

**INLAND NORTHWEST BLOOD CENTER
ANNUAL FINANCIAL INFORMATION**

Dated as of April 29, 2011

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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 66 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, donor recruitment and volunteer services, computer and information services, accounting and finance, development and communications, human resources, staff training, document control, and administration. Also located on the site is a 2,700 square foot detached garage, which houses four of INBC's 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 facility. 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. This lease terminated August 31, 2010

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 Providence 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 200 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 approximately 35 regional hospitals, clinics, and transfusion centers in 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 currently the only local source for transfusion service. INBC is also extremely cost-competitive; as of September 1, 2010, the cost of its blood products and services was below the national average for independent, community blood centers.

During the year ended December 31, 2010, INBC distributed over 96,000 units of blood or blood products to hospitals and healthcare institutions in the Inland Northwest. During the year, INBC shipped over 10,000 blood products to other facilities outside its regional marketing area. INBC's Whole Blood Donor Program collected in excess of 47,700 units of allogeneic (voluntarily donated) blood in 2010. 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 over 15 percent of all whole blood collected by INBC during the year ended December 31, 2010.

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 nineteen member board of directors. INBC's Board members are elected to terms of two years each, and are limited to six 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
Georgette Grainger, Chair	VP/Private Banking, Washington Trust Bank	7/02	6/12
Chuck Stocker, Vice Chair	Retired Community Relations	7/02	6/12
Joe Dunlap, EdD, Secretary/Treasurer	President, Spokane Community College	6/08	6/12
Sidney K. Kasuga, PhD, Past Chair	Immunopathologist, Eastern Washington University	10/01	6/11
Jamie Aitken	President and General Manager, Belo Media Group - Spokane	6/09	6/13
Pamela Burg, MD	Pediatric Cardiologist, NW Center for Congenital Heart Disease	6/10	6/12
Irby Cossette, MD	Pathologist, Deaconess Medical Center	6/09	6/13
Jeremy Evans	Vice President Professional Services, Kootenai Medical Center	6/10	6/12
James Falkner, CPA	President, Dominican Outreach Foundation	6/09	6/13
Margreta Kilgore	Retired Healthcare Financial	6/03	6/11
Kirk Lund, MD	Hematologist and Oncologist, Rockwood Clinic	6/09	6/13
Chris Montague, MD	Pathologist, InCyte Pathology	7/02	6/12
Henry Mroch, MD	Nephrologist, Kidney Care of Spokane	6/06	6/12
Ben Nielsen	Retired Principal Architect	7/02	6/12
Bruce Saunders	General Manager, Pathologists' Regional Laboratory	6/04	6/12
Steven Seiler	Retired Healthcare	6/08	6/12
Cathy Simchuk	Vice President, Providence Spokane Hospitals	6/05	6/11
Judi Williams	Business Owner/Co-Founder, Telect, Inc.	6/08	6/12
A. Morgan Wright, MD	Pathologist, InCyte Pathology, (Pullman, WA)	6/08	6/12

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 174 employees organized into functional departments including Donor and Patient Services, Laboratory Services, Histocompatibility (HLA) Laboratory, Quality, Donor Recruitment and Volunteer Services, Computer and Information Services, Accounting and Finance, Development and Communications, Staff Training and Development, Human Resources, Facility and Supply Services, and Administration. The biographies of INBC's executive management team are set forth below:

Jeff Bryant, MS, MBA – President and Chief Executive Officer (CEO) – Mr. Bryant has been the President and CEO at Inland Northwest Blood Center since March 9, 2009 and serves as Responsible Head (for FDA representation) 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. He is a graduate of Leadership Spokane. Mr. Bryant has actively participated in the Finance and Information Technology committees for Blood Centers of America. He is the INBC's current member representative for America's Blood Centers, is Chair of the ABC Membership Committee, is a member of the ABC Finance Committee and sits on the ABC Government Affairs Committee. He is a commissioner on the Chase Youth Commission, a member of Rotary Club 21 and actively involved 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, the American Society for Histocompatibility and Immunogenetics (ASHI), and serves as a Commissioner on the ASHI Accreditation Review Board. 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 on the Board of Directors. Ms. Field is also a member of the American Institute of CPA's, the Spokane BYU Management Society, and Kiwanis International – East Spokane Kiwanis.

Teri Barros, SPHR, CBP, CCP – Vice President of Support Services – Ms. Barros is responsible for all human resource, safety, training, project management, fundraising, marketing and communications activities for INBC. Since November 1998, she served as Human Resources Director and Director of Development and Communications since December 2008 until moving into her current role in December, 2009. Ms. Barros has over 18 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.

Steven E. Allen, MS,MT(ASCP)SBB – Director of Laboratory Services – Mr. Allen has served as INBC's Laboratory Services Director since October 2010. Prior to that he served as INBC's Laboratory Services Manager (2007-2010). He is responsible for the administrative oversight of the Components, Transfusion Service, and Hematopoietic Stem Cell Laboratories, and Hospital Services. Prior to joining INBC's staff, Steven served as the Director of the Navy Blood Program, at the Navy's Bureau of Medicine and Surgery in Washington DC, responsible for twenty-seven transfusion services and six donor centers worldwide. Completing 9 years in the US Army Airborne Ranger Infantry and 20 years in the US Navy Medical Service Corps, Steven retired from the military as a Navy Commander, servicing as the Officer in Charge and/or Department Head of five laboratories. He obtained a Bachelor of Science Degree from the University of Oklahoma and Master of Science Degree in Biology and as a Specialist in Biology from Bowling Green State University. He is registered as a Specialist in Blood Bank (SBB) with the American Society of Clinical Pathologists and is a active member of the American Association of Blood Banks.

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 and is a member of the ABC (America's Blood Centers) IT Committee. Ms. Sallquist retired from INBC in February 2011.

Sherill A Pederson, MT (ASCP) – Quality 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), and is a Certified Quality Auditor (CQA) (American Society for Quality). 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 Quality 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 program is now under their direction.

EMPLOYEES

As of March 23, 2011, INBC had 174 employees. Of these, 45 employees are involved in laboratory services and 29 hold certifications. Another 57 are directly involved in collecting blood from volunteer donors, with 50 of these being certified or licensed; 6 employees are involved in the National Marrow Donor Program (NMDP), with 4 licensed; and 66 administrative/support employees, with 15 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, Radiology Technician, Certified Public Accountants, Professionals in Human Resources, Boiler Technician, Project Management Professional, Safety & Health Certification and Certified Administrative Professionals.

The majority of INBC's staff members are full-time employees; INBC had 20 part-time employees at December 31, 2010. INBC offers competitive wages and benefits including a 403(b) savings plan, medical/dental/life insurance, and tuition reimbursement. INBC also had a noncontributory defined benefit pension plan which was terminated in 2010 with all funds distributed by April 30, 2010. 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 also undergoes assessment 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

Since November 1, 2009, INBC maintains a policy or policies of professional liability insurance through Canyon State Insurance Company, Inc. (on a claims-made basis), a captive insurance entity and wholly owned subsidiary of Blood Systems, Inc. INBC previously maintained policies of professional liability insurance through Community Blood Centers' Exchange Risk Retention Group (BCx).

FINANCIAL INFORMATION AND OPERATING DATA

Historical Activity

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

	Fiscal Year Ended				
	<u>December 31</u>				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Mobile Drives Held	1,334	1,473	1,225	1,040	994
Whole Blood Collected +	47,706	44,319	42,273	36,790	35,530
Red Blood Cells Provided~	45,026	42,418	40,898	36,829	33,009
Platelets Collected by Apheresis	6,729	6,200	5,581	4,958	5,127
Apheresis Platelets Provided	5,136	5,452	4,763	4,604	4,436
Transfusion Lab Testing *	66,759	69,222	66,351	63,168	59,953
Patient Procedures	477	589	611	529	564

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Organs Tested for Transplant	61	56	92	115	91
NMDP Donors Registered ^	3,645	4,196	4,270	3,055	2,976

+ *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 an average of 6.9 percent per year in the past five years. 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. INBC has also implemented automated collection technology which increases the number units of blood collected per donation. INBC has been able to increase the number of apheresis platelet collections 6.2 percent per year 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 36.4 percent. This is primarily the result of hospitals added to the INBC service area as well as shipments of RBCs within the affiliated system (BSI). 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 facilities who match them with specific patient orders in their own laboratories. Revenue from RBCs accounts for about 46.0 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 increased 31.2 percent over the past five years. This increase is due primarily to increased demand from health care providers. These products are primarily used in patients undergoing cancer treatment as well as in cardiac surgeries. The shelf life for apheresis platelets is five days. This compares to 42 days for RBCs. Revenue from apheresis platelets accounts for about 13.1 percent of INBC's operating revenue.

Blood Components and Services. Other blood components include frozen plasma and cryoprecipitate derived from whole blood. 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 components and services accounts for about 5.1 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 administrative and handling costs. In 2010, INBC distributed 122,972 units of these derivative products, compared to 409,989 in 2009 (a 70 percent decrease). There was a large reduction in derivative sales in 2009 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 2010 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 1.8 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 11.4 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. The vast majority 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 15.8 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 4.2 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. Virtually all of the revenue earned by the HLA laboratory is derived from two customers, Providence Sacred Heart Medical Center's Thoracic and Kidney Transplant Programs and Life Center Northwest (an organ procurement organization). The HLA laboratory accounts for 6.4 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, 2010, 2009, 2008, 2007 and 2006. 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)				
	2010	2009	2008	2007	2006
Operating Revenue	\$21,925,822	\$21,030,827	\$20,696,823	\$19,460,439	\$20,569,948
Operating Expenses:					
Operating Expenses	\$20,295,777	\$19,356,343	\$19,503,475	\$18,410,439	\$18,148,182
Depreciation and Amortization	659,592	754,861	719,207	687,506	677,615
Interest	392,844	321,815	356,639	367,702	411,920
Total Operating Expenses	<u>\$21,348,213</u>	<u>\$20,433,019</u>	<u>\$20,579,321</u>	<u>\$19,465,647</u>	<u>\$19,237,717</u>
Net Operating Income	<u>\$ 577,609</u>	<u>\$ 597,808</u>	<u>\$ 117,502</u>	<u>\$ (5,208)</u>	<u>\$ 1,332,231</u>
Non-Operating Income (Expense):					
Other Income	\$ 902,225	\$ 613,772	\$ 565,284	\$ 931,838	\$ 694,807
Gain (Loss) on Disposal of Assets	2,510	2,000	3,601		
Realized Gain (Loss) on Investments	80,881	(264,947)	(1,222)	30,569	118,745
Total Non-Operating Income	<u>\$ 985,616</u>	<u>\$ 350,825</u>	<u>\$ 567,663</u>	<u>\$ 962,407</u>	<u>\$ 813,552</u>
Excess of Revenue over Expenses	<u>\$ 1,563,225</u>	<u>\$ 948,633</u>	<u>\$ 685,165</u>	<u>\$ 957,199</u>	<u>\$ 2,145,783</u>
Change in Unrestricted Net Assets:					
Net Unrealized Invest. Gains and Losses	372,321	884,471	(504,980)	78,599	(55,877)
Net Unrealized Loss on Interest Rate Swap	8,968	319,453	(731,011)	(248,379)	(126,287)
Reclassification Adjustment for Losses Incl. in Excess of Revenue over Expenses	(68,377)	(55,002)	199,586	93,669	111,568
Incr. (Decr.) in Unrestricted Net Assets	<u>\$ 1,876,137</u>	<u>\$ 2,097,555</u>	<u>\$ (351,240)</u>	<u>\$ 881,088</u>	<u>\$ 2,075,187</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 6.6 percent over the past five years. This increase is due to price increases to recover additional disease testing costs and increased expenses, as well as 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 2010 was 6.7 percent higher than five years ago - in 2006 INBC's blood product exports have also increased during the same five year period due to shipments made through the BSI system. INBC's ability to export is dependent on blood collections in excess of local needs as well as export demand.

Operating revenue increased about 4.3 percent (\$894,995) in 2010, over 2009. This increase was due to the increase in blood products provided through the affiliated system (exports). INBC did not increase fees for blood products in 2010. At September 1, 2010, INBC's fees for leukoreduced red blood cells were 0.9 percent below the national average for independent, community blood centers in the United States.

Operating expenses have increased about 11.0 percent over 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 4.5 percent (\$915,194) in 2010 over 2009. Operating margin was 6.5 percent (\$1,332,231) in 2006, slightly negative (-\$5,208) in 2007, 0.6 percent (\$117,504) in 2008, 2.8 percent (\$597,808) in 2009, and 2.6 percent (\$577,609) in 2010 compared to the budgeted 3.5 percent. The variance was due primarily to the termination of the defined benefit pension plan.

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 more than \$370,000 in unrealized gains on investments in 2010. It recognized investment gains of more than \$80,000 during the year. Income from fundraising activities increased to almost \$525,000 in 2010 compared to \$470,000 in 2009. The increase in 2010 is principally attributable to the expansion of INBC's annual fundraising event, Epicurean Delight.

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 \$300,000 of the principal in August 2010.

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, 2010. This resulted in an unrealized gain on the swap, and associated liability decrease, of \$8,968. 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 (\$304,509) and amortization of the construction period effective portion of the swap (\$5,981) 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 requires INBC to be consolidated into BSI's financial reporting for the year ending Dec. 31, 2010. 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 65.3 percent of INBC's operating revenue is earned from two major, local hospital corporations, Providence Health & Services and Community Health Systems.

Sources of Revenue (Percent of Total Operating Revenue)

<u>Source</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Local Hospital Corporations	65.28%	67.09%	71.15%	71.34%	80.54%
Other Hospitals/Clinics/Blood Centers	34.63%	32.47%	28.59%	28.40%	19.24%
Federal/State Payor (Medicaid/DSHS)	0.03%	0.41%	0.22%	0.22%	0.18%
Other Insurance/Private Pay	0.06%	0.03%	0.04%	0.04%	0.04%
TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

Capitalization

<u>Capitalization</u>	<u>As of December 31</u>				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Long-Term Debt:					
Capitalized Lease Obligations	\$ -	\$ -	\$ -	\$ -	\$ 12,300
2001 Bonds	6,630,000	6,930,000	7,220,000	7,500,000	7,770,000
Note Payable	25,225	36,787	49,400	62,013	-
Total Long-Term Debt	\$6,655,225	\$6,966,787	\$7,269,400	\$7,562,013	\$7,782,300
Less: Current Maturities	(327,613)	(302,613)	(302,613)	(292,613)	(282,300)
Net Long-Term Debt	\$ 6,327,612	\$ 6,664,174	\$ 6,966,787	\$ 7,269,400	\$ 7,500,000
Fund Balance/Unrestr. Net Assets	\$ 16,705,013	\$ 14,583,690	\$ 12,431,132	\$ 12,782,373	\$ 11,491,680
Total Capitalization	\$ 23,032,625	\$ 21,247,864	\$ 19,397,919	\$ 20,051,773	\$ 18,991,680
Net Long-Term Debt as a Percentage of Total Capitalization	27.5%	31.4%	35.9%	36.3%	39.5%

Debt Service Coverage Ratios

The following table sets forth INBC's debt service coverage as of December 31, 2010, 2009, 2008, 2007, and 2006:

<u>Debt Service Coverage</u>	<u>As of December 31</u>				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<u>Income Available for Debt Service:</u>					
Net Operating Income	\$ 577,609	\$ 597,808	\$ 117,502	\$ (5,208)	\$ 1,332,231
Depreciation and Amortization	659,592	754,861	719,207	687,506	677,615
Interest	392,844	321,815	356,639	367,702	411,920
Total	\$ 1,630,045	\$ 1,674,484	\$ 1,193,348	\$ 1,050,000	\$ 2,421,766
<u>Debt Service Requirements:</u>					
Capital Leases	\$ -	\$ -	\$ -	\$ -	\$ 12,300
Series 2001 Bonds	(340,226)	(315,226)	(315,226)	(305,226)	(294,600)
Notes Payable	12,613	12,613	12,613	12,613	-
Total	\$ (327,613)	\$ (302,613)	\$ (302,613)	\$ (292,613)	\$ 282,300
Debt Service Coverage	(4.98)	(5.53)	(3.94)	(3.59)	(8.58)
Maximum Debt Service, Including The Bonds	\$ (327,613)	\$ (292,613)	\$ (292,613)	\$ (282,613)	\$ (272,300)
Historical pro Forma Maximum Debt Service Coverage	(5.13)	(5.72)	(4.08)	(3.72)	(8.89)