

**INLAND NORTHWEST BLOOD CENTER
ANNUAL FINANCIAL INFORMATION**

Dated as of March 31, 2009

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INTRODUCTION

INBC was established in 1945 as an independent community blood center to support the transfusion and transplantation needs of the medical community of the Inland Northwest, a geographic area encompassing eastern Washington, northern Idaho, and western Montana. INBC has provided 60 years of dedicated service, through the committed efforts of blood donors, volunteers, and blood center professionals, in meeting the objectives of its mission statement:

- ◆ ***INBC saves lives by providing blood and services to support transfusion and transplantation medicine in the Inland Northwest.***

INBC is exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended, as an organization described under Section 501(c)(3) of the Code. It is not a private foundation within the meaning of Section 509(a) of the Code. INBC is registered with the Washington Secretary of State as a Charitable Organization.

FACILITIES AND SERVICES

INBC's operations are currently centered in its regional headquarters located at 210 West Cataldo Avenue in Spokane, Washington. This facility consists of an 85,982 square foot parcel of land located on the corner of Cataldo Avenue and Normandie Street just north of the Spokane River. It includes an approximately 58,970 square foot, four-story concrete structure with laboratories occupying almost 10 percent of the building. The remainder of the building includes patient treatment rooms, donor collection rooms, conference/training rooms, common areas, and administrative/support offices for quality assurance, community services, computer and information services, accounting and finance, development and fundraising, human resources and administration. Also located on the site is a 2,700 square foot detached garage, which houses INBC's four mobile donor vehicles, as well as parking lots to accommodate donors and employees.

In August 2001, INBC issued tax-exempt bonds through the Washington Health Care Facilities Authority in the principal amount of \$8,990,000 (Washington Health Care Facilities Authority Weekly Rate Demand Revenue Bonds, Series 2001 – Inland Northwest Blood Center) to help finance the construction of the regional headquarters. INBC commenced site-work in June of 2001 and completed construction and began operations in the regional headquarters on October 14, 2002.

The total budget of the facilities project was \$13,192,562, including costs of issuance of the Series 2001 Bonds. In addition to the amount financed through the bond issue, INBC received a grant from the U.S. Department of Housing and Urban Development in the amount of \$98,900. The remainder of the project was paid from operations and reserves of INBC. The table below details the budget and actual costs of the construction project:

	<u><i>Budget</i></u>	<u><i>Actual</i></u>
Construction	\$10,820,150	\$10,752,335
Land acquisition	921,282	1,024,514
New equipment	554,851	583,598
Replacement equipment	283,650	276,530
Issuance fees	262,629	248,187
Furnishings and fixtures	<u>350,000</u>	<u>365,205</u>
TOTAL	<u>\$13,192,562</u>	<u>\$13,250,369</u>

New equipment acquired as part of the project includes upgrades to existing, outdated laboratory equipment, and equipment to establish a DNA testing laboratory. Other new equipment acquired includes additional donor and patient beds, equipment to accommodate a greater volume of donors/patients in the new facility, and additional equipment that enables INBC to take advantage of operating efficiencies.

In July, 2004, INBC purchased a 28,000 square foot parcel, which includes a 7,680 square foot warehouse, immediately adjacent to INBC's regional headquarters facility. This property was purchased with the proceeds of a \$325,000 commercial loan, amortized over 15 years and with a 6.09 percent fixed interest rate. The outstanding loan balance was paid in full on February 28, 2006. INBC entered into an agreement to lease out the warehouse portion of this property, to a local non-profit organization, for 30 months effective October 1, 2005 and renewed April 1, 2008 for a term of 30 months.

In addition to the regional headquarters, INBC leases space for donor collection sites in Coeur d'Alene and Lewiston, Idaho. INBC is also provided space for regular blood drives at several local hospitals, including Sacred Heart Medical Center and Valley Hospital and Medical Center in Spokane, Washington and Samaritan Hospital in Moses Lake, Washington. Additionally, INBC conducts over 100 mobile blood drives each month and strives to collect blood from approximately 150 donors per day. INBC's primary service is the collection, processing, and distribution of human blood and blood components or blood products. INBC is currently the sole provider of blood and blood products to over 30 regional hospitals, clinics, and transfusion centers within the Inland Northwest. INBC also provides transfusion services for nine hospitals and healthcare institutions in Spokane, a process that involves testing and typing blood and sending patient-specific blood products to these users.

INBC is compensated for its services directly by the regional hospitals and healthcare institutions it serves: INBC submits bills to these users at the time products and services are provided, and is paid directly by these users; these users, in turn, bill their patients and/or third party payors, and seek reimbursement for INBC's processing fees and services. The Spokane area hospitals and healthcare institutions that presently rely on INBC could obtain blood from other blood centers across the country, but, most are presently not equipped or staffed to do so, since INBC is the only local source for transfusion service. INBC is also extremely cost-competitive; as of December 31, 2007, the cost of its blood products and services was below the national average for independent, community blood centers.

During the year ended December 31, 2008, INBC distributed almost 59,000 units of blood or blood products to hospitals and healthcare institutions in the Inland Northwest. During the year, INBC shipped almost 600 blood products to other facilities outside its regional marketing area. INBC's Whole Blood Donor Program collected in excess of 42,000 units of allogeneic (voluntarily donated) blood in 2008. Competition for donor collections exists in certain areas of INBC's market area—namely in Moses Lake, Pullman and Clarkston, Washington and Moscow and Lewiston, Idaho, where the American Red Cross also collects blood from volunteer donors; these areas accounted for about 15 percent of all whole blood collected by INBC during the year ended December 31, 2008.

INBC also performs certain therapeutic patient services on both an inpatient and outpatient basis. Other services include tissue typing for organ transplant programs, which are conducted in INBC's Human Leukocyte Antigen (HLA) Laboratory, and donor registration services for the National Marrow Donor Program (NMDP) throughout eastern Washington, Idaho, and Montana.

BOARD OF DIRECTORS

INBC is governed by a twenty-three member board of directors. INBC's Board members are elected to terms of three years each, and are limited to three terms. Directors serve in a voluntary capacity and receive no compensation for their services. The following table sets forth the names of the current directors, their occupations, the dates they first became directors, and the dates on which their current terms expire:

Name/Title	Occupation	Start of Initial Term	Current Term Expires
Sid Kasuga, PhD, Chair	Immunopathologist, Eastern Washington University	10/01	6/10
Georgette Grainger, Vice Chair	VP/Private Banking, Washington Trust Bank	7/02	6/11
Margreta Kilgore, Secretary	Director/Fiscal Services, Shriners Hospital-Spokane	6/03	6/09
Chuck Stocker, Treasurer	Retired Community Relations	7/02	6/11
George Momany, MD, Past Chair	Anesthesiologist, Physician Anesthesia Group	10/00	6/09
Harry Amend	Salvation Army KROC Center	6/03	6/09
Lauri Costello, MD	Family Physician	6/08	6/11
William Dittman, Jr., MD	Hematologist, Providence Sacred Heart Medical Center	11/00	6/09
Joe Dunlap, EdD	President, Spokane Community College	6/08	6/11
Scott Jones	President, Fidelity Associates Insurance & Financial Services	6/06	6/09
Patricia McRae	President and General Manager, KHQ-TV	7/02	6/11
Jeff Martin	CEO, Gritman Medical Center	6/07	6/10
Chris Montague, MD	Anatomical & Clinical Pathologist, InCyte Pathology	7/02	6/11
Henry Mroch, MD	Nephrologist, Kidney Care of Spokane	6/06	6/09
Ben Nielsen	Retired Principal Architect	7/02	6/11
Tom Rehwald, CPA	CFO, InCyte Pathology	6/03	6/09
Bruce Saunders	General Manager, Pathologists' Regional Laboratory	6/04	6/10
Steven Seiler	Retired Healthcare	6/08	6/11
Cathy Simchuk	SVP/Chief Nursing Officer, Providence Holy Family Hospital	6/05	6/11
Scott Smith	Attorney, Stocker, Smith, Luciani & Staub	6/06	6/09
Fr. Robert Spitzer	President, Gonzaga University	7/02	6/11
Judi Williams	Business Owner/Co-Founder, Telect, Inc.	6/08	6/11
A. Morgan Wright, MD	Pathologist, Pathology Associates Medical Laboratory	6/08	6/11

EXECUTIVE MANAGEMENT

Day-to-day management of INBC is delegated to its President and Chief Executive Officer and other members of the executive management team, who supervise a staff of about 150 employees organized into functional departments including Donor and Patient Services, Laboratory Services, Histocompatibility (HLA) Laboratory, Quality Assurance, Community Services, Computer and Information Services, Accounting and Finance, Development, Human Resources and Administration. The biographies of INBC's executive management team are set forth below:

Judith A. Young, EdD, MT (ASCP) SBB – Chief Executive Officer (CEO) retiring March 9, 2009 – Dr. Young has served as INBC's CEO and Responsible Head since October 1999. Prior to that (October 1988 to October 1999) she worked for the Blood Bank of Hawaii, and held the following positions: Senior Vice President (October 1998 to October 1999), Chief Operating Officer (January 1995 to September 1998), Vice President of Operations, Safety and Quality Assurance (July 1992 to December 1994), and Director of Laboratory Services (October 1988 to July 1992). Dr. Young has a Doctor of Education degree with majors in Personnel Management and Adult Education from the University of Southern California, a Master of Arts Degree in Healthcare Administration from Central Michigan University, and a Bachelor of Science in Medical Technology from Carroll College, Waukesha, WI. She is a member representative to America's Blood Centers. She is also a member of the American Association of Blood Banks (AABB) and Rotary International.

Jeff Bryant, MS, MBA – President and Chief Executive Officer (CEO) – Mr. Bryant is the new President and CEO at Inland Northwest Blood Center as of March 9, 2009 and serves as responsible head for the organization. Prior to coming to INBC he worked for the Mississippi Valley Regional Blood Center as Vice President of Administration for eleven years preceded by management roles at Missman, Stanley & Associates (an engineering firm) and PECO Enterprises (a government contracting agency). He has a Masters of Business Administration from the University of Florida and a Masters of Computer Science from Marycrest University, Davenport, Iowa while doing his undergraduate studies in Business at Buena Vista College, Storm Lake, IA. Mr. Bryant has actively participated in the Finance and Information Technology committees for Blood Centers of America and is a member of the Finance Committee and is the INBC's new member representative for America's Blood Centers. He is a Rotarian, just resigned from the board for the Boys & Girls Club of the Mississippi Valley and involved at numerous levels with the United Way.

Robert D. Ranlett, M.D., - Medical Director – Dr. Robert Ranlett has served as Inland Northwest Blood Center's (INBC) Medical Director since January 2, 2006. With his expertise and as Medical Director with this organization, Dr. Ranlett is responsible for medical oversight in the areas of Laboratory Services and Donor and Patient Services, while providing consultation to area hospitals and physicians. Prior to his joining INBC's staff, Dr. Ranlett served as Chief, Department of Pathology and Area Laboratory Service at Brooke Army Medical Center at Fort Sam Houston, Texas. Dr. Ranlett retired as Colonel from the U.S. Army encompassing a 30-year career in medicine. His positions included Chief, Clinical Pathology Service; Medical Director, Transfusion Service and Blood Donor; Chief, Department of Pathology and Area Laboratory Service, and many more. Dr. Ranlett received his medical education at Albert Einstein College of Medicine. He is Board certified in Blood Banking and Transfusion Medicine, Anatomic and Clinical Pathology, Pulmonary Disease, and Internal Medicine. Dr. Ranlett is a member of the American Association of Blood Banks.

Ellen Klohe, PhD, Diplomate (ABHI) – HLA Laboratory Director – Dr. Klohe has been director of INBC's HLA laboratory since October 1995 and INBC's Marrow Program since 2000. Prior to that she served as Responsible Head (1994 to 1997), Education Director (1993), Research Associate (1991 to 1993), and HLA Laboratory Associate Director (1991 to 1995). Dr. Klohe obtained her PhD in Microbiology at the University of Iowa. She is a Diplomate of the American Board of Histocompatibility and Immunogenetics (ABHI) and High-Complexity Laboratory Director of the American Board of Bioanalysis. She is a member of the United Network for Organ Sharing and the American Society for Histocompatibility and Immunogenetics (ASHI). Dr. Klohe is also a member of the LifeCenter Northwest Advisory Board of Directors and Clinical Advisory Committee.

Lori E. Field, CPA – Chief Financial Officer – Ms. Field has served as Chief Financial Officer of INBC since March 1998. Prior to joining INBC, Ms. Field was Senior Accountant for McFarland & Alton, PS (May 1995 to March 1998) in Spokane, WA, now Moss Adams LLP, a public accounting firm. Ms. Field received her Bachelor of Science degree in Business Administration with a concentration in Accounting from California State University at San Bernardino. She is a Certified Public Accountant (CPA) in the state of Washington and is a member of the Washington Society of CPA's where she has served as President of the local chapter and is currently serving on the Board of Directors. She also serves on the Investment/Finance Committee of Community Blood Centers' Exchange

Risk Retention Group (BCx). Ms. Field is also a member of the American Institute of CPA's and the Healthcare Financial Management Association.

Steven B. McCormick, MBA, MT (ASCP) SBB – Vice President of Technical Services – Mr. McCormick has been INBC's Vice President of Technical Services since January 2006 and prior to that was INBC's Laboratory Services Director (July 1993 to January 2006) and Laboratory Supervisor (November 1990 to July 1993). Mr. McCormick obtained a Master of Business Administration (MBA) degree from the University of Washington in Seattle and is accredited by the American Society of Clinical Pathologists as a Medical Technologist (MT) and as a Specialist in Blood Banking (SBB). He is a member of the Clinical Laboratory Management Association, where he has served as President of the local chapter, and the AABB (previously the American Association of Blood Banks), where he also serves as an assessor for the accreditation program. He also serves as the Chairman of the Supplier Vendor Working Group of Group Services-America's Blood Centers.

Sonja Sallquist, MS, MT (ASCP) SBB – Computer and Information Services Director – Ms. Sallquist has been the Director of Computer and Information Services at INBC since June 1993. Prior to that, she served as Systems Administrator (1990-1993) and Laboratory Supervisor (1980-1990) at INBC. Before coming to INBC she served for many years in blood bank laboratory management at the University Hospitals of Cleveland, Cleveland, OH. Ms. Sallquist has a Bachelor of Science Degree from Washington State University, a Master of Science Degree in Biology from Eastern Washington University and is certified by the American Society of Clinical Pathologists and AABB (formerly known as the American Association of Blood Banks) as a Medical Technologist (MT) and Specialist in Blood Banking (SBB), and by the National Certification Agency (NCA) as a Clinical Laboratory Scientist. She is a member of AABB, the American Society for Quality, and the American Society for Clinical Laboratory Scientists.

Sherill A Pederson, MT (ASCP) – Quality Assurance Director – Ms. Pederson assumed her current role at INBC in December 2006. She came to Spokane from Tacoma, where she had worked for Cascade Regional Blood Services for 20 years, having served as their QA Director since 2003. Ms. Pederson obtained a Bachelor of Science in Medical Technology from the University of Puget Sound, and is accredited by the American Society of Clinical Pathologists as a Medical Technologist (MT). She is a member of the AABB (formerly American Association of Blood Banks), and serves as an assessor for their accreditation program. She also serves on the Regulatory Review Committee of America's Blood Centers. At January 1, 2009, Ms. Pederson became an employee of Blood Systems, Inc., an affiliate of INBC, as INBC's Quality Assurance program is now under their direction.

Teri Barros, SPHR, CBP, CCP – Human Resources Director/Interim Director of Development and Communications – Ms. Barros is responsible for all human resource, training, fundraising, development and marketing communications activities for INBC. She has served as Human Resources Director for INBC since November 1998 and interim Director of Development and Communications since December 2008. Ms. Barros has over 17 years of experience in Human Resources and Training and Development. She is certified by the Society for Human Resources Management as a Senior Professional in Human Resources (SPHR) and has also obtained her Certified Benefits Professional (CBP) and Certified Compensation Professional (CCP) designations through World@Work. Ms. Barros has a Bachelors of Science in Workforce Education and Training and is a member of the Northwest Human Resource Management Association, the Spokane Area Compensation and Benefits Group, World@Work, and the Society of Human Resource Management.

EMPLOYEES

As of March 17, 2009, INBC had 167 employees. Of these, 42 employees are involved in laboratory services and 29 hold certifications. Another 57 are directly involved in collecting blood from volunteer donors, with 32 of these being certified or licensed; 6 employees are involved in the National Marrow Donor Program (NMDP), with 3 licensed; and 62 administrative/support employees, with 16 certified/licensed. These certifications and licenses include Medical Technicians and Technologists, Registered Nurses, Licensed Practical Nurses, Certified Histocompatibility Technologists and Specialists, Phlebotomists, Medical Assistants, Patient Care Technicians, Health Care Technicians, Paramedic, Emergency Medical Technician, Certified Public Accountants, Professionals in Human Resources, Boiler Technician and Certified Administrative Professionals.

The majority of INBC's staff members are full-time employees; INBC had 23 part-time employees at December 31, 2008. INBC offers competitive wages and benefits including a 403(b) savings plan, medical/dental/life insurance, and tuition reimbursement. INBC also has a noncontributory defined benefit pension plan. However, this plan was frozen at December 31, 2007. None of INBC's employees are covered by a collective bargaining agreement.

LICENSES, CERTIFICATIONS AND ACCREDITATIONS

INBC is licensed, certified and/or accredited by the following agencies:

- Food and Drug Administration (FDA)
- Advancing Transfusion and Cellular Therapies Worldwide (AABB), formerly, American Association of Blood Banks
- Clinical Laboratory Improvement Amendments (CLIA)
- Centers for Medicare and Medicaid Services (CMS)
- American Society for Histocompatibility and Immunogenetics (ASHI)
- National Marrow Donor Program (NMDP)
- Washington Department of Health
- Idaho Department of Health and Welfare
- Octapharma Certificate of Compliance
- State of Washington Radioactive Materials License

INBC is licensed by the FDA as a blood bank facility and is inspected to ensure compliance with good manufacturing practices and applicable federal regulations. The FDA also licenses the blood products INBC manufactures. INBC is also assessed annually by ASHI, and bi-annually by AABB. The Washington Department of Health and the Idaho Department of Health and Welfare perform periodic assessments.

PROFESSIONAL LIABILITY INSURANCE COVERAGE

INBC maintains a policy or policies of professional liability insurance through Community Blood Centers' Exchange Risk Retention Group (BCx), which provides coverage on a claims-made basis. Coverage is currently limited to \$5,000,000 per claim and \$5,000,000 annual aggregate.

FINANCIAL INFORMATION AND OPERATING DATA

Historical Activity

The following table sets forth certain statistical information about INBC's operating activities for the periods indicated:

<u>INBC Statistics</u>	<u>Fiscal Year Ended</u> <u>December 31</u>				
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Mobile Drives Held	1,225	1,040	994	1,025	793
Whole Blood Collected +	42,273	36,790	35,530	36,745	37,819
Red Blood Cells Provided~	40,898	36,829	33,009	32,441	33,632
Platelets Collected by Apheresis	5,581	4,958	5,127	5,226	5,009
Apheresis Platelets Provided	4,763	4,604	4,436	4,090	4,790
Transfusion Lab Testing *	66,351	63,168	59,953	59,564	62,301
Patient Procedures	611	529	564	431	706
Organs Tested for Transplant	92	115	91	134	112
NMDP Donors Registered ^	4,270	3,055	2,976	1,423	637

- + *Allogeneic Only*
- ~ *Within Regional Service Area Only*
- * *Includes Crossmatch and Type & Screen Only*
- ^ *National Marrow Donor Program*

Management's Discussion and Analysis of Historical Activity

Collections

Whole blood collection has increased 2.4 percent in the past five years. While INBC has expanded its collection areas in the past five years (namely in the Lewis Clark Valley and the Palouse region of southeastern Washington and east central Idaho) to increase the donor population, overall there is a general decline in blood donation. This is primarily the result of increasing federal donor regulations and an aging population resulting in a declining donor base. INBC has also recently implemented automated collection technology which increases units of blood collected from existing donors. In 2008, INBC collected 3,334 units of red cells using automated technology. INBC has been able to increase the number of apheresis platelet collections 2.3 percent in this same five year period.

Blood Products

Red Blood Cells. Red blood cells (RBCs) are the primary product that INBC processes and distributes. In the past five years, the number of RBCs that INBC has provided has increased 4.3 percent. This is primarily the result of hospitals added to the INBC service area. The number of RBCs supplied is limited by the amount of whole blood that INBC is able to collect. Demand for blood products is dependent on medical procedures and treatments. INBC has been able to provide for the blood needs of hospitals in the region and has not seen blood shortages in its service area.

INBC maintains a stock of all blood components. Red blood cells are ordered by the hospitals for specific patients. For the Spokane area hospitals, INBC types and tests the patient samples provided by the hospitals and matches blood products that are patient specific. For hospitals outside the Spokane area, INBC ships the products directly to these users who match them with specific patient orders in their own laboratories. Revenue from RBCs accounts for about 40.7 percent of INBC's operating revenue.

Single Donor Platelets (Apheresis Platelets). Single donor platelets provided by apheresis (a method of removing individual blood components from a donor while returning the remaining blood) has declined slightly over the past five years. This decrease is due primarily to decreased demand from health care providers. These products are primarily used in patients undergoing cancer treatment. The shelf life for apheresis platelets was seven days in 2007, while INBC was participating in a study. However, the study was suspended in January 2008 causing the shelf life of platelets to return to five days. This compares to 42 days for RBCs. Revenue from apheresis platelets accounts for about 14.6 percent of INBC's operating revenue.

Other Blood Products and Services. Other blood products include fresh frozen plasma, random platelets, made from whole blood, and cryoprecipitate. In addition, INBC performs certain processes, such as filtration and irradiation on some of its blood products, for which it is also compensated. Revenue from these other blood products and services accounts for about 5.7 percent of INBC's operating revenue.

Blood Derivative Products. INBC purchases blood derivative products (such as Factor VIII and Factor IX clotting factors) and sells these products to its hospital customers at a mark up to cover its administrative and handling costs. In 2008, INBC distributed 1,170,162 units of these derivative products, compared to 2,091,900 in 2007 (a 44.1 percent decrease). There was a large reduction in derivative sales in 2007 because the largest purchaser of derivatives from INBC was approved for a Federal program which allows them to buy derivatives at a subsidized rate directly from the manufacturer. The decrease in derivative sales in 2008 was a continuation of the implementation of this change. INBC anticipates that derivative sales will continue at this lower rate of activity into future years. Revenue from these products accounts for 9.2 percent of INBC's operating revenue.

Transfusion Laboratory

INBC provides patient specific blood products and transfusion services to nine Spokane area hospitals and clinics using a just-in-time system. During the past five years, these activities have increased about 1.3 percent. This increase is directly related to the increase in blood products used in the local Spokane area hospitals. The transfusion laboratory has proven to be highly efficient and has resulted in significant cost savings to the hospitals and clinics INBC serves. More than 91.1 percent of the services provided by the transfusion laboratory are provided to the four major hospitals located in Spokane. Revenue provided by the transfusion laboratory accounts for about 15.3 percent of INBC's total operating revenue.

Patient Procedures

INBC performs a limited number of patient procedures (such as therapeutic plasma exchange and photopheresis treatments, and the collection of peripheral blood stem cells), typically on an inpatient basis at the Spokane area hospitals it serves. INBC's highly trained nursing staff and specialized equipment enable it to provide these services in a high quality, cost effective manner. Patient procedures are ordered directly by patients' physicians and account for more than 5.7 percent of INBC's total operating revenue.

Tissue Typing Laboratory

INBC's state of the art tissue typing HLA laboratory is relied upon extensively in connection with local transplantation and national organ procurement procedures. INBC's staff uses specialized equipment to type organ tissue to match organs and recipients. Volume in this laboratory fluctuates based on need and the availability of organs. 94.5 percent of the revenue earned by the HLA laboratory is derived from two customers, Sacred Heart Medical Center's Thoracic and Kidney Transplant Programs and Life Center Northwest (an organ procurement organization). The HLA laboratory accounts for 4.5 percent of INBC's total operating revenue.

Summary of Revenues and Expenses

The following table sets forth selected financial data for the fiscal years ended December 31, 2008, 2007, 2006, 2005 and 2004. The data for these fiscal years are derived from INBC's audited financial statements for such years and should be read in conjunction with such financial statements and the notes thereto attached.

	Fiscal Year Ended				
	December 31 (Audited)				
	2008	2007	2006	2005	2004
Operating Revenue	\$20,696,823	\$19,460,439	\$20,569,948	\$18,828,312	\$17,537,412
Operating Expenses:					
Operating Expenses	\$19,503,475	\$18,410,439	\$18,148,182	\$17,272,055	\$16,245,742
Depreciation and Amortization	719,207	687,506	677,615	715,357	658,582
Interest	356,639	367,702	411,920	429,075	436,108
Total Operating Expenses	<u>\$20,579,321</u>	<u>\$19,465,647</u>	<u>\$19,237,717</u>	<u>\$18,416,487</u>	<u>\$17,340,432</u>
Net Operating Income	<u>\$ 117,502</u>	<u>\$ (5,208)</u>	<u>\$ 1,332,231</u>	<u>\$ 411,825</u>	<u>\$ 196,980</u>
Non-Operating Income (Expense):					
Other Income	\$ 565,284	\$ 931,838	\$ 694,807	\$ 228,154	\$ 218,857
Gain (Loss) on Disposal of Assets	3,601			-	-
Realized Gain (Loss) on Investments	(1,222)	30,569	118,745	59,077	23,321
Total Non-Operating Income	<u>\$ 567,663</u>	<u>\$ 962,407</u>	<u>\$ 813,552</u>	<u>\$ 287,231</u>	<u>\$ 242,178</u>
Excess of Revenue over Expenses	<u>\$ 685,165</u>	<u>\$ 957,199</u>	<u>\$ 2,145,783</u>	<u>\$ 699,056</u>	<u>\$ 439,158</u>
Change in Unrestricted Net Assets:					
Net Unrealized Invest. Gains and Losses	(504,980)	78,599	(55,877)	(81,924)	(9,794)
Net Unrealized Loss on Interest Rate Swap	(731,011)	(248,379)	(126,287)	(74,364)	(322,736)
Reclassification Adjustment for Losses Incl. in Excess of Revenue over Expenses	199,586	93,669	111,568	195,864	303,410
Incr. (Decr.) in Unrestricted Net Assets	<u>\$ (351,240)</u>	<u>\$ 881,088</u>	<u>\$ 2,075,187</u>	<u>\$ 738,632</u>	<u>\$ 410,038</u>

Management's Discussion and Analysis of Summary of Revenues and Expenses

INBC's primary operating revenues are derived from fees charged to hospitals and other healthcare institutions for products and services provided. Operating revenue has increased about 3.6 percent per year during the past five years. These increases are due to price increases to recover additional disease testing costs and new/expanded processes and service areas. Although blood components provided has fluctuated over the past several years, in total, the volume of blood components provided in 2008 was nearly the same as five years ago - in 2004. INBC's blood product exports have increased about 27.0 percent during the same five year period. The market for blood exports is expected to decline, and INBC's ability to export is dependent on blood collections in excess of local needs as well as export demand. Operating revenue increased about 6.4 percent (\$1,236,384) in 2008, over 2007. This increase was due to the increase in blood products provided and related testing performed. INBC increased its fees an average of 3.9 percent across all blood products on January 1, 2008. At December 31, 2008, INBC's fees for leukoreduced red blood cells were about 4.8 percent below the national average for independent, community blood centers in the United States.

Operating expenses have increased an average of 3.7 percent annually during the past five years, primarily as the result of increases in labor and supply costs and increased costs attributable to FDA-mandated disease testing. Operating expenses increased 5.7 percent (\$1,113,672) in 2008, over 2007. This increase was due to increased salary and benefits costs and an increase in disease testing cost. Net operating margin was 1.1 percent (\$196,980) in 2004, 2.2 percent (\$411,825) in 2005, 6.5 percent (\$1,332,231) in 2006, slightly negative (-\$5,208) in 2007, and 0.6 percent (\$117,504) in 2008 compared to the budgeted 2.9 percent. This negative variance was primarily the result of high pension costs. Because of investment losses, INBC had to fund the Defined Benefit Pension Plan at levels higher than budget (\$150,000).

While operations (types of products and services offered) have remained fairly static over the past several years, INBC has had to adjust its operations to accommodate new or additional regulations. Some of the mandates that have had an effect on operations include additional disease testing, such as individual donor nucleic acid testing for West Nile Virus and Chagas disease testing.

INBC experienced a more than \$500,000 unrealized loss on investments in 2008. It recognized investment losses of more than \$1,000 during the year. Income from fundraising activities decreased to \$372,000 in 2008 compared to more than \$595,000 in 2007. The decrease during 2008 is principally attributable to the fact that INBC conducted a special fundraising campaign for a mobile coach in 2007, raising approximately \$163,000.

In August 2001, INBC issued \$8.99 million in principal amount of tax-exempt bonds through the Washington Health Care Facilities Authority. Backed by a letter of credit issued by Bank of America, INBC makes annual principal payments on the bond issue and paid \$280,000 of the principal in August 2008.

In January 2002, INBC entered into an interest rate swap agreement with Bank of America, exchanging the weekly variable interest rate applicable to its outstanding 2001 WHCFA bonds for a 4.8 percent fixed interest rate. The swap agreement covers the total outstanding principal balance of the bonds for a period of 25 years, which is when they fully mature. The notional amount (the theoretical principal amount used to calculate the interest rate differential within a defined payment period) coincides with INBC's principal payments on the bonds. INBC entered into the agreement to hedge against the diminution in cash flows that would result were prevailing interest rates to rise above the swapped for fixed, or hedged, interest rate.

INBC accounted for the interest payments on the 2001 WHCFA bonds as a capitalized construction cost through October 14, 2002, using the variable, not hedged rate. From October 14, 2002 through the current reported year, INBC accounted for the interest as an expense.

In accordance with Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, INBC adjusted the value of the interest rate swap to fair market value—also known as marking to market—at December 31, 2008. This resulted in an unrealized loss on the swap, and associated liability increase, of \$537,405. This amount is shown in the Summary of Revenues and Expenses as a Change in Unrestricted Net Assets, in accordance with FAS 133.

FAS 133 also requires INBC to amortize the construction period effective portion of the interest rate swap over the life of the building (40 years), and to show the adjustment as reclassification from Change in Unrestricted Net Assets, below the operating indicator, to Excess of Revenue over Expenses (in Interest Expense) on a monthly basis. INBC reclassified the effective portion of the swap (\$193,606) and amortization of the construction period effective portion of the swap (\$5,980) in accordance with this requirement.

On January 1, 2009, INBC formalized an affiliation with Blood Systems, Inc. (BSI), an Arizona non-profit corporation. No assets, liabilities or net assets of either organization were transferred and no change in governance of the two organizations was made due to this affiliation. INBC retains its independent status, continues to operate under its own FDA license and employer tax identification, and continues to be overseen by an independent, volunteer Board of Directors. However, INBC did amend its Articles of Incorporation to name BSI as the sole member of the INBC Washington State Corporation. BSI is granted certain reserved rights providing a level of control which will require INBC to be consolidated into BSI's financial reporting for the year ending Dec. 31, 2009. The purpose of the affiliation is to take advantage of efficiencies, share resources and participate in group purchase contracts.

Sources of Revenue

INBC receives virtually all operating revenue in the form of fees for services rendered to the hospitals, clinics, and blood centers it serves. INBC collects, processes, tests, and prepares components from donated blood. These products are provided to, and the processing costs are directly reimbursed by, the facilities that INBC serves. INBC sets fees for these services annually (or with 30 days' notice) and has no discounted and/or capitated fee arrangements. Approximately 67.5 percent of INBC's operating revenue is earned from two major, local hospital corporations, Providence Health Care and Community Health Systems (purchased Empire Health Services in 2008).

Sources of Revenue (Percent of Total Operating Revenue)

As of December 31

<u>Source</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Local Hospital Corporations	71.15%	71.34%	80.54%	75.63%	66.00%
Other Hospitals/Clinics/Blood Centers	28.59%	28.40%	19.24%	24.28%	33.70%
Federal/State Payor (Medicaid/DSHS)	0.22%	0.22%	0.18%	0.01%	0.10%
Other Insurance/Private Pay	0.04%	0.04%	0.04%	0.07%	0.20%
TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

Capitalization

The following table sets forth INBC's capitalization as of December 31, 2008, 2007, 2006, 2005 and 2004:

<u>Capitalization</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Long-Term Debt:					
Capitalized Lease Obligations	\$ -	\$ -	\$ 12,300	\$ 34,896	\$ 57,508
2001 Bonds	7,220,000	7,500,000	7,770,000	8,030,000	8,285,000
Note Payable	49,400	62,013	-	303,351	317,357
Total Long-Term Debt	\$ 7,269,400	\$ 7,562,013	\$ 7,782,300	\$ 8,368,247	\$ 8,659,865
Less: Current Maturities	302,613	292,613	282,300	(299,738)	(294,738)
Net Long-Term Debt	\$ 7,572,013	\$ 7,854,626	\$ 8,064,600	\$ 8,068,509	\$ 8,365,127
Fund Balance/Unrestr. Net Assets	\$ 12,431,132	\$ 12,782,373	\$ 11,491,680	\$ 9,416,492	\$ 8,677,859
Total Capitalization	\$ 20,003,145	\$ 20,636,999	\$ 19,556,280	\$ 17,485,001	\$ 7,042,986
Net Long-Term Debt as a Percentage of Total Capitalization	37.9%	38.1%	41.2%	46.1%	49.1%

Debt Service Coverage Ratios

The following table sets forth INBC's debt service coverage as of December 31, 2008, 2007, 2006, 2005, and 2004:

<u>Debt Service Coverage</u>	<u>2008</u>	<u>2007</u>	<u>as of December 31</u> <u>2006</u>	<u>2005</u>	<u>2004</u>
<u>Income Available for Debt Service:</u>					
Net Operating Income	\$ 117,502	\$ (5,208)	\$ 1,332,231	\$ 411,825	\$ 196,980
Depreciation and Amortization	719,207	687,506	677,615	715,357	658,582
Interest	356,639	367,702	411,920	429,075	436,108
Total	\$ 1,193,348	\$ 1,050,000	\$ 2,421,766	\$ 1,556,257	\$ 1,291,670
<u>Debt Service Requirements:</u>					
Capital Leases	\$ -	\$ -	\$ 12,300	\$ 26,418	\$ 26,418
Series 2001 Bonds	290,000	280,000	270,000	260,000	245,000
Notes Payable	12,613	12,613	-	13,320	13,320
Total	\$ 302,613	\$ 292,613	\$ 282,300	\$ 299,738	\$ 284,738
Debt Service Coverage	3.94	3.59	8.58	5.19	4.54
Maximum Debt Service, Including The Bonds	\$ 312,613	\$ 302,613	\$ 292,300	\$ 309,738	\$ 294,738
Historical pro Forma Maximum Debt Service Coverage	3.82	3.47	8.29	5.02	4.38