Since The Blood Connection controls the assets of the trusts, such assets are included in investments and the related liabilities are included in deferred compensation liability. Contribution expense for the deferred compensation agreement for the chief executive officer and vice presidents for the years ended August 31, 2009 and 2008 was approximately \$57,000 and \$39,000, respectively.

(7) **Concentration of Credit Risk**

The Blood Connection operates a full-service community blood program whose customers are healthcare-related organizations primarily located in South Carolina, North Carolina and Georgia. The Blood Connection performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. Credit losses relating to customers in the healthcare industry historically have been minimal and management believes that such trends will continue. The Blood Connection received approximately 80% of its total revenues and support from five healthcare-related organizations during 2009 and approximately 81% of its total revenues and support from five healthcare-related organizations during 2008. At August 31, 2009 and 2008, accounts receivable from these customers represented approximately 80% and 81%, respectively, of the total accounts receivable for The Blood Connection.

The Blood Connection maintains cash accounts at various financial institutions. At times throughout the year, The Blood Connection may have balances in excess of FDIC insured limits.

(8) **Professional Malpractice Liability Insurance**

Professional malpractice liability coverage is maintained through The Community Blood Centers' Exchange, Inc. ("BCx") on an occurrence basis with an aggregate coverage limit of \$5,000,000 and a deductible of \$50,000.

(9) **Contingencies**

Currently, there are no known lawsuits involving The Blood Connection; however, from time to time, The Blood Connection may be a party to certain lawsuits and administrative proceedings that arise in the conduct of its business.

(10) **Program Expenses**

Expenses classified by program for the year ended August 31 are as follows:

	<b><u>2009</u></b>	<b><u>2008</u></b>
Blood donor programs	\$ 11,395,439	\$ 11,476,492
Laboratories	6,689,417	6,445,023
Blood processing, storage and distributions	3,795,107	3,480,667
Administration	<u>1,958,825</u>	<u>1,780,605</u>
Total expenses	<u>\$ 23,838,788</u>	<u>\$ 23,182,787</u>

(11) **Operating Leases**

The Blood Connection's Greenville facilities are built on land which is owned by the Greenville Hospital System. The Greenville Hospital System has donated the use of this land to The Blood Connection for a nominal fee under a 25-year operating lease, expiring January 31, 2009. The Blood Connection has an option to renew the lease for an additional 25 years under the original lease term. During 2008, the current lease was extended from January 31, 2009 through January 31, 2011. In July 2009, a letter of intent was issued from the Greenville Hospital System for the purchase of the leasehold improvements and ground lease rights. If acceptable to both parties, a Sale and Purchase Agreement will be executed by March 31, 2010. Operations will close at this location and will transfer to the newly constructed donation center at Woodruff Road, Greenville which is scheduled for completion in March 2010.

The Blood Connection also has a lease agreement with Oconee Memorial Hospital for the use of land for a nominal fee under a 25-year operating lease, expiring April 2028. The fair value of such land was estimated to be approximately \$242,000 at the time of the lease inception. Accordingly, The Blood Connection has recorded an estimated donated lease receivable for this in-kind contribution, based on a 9.5% annual return, with a balance of \$112,617 and \$114,881 at August 31, 2009 and 2008, respectively. On the Statement of Activities, The Blood Connection has recognized an additional \$11,402 and \$11,606 for 2009 and 2008, respectively, as revenue items ("Donated rent revenue"), \$2,264 and \$2,059 for 2009 and 2008, respectively, as releases from restriction ("Net assets released from restriction"), and \$13,666 for 2009 and 2008 as in-kind rent expense (included in "Operating leases"). The Blood Connection has an option to renew the lease for an additional 5 years under the original lease term. This option to renew in 5-year intervals shall continue indefinitely until terminated at the option of either party by giving notice 90 days prior to the end of the current option period. The Blood Connection has constructed a 5,000 square foot donor facility on this property.

The Blood Connection also leases operating space and equipment under leases which expire at various times through August 2013. Future minimum lease payments under these operating leases are as follows:

Fiscal 2010	\$ 13,752
Fiscal 2011	11,652
Fiscal 2012	9,672
Fiscal 2013	<u>9,276</u>
	<u>\$ 44,352</u>

Total lease expense for the years ended August 31, 2009 and 2008 was \$56,712 and \$49,827, respectively.

(12) **Capital Lease Obligation**

During the year ended August 31, 2009, The Blood Connection leased equipment under a capital lease which expires in August, 2012. The lease, which is secured by the equipment, is payable in monthly installments of \$384 including principal and interest imputed based on the lessor's implicit rate of return.

Minimum future lease payments under this capital lease obligation are as follows:

2010	\$ 4,608
2011	4,608
2012	<u>4,608</u>
	13,824
Less: amount representing interest	<u>(677)</u>
Net present value of capital lease obligation	<u>\$ 13,146</u>

The net book value of the equipment under capital lease is \$12,934 at August 31, 2009 and is included in property and equipment in the accompanying statement of financial position.

(13) **Commitments**

The Blood Connection has an annual contract with a consultant for monthly management and maintenance of information technologies systems and software. Monthly fees are approximately \$32,600. Subsequent to year end, IT services will be brought in-house and this contract will be phased out and expire December 31, 2009.

The Blood Connection has an annual contract with an equipment maintenance insurance program to utilize a single, comprehensive maintenance program for the majority of operational equipment. Quarterly fees are approximately \$35,000 and the contract expires in September 2009.

The Blood Connection has twelve contracts related to the construction of a 7,500 square foot donation center in Greenville, South Carolina:

<u>Type of Contract</u>	<u>Total Contract</u>	<u>Amount Paid at August 31, 2009</u>
Construction	\$ 952,076	\$ 202,041
Project management	<u>177,000</u>	<u>108,000</u>
	<u>\$ 1,129,076</u>	<u>\$ 310,041</u>

Through August 31, 2009, capital reserves have been used to fund this project.

(14) **Interest Rate Swap**

The Blood Connection utilizes interest rate swap derivative instruments to manage changes in market conditions related to interest rate payments on its variable rate debt obligation (see Note 5). As of August 31, 2009 and 2008, the Blood Connection had interest rate swap agreements for a total notional amount of \$5,160,000 and \$2,692,500, respectively, effectively fixing the rate on a like amount of variable rate borrowings.

The Blood Connection has recognized its derivatives at fair value, representing a liability of approximately \$344,903 and \$185,535 at August 31, 2009 and 2008, respectively, which is presented as a liability in the accompanying Statement of Financial Position. Changes in the fair value and net settlements of the interest rate swap are recorded as other income or expense in the Statement of Activities.

**(15) Fair Value of Financial Instruments**

The carrying value of the Blood Connection's financial instruments approximates the fair value. The following methods and assumptions were used by management in estimating the fair value disclosures for financial instruments.

Investments – Fair value for equity securities, money market funds and certificates of deposit is determined on a recurring basis based on quoted prices in active markets.

Bonds Payable – Fair value approximates carrying value since stated rates are similar to rates currently available to the Blood Connection for debt with similar terms and remaining maturities.

Interest rate swap – Fair value for the interest rate swap is determined on a recurring basis based on inputs that are readily available in public markets or can be derived from information available in publically quoted markets.

**(16) Fair Value Disclosures**

The Blood Connection has characterized its financial assets and liabilities, which are measured at fair value and recorded in the statement of financial position, based on a three-level fair value hierarchy based on the inputs to valuation techniques as follows:

Level 1 – Valuations based on quoted prices for identical assets and liabilities in active markets. The Blood Connection has investments in exchange-traded equity securities, classified as Level 1.

Level 2 - Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted priced of similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data. Prices for interest rate swaps are determined on a recurring basis on inputs that are readily available in public markets or can be derived from information available in publically quoted markets and are classified as Level 2. In addition investments in certificates of deposits and money market funds are classified as Level 2.

Level 3 – Valuations based on unobservable inputs reflecting the Blood Connection's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment. The Blood Connection does not have any assets or liabilities categorized as Level 3.

There were no changes during the year ended August 31, 2009 to the Blood Connection's valuation techniques used to measure asset and liability fair values on a recurring basis.

The following table sets forth by level the fair value hierarchy of the Blood Connection's assets and liabilities accounted for at fair value on a recurring basis as of August 31, 2009. The assets and liabilities are classified in the entirety based on the lowest level of input that is significant to the fair value measurement. The Blood Connection's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	<u>Assets (Liabilities) at Fair Value</u>		
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Investments:			
Equity securities	\$ 7,510,387	\$ -	\$ -
Money market funds	-	1,180,838	-
Certificates of deposit	-	698,978	-
Liabilities:			
Interest rate swap liability	-	(344,903)	-

The determination of fair value above incorporates various factors, including not only the credit standing of the counterparties involved and the impact of credit enhancements, but also the impact of the Blood Connection's nonperformance risk on its liabilities.

(17) **Restrictions on Net Assets**

Temporarily restricted net assets consist of donated lease receivable related to The Blood Connection's Oconee land lease (See Note 11).

(18) **Subsequent Events Evaluation**

The Blood Connection evaluated the effect subsequent events would have on the financial statements through November 30, 2009, which is the date the financial statements were available to be issued.