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LIFESHARE BLOOD CENTERS AND AFFILIATES

SHREVEPORT, LOUISIANA

JUNE 30, 2009 AND 2008

LIFESHARE BLOOD CENTERS AND AFFILIATES

SHREVEPORT, LOUISIANA

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September 28, 2009

The Board of Directors
LifeShare Blood Centers and Affiliates
Shreveport, Louisiana

Independent Auditor's Report

We have audited the accompanying consolidated statements of financial position of LifeShare Blood Centers and Affiliates (Louisiana not-for-profit corporations) as of June 30, 2009 and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LifeShare Blood Centers and Affiliates as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated statements taken as a whole. The additional information shown on Pages 16-20 is presented for purposes of additional analysis and is not a required part of these consolidated financial statements. Such information, as of June 30, 2009 and 2008, has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2009, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Heard, McElroy & Vestal, LLP

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LIFESHARE BLOOD CENTERS AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2009 AND 2008

ASSETS	2009	2008
Current assets:		
Cash and cash equivalents	6,857,535	4,174,672
Investments	10,090,951	13,665,725
Receivables	6,177,663	6,931,936
Inventory	2,067,308	1,838,621
Prepaid expenses	199,753	373,173
Total current assets	25,393,210	26,984,127
Limited-use cash	951,884	925,625
Property and equipment, net	16,692,949	16,163,390
Other assets:		
Other assets	677,458	598,423
Certificates of deposit	125,000	125,000
Total other assets	802,458	723,423
Total assets	43,840,501	44,796,565

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

LIABILITIES AND NET ASSETS	2009	2008
Current liabilities:		
Accounts payable	2,223,630	2,271,151
Accrued expenses	1,872,289	1,643,711
Deferred revenue	580,074	-
Note payable, current portion	133,333	133,333
Bonds payable, current portion	300,000	300,000
Total current liabilities	5,109,326	4,348,195
Long-term liabilities:		
Bonds payable, long-term portion	3,600,000	3,900,000
Notes payable, long-term portion	1,455,556	1,588,889
Interest rate swap agreements	208,431	63,895
Total liabilities	10,373,313	9,900,979
Net assets:		
Unrestricted	33,467,188	34,895,586
Temporarily restricted	-	-
Total net assets	33,467,188	34,895,586
Total liabilities and net assets	43,840,501	44,796,565

LIFESHARE BLOOD CENTERS AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Change in unrestricted net assets		
Operating revenue:		
Apheresis income	8,537,139	9,222,693
Blood service fees	28,592,506	28,701,419
Bulk derivatives	2,428,797	2,688,548
Components	1,486,247	1,618,283
Lab fees	3,634,080	3,267,251
Cord blood program	419,926	-
Total operating revenue	45,098,695	45,498,194
Operating expenses:		
Salaries	15,211,054	14,103,649
Apheresis supplies and testing	2,973,389	2,778,421
Leukoreduced supplies	530,663	587,244
Bags	1,772,457	1,822,711
Test kits	557,441	526,946
Outsource contract testing	7,489,595	7,422,836
Public relations, advertising and recruiting	789,744	1,054,143
Depreciation and amortization	2,024,250	2,071,992
Other operating	15,128,616	14,094,875
Total operating expenses	46,477,209	44,462,817
Other revenue (expense):		
Contributions	40,046	161,425
Interest income	349,058	563,135
Supply sales	94,055	143,518
Realized (loss) on sale of assets	(178,568)	(5,005)
Fund raising and public relations expenses	(194,995)	(169,922)
Interest expense	(232,557)	(281,475)
Rental income	3,600	3,600
Unrealized (loss) on investments	(426,033)	(323,649)
Unrealized (loss) on interest rate swaps	(144,536)	(63,895)
Miscellaneous income	612,171	425,325
Hurricane (loss)	(119,356)	-
Total other revenue (expense)	(197,115)	453,057
Net assets released from restrictions	147,231	23,089
Change in unrestricted net assets	(1,428,398)	1,511,523

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

LIFESHARE BLOOD CENTERS AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Change in temporarily restricted net assets:		
Contributions	147,231	23,089
Net assets released from restrictions	(147,231)	(23,089)
Change in temporarily restricted net assets	-	-
Change in net assets	(1,428,398)	1,511,523
Net assets at beginning of year	34,895,586	33,384,063
Net assets at end of year	33,467,188	34,895,586

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

LIFESHARE BLOOD CENTERS AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Cash flows from operating activities:		
Change in net assets	(1,428,398)	1,511,523
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,024,250	2,071,992
Loss on sale of assets	178,568	5,005
Unrealized loss on investments	426,033	323,649
Unrealized loss on interest rate swaps	144,536	63,895
Hurricane loss	67,545	-
(Increase) decrease in:		
Receivables	754,273	(539,657)
Inventory	(228,687)	96,023
Prepaid expenses	173,420	308,565
Other assets	(133,926)	(100,871)
Increase (decrease) in:		
Accounts payable	(47,521)	(98,148)
Accrued expenses	228,578	90,518
Deferred revenue	580,074	-
Total adjustments	4,167,143	2,220,971
Net cash provided by operating activities	2,738,745	3,732,494
Cash flows from investing activities:		
Proceeds from sale of assets	444,658	24,603
Redemption of investments	9,029,592	18,194,335
(Increase) in limited-use cash	(26,259)	(19,363)
Purchase of investments	(6,008,589)	(22,877,472)
Purchase of fixed assets and construction in progress	(3,061,950)	(1,518,688)
Net cash provided (used) by investing activities	377,452	(6,196,585)
Cash flows from financing activities:		
Payments of bonds payable	(300,000)	(300,000)
Payments of notes payable	(133,334)	(133,334)
Net cash (used) by financing activities	(433,334)	(433,334)
Net increase (decrease) in cash and cash equivalents	2,682,863	(2,897,425)
Cash and cash equivalents, beginning of year	4,174,672	7,072,097
Cash and cash equivalents, end of year	6,857,535	4,174,672
Supplementary cash flow information:		
Interest paid	236,102	285,741

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

1. Nature of Business

LifeShare Blood Centers (the Center) are engaged in procuring blood donations, processing those donations, and supplying the donated blood and related components to hospitals and other healthcare facilities. The Center has facilities located in Shreveport, Bossier City, Monroe, West Monroe, Ruston, Alexandria, Baton Rouge and Lake Charles, Louisiana; Beaumont, Texas; and El Dorado, Arkansas.

During the year ended June 30, 2000, the board of directors and members approved a plan of reorganization. Under this plan of reorganization, the Center transferred all of its real property to Blood Center Properties, Inc. ("Properties"). Properties then leased the transferred facilities to the Center. Also under this plan of reorganization, another entity, LifeShare Blood Centers Foundation ("Foundation"), was formed. The three entities are operated under common management. The boards of Properties and Foundation consist of five members who are also on the board of the Center.

The Center and its affiliates, Properties and Foundation, will be collectively referred to as the "Organization."

2. Summary of Significant Accounting Policies

Financial Statement Presentation

The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "*Financial Statements of Not-for-Profit Organizations.*" Under SFAS No. 117, the Organization is required to report information regarding financial position and activities based on the absence or existence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets. Net assets that are not subject to donor-imposed stipulations. Some unrestricted net assets may be designated by the board for specific purposes.

Temporarily restricted net assets. Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or by the passage of time. Changes in temporarily restricted net assets represent the Organization's recognition of the donation of donor-restricted assets and the release of the restriction once the asset has been used as directed.

Permanently restricted net assets. Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, donors permit all or part of the income earned on these assets to be used for general or specific purposes. There are no permanently restricted net assets.

Consolidation

The financial statements as of and for the years ended June 30, 2009 and 2008 include the accounts of LifeShare Blood Centers, Blood Center Properties, Inc. and LifeShare Blood Centers Foundation. All material intercompany transactions have been eliminated in the consolidated financial statements.

2. Summary of Significant Accounting Policies (Continued)

Income Taxes
The Center is engaged in the supply of donated blood and blood components to patients, primarily through area hospitals. The Center is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Properties and Foundation are also exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made.

The Organization elected in fiscal year ended June 30, 2009 to defer until fiscal year ended June 30, 2010 the provisions of FASB Interpretation 48, *Accounting for Uncertainties in Income Taxes*. It has not adopted any uncertain tax positions with respect to those amounts reported in its fiscal years ended June 30, 2009 and 2008 financial statements.

Allowance for Doubtful Accounts
The Organization records an allowance for doubtful accounts based on historical experience and management's review and evaluation of existing receivables.

Property and Equipment
The Organization capitalizes the cost of property and equipment in excess of $2,500. Improvements are capitalized when they extend an asset's useful life or increase its value. Otherwise, they are charged to operations. Donations of property and equipment are recorded at their fair value at the date of the donation.

Depreciation
The Organization uses the straight-line method of depreciation, with estimated useful lives of three to five years for automobiles and trucks, five to ten years for furniture, fixtures and equipment, thirty-five to forty years for buildings, and five to fifteen years for building improvements.

Investments
Under the provisions of Statement of Financial Accounting Standards No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organization*, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Gains or losses on the sale of securities are recognized on a specific-identification method.

Inventory
Inventory consists of supplies and blood and blood products. Only red blood cells, platelets, and plasma are valued as blood inventory since the Organization can identify and allocate costs associated with procuring and processing these components.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents
For purposes of the statement of cash flows, the Organization considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents.

2. Summary of Significant Accounting Policies (Continued)

Reclassifications
Certain amounts previously reported in the Organization's financial statements have been reclassified to conform to current classifications, with no effect on previously reported net assets or changes in net assets.

3. Related Parties

LifeShare Blood Centers is one of six members in I.T. Synergistics, L.L.C. This limited liability company was formed in 2005 to pursue ventures associated with the development, use, maintenance, support, marketing, sale and other activities related to enterprise software systems. All six members are tax exempt under Section 501(c)(3) of the Internal Revenue Code and, therefore, will operate in a manner consistent with maintaining each member's tax-exempt status. The company's profit, losses, and distributions are allocated in proportion to the value of the capital account balances of the members. LifeShare's investment in I.T. Synergistics is accounted for using the equity method. At June 30, 2009 and 2008, LifeShare's investment in I.T. Synergistics was $125,960 and $124,180, respectively, and included in other assets (refer to Note 10). In 2009 and 2008, LifeShare's portion of the (loss) per the K-1 from I.T. Synergistics was ($51,676) and ($18,769), respectively.

4. Investments

Investments at June 30, 2009 and 2008 consisted of the following:

	2009		2008	
	Market Value	Cost	Market Value	Cost
U.S. Treasury bills	3,469,885	3,469,885	4,946,185	4,946,185
Common stocks	1,211,113	1,439,062	1,347,584	1,480,846
Fixed Securities	1,589,913	1,534,652	1,816,193	1,825,305
Certificates of Deposit	2,650,166	2,650,166	4,089,240	4,089,240
Mutual Funds	1,169,874	1,734,091	1,466,523	1,635,021
	10,090,951	10,827,856	13,665,725	13,976,597

Net unrealized (losses) were ($426,033) and ($323,649) for the years ended June 30, 2009 and 2008, respectively. Dividend and interest income from investments for the years ended June 30, 2009 and 2008, was $336,958 and $545,196, respectively. Realized (losses) were ($127,739) and ($24,951) for the years ended June 30, 2009 and 2008, respectively.

5. Fair Value of Financial Instruments

The Organization adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (Statement 157), as of July 1, 2008. Statement 157 requires disclosures that stratify balance sheet amounts measured at fair value based on the inputs used to derive fair value measurements. These strata included:

- Level 1 valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume),

- Level 2 valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market, and

5. Fair Value of Financial Instruments (Continued)

- Level 3 valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Foundation-specific data. These unobservable assumptions reflect the Foundation's own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

Fair values of assets and (liabilities) measured on a recurring basis at June 30, 2009 are as follows:

	Level 1	Level 2	Level 3	Fair Value
June 30, 2009:				
Investments	8,501,038	1,589,913	-	10,090,951
Interest rate swap agreements (See Note 12)	-	(208,431)	-	(208,431)

6. Receivables

At June 30, 2009 and 2008, receivables consisted of the following:

	2009	2008
Due for blood processing	5,563,769	6,119,097
Interest income	48,123	40,875
*Due from customers related to Bio-Care joint venture	547,205	682,681
Other and insurance claims	89,215	89,283
	6,248,312	6,931,936
Allowance for doubtful accounts	(70,649)	-
	6,177,663	6,931,936

* A related party. The Center receives 40% of the net margin from Bio-Care from the sale of plasma derivatives.

7. Inventory

At June 30, 2009 and 2008, inventories consisted of the following:

	2009	2008
Supplies	1,430,323	1,217,735
Blood and blood products	636,985	620,886
	2,067,308	1,838,621

8. Limited-Use Cash

These cash balances are deposited in the bond escrow fund and the excess cash contribution fund, based on the amounts required to be deposited as described in Note 12. The use of these funds is dedicated to the purposes specified in the related bond agreement (repayment of the principal) and is, therefore, limited as to use.

9. **Property and Equipment**

At June 30, 2009 and 2008, property and equipment consisted of the following:

	2009	2008
Land	3,865,345	3,134,856
Buildings and improvements	13,382,170	12,353,060
Vehicles	5,533,718	5,239,051
Equipment	5,348,607	4,990,045
Furniture and fixtures	1,396,643	1,270,574
Projects in progress*	409,136	724,428
	29,935,619	27,712,014
Less-accumulated depreciation	(13,242,670)	(11,548,624)
	16,692,949	16,163,390

* The estimated cost to complete projects in process is $1,079,950.

Depreciation expense was $1,969,359 and $2,013,822 for the years ended June 30, 2009 and 2008, respectively.

10. **Other Assets**

At June 30, 2009 and 2008, other assets consisted of the following:

	2009	2008
Capital contribution and allocated profits with Community Blood Centers' Exchange (A)	400,087	338,055
Bond issue costs, net (B)	97,496	105,564
Loan issue costs, net (B)	6,469	9,844
Letter of credit fees, net (B)	31,666	-
Deposits	15,780	20,780
Investment in IT Synergistics (Note 3)	125,960	124,180
	677,458	598,423

A. During 1993, the Board of Trustees approved a capital contribution of $103,097 to the Community Blood Centers' Exchange ("Exchange") to form a captive professional liability insurance company to be owned and operated by blood center members. Subsequent to the initial contribution, the Organization received cumulative profit allocations. These profit allocations, plus interest, will be paid to the Organization by the Exchange as its board of directors and the Indiana Department of Insurance direct.

B. As of June 30, 2009 and 2008, other assets consisted of bond issue costs of $97,496 and $105,564, respectively, which are net of accumulated amortization of $71,945 and $63,877, respectively, loan issue costs of $6,469 and $9,844, respectively, which are net of accumulated amortization of $10,407 and $7,032, respectively, and letter of credit fees of $31,666 and $-0-, respectively, which are net of accumulated amortization of $8,363 and $46,314, respectively, and various deposits made in the ordinary course of business.

11. **Certificates of Deposit**

As of June 30, 2009 and 2008, $125,000 of certificates of deposit was held by the Louisiana State Treasurer as part of the Louisiana Patient's Compensation Fund for self-insurance.

12. Bonds and Note Payable

Bonds Payable – In July 2000, Properties entered into an agreement with the Louisiana Public Facilities Authority, a Louisiana public trust, to issue \$6,000,000 in variable-rate industrial development bonds. The proceeds of these bonds were then lent to Properties. Under the terms of the agreement, which is dated July 27, 2000, interest is payable monthly on a variable basis, which adjusts weekly. Subsequently, Properties locked in the interest rate at 4.24% for \$4,000,000 of the bonds, with the remainder under variable rates. Beginning July 2001, Properties is required to make monthly deposits of \$25,000 into a payment escrow account to fund the scheduled redemption of the bonds. The bonds require annual principal payments of \$300,000 beginning June 30, 2002.

The bond issue is enhanced by a letter of credit from JP Morgan Chase in the amount of \$3,944,384, which matures April 15, 2010. Blood Center Properties, Inc. and LifeShare Blood Centers guarantee the letter of credit. The letter of credit is secured by mortgages on Properties' real estate and fixtures in Shreveport and Lake Charles, Louisiana. Additionally, the letter of credit is secured by a security interest in all of the Organization's equipment.

The amounts due under this bond payable as of June 30, 2009 and 2008, are as follows:

	2009	2008
Balance of bonds payable	3,900,000	4,200,000
Less-current maturities	300,000	300,000
Long-term portion	3,600,000	3,900,000

Following is a schedule of the bond sinking fund requirements for the next five fiscal years ending June 30:

2010	300,000
2011	300,000
2012	300,000
2013	300,000
2014	300,000
Thereafter	2,400,000
	3,900,000

The original agreement required that beginning October 31, 2001, and annually thereafter, Properties will make additional principal payments equal to 25% of net free cash flow. Net free cash flow is calculated on a combined basis for LifeShare Blood Centers, Blood Center Properties, Inc., and LifeShare Blood Centers Foundation (until April 2004, when Foundation was released from the computation) and is defined as: change in unrestricted net assets for the preceding fiscal year plus amortization and depreciation expense, less amortization of capital leases, principal reductions on term loans and bonds, and capital expenditures not financed externally. This requirement was waived for the payment due October 2001. In October 2002, JP Morgan Chase and Properties entered into an amendment of this agreement, which modified the provision herein to require the lesser of \$200,000 or 25% of Net Free Cash Flow for the fiscal year most recently ended to be deposited into an interest-bearing account at JP Morgan Chase ("Chase") in the name of Properties or as a deposit into a payment escrow account. In accordance with this provision, Properties deposited \$200,000 in November 2002, \$200,000 in November 2003 and \$152,388 in November 2004, into Chase interest-bearing accounts designated for this purpose. These deposits are reflected in the accompanying financial statements, included in the balance of limited-use cash, see Note 8. Based on the calculations for the year ended June 30, 2005 and 2006, there were no required deposits. The

12. Bonds and Note Payable (Continued)

calculations for the years ended June 30, 2008 and 2007, required \$200,000 to be deposited by the last business day in October, into the interest-bearing account at Chase or as a deposit into a payment escrow account. Based on the calculations for the year ended June 30, 2009, there were no required deposits. However, Chase waived the Payment Escrow Deposit provision effective June 30, 2007 until September 30, 2010.

For the years ended June 30, 2009 and 2008, the Center incurred interest associated with the bonds payable of \$149,880 and \$170,935, respectively.

Bond issuance costs of \$169,441 are being amortized over the bond term of twenty-one years, see Note 10. The revenue bond indenture places limits on the incurrence of additional borrowings. The various bond agreements also require the Organization to meet certain covenants. As of June 30, 2009, the Organization is in compliance. Annual letter of credit fees of \$40,029 (for the 2008-2009 year) and \$46,314 (for the 2007-2008 year) associated with obtaining the letter of credit, are being amortized over one year; see Note 10.

Note Payable – Long-term debt is composed of the following:

	2009	2008
Note payable to J. P. Morgan Chase Bank for mortgage on blood center in Alexandria, Louisiana, dated April 27, 2006 in the original amount of \$2,000,000, with interest at LIBOR plus 1.25%, adjusted daily (1.56% as of June 30, 2009), payable in fifty-nine (59) monthly installments of principal installments of \$11,111 beginning June 15, 2006, plus accrued interest, with the balance of the note due on May 15, 2011.	1,588,889	1,722,222
Less-current maturities	133,333	133,333
Long-term portion	1,455,556	1,588,889

Following is a schedule of the principal payments required under the note payable for fiscal years ending June 30:

2010	133,333
2011	1,455,556
	1,588,889

For the years ended June 30, 2009 and 2008, the Center incurred interest associated with the note payable of \$82,677 and \$110,372, respectively.

Interest Rate Swap Agreements - The Organization has two interest rate swap agreements that were entered into as hedges of cash flow variability caused by changes in interest rates on variable rate bonds and notes payable. The differential interest required to be paid or that will be received under these agreements is accrued consistent with the terms of the agreement and is recognized in interest expense as accrued. Terms of the swap agreements require the differential interest to be paid or received monthly. Generally accepted accounting principles require derivative instruments, such as interest rate swap agreements, to be recognized at fair value as either assets or liabilities in the statement of financial position.

12. Bonds and Note Payable (Continued)

Related to the bonds payable, the negative $150,150 value of the swap agreement at June 30, 2009, is reported as a liability in the statement of financial position. This reflects a $43,977 increase in the liability (i.e., decrease in value of the swap) since the prior fiscal year. The decrease in value is reported in the statement of activities as a separate component of changes in net assets. Value has been measured based on estimates of the amount needed to settle the agreement as calculated by the counterparty to the swap agreement. Such calculations were based on changes in market conditions and/or assumptions underlying valuation models.

The notional principal amount of the swap agreement related to the bonds payable is $4,000,000 initially, but declines over the life of the bonds for the period September 21, 2001 through August 1, 2011. The notional amount is $2,450,000 at June 30, 2009. The agreement effectively fixes the Organization's interest rate exposure at 4.24%. Interest expense on the underlying bonds totaled $149,880 and $170,935 for the years ended June 30, 2009 and 2008. Included in these amounts is $71,840 and $68,565 of additional interest required to be paid under the swap agreement.

Related to the notes payable, the negative $58,281 value of the swap agreement at June 30, 2009, is reported as a liability in the statement of financial position. This reflects a $100,559 increase in the liability (i.e., decrease in value of the swap) since the prior fiscal year. The decrease in value is reported in the statement of activities as a separate component of changes in net assets. Value has been measured based on estimates of the amount needed to settle the agreement as calculated by the counterparty to the swap agreement. Such calculations were based on changes in market conditions and/or assumptions underlying valuation models.

The notional principal amount of the swap agreement related to the note payable is $1,755,556 initially, but declines over the life of the note for the period March 26, 2008 through April 15, 2016. The notional amount is $1,588,889 at June 30, 2009. The agreement effectively fixes the Organization's interest rate exposure at 3.73%. Interest expense on the underlying note totaled $82,677 and $110,372 for the years ended June 30, 2009 and 2008. Included in these amounts is $35,692 and $6,116 of additional interest required to be paid under the swap agreement.

13. Cord Blood Program

In an agreement dated July 14, 2008, the State of Louisiana allocated $1,000,000 to LifeShare Blood Centers to develop and implement the Louisiana Public Umbilical Cord Blood Program throughout the State of Louisiana for use in the National Cord Blood Inventory or scientific research. In accordance with this agreement, the Organization must staff nine positions, obtain participation agreements with three hospitals, provide two vehicles, collect 250 cord blood units, and process and store 125 viable cord blood units.

The $1,000,000 was received August 13, 2008 by the Organization and recorded as deferred revenue. Expenditures must occur between July 1, 2007 and December 31, 2009. Expenditures of $419,926 were recognized as operating revenue during the fiscal year ended June 30, 2009, and $580,074 remained in deferred revenue and cash and cash equivalents at year end.

14. Purchased Blood

At times, the Organization must purchase blood units to meet demand. The cost of these purchases is reflected in the financial statements as an offset to "Blood Service Fees" revenue. Total blood purchased was $1,659,611 and $1,690,689 for the years ended June 30, 2009 and 2008, respectively.

15. **Employees' Retirement Plan**

LifeShare Blood Centers amended its retirement plan to include a 401(k) option (the "Plan") as of January 1, 1997. It covers all employees of the Center who have one year of participation service and have reached the age of twenty-one. Under the terms of the Plan, the Center has elected to make contributions to the Plan based on employee compensation. Such contributions are six percent of eligible employee compensation as of June 30, 2009 and 2008. Employees may make additional contributions to the Plan. Other operating expenses for 2009 and 2008 include approximately $650,924 and $601,047, respectively, of contributions to the Plan.

16. **Leases**

The Center leases various office and lab equipment, storage space, and office space used in its operations. In addition, the Center has entered into an "agreement of lease" with PHH Fleetamerica Corporation. Under this agreement, the Center may lease vehicles with terms extending greater than twelve months (usually approximating sixty months) or twelve-month terms with certain renewal options. The lease payments for the lab, office, blood collection equipment, and vehicles for the next five years are presented below:

Year ending June 30,	
2010	752,480
2011	580,539
2012	283,804
2013	140,158
2014	8,100
	1,765,081

Operating expenses include rent expense for the years ended June 30, 2009 and 2008 of $1,194,798 and $1,092,522, respectively.

17. **Commitments and Contingencies**

The Center provides its employees health insurance coverage on a partially self-funded basis. The Center uses a third-party administrator and insurance company to administer its claims and to provide stop-loss coverage. The estimated liability for the unpaid claims incurred through year-end of $599,560 is included in the Center's accrued expenses.

18. **Concentrations**

The Organization maintains its cash balances in financial institutions in the United States. The cash balances are insured by the Federal Deposit Insurance Corporation up to $250,000. At times, the Organization maintains deposits in excess of federally insured limits. Management monitors the soundness of these financial institutions and feels the Organization's risk is negligible, as the excess is invested in repurchase agreements that are secured by treasuries or agencies of the United States government.

During the years ending June 30, 2009 and 2008, the Center purchased products from three vendors comprising approximately 52% and 54% of total operating cost, respectively.

19. **Advertising**

Advertising costs are expensed as incurred. For the years ended June 30, 2009 and 2008, the Organization incurred $107,730 and $107,281, respectively. These costs include billboard advertisements, promotional items, direct mail, and other marketing expenses used to promote a positive image in the community and to recruit blood donors.

20. **Hurricane Loss**

In September 2008, two hurricanes caused closures of blood centers for several days. Additionally, the Lake Charles blood center experienced significant damage. The insurance policy covers damages up to $500,000 for the building and $500,000 for the contents.

The Organization received insurance proceeds of $389,938 for the building and $500,000 for the contents. The hurricane loss of $119,356 consists of $67,545 for furniture and fixtures and $51,811 for clean-up costs and lodging costs for employees who stayed in Lake Charles to begin clean-up of the blood center after the hurricane.

21. **Subsequent Events**

In an agreement dated July 31, 2009, the State of Louisiana allocated an additional $1,500,000 to LifeShare Blood Centers to continue to develop and implement the Louisiana Public Umbilical Cord Blood Program throughout the State of Louisiana for use in the National Cord Blood Inventory or scientific research.

OTHER FINANCIAL INFORMATION

LIFESHARE BLOOD CENTERS AND AFFILIATES

CONSOLIDATED SCHEDULES OF OTHER OPERATING EXPENSES

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Auto expense	725,151	776,379
Bad debts	208,077	74,851
Computer expense	579,067	530,837
Contract services	301,385	288,222
Donor refreshments	199,952	183,529
Donor expense	187,246	205,901
Dues and subscriptions	107,022	106,006
Employee benefits	389,483	355,469
Group and family benefit plan	40,694	15,755
Insurance	3,649,283	3,667,998
Operations	1,579,337	1,217,573
Professional fees	274,666	278,884
Miscellaneous	102,693	142,612
Miscellaneous taxes	27,087	27,099
Office supplies and postage	292,246	253,080
Payroll taxes	1,139,595	1,052,155
Printing	245,232	220,246
Rentals/auto leases	1,194,798	1,092,522
Repairs, maintenance and security service	1,482,689	1,314,062
Retirement plan contributions	650,924	601,047
Shipping	260,142	304,945
Supplies	184,935	99,711
Tax and freight	117,503	150,445
Telephone	327,077	370,372
Travel and education	523,508	460,117
Utilities	338,824	305,058
	15,128,616	14,094,875

LIFESHARE BLOOD CENTERS AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009

	LifeShare Blood Centers	Blood Center Properties, Inc.	LifeShare Blood Centers Foundation	Consolidation and Elimination Entries	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 5,415,501	$ 979,594	$ 462,440	$ -	$ 6,857,535
Investments	6,284,555	-	3,806,396	-	10,090,951
Receivables	6,462,663	11,842	17,157	(313,999)	6,177,663
Inventory	2,067,308	-	-	-	2,067,308
Prepaid expenses	199,753	-	-	-	199,753
Total current assets	20,429,780	991,436	4,285,993	(313,999)	25,393,210
Limited-use cash	-	951,884	-	-	951,884
Property and equipment					
Land	154,000	3,711,345	-	-	3,865,345
Buildings and improvements	1,779,712	11,602,458	-	-	13,382,170
Vehicles	5,533,718	-	-	-	5,533,718
Equipment	4,958,882	389,725	-	-	5,348,607
Furniture and fixtures	1,225,711	170,932	-	-	1,396,643
Projects in process	100,000	309,136	-	-	409,136
	13,752,023	16,183,596	-	-	29,935,619
Less: accumulated depreciation	(9,062,115)	(4,180,555)	-	-	(13,242,670)
Net property and equipment	4,689,908	12,003,041	-	-	16,692,949
Other assets					
Other assets	541,827	135,631	-	-	677,458
Certificates of deposit	125,000	-	-	-	125,000
Total other assets	666,827	135,631	-	-	802,458
Total assets	$ 25,786,515	$ 14,081,992	$ 4,285,993	$ (313,999)	$ 43,840,501
Liabilities and Net Assets					
Current liabilities					
Accounts payable	$ 2,215,930	$ 7,700	$ -	$ -	$ 2,223,630
Accrued expenses	1,861,602	323,505	1,181	(313,999)	1,872,289
Deferred revenue	580,074	-	-	-	580,074
Note payable, *current portion*	-	133,333	-	-	133,333
Bonds payable, *current portion*	-	300,000	-	-	300,000
Total current liabilities	4,657,606	764,538	1,181	(313,999)	5,109,326
Long-term liabilities					
Bonds payable, *long term portion*	-	3,600,000	-	-	3,600,000
Notes payable, *long term portion*	-	1,455,556	-	-	1,455,556
Interest rate swap agreements	-	208,431	-	-	208,431
Total liabilities	4,657,606	6,028,525	1,181	(313,999)	10,373,313
Net assets					
Unrestricted	21,128,909	8,053,467	4,284,812	-	33,467,188
Temporarily restricted	-	-	-	-	-
Total net assets	21,128,909	8,053,467	4,284,812	-	33,467,188
Total liabilities and net assets	$ 25,786,515	$ 14,081,992	$ 4,285,993	$ (313,999)	$ 43,840,501

LIFESHARE BLOOD CENTERS AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2008

	LifeShare Blood Centers	Blood Center Properties, Inc.	LifeShare Blood Centers Foundation	Consolidation and Elimination Entries	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 3,115,670	$ 473,003	$ 585,999	$ -	$ 4,174,672
Investments	8,219,946	1,043,094	4,402,685	-	13,665,725
Receivables	7,091,653	2,264	29,275	(191,256)	6,931,936
Inventory	1,838,621	-	-	-	1,838,621
Prepaid expenses	373,173	-	-	-	373,173
Total current assets	20,639,063	1,518,361	5,017,959	(191,256)	26,984,127
Limited-use cash	-	925,625	-	-	925,625
Property and equipment					
Land	154,000	2,980,856	-	-	3,134,856
Buildings and improvements	1,746,527	10,606,533	-	-	12,353,060
Vehicles	5,239,051	-	-	-	5,239,051
Equipment	4,600,985	389,060	-	-	4,990,045
Furniture and fixtures	1,074,564	196,010	-	-	1,270,574
Projects in process	105,500	618,928	-	-	724,428
	12,920,627	14,791,387	-	-	27,712,014
Less: accumulated depreciation	(7,898,492)	(3,650,132)	-	-	(11,548,624)
Net property and equipment	5,022,135	11,141,255	-	-	16,163,390
Other assets					
Other assets	478,015	120,408	-	-	598,423
Certificates of deposit	125,000	-	-	-	125,000
Total other assets	603,015	120,408	-	-	723,423
Total assets	$ 26,264,213	$ 13,705,649	$ 5,017,959	$ (191,256)	$ 44,796,565
Liabilities and Net Assets					
Current liabilities					
Accounts payable	$ 2,082,208	$ 137,550	$ 51,393	$ -	$ 2,271,151
Accrued expenses	1,637,894	22,653	174,420	(191,256)	1,643,711
Note payable, *current portion*	-	133,333	-	-	133,333
Bonds payable, *current portion*	-	300,000	-	-	300,000
Total current liabilities	3,720,102	593,536	225,813	(191,256)	4,348,195
Long-term liabilities					
Bonds payable, *long term portion*	-	3,900,000	-	-	3,900,000
Notes payable, *long term portion*	-	1,588,889	-	-	1,588,889
Interest rate swap agreements	-	63,895	-	-	63,895
Total liabilities	3,720,102	6,146,320	225,813	(191,256)	9,900,979
Net assets					
Unrestricted	22,544,111	7,559,329	4,792,146	-	34,895,586
Temporarily restricted	-	-	-	-	-
Total net assets	22,544,111	7,559,329	4,792,146	-	34,895,586
Total liabilities and net assets	$ 26,264,213	$ 13,705,649	$ 5,017,959	$ (191,256)	$ 44,796,565

LIFESHARE BLOOD CENTERS AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

	LifeShare Blood Centers	Blood Center Properties, Inc.	LifeShare Blood Centers Foundation	Consolidation and Elimination Entries	Consolidated
Change in unrestricted net assets					
Operating revenue					
Apheresis income	$ 8,537,139	$ -	$ -	$ -	$ 8,537,139
Blood service fees	28,592,506	-	-	-	$ 28,592,506
Bulk derivatives	2,428,797	-	-	-	$ 2,428,797
Components	1,486,247	-	-	-	$ 1,486,247
Lab fees	3,634,080	-	-	-	$ 3,634,080
Cord blood program	419,926	-	-	-	$ 419,926
Total operating revenues	45,098,695	-	-	-	45,098,695
Operating expenses					
Salaries	15,211,054	-	-	-	15,211,054
Apheresis supplies and testing	2,973,389	-	-	-	2,973,389
Leukoreduced supplies	530,663	-	-	-	530,663
Bags	1,772,457	-	-	-	1,772,457
Test kits	557,441	-	-	-	557,441
Outsource contract testing	7,489,595	-	-	-	7,489,595
Public relations, advertising, and recruiting	789,744	-	-	-	789,744
Depreciation and amortization	1,391,657	632,593	-	-	2,024,250
Rent	1,489,124	-	-	(1,489,124)	-
Other operating	15,093,718	20,310	49,715	(35,127)	15,128,616
Total Operating Expenses	47,298,842	652,903	49,715	(1,524,251)	46,477,209
Other revenue (expense)					
Contributions	69,763	-	(29,717)	-	40,046
Interest income	176,116	38,890	134,052	-	349,058
Supply sales	94,055	-	-	-	94,055
Realized gain (loss) on sale of assets	20,464	-	(199,032)	-	(178,568)
Fund raising and public relations expenses	(194,995)	-	-	-	(194,995)
Interest expense	-	(232,557)	-	-	(232,557)
Rental income	-	1,492,724	-	(1,489,124)	3,600
Unrealized (loss) on investments	(63,111)	-	(362,922)	-	(426,033)
Unrealized (loss) on interest rate swaps	-	(144,536)	-	-	(144,536)
Miscellaneous income	647,298	-	-	(35,127)	612,171
Hurricane (loss)	(111,876)	(7,480)	-	-	(119,356)
Total other revenue (expense)	637,714	1,147,041	(457,619)	(1,524,251)	(197,115)
Net assets released from restrictions	147,231	-	-	-	147,231
Change in unrestricted net assets	(1,415,202)	494,138	(507,334)	-	(1,428,398)
Change in temporarily restricted net assets					
Contributions	147,231	-	-	-	147,231
Net assets released from restrictions	(147,231)	-	-	-	(147,231)
Change in temporarily restricted assets	-	-	-	-	-
Change in net assets	(1,415,202)	494,138	(507,334)	-	(1,428,398)
Net assets at beginning of year	22,544,111	7,559,329	4,792,146	-	34,895,586
Net assets at end of year	$ 21,128,909	$ 8,053,467	$ 4,284,812	$ -	$ 33,467,188

LIFESHARE BLOOD CENTERS AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

	LifeShare Blood Centers	Blood Center Properties, Inc.	LifeShare Blood Centers Foundation	Consolidation and Elimination Entries	Consolidated
Change in unrestricted net assets					
Operating revenue					
Apheresis income	$ 9,222,693	$ -	$ -	$ -	$ 9,222,693
Blood service fees	28,701,419	-	-	-	28,701,419
Bulk derivatives	2,688,548	-	-	-	2,688,548
Components	1,618,283	-	-	-	1,618,283
Lab fees	3,267,251	-	-	-	3,267,251
Total operating revenues	45,498,194	-	-	-	45,498,194
Operating expenses					
Salaries	14,103,649	-	-	-	14,103,649
Apheresis supplies and testing	2,778,421	-	-	-	2,778,421
Leukoreduced supplies	587,244	-	-	-	587,244
Bags	1,822,711	-	-	-	1,822,711
Test kits	526,946	-	-	-	526,946
Outsource contract testing	7,422,836	-	-	-	7,422,836
Public relations, advertising, and recruiting	1,054,143	-	-	-	1,054,143
Depreciation and amortization	1,414,091	657,901	-	-	2,071,992
Rent	1,419,567	-	-	(1,419,567)	-
Other operating	14,006,532	8,423	138,913	(58,993)	14,094,875
Total Operating Expenses	45,136,140	666,324	138,913	(1,478,560)	44,462,817
Other revenue (expense)					
Contributions	32,157	-	129,268	-	161,425
Interest income	354,561	50,902	157,672	-	563,135
Supply sales	143,518	-	-	-	143,518
Realized gain (loss) on sale of assets	19,946	-	(24,951)	-	(5,005)
Fund raising and public relations expenses	(169,922)	-	-	-	(169,922)
Interest expense	(168)	(281,307)	-	-	(281,475)
Rental income	-	1,423,167	-	(1,419,567)	3,600
Unrealized (loss) on investments	(39,978)	-	(283,671)	-	(323,649)
Unrealized (loss) on interest rate swaps	-	(63,895)	-	-	(63,895)
Miscellaneous income	484,318	-	-	(58,993)	425,325
Total other revenue (expense)	824,432	1,128,867	(21,682)	(1,478,560)	453,057
Net assets released from restrictions	23,089	-	-	-	23,089
Change in unrestricted net assets	1,209,575	462,543	(160,595)	-	1,511,523
					-
Change in temporarily restricted net assets					-
Contributions	23,089	-	-	-	23,089
Net assets released from restrictions	(23,089)	-	-	-	(23,089)
Change in temporarily restricted assets	-	-	-	-	-
Change in net assets	1,209,575	462,543	(160,595)	-	1,511,523
Net assets at beginning of year	21,334,536	7,096,786	4,952,741	-	33,384,063
Net assets at end of year	$ 22,544,111	$ 7,559,329	$ 4,792,146	$ -	$ 34,895,586

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September 28, 2009

The Board of Directors
LifeShare Blood Centers and Affiliates
Shreveport, Louisiana

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

We have audited the consolidated financial statements of LifeShare Blood Centers and Affiliates (Louisiana not-for-profit corporations) as of and for the year ended June 30, 2009, and have issued our report thereon dated September 28, 2009. 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.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered LifeShare Blood Centers and Affiliates' internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of LifeShare Blood Centers and Affiliates' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

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Compliance and Other Matters

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

This report is intended solely for the information and use of the board of directors, management, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Heard, McElroy & Vestal, LLP

LIFESHARE BLOOD CENTERS AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2009

We have audited the consolidated financial statements of LifeShare Blood Centers and Affiliates as of and for the year ended June 30, 2009, and have issued our report thereon dated September 28, 2009. 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. Our audit of the consolidated financial statements as of June 30, 2009 resulted in an unqualified opinion.

Section I - Summary of Auditor's Reports

a. Report on Internal Control and Compliance Material to the Financial Statements

   Internal Control – No significant deficiencies or material weaknesses were noted; a management letter was issued.

   Compliance - No material noncompliance was noted.

b. Federal Awards - LifeShare Blood Centers and Affiliates was not subject to a federal single audit for the year ended June 30, 2009.

Section II - Financial Statement Findings

No matters were reported.

LIFESHARE BLOOD CENTERS AND AFFILIATES

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2009

No significant deficiencies, material weaknesses, or instances of material noncompliance were noted in the prior year. However, the following comments were noted in a separate management letter.

2008-01 - Budgeting

Observation and Recommendation
We noted that the Organization has over budgeted salaries and wages expense by more than one million dollars for fiscal years ended June 30, 2008 and 2007. We recommend that the client more accurately budget this expense by accounting for employee turnover and new locations as separate line items in the budget, which we understand has been done for fiscal year end June 30, 2009.

Management's Response
This issue has also been addressed by the Board of Trustees. The Chairman of the Finance Committee prepared a reconciliation of difference between the actual salary and wage expense for fiscal year ended June 30, 2008 and the budgeted expenses for fiscal year ended June 30, 2009. The differences were also determined to be terminated employees, vacant positions, and El Dorado staff (center did not open during fiscal year ended June 30, 2008). Staff recognized this issue and a line item entitled "Hiring Adjustment" was subtracted from the fiscal year ended June 30, 2009 detail salary budget by center/department in an effort to more accurately capture negative expense amounts incurred when replacing employees. Management will continue to strive to budget more accurately.

Resolution
This finding has been resolved as of June 30, 2009.

2008-02 - Reporting

Observation & Recommendation
We recommend that the client provide quarterly financial statements by location for the board of directors review.

Management's Response
Staff is working with center departments to obtain information needed to prepare quarterly financial statement of activities by location. The Audit Committee has referred this item to the Finance Committee.

Resolution
This finding has been resolved as of June 30, 2009.

2008-03 – Stale Dated Checks

Observation and Recommendation
During the fiscal year ending June 30, 2008, the Organization established a policy for handling stale dated checks. However, through our bank account testing, we noted instances of stale dated checks still listed in the outstanding check reports. We recommend that the Organization implement their stale dated check policy as written.

Management's Response
During the year, LifeShare began printing "Void after 120 Days" on payroll and accounts payable checks. The Stale Dated Check Policy was implemented and followed except for the fourth quarter of 2008. Ten payroll checks totaling $512.05 and three health account checks were escheated according to unclaimed property law on October 31, 2008.

Resolution
This finding has been resolved as of June 30, 2009.

2008-04 – Stale Dated Checks

Observation and Recommendation
We also noted instances of stale dated checks in the health insurance bank account. We recommend that the Organization develop a written policy and obtain the agreement of Benefit Management indicating which party has the responsibility of voiding stale checks in the health bank account.

Management's Response
A policy and procedure for voiding of stale checks from the health bank account will be written and discussed with Benefit Management.

Resolution
This finding has been resolved as of June 30, 2009.

2008-05 – Investments

Observation and Recommendation
During our testing of investments, we noted that the Organization has not specifically addressed the handling of donated securities in the investment policy. We recommend that the client establish and implement a written policy for handling donated securities.

Management's Response
LifeShare Blood Centers and Affiliates follow GAAP when recording values of donated securities. A written policy for handling donated securities will be drafted.

Resolution
This finding has been resolved as of June 30, 2009.

2008-06 – Investments

Observation and Recommendation
We also noted a Morgan Keegan investment account included in the cash accounts. This account consists of cash, stock, and mutual funds. We recommend that the investment portion of this account should be reclassified to investment accounts, and the account activity (unrealized gains and losses, realized gains and losses, and dividends and interest income) should be recorded in separate general ledger accounts.

Management's Response
The requested general ledger accounts have been added and investment portion of the account reclassified.

Resolution
This finding has been resolved as of June 30, 2009.

2008-07 – Investments

Observation and Recommendation
We also recommend establishing an investment policy for Blood Center Properties for periods when there is a large amount of cash and cash equivalents in the entity related to a specific project such as the second floor build out.

Management's Response
An investment policy for Blood Center Properties, Inc. will be drafted and presented to its Board for approval.

Resolution
This finding has been resolved as of June 30, 2009.

2008-08 – Accounts Receivable

Observation and Recommendation
We noted a $682,681 receivable from customers related to BioCare joint venture and a $696,321 payable to BioCare at June 30, 2008. We recommend that the client thoroughly review their agreement with BioCare, and determine if the receivable from and payable to BioCare should be offset in future years.

Management's Response
The receivable is from hospital customers and amount payable is to BioCare. Management does not feel that the two accounts should be offset.

Resolution
This finding has been resolved as of June 30, 2009.

2008-09 – Accounts Receivable

Observation and Recommendation
In testing accounts receivable, we noted that the client does not record an allowance for doubtful accounts. There is $255,668 in receivables older than ninety days as of June 30, 2008, and one customer has subsequently filed bankruptcy. Therefore, we recommend that the client examine accounts receivable and record an appropriate allowance for doubtful accounts.

Management's Response
An allowance for doubtful accounts will be recorded beginning with the December 31, 2008 financial statements.

Resolution
This finding has been resolved as of June 30, 2009.

2008-10 – Blood Inventory

Observation and Recommendation
During our testing of blood inventory, we noted several discrepancies between count sheets per the physical inventory counts and the counts listed on the blood inventory valuation spreadsheet. We recommend that the Organization compare physical inventory counts to amounts in the Elite system, recount as necessary (or provide supporting documentation for any units in transit), then reconcile any remaining differences.

Management's Response
Staff is continuing to refine the blood inventory process. Red cells were reconciled within 9 of 3,157 units and apheresis platelets were reconciled to the computer count at the 6 locations. More emphasis at the center level is being placed on reconciliation of the quarterly inventory. Staff will also revise the inventory procedure prior to the December, 2008 inventory in an effort to make counts more accurate.

Resolution
This finding has been resolved as of June 30, 2009.

2008-11 – Interest Expense

Observation and Recommendation
In testing interest expense related to notes and bonds payable, we noted that all interest expense is included in one general ledger account. We recommend separate interest expense accounts for the notes and bonds payable. We also recommend recording interest income/expense related to both of the interest rate swaps in separate accounts as well. This will help facilitate reconciliation and allow better monitoring of those costs.

Management's Response
The interest expense related to notes and bonds payable will be recorded in separate general ledger accounts when incurred.

Resolution
This finding has been resolved as of June 30, 2009.

2008-12 – Interest Rate Swap Agreements

Observation and Recommendation
In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, paragraph 22, not-for-profit organizations must recognize the gain or loss on hedging instruments currently in earnings, and change in fair value shall adjust the carrying amount of the hedged item and must be recognized currently in earnings. We noted that the Organization has entered into two interest rate swap agreements, but they are not reflected in the general ledger. We recommend that the Organization periodically obtain the market value of each of the interest rate swap agreements from Chase Bank, and reflect these amounts in the general ledger.

Management's Response
The adjustment to market value of each interest rate swap agreement will be obtained from JP Morgan Chase and general ledger accounts will be adjusted quarterly.

Resolution
This finding has been resolved as of June 30, 2009.

2008-13 – Restricted Contributions

Observation and Recommendation
During our audit, we noted that only employee contributions were noted as restricted. We recommend that the Organization identify and record any restricted contributions as such even if they are received and spent in the same fiscal year.

Management's Response
All contributions are considered to be unrestricted unless otherwise designated by the donor. Sponsorships are deposited into LifeShare Blood Centers and all other contributions are deposited in LifeShare Blood Centers Foundation. With the implementation of Fund Raising 50 Software, contributions will be easier to track and reporting will be improved.

Resolution
The Organization is still in the process of resolving this finding as of June 30, 2009.

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September 28, 2009

The Audit Committee of
LifeShare Blood Centers and Affiliates

In planning and performing our audit of the financial statements of LifeShare Blood Centers and Affiliates as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered LifeShare Blood Centers and Affiliates' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. Management is responsible for the design and implementation of 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 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. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in LifeShare Blood Centers and Affiliates' internal control to be control deficiencies:

2009-01: Restricted Contributions (Repeat Finding from Prior Year)

Findings & Recommendations

During our audit, we noted that only employee contributions were recorded as restricted in the general ledger. This makes it difficult to discern which contributions and expenses are restricted at year end from an audit standpoint. We recommend that the Organization identify and record any restricted contributions and expenses as such in the general ledger.

Management's Response
All contributions are considered to be unrestricted unless otherwise designated by the contributor. Temporarily restricted contributions and sponsorships will be classified as such throughout the fiscal year and reclassified as moneys are spent.

Sponsorships, fees and contributions related to events are recorded in designated accounts and the net proceeds are classified as revenue after the event has occurred.

2009-02: Vendor Setup Rights
Findings & Recommendations
We noted that the accounts payable clerk, Carrie Bacle, has vendor setup rights. Since Carrie also handles many other accounts payable duties including receiving and posting invoices, printing and mailing checks, and reconciling check run totals to invoice totals, we recommend that the Organization disable her vendor setup rights. This will lessen the opportunity for the setup and payment of a fictitious vendor.

Management's Response
Vendor setup rights have been removed from the accounts payable clerk through the accounting software program. New vendor setup is now performed by accounting management.

2009-03: Investments
Findings & Recommendations
During our testing of investments and review of meeting minutes, we noted that the asset allocation did not meet the target allocation as outlined in the investment policy for LifeShare Blood Centers Foundation as of December 31, 2008, February 28, 2009 and June 30, 2009. As discussed in the meeting minutes, the board chose not to amend the existing investment policy because they felt that the target allocation would be obtainable in the future. However, we recommend that the Organization adhere to the established investment policy as written or amend the policy to reflect new target allocations.

Management's Response
The organization will amend the investment policy to reflect changes in the target allocations, as needed.

2009-04: Blood Inventory
Findings & Recommendations
During our inventory observations, we noted that the blood inventory was recorded on index cards that were not pre-numbered or sequential in any way. We also noticed confusion when counts were being transferred to the "Blood Inventory Count Sheet". We recommend that the Organization use pre-numbered count sheets for the blood inventory. Each inventory category should have its own set of count sheets that include a sequential number, location, description, and quantity of the item. The Organization should also issue the count sheets to one employee and require that employee to return any unused or voided count sheets. This will ensure that all count sheets have been collected.

Management's Response
After the inventory is taken the counting sheets or cards are summarized on a form used to report inventory to accounting. The blood inventory procedure is very specific and detailed but does not

include pre-numbered count sheets or cards for each category. Adding this control to the process will reduce the time required to reconcile the count and improve accuracy. A request has been made to change the blood inventory physical count SOP to include this control.

2009-05: PTO Policy

Findings & Recommendations

We noted that employees are required to use 50% of their PTO each calendar year. However, management allowed an extension through 7/31/09 for employees located in centers that were affected by the hurricanes in 2008 due to the excessive workload near the end of the calendar year. Executive management issued a memo of approval to the executive directors dated June 15, 2009. Though this is an infrequent occurrence, we recommend that the Organization establish a formal policy and procedure for PTO deadline extensions.

Management's Response

The practice has been for the Administrator (Human Resources) to grant PTO extensions at the request of a supervisor. Extensions are generally granted to employees who could not take their required PTOs without its having a negative impact on operations. A formal policy for PTO deadline extensions will be developed.

2009-06: Revenue Documentation

Findings & Recommendations

During our testing of revenue transactions, we noted instances in which there was no signature from the receiving location (for relocations) or customer (on shipments). We recommend that the receiving location or customer sign shipping documents as proof of receipt of goods.

Management's Response

Relocations are not considered revenue transactions as they are product transfers between centers. Transfers are balanced each month making sure they net to zero. The shipping center scans the products into Elite using the Blood Unit Number (BUN), and the receiving center scans the product in Elite using the same number.

BUNs are used to identify each product shipped and the hospital scans the products into their system using the same unique number. It is the policy of LifeShare to have the hospital representative sign for the blood when the product is delivered by Product Management. At times courier services are used to deliver products. SOPs for delivery of blood products will be revised to include deliveries made by internal and third party couriers.

Minor Non-Compliance

2009-07: Cord Blood Program Agreement Objectives

Findings & Recommendations

One of the objectives of the cord blood agreement states that the Organization must purchase two vehicles for transportation and collection of cord blood units while another objective states that the Organization needs agreements with three hospitals to pilot the cord blood program. The Organization does not intend to comply with these two objectives. Instead, the Organization has elected to pay mileage for the use of personal vehicles versus purchasing two vehicles, and will only obtain an agreement with one hospital to pilot the cord blood program. We recommend that the Organization obtain written waivers of these objectives from the State of Louisiana before the amended ending date of the original cord blood agreement of December 31, 2009.

Management's Response

The amendment extending the agreement deadline from June 30, 2009 to December 31, 2009 did not request a change in objectives. Waivers will be written and submitted requesting changes from the original objectives.

2009-08: Cord Blood Program Quarterly Reporting

Findings & Recommendations

The cord blood agreement states that the quarterly report for the quarter ended June 30, 2009 must be submitted by July 15, 2009. However, this quarterly report was not submitted to the State of Louisiana until August 3, 2009. We recommend that the Organization thoroughly examine the cord blood agreement and comply with all reporting deadlines.

Management's Response

A verbal extension for submitting the fourth quarter report was granted to the organization by the contract monitor who knew LifeShare requested a six month extension for the contract deadline. He believed the December 31, 2009 deadline request would be approved. In the future, such changes or requests will be requested in writing.

This communication is intended solely for the information and use of management, the audit committee, others within the organization, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

LifeShare Blood Centers and Affiliates' written responses to the deficiencies in internal control identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

We would be pleased to discuss the above matters or to respond to any questions at your convenience.

Very truly yours,

Heard, McElroy & Vestal, LLP

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