Consolidated Financial Statements, Supplemental Schedules, Single Audit Reports and Report of Independent Certified Public Accountants

Versiti, Inc. and Affiliates

December 31, 2017 and 2016

Contents

Grant Thornton

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Versiti, Inc.

Report on the financial statements

We have audited the accompanying consolidated financial statements of Versiti, Inc. (a non-stock, not-for-profit Wisconsin corporation) and affiliates (collectively, the Entity), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Versiti, Inc. and affiliates as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position as of December 31, 2017, consolidating statement of activities for the year ended December 31, 2017, and the schedule of expenditures of federal awards for the year ended December 31, 2017, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated May 21, 2018, on our consideration of the Entity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with

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Government Auditing Standards in considering the Entity's internal control over financial reporting and compliance.

Grant Thornton LLP

Appleton, Wisconsin
May 21, 2018

Versiti, Inc. and Affiliates
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31,

ASSETS	2017	2016
CURRENT ASSETS		
Cash and cash equivalents, including restricted cash of $3,343,924 and $6,389,774 at December 31, 2017 and 2016, respectively	$ 40,697,420	$ 53,696,503
Accounts receivable, net of allowance for doubtful accounts and sales returns of $736,824 and $896,000 at December 31, 2017 and 2016, respectively	37,135,015	39,952,520
Prepaid expenses	3,415,715	4,156,088
Contributions receivable, net	245,609	428,413
Short-term investments	2,000,114	3,499,894
Inventories, net	11,359,462	10,666,491
Total current assets	94,853,335	112,399,909
INVESTMENTS		
Including restricted investments of $13,835,904 and $9,717,587 at December 31, 2017 and 2016, respectively	203,134,444	171,729,554
PROPERTY AND EQUIPMENT, NET	65,424,550	67,320,206
CONTRIBUTIONS RECEIVABLE, NET	90,023	294,253
OTHER ASSETS	1,761,638	2,375,308
TOTAL ASSETS	$365,263,990	$354,119,230

Versiti, Inc. and Affiliates
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - CONTINUED
December 31,

LIABILITIES AND NET ASSETS	2017	2016
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 1,319,168	$ 1,289,194
Accounts payable	10,307,430	10,634,537
Accrued expenses	31,764,761	31,319,646
Total current liabilities	43,391,359	43,243,377
OTHER LONG-TERM LIABILITIES	5,700,860	13,932,399
LONG-TERM DEBT, LESS CURRENT MATURITIES AND DEFERRED FINANCING COSTS	2,886,351	4,149,175
Total liabilities	51,978,570	61,324,951
NET ASSETS		
Without donor restriction		
Board-designated endowment funds, Foundation	86,045,725	76,439,806
Operating funds	224,950,963	213,793,431
Total net assets without donor restriction	310,996,688	290,233,237
With donor restriction	2,288,732	2,561,042
Total net assets	313,285,420	292,794,279
TOTAL LIABILITIES AND NET ASSETS	$365,263,990	$354,119,230

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

Versiti, Inc. and Affiliates
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended December 31, 2017

	Without donor restrictions	With donor Restrictions	Total
Revenue and other support			
Blood Services	$170,281,604	$ -	$170,281,604
Diagnostic Laboratories	43,615,248	-	43,615,248
Pharmacy	24,973,916	-	24,973,916
Blood Research Institute	15,636,752	-	15,636,752
Organ and Tissue Donation	15,002,061	-	15,002,061
Medical Services	13,360,638	-	13,360,638
Contributions from third parties	473,549	584,976	1,058,525
Interest and dividends	4,824,921	-	4,824,921
Other, net	194,365	-	194,365
	288,363,054	584,976	288,948,030
Net assets released from restriction	857,286	(857,286)	-
Total revenue and other support and net assets released from restriction	289,220,340	(272,310)	288,948,030
Expenses			
Salaries and benefits	146,627,594	-	146,627,594
Supplies	60,638,823	-	60,638,823
Purchased products	23,581,882	-	23,581,882
Purchased services	21,798,197	-	21,798,197
Depreciation	9,364,826	-	9,364,826
Occupancy and maintenance	11,277,010	-	11,277,010
Interest	127,659	-	127,659
Other	12,322,322	-	12,322,322
Total expenses	285,738,313	-	285,738,313
Increase (decrease) in net assets before non-operating items	3,482,027	(272,310)	3,209,717
Non-operating items			
Investment return net	18,480,775	-	18,480,775
Additional minimum pension expense	(1,199,351)	-	(1,199,351)
Change in net assets	20,763,451	(272,310)	20,491,141
Net assets, beginning of year	290,233,237	2,561,042	292,794,279
Net assets, end of year	$310,996,688	$2,288,732	$313,285,420

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

Versiti, Inc. and Affiliates
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended December 31, 2016

	Without donor Restrictions	With donor restrictions	Total
Revenue and other support			
Blood Services	$172,476,311	$ -	$172,476,311
Diagnostic Laboratories	42,521,875	-	42,521,875
Pharmacy	26,367,219	-	26,367,219
Blood Research Institute	15,434,392	-	15,434,392
Organ and Tissue Donation	14,373,107	-	14,373,107
Medical Services	13,022,049	-	13,022,049
Contributions from third parties	435,467	1,374,431	1,809,898
Interest and dividends	3,367,711	-	3,367,711
Other, net	144,704	50	144,754
	288,142,835	1,374,481	289,517,316
Net assets released from restriction	1,352,345	(1,352,345)	-
Total revenue and other support and net assets released from restriction	289,495,180	22,136	289,517,316
Expenses			
Salaries and benefits	146,040,284	-	146,040,284
Supplies	65,469,437	-	65,469,437
Purchased products	24,582,922	-	24,582,922
Purchased services	14,704,110	-	14,704,110
Depreciation	9,754,908	-	9,754,908
Occupancy and maintenance	11,117,025	-	11,117,025
Interest	174,757	-	174,757
Other	11,321,751	-	11,321,751
Total expenses	283,165,194	-	283,165,194
Increase in net assets before non-operating items	6,329,986	22,136	6,352,122
Non-operating items			
Investment return, net	10,003,413	-	10,003,413
Additional minimum pension expense	(560,189)	-	(560,189)
Change in net assets	15,773,210	22,136	15,795,346
Net assets, beginning of year	274,460,027	2,538,906	276,998,933
Net assets, end of year	$290,233,237	$ 2,561,042	$292,794,279

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

Versiti, Inc. and Affiliates
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2017

	Program services						Supporting services		
	Blood Services	Diagnostic Laboratories	Pharmacy	Blood Research Institute	Medical Services	Organ & Tissue Donation	Corporate Services	Development	Total
Salaries and benefits	$ 68,616,995	$19,729,645	$ 870,354	$14,737,070	$ 8,020,701	$ 5,838,587	$28,151,769	$662,473	$146,627,594
Supplies	46,832,770	6,778,924	6,473	4,089,912	2,281,734	615,092	705,915	3,177	61,313,997
Purchased products	2,414,108	13,443	20,479,157	-	-	-	-	-	22,906,708
Purchased services	6,355,480	924,491	169,846	1,522,141	604,433	5,643,935	6,512,793	65,078	21,798,197
Depreciation	2,496,898	590,597	-	1,577,630	313,893	163,100	4,218,563	4,145	9,364,826
Occupancy and maintenance	4,296,348	606,737	1,807	1,320,749	160,363	156,644	4,733,642	720	11,277,010
Interest	-	-	-	-	-	-	127,659	-	127,659
Other	6,486,747	695,866	119,732	480,272	408,922	535,023	3,520,564	75,196	12,322,322
Total expenses	$137,499,346	$29,339,703	$21,647,369	$23,727,774	$11,790,046	$12,952,381	$47,970,905	$810,789	$285,738,313

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

Versiti, Inc. and Affiliates
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31,

	2017	2016
Cash flows from operating activities		
Change in net assets	$ 20,491,141	$ 15,795,346
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	9,368,734	9,783,278
Amortization of deferred financing costs	13,645	22,199
Loss on sale of property and equipment	208,600	313,779
Investment return, net	(18,480,775)	(10,003,413)
Change in assets and liabilities		
Accounts receivable, net	2,817,505	(2,548,527)
Contributions receivable, net	387,034	(138,515)
Prepaid expenses	740,373	(720,380)
Inventories, net	(692,971)	2,345,630
Other assets	613,670	(34,777)
Accounts payable	(327,107)	1,935,274
Accrued expenses	445,115	1,059,121
Other long-term liabilities	(8,231,539)	1,299,192
Net cash provided by operating activities	7,353,425	19,108,207
Cash flows from investing activities		
Purchases and construction of property and equipment	(7,782,613)	(7,518,955)
Proceeds from sale of property and equipment	100,935	500,688
Purchases of investments	(98,642,529)	(248,459,412)
Proceeds from sales and maturities of investments	87,218,194	244,635,221
Net cash used in investing activities	(19,106,013)	(10,842,458)
Cash flows from financing activities		
Payment of long-term debt	(1,246,495)	(1,182,566)
Net cash used in financing activities	(1,246,495)	(1,182,566)
Net increase (decrease) in cash and cash equivalents	(12,999,083)	7,083,183
Cash and cash equivalents, beginning of year	53,696,503	46,613,320
Cash and cash equivalents, end of year	$ 40,697,420	$ 53,696,503
Supplemental disclosure of cash flow information		
Interest paid	$ 127,660	$ 152,120

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

NOTE A - ORGANIZATION

Versiti, Inc. (Versiti) (formally known as the Centers for Transfusion & Transplant Medicine, Inc.) is a Wisconsin non-stock, not-for-profit supporting organization formed in 2012. Versiti operates exclusively for charitable, scientific and educational purposes, and supports BloodCenter of Wisconsin, Inc. (BloodCenter), Aurora Area Blood Bank d/b/a Heartland Blood Centers (Heartland), Michigan Blood (Michigan), Central Indiana Regional Blood Center, Inc. (Indiana) and other non-stock, not-for-profit organizations with similar or related charitable missions.

BloodCenter is a Wisconsin non-stock, not-for-profit organization formed in 1947 exclusively for charitable, scientific and educational purposes. BloodCenter serves patients and health care providers by recruiting volunteer blood donors, and collecting, processing and distributing blood and blood components. BloodCenter also provides a specialized diagnostic laboratory and medical services; facilitates organ and tissue donation; distributes pharmaceutical products to patients with hematological disorders; and conducts research and educational programs related to transfusion and transplant medicine. Versiti is the sole member of BloodCenter.

BloodCenter Research Foundation, Inc. (Foundation) is a Wisconsin non-stock, not-for-profit supporting organization formed in 1981 exclusively for charitable, scientific and educational purposes. More specifically, the Foundation is organized and operated exclusively to perform the functions of and advance the charitable purposes of its supported affiliates, BloodCenter, Heartland, Michigan Blood, Indiana, and other similar entities engaged in transfusion or transplant medicine services or research. Foundation funds have been donated to ensure the continuing availability of monies for the purposes described above and to support, when appropriate, the operating expenses of BloodCenter's research facility. BloodCenter management administers Foundation funds according to donor intent and board designation. The Foundation is controlled by Versiti and its Affiliates through board overlap and Board representation.

Heartland is an Illinois non-stock, not-for-profit organization formed in 1943 exclusively for charitable, scientific and educational purposes. Heartland serves patients and health care providers by recruiting volunteer blood donors, and collecting, processing and distributing blood and blood components. Heartland also provides a specialized diagnostic laboratory and medical services. Versiti is the sole member of Heartland.

Michigan is organized as a not-for-profit, formed in 1955, organization under Michigan law to establish and operate blood centers for scientific and charitable purposes. Michigan recruits volunteer blood donors and blood-drive sponsors; draws, tests, processes, stores and distributes donated blood; and operates many adjunct services that support quality medical care and quality of life. Versiti is the sole member of Michigan.

Indiana was formed in 1952 (commencing consolidated blood bank operations in 1965) in order to provide a community blood bank for the procurement, processing and distribution of whole blood and components for hospitals, other medical organizations and individuals in Indiana, and any other geographical areas in which affiliated blood centers are located. Indiana also engages in other laboratory services. Versiti is the sole member of Indiana.

Collectively, Versiti, BloodCenter, Foundation, Heartland, Michigan and Indiana are referred to as the Organization.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The Organization's financial statements have been consolidated pursuant to accounting principles generally accepted in the United States of America (U.S. GAAP). All significant inter-entity transactions are eliminated in consolidation.

Basis of Presentation

The consolidated financial statements are presented on the accrual basis of accounting. The Organization classifies net assets and revenue based on the existence or absence of donor-imposed stipulations or time restrictions. Expenses are recorded as incurred.

Cash and Cash Equivalents

Cash equivalents consist of short-term investments with original maturities at acquisition of three months or less. The Organization has cash and cash equivalents in excess of the Federal Deposit Insurance Corporation insurance limits. Management does not believe it is exposed to any significant risk.

Restricted cash of approximately $3,344,000 and $6,390,000 at December 31, 2017 and 2016, respectively, is being held to be used in accordance with federal grant sub-award requirements. See note K.

Accounts Receivable

The majority of the Organization's accounts receivable are due from companies in the health care industry. Accounts receivable also consist of reimbursement from federal agencies for research activities. Credit is extended based on an evaluation of a customer's financial condition and collateral is not required. Accounts receivable are stated at amounts due from customers net of an allowance for doubtful accounts. The Organization determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Organization's previous loss history, the customer's current ability to pay its obligation to the Organization, and the condition of the general economy and the industry as a whole. The Organization writes off accounts receivable when they become uncollectible. The policy for determining past-due accounts is assessed on a customer-by-customer basis.

Inventories

All of the blood supplied by BloodCenter, Heartland, Michigan and Indiana is obtained from volunteer donors. Blood and blood component inventories are valued at their processing cost, which does not exceed market value.

BloodCenter also holds a supply of pharmaceutical products for sale to third parties and a supply inventory for use in its daily activities. Supplies and pharmaceutical products are valued at the lower of cost or net realizable value using the first-in, first-out method. Inventory is stated net of an allowance for excess and obsolete items of $80,000 as of December 31, 2017 and 2016.

Investments

Investments in marketable securities with readily determinable fair values, investments in debt securities, and investments measured using net asset value (NAV) are reported at their fair values in the consolidated statements of financial position. Unrealized gains and losses are included in the change in net assets. Restricted investments of approximately $13,836,000 and $9,718,000 at December 31, 2017 and 2016, respectively, are being held to be used in accordance with federal grant sub-award requirements. See note K.

Property and Equipment

The Organization accounts for depreciation of its property and equipment and related additions and improvements over their estimated useful lives, which range from 2 to 30 years, on a straight-line basis. Leasehold improvements are amortized over the lesser of their useful life or the lease term.

The cost and related accumulated depreciation of property and equipment retired or otherwise disposed of are removed from the accounts, with any gain or loss included in other revenue or other expense. Maintenance and repairs are charged to expense as incurred.

Property and equipment are stated at cost and consist of the following as of December 31:

	2017	2016
Land and land improvements	$ 7,068,485	$ 7,057,086
Buildings and improvements	103,776,944	107,738,866
Furniture and equipment and vehicles	84,753,122	80,241,134
Leasehold improvements	1,841,456	2,866,447
Construction and equipment in progress	1,163,064	97,326
Total property and equipment	198,603,071	198,000,859
Less accumulated depreciation	(133,178,521)	(130,680,653)
Property and equipment, net	$ 65,424,550	$ 67,320,206

Other Assets

Indiana and Versiti previously held voting memberships in Blood Centers of America, Inc. (BCA) along with other not-for-profit corporations that are engaged in blood banking and blood services. BCA acts as a broker for its members by negotiating contracts for purchases of blood service products at the lowest price available, along with serving as a resource share agent by negotiating sales agreements between member blood banks for purchases of blood. Indiana and Versiti each made an initial contribution of $350,000 in connection with the memberships, which were recorded within other assets on the accompanying consolidated statements of financial position. Versiti's contribution amounts to $380,116 and $350,000 at December 31, 2017 and 2016, respectively. With Indiana becoming an affiliate of Versiti in 2015, Indiana is no longer required to maintain a separate voting membership with BCA. As such, beginning in February 2016, BCA began refunding Indiana's contribution, which is to be repaid in 5 installments through the year 2020. The balance of Indiana's membership amounts to $221,360 and $285,680 as of December 31, 2017 and 2016, respectively.

Heartland, Michigan and Indiana have invested in an inter-insurance exchange, also referred to as a reciprocal insurer. This exchange, the Community Blood Centers' Exchange Risk Retention Group (the Exchange), was formed pursuant to the Federal Liability Risk Retention Act to provide its members, non-profit community blood centers, access to general and professional liability insurance. Each member has made contributions evidencing its ownership interest in the Exchange. Annually, dividends are received from the Exchange and are included as a reduction of other expenses in the consolidated statements of activities. Additionally, annually, the Exchange allocates non-interest-bearing subscriber savings accounts. The subscriber savings accounts are automatically converted to interest-bearing notes. The notes are payable in five years from their inception and may be extended by the Exchange's board, at its sole discretion. The investment and notes receivable are included in other assets on the consolidated statements of financial position. Below is a summary of activity with the Exchange as of December 31.

	2017		
	Heartland	Michigan	Indiana
Investment in Exchange	$164,461	$ 89,937	$119,699
Notes receivable from Exchange	405,077	237,650	-

	2016		
	Heartland	Michigan	Indiana
Investment in Exchange	$164,461	$ 89,937	$119,698
Notes receivable from Exchange	416,097	251,020	-

Revenue

Revenue from the sales of blood products, tissue products, medical services, pharmaceutical products and laboratory testing services is recognized when the products are shipped or upon completion of the services, with the exception of consigned products, where revenue is recorded from the sale of blood products and pharmaceutical products when transfused to the patient. Revenue from organ donation is recognized upon acceptance for transplant. Revenue from government contracts is recognized when allowable and reimbursable expenditures are incurred, and upon meeting the legal or contractual requirements of the granting agency.

Contributions

Contributions received and made, including unconditional promises to give, are recognized as revenue and expense, respectively, in the period in which the contribution is received or made, respectively. Contributions that have restrictions that are met during the same year the contributions are received are recorded as net assets without donor restriction contribution revenue. Contributions receivable are recorded at the present value of future estimated cash flows and net of an allowance for uncollectible contributions.

Net contributions receivable are summarized as follows as of December 31:

	2017	2016
Total contributions receivable	$362,049	$766,969
Less adjustment to present value for future cash flows for contributions receivable	(3,127)	(7,907)
Present value of contributions receivable	358,922	759,062
Less allowance for doubtful contributions receivable	(23,290)	(36,396)
Net contributions receivable	$335,632	$722,666

Pledges expected to be received after one year are discounted at a rate commensurate with the risk involved, with rates ranging from 1.76% to 2.21% as of December 31, 2017, and 1.62% to 1.93% as of December 31, 2016.

Management determines its allowance by considering a number of factors, including the length of time contributions receivable are past due, previous loss history, the donor's current ability to pay its obligation, and the condition of the general economy and the industry as a whole. Management writes off contributions receivable when they become uncollectible. The policy for determining past-due contributions is assessed on a donor-by-donor basis.

Payments on contributions receivable are expected to be received as follows:

Years ending December 31,	
2018	$255,112
2019	102,250
2020	4,687
	$362,049

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

Cash and cash equivalents are reflected in the consolidated financial statements at cost, which approximates fair value because of the short-term duration of these instruments. Receivables are reflected at net realizable value based on anticipated losses due to potentially uncollectible balances, which approximate fair value. Accounts payable and accrued expenses are reflected at cost, which approximates fair value because of the short-term duration of these instruments. Fixed rate debt is reflected at cost, which approximates fair value based on current market rates.

Advertising Costs

The Organization expenses advertising costs as incurred. Advertising costs for the years ended December 31, 2017 and 2016, were $617,156 and $775,982, respectively.

Income Taxes

Versiti, BloodCenter, Heartland, Michigan, Indiana and the Foundation have all received tax determination letters confirming that the organizations qualify as tax-exempt organizations under section 501(c)(3) of the Internal Revenue Code (IRC).

The Organization follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

Versiti, BloodCenter, Heartland, Michigan, Indiana and the Foundation are exempt from federal income tax under IRC section 501(c)(3), though they are subject to tax on income unrelated to their exempt purposes, unless that income is otherwise excluded by the IRC. The Organization has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. BloodCenter and the Foundation have filed federal and state of Wisconsin income tax returns to report unrelated business income through 2009 and are no longer subject to tax authority examinations for years prior to 2010 under the federal and state statute. Management has determined that there is no unrelated business income to report for BloodCenter or the Foundation for 2010 through 2017, and income tax returns are not required to be filed. Therefore, as the statute of limitations will remain open for returns not filed, tax years 2010 through 2017, will remain open to audit for both federal and state purposes. Michigan has not historically filed any unrelated business income tax returns; therefore, tax years remain open for years in which an income tax return has not been filed. In years prior to 2014, Heartland filed both federal and state of Illinois income tax returns to report a zero amount of unrelated business income. Management has determined that there is no unrelated business income to report for Heartland for tax years 2014 through 2017, and income tax returns are not required to be filed; therefore, as the statute of limitations will remain open for returns not filed, tax years 2014 through 2017, will remain open to audit for both federal and state purposes. In years prior to 2014, Indiana filed federal unrelated business income tax returns to report a zero amount of unrelated business income. In 2014 through 2016, Indiana filed federal and Indiana returns to report an unrelated business loss. The statute of limitations will remain open for both federal and state purposes for any returns not filed. Versiti has not filed any unrelated business income tax returns; therefore the years since 2012, the year of inception, are still open to examination. The Organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements.

The Organization recognizes, if necessary, interest and penalties related to unrecognized tax benefits in the provision for income taxes. There were no interest or penalties related to income taxes that have been accrued or recognized as of and for the years ended December 31, 2017 and 2016.

On December 22, 2017, tax reform legislation commonly known as the Tax Cuts and Jobs Act of 2017 (the Act) was passed; resulting in significant modifications to existing tax law. There were no material effects on the Organization's financial statements as a result of the Act. Management is evaluating the ongoing impact of the Act on the Organization.

Other Presentation Matters

The Organization presents its functional expenses in the consolidated statement of functional expenses to reflect operations by defined service lines. Blood Services is responsible for recruiting, collecting, processing and distributing blood and blood products. Medical Services provides a vast array of transfusion and blood disease-related medical services for local hospitals. Pharmacy includes the distribution of purchased pharmaceutical products related to blood disorders to hospitals, physicians and in-home care patients. Diagnostic Laboratories is responsible for developing and performing a variety of laboratory testing on patient samples. Blood Research Institute undertakes research in the area of transfusion and transplant medicine. Organ and Tissue Donation is responsible for procuring and distributing organ and tissue donations. Corporate Services includes the general and administrative functions of the Organization. Development includes the fundraising activities of the Organization.

The statement of functional expenses reports certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis. Expenses are allocated on the basis of actual expenditures, square footage, time records and estimates made by management.

Reclassifications

Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to the 2017 consolidated financial statement presentation, with no impact to the Organization's previously reported net assets or change in net assets.

Adopted Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities,* which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about liquidity and availability of resources, expenses and investment return, and cash flows. This ASU is effective for annual reporting periods beginning after December 15, 2017, and shall be applied retrospectively. Early adoption is permitted. The Organization has elected to early adopt this new guidance beginning January 1, 2017 and as such, changes to the information as of and for the year ended December 31, 2016, has been adjusted to conform with the new guidance. There was no impact on the Organization's previously reported net assets or change in net assets.

New Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, as a new topic, Accounting Standards Codification (ASC) Topic 606. The objective of ASU No. 2014-09 is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. In applying the new standard, companies will perform a five-step analysis of transactions to determine when and how revenue is recognized. ASU No. 2014-09 applies to all contracts with customers, except those that are within the scope of other topics in the FASB ASC. ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2017, and shall be applied using either a full retrospective or modified retrospective approach. The Organization is currently evaluating the impact the new guidance may have on the consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-02, *Leases*, as a new topic, ASC 842. The objective of ASU No. 2016-02 is to increase transparency and comparability among organizations by reorganizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. ASU No. 2016-02 is effective for annual reporting periods beginning after December 15, 2018, and shall be applied using either a full retrospective or modified retrospective approach. Early adoption is permitted. The Organization is currently evaluating the impact that ASU No. 2016-02 may have on the consolidated financial statements.

NOTE C - INVESTMENTS

The Organization's investment portfolio consists of the following as of December 31:

	2017		2016	
	Carrying value	Cost	Carrying value	Cost
Money market funds	$ 1,114,337	$ 1,110,209	$ 3,313,459	$ 3,313,459
Commercial paper	411,536	411,536	378,796	378,796
Certificates of deposit	1,749,375	1,750,000	3,499,894	3,500,000
Fixed income mutual funds	76,852,319	75,499,733	73,693,668	73,232,777
Common stock mutual funds	88,256,545	73,621,601	67,287,855	64,589,923
Common stock	5,689,073	4,720,210	4,982,070	4,935,152
Alternative investments	25,517,543	23,124,129	19,669,510	19,550,000
Mixed asset mutual funds	5,543,830	5,324,140	2,404,196	2,257,048
Total investments	$205,134,558	$185,561,558	$175,229,448	$171,757,155

The Organization's investments are exposed to various risks, such as interest rates, market and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the values of investments, it is at least reasonably possible that changes in risk in the near term would materially affect the Organization's investment holdings.

NOTE D - DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS

Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value, which are the following:
Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following methods and assumptions were used to estimate the fair value of each classification of financial instruments for which it was practicable to do so. There have been no changes to the methodologies used at December 31, 2017 or 2016.

Common stock and mutual funds - Quoted market prices are used to determine the fair value of these securities.

The following table summarizes assets by fair value measurement level as of December 31. The Organization measures certain investments using NAV which is exempted from categorization within the fair value hierarchy and related disclosures; however, the Organization separately discloses the information required for assets measured using NAV in the following tables:

	2017			
	Level 1	Level 2	Level 3	Total
Fixed income mutual funds	$ 76,852,319	$ -	$ -	$ 76,852,319
Common stock mutual funds	88,256,545	-	-	88,256,545
Mixed asset mutual funds	5,543,830	-	-	5,543,830
Common stock	5,689,073	-	-	5,689,073
Investments, at fair value	$176,341,767	$ -	$ -	176,341,767
Alternative investments, valued at NAV				25,517,543
Total investments				$201,859,310

	2016			
	Level 1	Level 2	Level 3	Total
Fixed income mutual funds	$ 73,693,668	$ -	$ -	$ 73,693,668
Common stock mutual funds	67,287,855	-	-	67,287,855
Mixed asset mutual funds	2,404,196	-	-	2,404,196
Common stock	4,982,070	-	-	4,982,070
Investments, at fair value	$148,367,789	$ -	$ -	148,367,789
Alternative investments, valued at NAV				19,669,510
Total investments				$168,037,299

The following table provides additional information related to investments recorded at NAV as of December 31:

	Fair Value 2017	Fair Value 2016	Unfunded commitments	Redemption frequency	Redemption notice period
Defensive equity fund					
Parametric Defensive Equity Fund, LLC [(a)]	$ 4,807,921	$ 3,883,209		Monthly	5 days
Hedge fund					
Corbin Opportunity Fund, LTD [(b)]	4,596,136	3,850,000		Quarterly	70 days
Equity fund					
Copper Rock International Small Cap Fund, LLC [(c)]	4,719,467	4,165,679		Daily	10 days
Private real estate fund					
Clarion Lion Properties Fund, LP [(d)]	10,752,668	7,770,622		Quarterly	90 days
Siguler Guff [(e)]	641,351	-	$1,358,649	Not permitted	-
Total	$25,517,543	$19,669,510			

(a) The fund attempts to generate similar returns to the S&P 500 over a full market cycle with lower risk. The fund consists of 50% S&P 500 and 50% treasury bills. Additionally, the fund sells fully collateralized call and put options on the S&P 500 to generate ongoing income.

(b) This investment seeks to achieve a substantial return on capital through opportunistic investments primarily in a broad range of public and private credit instruments with an expected emphasis on corporate credit securities, asset-backed securities, mortgage-backed securities, commercial real estate, structured credit and collateralized loan obligations. The fund may employ a variety of investment strategies such as high-yield and distressed securities, long/short credit, structured and asset-backed credit, private lending, event driven investing and emerging markets credit.

(c) The fund invests in international small-cap equity securities which trade on public exchanges.

(d) The investment seeks to identify, acquire and manage a diversified portfolio of primarily institutional quality real estate assets and real estate related investments within the United States, and to select investments across property types, geographic and economic regions, and metropolitan markets to attempt to achieve favorable risk-adjusted investment returns.

(e) The fund invests in pooled investment vehicles focused on buyout, recapitalization and growth equity transactions. Portfolio investments typically involve direct or indirect securities of private company doing business in the United States and Canada. Up to 40% of the fund's aggregate capital commitments may be allocated to direct investments.

There were $1,358,649 of unfunded commitments that existed at December 31, 2017, for the investments recorded at NAV.

NOTE E - RETIREMENT PLANS

Pension Plan

BloodCenter sponsors a non-contributory defined benefit pension plan (Pension Plan) that covers substantially all full-time employees of BloodCenter who began employment prior to January 1, 2007. Contributions to the Pension Plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants.

Effective January 1, 2007, no new participants are allowed to enter the Pension Plan. Existing participants continued to earn benefits until December 31, 2009, at which time all active employee participants transitioned to the defined contribution plan introduced on January 1, 2007. From January 2010 through 2014, all continuing participants of the Pension Plan also received a supplemental contribution as approved by the board of directors.

In December 2017, the board of directors adopted a resolution to terminate the Pension Plan. A termination will result in participants receiving a lump sum payout or an insurance company annuity.

BloodCenter follows the recognition and disclosure provisions related to defined benefit pension and other post-retirement plans. Included in net assets without donor restrictions are the following amounts that have not yet been recognized in net periodic pension cost at December 31:

	2017	2016
Net unrecognized actuarial loss	$21,548,760	$20,349,409

Included in net assets without donor restrictions is the following amount expected to be recognized in net periodic pension cost during the year ending December 31, 2018:

Actuarial loss	$646,786

Other changes in the Pension Plan assets and benefit obligations recognized in net assets without donor restrictions during the years ended December 31, 2017 and 2016, include the following:

	2017	2016
Current-year actuarial loss	$1,658,175	$ 970,643
Amortization of actuarial gain	(458,824)	(410,454)
	$1,199,351	$ 560,189

The following table sets forth the benefit obligations and the assets of the Pension Plan at December 31:

	2017	2016
Change in benefit obligation		
Benefit obligation at beginning of year	$44,027,525	$ 42,635,925
Interest cost	1,839,313	1,887,541
Actuarial loss	4,562,880	805,331
Gross benefits paid	(1,409,432)	(1,301,272)
Benefit obligation at end of year	49,020,286	44,027,525
Change in plan assets		
Fair value of assets at beginning of year	31,954,818	30,002,718
Actual return on plan assets	4,903,689	2,053,372
BloodCenter contributions	9,600,000	1,200,000
Gross benefits paid	(1,409,432)	(1,301,272)
Fair value of assets at end of year	45,049,075	31,954,818
Funded status	$ (3,971,211)	$(12,072,707)

The unfunded status of the Pension Plan is recognized in the accompanying consolidated statements of financial position as other long-term liabilities. No plan assets are expected to be returned to BloodCenter during the fiscal year ending December 31, 2017.

Net pension cost includes the following components at December 31:

	2017	2016
Interest cost	$ 1,839,313	$ 1,887,541
Expected return on assets	(1,998,984)	(2,218,684)
Amortization of actuarial gain	458,824	410,454
Net periodic pension cost	$ 299,153	$ 79,311

The weighted-average actuarial assumptions used in determining the projected benefit obligation and net periodic pension cost for the Pension Plan as of December 31, 2017 and 2016, include the following:

	2017	2016
Discount rates		
Projected benefit obligation	3.60%	4.25%
Net periodic pension cost	4.25	4.50
Expected long-term rate of return on plan assets		
Net periodic pension cost	5.75	6.75

BloodCenter considers various factors in estimating the expected long-term rate of return on Pension Plan assets of the Pension Plan. The factors considered include the historical long-term returns on Pension Plan assets, the current and expected allocation of Pension Plan assets, input from actuaries and investment consultants and long-term inflation assumptions. The expected allocation of Pension Plan assets is based on a diversified portfolio consisting of domestic and international equity investments and fixed income investments.

BloodCenter's investment policy for the Pension Plan is to balance risk and return using a diversified portfolio consisting primarily of high-quality equity and fixed income investments. To accomplish this goal, the Pension Plan assets are actively managed by outside investment managers, with the objective of optimizing long-term return while maintaining a high standard of portfolio quality and proper diversification. Management monitors the maturities of fixed income investments so that there is sufficient liquidity to meet current benefit payment obligations. BloodCenter's Investment and Finance Committee has delegated oversight of the Pension Plan investments and the performance of the investment managers to a management Retirement Benefit Plans Committee.

The target allocation amongst equities, fixed income and other assets is determined according to the BloodCenter investment policy. The Pension Plan fair value asset allocations by asset category are as follows at December 31:

	2017	2016
Equity securities	46%	43%
Debt securities	48	51
Real estate	6	6
Total	100%	100%

In 2017 and 2016, the Pension Plan's assets consisted of $45,049,075 and $31,925,471, respectively, of pooled separate account investments which are measured using NAV, which are exempted from categorization within the fair value hierarchy and related disclosures. The Organization separately discloses the information required for assets measured using NAV below.

The following table provides additional information related to investments recorded at NAV as of December 31:

	Fair Value 2017	Fair value 2016	Redemption frequency	Redemption notice period
Principal Global Investors Large Cap S&P 500 Index (a)	$12,864,607	$ 9,232,132	Daily	1 day
Principal Global Investors MidCap S&P 400 Index (b)	1,115,144	815,151	Daily	1 day
Principal Global Investors SmallCap S&P 600 Index (c)	420,105	312,362	Daily	1 day
Principal Global Investors International Emerging Markets (d)	757,348	417,827	Daily	1 day
Causeway/Barrow Hanley Overseas (e)	4,631,988	3,078,825	Daily	1 day
Principal Real Estate Investment U.S. Property (f)	2,684,514	1,912,629	Daily	1 day
Edge Asset Management, Inc. LDI Intermediate Duration (g)	3,499,874	5,371,122	Daily	1 day
Principal Global Investors LDI Long Duration (h)	16,801,613	10,785,423	Daily	1 day
Principal Global Investors/DFA International Small Cap (i)	758,849	-	Daily	1 day
Barrow Hanley LDI Ext Duration (j)	1,515,033	-	Daily	1 day
Total	$45,049,075	$31,925,471		

(a) The investment attempts to mirror the investment performance of the S&P 500 Index by allocating assets in approximately the same weightings as the index.
(b) The investment attempts to mirror the investment performance of the S&P 400 Index by allocating assets in approximately the same weightings as the index.
(c) The investment attempts to mirror the investment performance of the S&P 600 Index by allocating assets in approximately the same weightings as the index.
(d) The fund invests in securities of companies with their principal place of business or principal office in emerging market countries, companies for which the principal securities trade in an emerging market, or companies, regardless of where their securities are traded, that derive 50% of their total revenue from either goods or services produced in emerging market countries.
(e) The investment seeks long-term growth of capital. Under normal circumstances, the fund invests at least 80% of its net assets, plus any borrowings for investment purposes in equity securities of foreign companies

at the time of each purchase. The fund invest in value equity securities, with an investment strategy that emphasizes buying equity securities that appear to be undervalued.

(f) To investment seeks to invest in a well-diversified real estate portfolio that reflects the overall performance of the U.S. commercial real estate market and to provide clients with private real estate returns that, over a market cycle, meet or exceed the NFI-ODCE Equal Weight at the portfolio level.

(g) The investment seeks to provide a high level of current income consistent with the stability of principal by investing primarily in corporate fixed income securities that are deemed to be investment-grade.

(h) The investment option is primarily invested in long duration corporate bonds, Treasury bonds, agency debentures and zero coupon bonds (STRIPs) and other traditional fixed income instruments predominantly denominated in U.S. dollars.

(i) The fund's investment strategy is that it primarily invests in small-cap companies domiciled in developed international (ex-U.S.) markets, aiming to generate annualized outperformance over full market cycles relative to the MSCI World ex-U.S. Small Cap Index.

(j) The fund seeks to provide maximum long-term total return, consistent with prudent risk of principal, by investing primarily in U.S. government bonds. The strategy seeks to outperform the Barclays Capital U.S. Treasury Strips 20+ Index over complete market cycles.

There were no unfunded commitments that existed at December 31, 2017, for any of the investments recorded at NAV.

The Pension Plan also holds $0 and $29,347 in accrued interest, cash and cash equivalents at December 31, 2017 and 2016, respectively.

The Pension Plan is funded annually by making a contribution of at least the minimum amounts required by applicable regulations and as recommended by BloodCenter's actuary. Cash contributions in subsequent years will depend on a number of factors, including the performance of Pension Plan assets. BloodCenter does not expect to contribute to the Plan during the year ending December 31, 2018.

The following represents expected benefit payments for the Pension Plan for the periods shown:

Years ending December 31,	
2018	$ 1,680,000
2019	1,810,000
2020	1,920,000
2021	2,000,000
2022	2,150,000
Thereafter	12,410,000

Defined Contribution Plans

403(b)

BloodCenter maintains two section 403(b) plans. The matched plan covers those employees who meet the eligibility requirements of the plan. During the years ended December 31, 2017 and 2016, BloodCenter matched employee contributions to the plan based on 100% of the first 2% contributed, and 50% of the next 2% contributed, of each eligible employee's compensation. BloodCenter contributions of $1,453,587 and $1,410,847 were deposited for the years ended December 31, 2017 and 2016, respectively.

BloodCenter also sponsors a 403(b) non-contributory defined contribution plan that covers substantially all full-time employees of BloodCenter. BloodCenter may contribute up to 5% of eligible employees' wages based on the number of points an employee amassed as of December 31 of the plan year. This is funded by BloodCenter on an annual basis. BloodCenter contributions of $2,191,216 and $2,114,414 were deposited for the years ended December 31, 2017 and 2016, respectively.

In December 2017, the assets of the BloodCenter 403(b) plans were merged into the newly created Versiti 403(b) plan.

401(k)

Heartland maintains a 401(k) defined contribution plan that permits employee and employer contributions. Heartland makes discretionary contributions to the plan, which amounted to 3% of qualifying salaries in 2017 and 2016. Heartland also provided for a match of 50% of the first 8% of wages contributed by the employee. Heartland recorded expense of $668,322 and $592,590 for the years ended December 31, 2017 and 2016, respectively, related to retirement plan contributions.

Michigan maintains a 401(k) defined contribution plan. The plan covers all employees who meet age and service requirements. Plan contributions are made in the amount of a match of up to 4% of employee deferrals on the bi-weekly payroll and a discretionary match of up to 3% based on annual eligible compensation. Michigan recorded expense of $460,570 and $401,626 for the years ended December 31, 2017 and 2016, respectively, related to retirement plan contributions.

Indiana maintains a defined contribution money purchase and 401(k) plan providing retirement and death benefits for all of its employees who meet certain length of service and annual hours worked requirements. This plan allows salary redirection contributions by participants and a dollar-for-dollar employer match not to exceed 4% of compensation. The plan further provides for a 2% discretionary profit-sharing contribution to be made when Indiana achieves an operational margin of 0.25% or greater. Indiana recorded expense of $604,430 and $604,284 for the years ended December 31, 2017 and 2016, respectively, related to retirement plan contributions.

In December 2017, the Organization created the Versiti 401(k) plan. Future BloodCenter contributions under the 403(b) match plan will be made to the Versiti 401(k) plan. Future BloodCenter contributions under the 403(b) non-contributory plan will be made to the Versiti 403(b). In addition, the Organization will merge the Heartland, Michigan and Indiana 401(k) plans into the Versiti 401(k) plan during 2018.

457(b)

Versiti and its affiliates offer several section 457(b) plans to highly compensated employees. The Plans allow participants to make contributions through payroll withholdings. Any amounts deferred by the participants are recorded in investments as an asset and in accrued expenses within the accompanying consolidated statements of financial position in equal amounts. The following is a summary of the balances for each affiliates of as December 31:

	2017	2016
Versiti	$ 179,523	$ 95,564
BloodCenter	4,851,257	3,905,285
Heartland	219,161	316,643
Indiana	176,319	154,007
Michigan	117,570	-

In December 2017, the Organization created the Versiti 457(b) plan. Future contributions will be made to the Versiti 457(b) plan.

LTIP

BloodCenter maintained a long-term incentive plan (LTIP) covering a key employee. The LTIP was a cash lump-sum payment plan composed of pay credits accrued on paid base pay and bonuses, along with 7.0% interest on the balance. The amount accrued as of December 31, 2016, was $1,423,522, which was included in accrued expenses on the accompanying consolidated statements of financial position. The lump-sum payment was payable to the employee when employment ceased. The employee ceased employment in February 2017 and the payment was made during 2017. There are no amounts outstanding as of December 31, 2017.

Versiti maintained an LTIP covering several key employees. There was an outstanding balance of $142,321 as of December 31, 2017, which was included in accrued expenses on the accompanying consolidated statements of financial position.

Medical Plans

Versiti maintains a self-insured medical plan covering the medical and pharmacy expenses of BloodCenter, Michigan and Indiana. Versiti has purchased individual stop-loss insurance that covers health costs in excess of $175,000 for each covered individual. There is no maximum lifetime benefit limit under this insurance policy.

BloodCenter maintains a self-insured medical plan under which benefits are provided to employees and covered dependents. BloodCenter has purchased individual stop-loss insurance that covers health costs in excess of $175,000 for each of the covered individuals. There is no maximum lifetime benefit limit under this insurance policy. The incurred but not reported liability for claims included in accrued expenses on the accompanying consolidated statements of financial position as of December 31, 2017 and 2016, was approximately $550,000 and $530,000, respectively. Total expense under this plan was approximately $6,200,000 and $7,860,000 for the years ended December 31, 2017 and 2016, respectively.

Michigan maintains a self-insured medical plan under which benefits are provided to employees and covered dependents. Michigan has purchased individual stop-loss insurance that covers health costs in excess of $80,000 for each of the covered individuals. There is no maximum lifetime benefit limit under this insurance policy. The incurred but not reported liability for claims included in accrued expenses on the accompanying consolidated statements of financial position as of December 31, 2017 and 2016, was $145,738 and $175,762, respectively. Total expense under this plan was $2,520,624 and $2,538,212 for the years ended December 31, 2017 and 2016, respectively.

Indiana maintains a shared-funded medical benefit plan to provide group medical, dental and vision coverage for substantially all employees. Costs of this plan are expensed as incurred. The benefits are coordinated by a third-party administrator and premiums are paid to an insurance company for coverage to limit Indiana's liability under the group medical portion of the plan to $150,000 per year for each participant, and a $1,000,000 maximum liability. The incurred but not reported liability for claims included in accrued expenses in the accompanying consolidated statements of financial position as of December 31, 2017 and 2016, was $203,380 and $200,000, respectively. The dental and vision portions of the plan are fully self-insured. Total expense under this plan was $2,868,279 and $2,662,630 for the years ended December 31, 2017 and 2016, respectively. In 2017, the board of directors elected to terminate the VEBA trust that was included in the Indiana medical benefit plan.

NOTE F - LONG-TERM DEBT

Long-term debt of BloodCenter and Michigan as of December 31, 2017 and 2016 consists of the following:

	2017	2016
BloodCenter		
Series 2009A Master Note to WHEFA, which collateralizes tax-exempt WHEFA Revenue Bonds, Series 1994A serial bonds, with a variable interest rate set monthly, based on the loan agreement (the rate was 2.1% and 1.6% at December 31, 2017 and 2016, respectively); maturities due annually through 2019	$ 3,195,000	$ 3,835,000
Michigan		
Note agreement with a bank, collateralized by substantially all of Michigan's assets, monthly principal and interest payments of $54,100, which includes interest of 3.1%; maturities due monthly through 2019	1,029,851	1,636,346
	4,224,851	5,471,346
Less		
Deferred financing costs	(19,332)	(32,977)
Current maturities	(1,319,168)	(1,289,194)
	$ 2,886,351	$ 4,149,175

BloodCenter is subject to certain restrictions and covenants from agreements relating to the 2009A Master Note, the most restrictive of which relate to maintaining a specified debt service ratio, a minimum amount of net assets and a fixed charge ratio. BloodCenter is in compliance with these covenants as of December 31, 2017 and 2016. On June 1, 2016, a reset notice was signed. This notice provides for an interest rate equal to the sum of the LIBOR rate and a credit spread of 1.85%, multiplied by a tax equivalent rate of 66%, for the period from July 1, 2016, through June 1, 2019.

Michigan is subject to certain restrictive covenants related to their note agreement, such as maintaining a fixed charge coverage ratio. Michigan is in compliance with these covenants as of December 31, 2017 and 2016.

BloodCenter has a letter of credit in favor of the Treasurer of the Wisconsin Unemployment Reserve Fund in the amount of $563,580 and $548,254 that has been issued to satisfy state unemployment compensation requirements as of December 31, 2017 and 2016, respectively.

Indiana has a $3,000,000 line of credit that expires on June 30, 2018. At December 31, 2017, there were no borrowings on the line. The line is collateralized by substantially all of Indiana's assets. Interest on the line of credit is variable and is stated at the daily LIBOR rate plus 2.25%.

Deferred Financing Costs

Deferred financing costs consist primarily of bank fees and legal costs incurred to issue bonds. Deferred financing costs are being amortized on a straight-line basis over the term of the related bonds, which is 30 years, and are recorded net of accumulated amortization of $672,560 and $658,914 as of December 31, 2017 and 2016, respectively. Amortization expense of $13,645 and $22,199 was recorded during the years ended December 31, 2017 and 2016, respectively.

Scheduled principal repayments on the long-term debt and future anticipated amortization expense from deferred financing costs as of December 31, 2017, are as follows:

Years ending December 31,	Debt	Deferred financing cost amortization expense
2018	$1,319,168	$13,646
2019	2,905,683	5,686
	$4,224,851	$19,332

NOTE G - NET ASSETS

Without donor restriction

This portion of net assets is neither permanently nor temporarily restricted by donor-imposed stipulations or the passage of time.

Board-designated Endowment Funds

It is management's and corporate counsel's view that the applicable principles for categorization of the board-designated endowment fund should not be viewed as an indication that the donations made over time to the Foundation to ensure the continuing availability of funds for research purposes, including support of the operating costs of BloodCenter's research facilities, are available to the creditors of BloodCenter. Board-designated endowment funds for the Foundation totaled $86,045,725 and $76,439,806 as of December 31, 2017 and 2016, respectively.

The board-designated endowment fund for the Foundation includes amounts donated (and, in part, the earnings thereon) to assure the continuing availability of funds for research purposes and to support the operating expenses of the Blood Research Institute. While the donors designated the funds to the aforementioned purposes, they also allowed for the board of directors of BloodCenter and the Foundation to alter the designations by a 75% vote.

With donor restrictions

Net assets with donor imposed restrictions were $2,288,732 and $2,561,042 as of December 31, 2017 and 2016, respectively. These assets are subject to purpose and time restrictions. During the years ended December 31, 2017 and 2016, Versiti released $857,286 and $1,352,345, respectively, of net assets from restrictions.

Endowment Net Assets

The Organization's endowment includes several individual endowment funds established for a variety of purposes, including both a donor-restricted endowment fund and funds designated by BloodCenter's board of directors to function as endowments. Net assets associated with endowment funds, including funds designated to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization has interpreted the Wisconsin Uniform Prudent Management of Institutional Funds Act (WUPMIFA) adopted and enacted by the Wisconsin legislature on August 4, 2009, as requiring consideration of prudent expenditure standards prior to authorizing disbursements. As a result of this interpretation, the Organization classifies as net assets with donor restrictions: (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts donated to the permanent endowment and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund and (4) amounts which are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the state of Wisconsin in its enacted version of WUPMIFA. In accordance with WUPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the endowment funds, (2) the purposes of the Organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization and (7) the investment policy of the Organization.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. There were no deficiencies of this nature reported for the years ended December 31, 2017 and 2016.

The Organization invests its board-designated endowment funds and net assets with permanent donor restrictions prudently with the goal of providing a long-term rate of return in excess of inflation. Objectives of the Organization's investment policy include providing adequate liquidity, maximizing returns on all funds invested and achieving full employment of all available funds as earning assets. The Organization has an active Investment and Finance Committee that meets regularly to ensure the objectives of the investment policy are being met, and the strategies used to meet the objectives are in accordance with the investment policy.

The Organization has a policy of appropriating for distribution each year 5.5% of their endowment fund's average fair value over the prior five years in which the distribution is planned. Additional appropriations are allowed at the discretion of the board of directors. In establishing this policy, the Organization considers the long-term expected return on their endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow their endowment to grow at an average of 5.5%. This is consistent with the

Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return. Actual returns in any given year may vary from this expectation. In accordance with WUPMIFA, the Organization's policy for appropriating for distribution is suspended when the fair value of assets associated with individual donor-restricted endowment funds falls below the level required by the donor or WUPMIFA.

The following schedules reflect the Organization's endowment net asset composition and activity as of and for the years ended December 31:

	2017		
	Without donor restriction	With donor restriction	Total
Board-designated endowment funds	$86,045,725	$ -	$86,045,725
	$86,045,725	$ -	$86,045,725

	2016		
	Without donor restriction	With donor restriction	Total
Board-designated endowment funds	$76,439,806	$ -	$76,439,806
	$76,439,806	$ -	$76,439,806

	Years ended December 31,	
	2017	2016
Endowment net assets at beginning of year	$76,439,806	$72,401,518
Investment return		
Interest and dividends	1,407,664	1,628,599
Net realized investment gain	1,051,948	3,930,498
Net unrealized investment gain	8,951,763	1,485,944
Total investment return	11,411,375	7,045,041
Transfers from operating fund to endowment fund		
License revenue	226,033	364,817
Contributions/transfers	2,068,881	428,859
Appropriation of endowment assets for expenditure	(4,100,370)	(3,800,429)
Endowment net assets at end of year	$86,045,725	$76,439,806

NOTE H - LEASE EXPENSES

The Organization leases office space, equipment and vehicles under various operating leases. The terms of the leases include various escalation clauses. Future minimum lease payments are as follows as of December 31, 2017:

Years ending December 31,	
2018	$2,128,206
2019	1,514,646
2020	1,016,662
2021	579,902
2022	176,767
Thereafter	69,096
	$5,485,279

Total rent expense for leases was $2,399,010 and $2,370,571 during the years ended December 31, 2017 and 2016, respectively. During 2014, Indiana closed its north hub operations. Upon this closure, Indiana recorded a liability, which represents the estimated fair value of the costs that will continue to be incurred under the remaining lease of this facility, net of sublease income. The liability was $214,357 and $266,065 as of December 31, 2017 and 2016, respectively.

NOTE I - LEASE REVENUE

BloodCenter leased office space on a month-to-month basis to a 501(c)(3) organization that shared the BloodCenter's charitable mission. This lease was recorded as an operating lease and was classified as other income on the accompanying consolidated statements of activities. Lease revenue was $30,000 for the years ended December 31, 2017 and 2016. As of December 31, 2017, there are no future minimum lease rentals obligated to BloodCenter.

NOTE J - RELATED PARTIES

Certain members of the Organization's board of directors are employed by or serve on boards of directors of various health care organizations or service companies with which the Organization does business. Sales to related parties totaled $55,679,743 and $55,888,446 for the years ended December 31, 2017 and 2016, respectively. Receivables from related parties totaled $6,557,030 and $6,360,920 at December 31, 2017 and 2016, respectively.

Contributions from board of director's members totaled $395,006 and $761,931 for the years ended December 31, 2017 and 2016, respectively. Contributions receivable from these related parties totaled $203,000 and $357,250 at December 31, 2017 and 2016, respectively.

NOTE K - COMMITMENTS AND CONTINGENCIES

In 2011, BloodCenter received $2,528,016 from the National Institutes of Health to complete the build-out of its research facilities. Per the grant agreement, this building is to be used for approved research activities for a period of 10 years after occupancy of the building. During 2017 and 2016, the building was being used for research activities in compliance with the grant agreement.

BloodCenter operates a hemophilia treatment center, the Comprehensive Center for Bleeding Disorders (CCBD), under a federal grant sub-award from the Health Resources and Services Administration - CFDA #93.110. The grant sub-award, passed through from Great Lakes Hemophilia Foundation, Inc., allows BloodCenter to participate in the 340B Drug Pricing Program (Program), a federal program administered by the U.S. Department of Health and Human Services. During the years ended December 31, 2017 and 2016, BloodCenter earned Program-related revenue (Program Income) of approximately $13,522,000 and $13,803,000, respectively. Program Income generated under the grant is restricted in accordance with the terms and conditions of the grant, and the use of such funds is limited to patient care, education and supportive services necessary to provide comprehensive care to CCBD patients. During the years ended December 31, 2017 and 2016, BloodCenter expended approximately $12,271,000 and $13,047,000 , respectively, on expenses related to the sale of pharmaceutical product and uses of residual Program Income for operations of CCBD that comply with the restrictions on Program Income in accordance with the grant agreement. As of December 31, 2017 and 2016, BloodCenter and Foundation maintain approximately $16,980,000 and $15,729,000, respectively, of cumulative Program Income in cash and cash equivalents and investments on the accompanying consolidated statements of financial position that is restricted, as described above.

Versiti entered into an agreement effective as of January 1, 2016, with Terumo BCT, Inc. (Terumo). The agreement requires Versiti to purchase a certain percentage of their platelet and dRBC kits from Terumo. The agreement holds Versiti liable for $2,000,000 to be evenly recognized for the duration of the 7 year agreement. If the purchase requirements are not met in accordance with the agreement, a penalty payment is due to Terumo from Versiti equal to 14% of the $2,000,000. If Versiti meets the purchase requirements during a given year, Versiti receives a rebate equal to the same 14%. At December 31, 2017 and 2016, the outstanding short-term liability recorded as an accrued expense of $285,700 within the accompanying consolidated statements of financial position. At December 31, 2017 and 2016, the outstanding long-term liability is $1,142,900 and $1,428,600, respectively, and is recorded within the other long-term liabilities line of the accompanying consolidated statements of financial position.

The Organization is engaged in various matters of litigation in the ordinary course of business. Amounts are established by management to cover estimated losses and related expenses associated with these matters if they become probable and reasonably estimated. It is the opinion of management that the ultimate resolution of these matters will not have a material effect on the Organization's consolidated financial position or results of operations.

NOTE L - FUND TRANSFERS (FORMULA TRANSFER ADJUSTMENT)

For the years ended December 31, 2017 and 2016, the Foundation operating fund was entitled to receive from the Foundation board-designated endowment fund 5.5% of the total number of units of participation in the Foundation board-designated endowment fund multiplied by the average annual market value per unit of the Foundation board-designated endowment fund as of the end of the preceding 20 calendar quarters.

For the years ended December 31, 2017 and 2016, $4,100,370 and $3,800,429, respectively, was transferred from the Foundation board-designated and donor-restricted endowment fund to the Foundation operating fund. The transactions were in accordance with the above-described formula.

NOTE M - LICENSING OF INTELLECTUAL PROPERTY RIGHTS

License revenue is derived by the Foundation from licensing of intellectual property rights owned by the Foundation. Patent and license expenses, which are expensed as incurred, include direct costs associated with the acquisition of such rights, as well as the portion of the net revenue (gross revenue less direct acquisition costs) allocable to the research investigator. The net revenue is allocated to the various funds and the research investigators based on formal policies adopted by the board of directors.

NOTE N – LIQUIDITY

To meet cash needs for general expenditures, the Organization has net current financial assets, available within one year of the financial statement date, consisting of the following:

Cash and cash equivalents, less restricted cash of $3,343,924	$37,353,496
Accounts receivable, net of allowance	37,135,015
Contributions receivable, net, current	245,609
Short-term investments	2,000,114
	$76,734,234

Some of the financial assets are subject to donor or other restrictions as described in note K that make them unavailable for general expenditure within one year of the financial statement date, such as restricted cash which has been excluded from the calculation above. Overall cash and investment amounts and performance are reviewed monthly by the Investment and Finance Committee of the Board of Directors. As more fully described in note F, the Organization also has availability under the line of credit of $3,000,000 should an unanticipated liquidity need be identified.

NOTE O - FUNCTIONAL EXPENSES

A separate consolidated statement of functional expenses for the year ended December 31, 2017 has been prepared as part of the early adoption of ASU No. 2016-14, *Presentation of Financial Statements of Not-For-Profit*

Entities. Expenses on the consolidated statements of activities reported by functional classification are as follows for the year ended December 31:

	2016
Blood Services	$138,905,461
Diagnostic Laboratories	28,464,694
Pharmacy	23,147,436
Blood Research Institute	22,916,170
Medical Services	10,886,515
Organ and Tissue Donation	12,111,498
Corporate Services	45,915,909
Development	817,511
Total expenses	$283,165,194

NOTE P - SUBSEQUENT EVENTS

The Organization evaluated its December 31, 2017, consolidated financial statements for subsequent events through May 21, 2018, the date the consolidated financial statements were available to be issued. The Organization is not aware of any subsequent events that would require recognition or disclosure in the consolidated financial statements.

SUPPLEMENTAL SCHEDULES

Versiti, Inc. and Affiliates
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2017

ASSETS	BloodCenter	Foundation	Heartland	Michigan	Indiana	Versiti	Eliminations	Consolidated
CURRENT ASSETS								
Cash and cash equivalents	$ 12,822,972	$ 5,625,487	$ 7,380,543	$ 5,546,615	$ 7,179,075	$2,142,728	$ -	$ 40,697,420
Accounts receivable, net	24,447,739	227,814	6,126,738	5,031,295	8,482,140	2,481,632	(9,662,343)	37,135,015
Prepaid expenses	1,323,339	-	743,596	483,551	865,229	-	-	3,415,715
Contributions receivable, net	-	245,609	-	-	-	-	-	245,609
Short-term investments	-	-	2,000,114	-	-	-	-	2,000,114
Inventories, net	6,623,174	-	1,541,067	1,082,216	2,113,005	-	-	11,359,462
Total current assets	45,217,224	6,098,910	17,792,058	12,143,677	18,639,449	4,624,360	(9,662,343)	94,853,335
INVESTMENTS	61,645,133	84,230,486	27,857,936	13,085,753	16,135,613	179,523	-	203,134,444
PROPERTY AND EQUIPMENT, NET	38,387,343	-	7,180,863	11,801,896	8,043,079	11,369	-	65,424,550
CONTRIBUTIONS RECEIVABLE, NET	-	90,023	-	-	-	-	-	90,023
OTHER ASSETS	8,051	87,207	617,618	327,587	341,059	380,116	-	1,761,638
TOTAL ASSETS	$145,257,751	$90,506,626	$53,448,475	$37,358,913	$43,159,200	$5,195,368	$(9,662,343)	$365,263,990
Percentage of consolidated total assets	39.8%	24.8%	14.6%	10.2%	11.8%	1.4%	-2.6%	100.0%

Versiti, Inc. and Affiliates
CONSOLIDATING STATEMENT OF FINANCIAL POSITION - CONTINUED
December 31, 2017

LIABILITIES AND NET ASSETS	BloodCenter	Foundation	Heartland	Michigan	Indiana	Versiti	Eliminations	Consolidated
CURRENT LIABILITIES								
Current maturities of long-term debt	$ 695,000	$ -	$ -	$ 624,168	$ -	$ -	$ -	$ 1,319,168
Accounts payable	7,174,231		2,531,328	2,562,385	5,331,134	1,660,774	(8,952,422)	10,307,430
Accrued expenses	22,097,077	715,790	2,514,245	2,941,929	2,306,268	1,899,373	(709,921)	31,764,761
Total current liabilities	29,966,308	715,790	5,045,573	6,128,482	7,637,402	3,560,147	(9,662,343)	43,391,359
OTHER LONG-TERM LIABILITIES	4,013,943	-	-	-	401,696	1,285,221	-	5,700,860
LONG-TERM DEBT, LESS CURRENT MATURITIES AND DEFERRED FINANCING COSTS	2,480,668	-	-	405,683	-	-	-	2,886,351
Total liabilities	36,460,919	715,790	5,045,573	6,534,165	8,039,098	4,845,368	(9,662,343)	51,978,570
NET ASSETS								
Without donor restriction								
Board-designated endowment funds, Foundation	-	86,045,725	-	-	-	-	-	86,045,725
Operating funds	108,796,832	2,078,255	48,402,902	30,661,899	34,661,075	350,000	-	224,950,963
Total net assets without donor restriction	108,796,832	88,123,980	48,402,902	30,661,899	34,661,075	350,000	-	310,996,688
With donor restriction	-	1,666,856	-	162,849	459,027	-	-	2,288,732
Total net assets	108,796,832	89,790,836	48,402,902	30,824,748	35,120,102	350,000	-	313,285,420
TOTAL LIABILITIES AND NET ASSETS	$145,257,751	$90,506,626	$53,448,475	$37,358,913	$43,159,200	$5,195,368	$(9,662,343)	$365,263,990

Versiti, Inc. and Affiliates
CONSOLIDATING STATEMENT OF ACTIVITIES
Year ended December 31, 2017

	BloodCenter	Foundation	Heartland	Michigan	Indiana	Versiti	Eliminations	Consolidated
Revenue and other support								
Blood Services	$ 51,326,960	$ -	$50,034,815	$48,749,602	$61,936,324	$ (167,758)	$(41,598,339)	$170,281,604
Diagnostic Laboratories	34,731,467	-	3,016,191	2,047,127	4,352,519	-	(532,056)	43,615,248
Pharmacy	24,973,916	-	-	-	-	-	-	24,973,916
Blood Research Institute	22,711,570	383,761	-	-	-	-	(7,458,579)	15,636,752
Organ and Tissue Donation	14,064,190	-	-	949,163	-	-	(11,292)	15,002,061
Medical Services	8,574,117	-	-	3,901,286	913,620	-	(28,385)	13,360,638
Contributions from affiliates	-	4,935,195	-	-	-	-	(4,935,195)	-
Contributions from third parties	-	775,463	2,590	239,501	40,971	-	-	1,058,525
Interest and dividends	1,785,274	1,407,664	761,450	385,525	485,008	-	-	4,824,921
Affiliate service fees	-	-	-	-	-	13,214,698	(13,214,698)	-
Other, net	86,154	-	1,144	6,110	100,957	-	-	194,365
Total revenue and other support	158,253,648	7,502,083	53,816,190	56,278,314	67,829,399	13,046,940	(67,778,544)	288,948,030
Percentage of consolidated total revenue and other support	54.8%	2.6%	18.6%	19.5%	23.5%	4.5%	-23.5%	100.0%
Expenses								
Salaries and benefits	76,388,086	1,071,580	22,392,287	22,264,183	24,511,458	3,796,835	(3,796,835)	146,627,594
Supplies	16,928,564	3,177	5,085,290	6,357,544	32,426,474	(285,700)	123,474	60,638,823
Purchased products	21,625,691	-	10,366,252	12,670,971	517,091	-	(21,598,123)	23,581,882
Purchased services	21,808,469	232,589	8,791,892	7,382,951	4,144,765	7,973,880	(28,536,349)	21,798,197
Depreciation	4,936,818	4,145	1,310,377	1,619,494	1,493,992	32,515	(32,515)	9,364,826
Contributions to affiliates	4,935,195	-	-	-	-	-	(4,935,195)	-
Occupancy and maintenance	4,486,930	1,320	2,163,631	2,584,370	2,040,759	3,560	(3,560)	11,277,010
Interest	84,960	-	-	42,699	-	-	-	127,659
Support of research and occupancy	-	7,469,871	-	-	-	-	(7,469,871)	-
Other	5,841,747	72,090	2,239,182	2,230,311	1,942,712	1,458,350	(1,462,070)	12,322,322
Total expenses	157,036,460	8,854,772	52,348,911	55,152,523	67,077,251	12,979,440	(67,711,044)	285,738,313
Increase (decrease) in net assets before non-operating items	1,217,188	(1,352,689)	1,467,279	1,125,791	752,148	67,500	(67,500)	3,209,717
Non-operating items								
Investment return, net	4,448,124	9,983,985	1,783,482	967,058	1,298,126	(67,500)	67,500	18,480,775
Additional minimum pension expense	(1,199,351)	-	-	-	-	-	-	(1,199,351)
Increase in net assets	4,465,961	8,631,296	3,250,761	2,092,849	2,050,274	-	-	20,491,141
Net assets, beginning of year	104,330,871	81,159,540	45,152,141	28,731,899	33,069,828	350,000	-	292,794,279
Net assets, end of year	$108,796,832	$89,790,836	$48,402,902	$30,824,748	$35,120,102	$ 350,000	$ -	$313,285,420

Versiti, Inc. and Affiliates
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended December 31, 2017

Federal grantor/federal agency/program title or pass-through grantor and program description	Federal CFDA number	Pass-through ID	Federal expenditures	Awarded to subrecipients
Research and Development Cluster				
U.S. Department of Health and Human Services				
National Institutes of Health (NIH)				
Blood Diseases and Resources Research				
Direct Program			$ 7,468,819	$524,134
Pass-Through Program from Brigham and Women's Hospital Inc.		HL107146	306,114	-
Pass-Through Program from Oklahoma Medical Research Foundation		HL062565	59,615	-
Pass-Through Program from The Scripps Research Institute		HL130678	84,269	-
Pass-Through Program from La Jolla Institute for Allergy and Immunology		HL111969	5,312	-
Pass-Through Program from Medical College of Wisconsin		HL111614, HL102035, HL126645, HL127187	329,923	-
Pass-Through Program from Dana-Farber Cancer Institute, Inc.		HL110790	41,313	-
Total	93.839		8,295,365	524,134
Allergy and Infectious Diseases Research				
Direct Program			1,187,374	-
Pass-Through Program from Brown University		AI083636	35,022	-
Pass-Through Program from University of Arkansas		AI133561	86,254	-
Pass-Through Program from Medical College of Wisconsin		AI102893	264,510	-
Total	93.855		1,573,160	-
Cardiovascular Diseases Research				
Direct Program			868,133	8,404
Pass-Through from Brigham and Women's Hospital		HL119145	23,703	-
Pass-Through Program from Medical College of Wisconsin		HL126810	241,304	-
Pass-Through Program from Emory University		HL112309	59,742	-
Total	93.837		1,192,882	8,404

Versiti, Inc. and Affiliates
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
Year ended December 31, 2016

Federal grantor/federal agency/program title or pass-through grantor and program description	Federal CFDA number	Pass-through ID	Federal expenditures	Awarded to subrecipients
U.S. Department of Health and Human Services - continued				
National Institutes of Health (NIH) - continued				
Trans-NIH Research Support				
Pass-Through Program from Medical College of Wisconsin	93.310	OD025286	$ 1,842	$ -
National Center for Advancing Translational Sciences				
Pass-Through Program from Medical College of Wisconsin	93.350	TR001436	37,228	-
Cancer Treatment Research				
Pass-Through Program from Medical College of Wisconsin	93.395	CA179363	167,082	-
Cancer Biology Research				
Direct Program	93.396		419,032	-
Diabetes, Digestive, and Kidney Diseases Extramural Research				
Direct Program			83,474	-
Pass-Through Program from Medical University of South Carolina		DK111822	1,692	-
Total	93.847		85,166	-
Retrovirus Epidemiology Donor Study				
Direct Program	HHSN268201100003I		573,520	20,216
Evaluation and Testing Services (ETS) for Vaccines and other Biologics for Infectious Diseases	93.unknown			
Pass-Through Program from Battelle Memorial Institute		HHSN272201200003I	3,544	-
NIH expenditures			12,348,821	552,754
Food and Drug Administration				
Food and Drug Administration Research				
Pass-Through Programs from Vanderbilt University Medical Center	93.103	FD004117	64,951	-
Health Resources and Services Administration (HRSA)				
Maternal and Child Health Federal Consolidated Programs				
Pass-Through Programs from Great Lakes Hemophilia Foundation, Inc.	93.110	H30MC24052	60,410	-
Centers for Disease Control and Prevention (CDC)				
Disabilities Prevention				
Pass-Through Programs from Great Lakes Hemophilia Foundation, Inc.	93.184	DD001155	47,409	-
Total expenditures of federal awards - research and development cluster			$12,521,591	$552,754

The accompanying footnotes are an integral part of this schedule.

NOTE A - SCOPE OF AUDIT PURSUANT TO UNIFORM GRANT GUIDANCE

All federal grant activities of Versiti, Inc. (Versiti) are included in the scope of the Uniform Grant Guidance. The Single Audit was performed in accordance with the provisions of the Uniform Grant Guidance. The Department of Health and Human Services has been designated as Versiti's oversight agency.

Versiti utilizes approved indirect cost rates and does not elect to use the 10% de minimis cost rate as covered in 2 CFR 200.414, *Indirect (F&A) costs*.

NOTE B - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting. Grant revenue is recorded for financial reporting purposes when Versiti has met the qualifications for the respective grants.

NOTE C - AUDITS PERFORMED BY OTHER ORGANIZATIONS

There were no audits performed by other organizations of Versiti's federal grant programs for the year ended December 31, 2017.

NOTE D - CONTINGENCY

All federal awards are subject to review and audit by grantor agencies. Such audits could lead to requests for reimbursement by the grantor agencies for costs disallowed under the terms of the awards. It is the opinion of management that all costs charged against federal awards are allowable under the regulations of those programs.

NOTE E - PROGRAM INCOME

Bloodcenter operates a hemophilia treatment center, the Comprehensive Center for Bleeding Disorders (CCBD), under a federal grant sub-award from the Health Resources and Services Administration - CFDA #93.110. The grant sub-award, passed through from Great Lakes Hemophilia Foundation, Inc., allows Versiti to participate in the 340B Drug Pricing Program (Program), a federal program administered by the U.S. Department of Health and Human Services. During the year ended December 31, 2017, Bloodcenter earned Program-related revenue (Program Income) of $13,522,000. Program Income generated under the grant is restricted in accordance with the terms and conditions of the grant and the use of such funds is limited to patient care, education and supportive services necessary to provide comprehensive care to CCBD patients. During the year ended December 31, 2017, Bloodcenter expended $12,271,000 on expenses related to the sale of pharmaceutical product and uses of residual Program Income for operations of CCBD that comply with the restrictions on Program Income in accordance with the grant agreement. As of December 31, 2017, Bloodcenter maintains approximately $16,980,000 of cumulative Program Income in cash and cash equivalents and investments on the consolidated statements of financial position that is restricted, as described above.

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

Board of Directors
Versiti, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Versiti, Inc. (a non-stock, not-for-profit Wisconsin corporation) and affiliates (collectively, the Entity), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 21, 2018.

Internal control over financial reporting

In planning and performing our audit of the consolidated financial statements, we considered the Entity's internal control over financial reporting (internal control) to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Entity's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and other matters

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

Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

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Appleton, Wisconsin
May 21, 2018

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Versiti, Inc.

Report on compliance for each major federal program

We have audited the compliance of Versiti, Inc. (a non-stock, not-for-profit Wisconsin corporation) and affiliates (collectively, the Entity) with the types of compliance requirements described in the U.S. Office of Management and Budget's *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017. The Entity's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to the Entity's federal programs.

Auditor's responsibility

Our responsibility is to express an opinion on compliance for each of the Entity's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Entity's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Entity's compliance.

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Opinion on each major federal program

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

Report on internal control over compliance

Management of the Entity is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Entity's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Appleton, Wisconsin
May 21, 2018

Versiti, Inc. and Affiliates
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2017

I. Summary of Auditor's Results

Financial statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of federal major programs:	Research and Development Cluster
Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

II. Financial Statement Findings

No matters were reported.

III. Federal Award Findings and Questioned Costs

No matters were reported.