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

Versiti, Inc. and Affiliates

December 31, 2018 and 2017

Contents

GRANT THORNTON LLP
2501 E Enterprise Avenue, Suite 300
Appleton, WI 54913-7805

D +1 920 968 6700
F +1 920 968 6719

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 Organization), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, 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 Organization'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 Organization'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.

Grant Thornton

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, 2018 and 2017, 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, 2018 and consolidating statement of activities for the year ended December 31, 2018, are presented for purposes of additional analysis, rather than to present the financial position and results of operations of the individual entities, and are not a required part of the consolidated financial statements. The schedule of expenditures of federal awards for the year ended December 31, 2018, 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*, is 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 consolidated and 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 April 29, 2019, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Grant Thornton LLP

Appleton, Wisconsin
April 29, 2019

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

ASSETS	2018	2017
CURRENT ASSETS		
Cash and cash equivalents, including restricted cash of $3,628,894 and $3,343,924 at December 31, 2018 and 2017, respectively	$ 31,146,709	$ 40,697,420
Accounts receivable, net of allowance for doubtful accounts and sales returns of $768,326 and $736,824 at December 31, 2018 and 2017, respectively	37,898,526	37,135,015
Prepaid expenses	3,466,651	3,415,715
Contributions receivable, net	480,026	245,609
Short-term investments	-	2,000,114
Inventories, net	14,476,347	11,359,462
Total current assets	87,468,259	94,853,335
INVESTMENTS, including restricted investments of $14,754,926 and $13,835,904 at December 31, 2018 and 2017, respectively	183,736,489	203,134,444
PROPERTY AND EQUIPMENT, NET	62,811,451	65,424,550
CONTRIBUTIONS RECEIVABLE, NET	5,307	90,023
OTHER ASSETS	1,714,813	1,761,638
TOTAL ASSETS	$335,736,319	$365,263,990

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

LIABILITIES AND NET ASSETS	2018	2017
CURRENT LIABILITIES		
Current maturities of long-term debt	$ -	$ 1,319,168
Accounts payable	11,287,329	10,307,430
Accrued expenses	28,604,097	31,764,761
Total current liabilities	39,891,426	43,391,359
OTHER LONG-TERM LIABILITIES	1,522,703	5,700,860
LONG-TERM DEBT, LESS CURRENT MATURITIES AND DEFERRED FINANCING COSTS	-	2,886,351
Total liabilities	41,414,129	51,978,570
NET ASSETS		
Without donor restriction		
Board-designated endowment funds, Foundation	77,632,272	86,045,725
Operating funds	214,415,189	224,950,963
Total net assets without donor restriction	292,047,461	310,996,688
With donor restriction	2,274,729	2,288,732
Total net assets	294,322,190	313,285,420
TOTAL LIABILITIES AND NET ASSETS	$335,736,319	$365,263,990

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

Versiti, Inc. and Affiliates
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended December 31, 2018

	Without donor restrictions	With donor restrictions	Total
Revenue and other support			
Blood Services	$168,938,753	$ -	$168,938,753
Diagnostic Laboratories	43,829,825	-	43,829,825
Pharmacy	28,977,267	-	28,977,267
Blood Research Institute	16,422,420	-	16,422,420
Organ and Tissue Donation	13,766,612	-	13,766,612
Medical Services	14,363,896	-	14,363,896
Contributions from third parties	369,914	827,790	1,197,704
Other, net	173,042	-	173,042
	286,841,729	827,790	287,669,519
Net assets released from restriction	841,793	(841,793)	-
Total revenue and other support and net assets released from restriction	287,683,522	(14,003)	287,669,519
Expenses			
Salaries and benefits	147,337,838	-	147,337,838
Supplies	59,637,253	-	59,637,253
Purchased products	26,530,272	-	26,530,272
Purchased services	30,758,930	-	30,758,930
Depreciation	9,100,844	-	9,100,844
Occupancy and maintenance	11,642,527	-	11,642,527
Interest	86,549	-	86,549
Other	11,760,934	-	11,760,934
Total expenses	296,855,147	-	296,855,147
Change in net assets before non-operating items	(9,171,625)	(14,003)	(9,185,628)
Non-operating items			
Investment return, net	(9,048,813)	-	(9,048,813)
Additional minimum pension expense	(728,789)	-	(728,789)
Change in net assets	(18,949,227)	(14,003)	(18,963,230)
Net assets, beginning of year	310,996,688	2,288,732	313,285,420
Net assets, end of year	$292,047,461	$2,274,729	$294,332,190

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

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	14,052,898	-	14,052,898
Medical Services	14,309,801	-	14,309,801
Contributions from third parties	473,549	584,976	1,058,525
Other, net	194,365	-	194,365
	283,538,133	584,976	284,123,109
Net assets released from restriction	857,286	(857,286)	-
Total revenue and other support and net assets released from restriction	284,395,419	(272,310)	284,123,109
Expenses			
Salaries and benefits	146,627,594	-	146,627,594
Supplies	61,313,997	-	61,313,997
Purchased products	22,906,708	-	22,906,708
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
Change in net assets before non-operating items	(1,342,894)	(272,310)	(1,615,204)
Non-operating items			
Investment return, net	23,305,696	-	23,305,696
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 FUNCTIONAL EXPENSES
Year ended December 31, 2018

	Program Services							Supporting Services			
	Blood Services	Diagnostic Laboratories	Pharmacy	Blood Research Institute	Medical Services	Organ & Tissue Donation	Total Program Services	Corporate Services	Development	Total Supporting Services	Total
Salaries and benefits	$ 66,695,417	$18,406,816	$ 911,957	$14,555,105	$10,540,755	$ 5,715,166	$116,825,216	$29,928,817	$583,805	$30,512,622	$147,337,838
Supplies	45,565,911	6,139,951	8,535	4,562,404	2,013,134	514,006	58,803,941	831,452	1,860	833,312	59,637,253
Purchased products	2,430,736	39,481	24,060,055	-	-	-	26,530,272	-	-	-	26,530,272
Purchased services	11,276,351	1,202,060	167,831	1,862,339	739,583	4,875,745	20,123,909	10,505,865	129,156	10,635,021	30,758,930
Depreciation	2,328,496	613,247	-	1,598,013	372,842	64,935	4,977,533	4,119,166	4,145	4,123,311	9,100,844
Occupancy and maintenance	4,430,442	633,566	1,800	1,190,703	223,141	115,778	6,595,430	5,045,822	1,275	5,047,097	11,642,527
Interest	-	-	-	-	-	-	-	86,549	-	86,549	86,549
Other	6,700,299	521,566	164,662	437,520	467,460	564,504	8,856,011	2,833,000	71,923	2,904,923	11,760,934
Total expenses	$139,427,652	$27,556,687	$25,314,840	$24,206,084	$14,356,915	$11,850,134	$242,712,312	$53,350,671	$792,164	$54,142,835	$296,855,147

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	Total Program Services	Corporate Services	Development	Total Supporting Services	Total
Salaries and benefits	$ 68,616,995	$19,729,645	$ 870,354	$14,737,070	$ 8,020,701	$ 5,838,587	$117,813,352	$28,151,769	$662,473	$28,814,242	$146,627,594
Supplies	46,832,770	6,778,924	6,473	4,089,912	2,281,734	615,092	60,604,905	705,915	3,177	709,092	61,313,997
Purchased products	2,414,108	13,443	20,479,157	-	-	-	22,906,708	-	-	-	22,906,708
Purchased services	6,355,480	924,491	169,846	1,522,141	604,433	5,643,935	15,220,326	6,512,793	65,078	6,577,871	21,798,197
Depreciation	2,496,898	590,597	-	1,577,630	313,893	163,100	5,142,118	4,218,563	4,145	4,222,708	9,364,826
Occupancy and maintenance	4,296,348	606,737	1,807	1,320,749	160,363	156,644	6,542,648	4,733,642	720	4,734,362	11,277,010
Interest	-	-	-	-	-	-	-	127,659	-	127,659	127,659
Other	6,486,747	695,866	119,732	480,272	408,922	535,023	8,726,562	3,520,564	75,196	3,595,760	12,322,322
Total expenses	$137,499,346	$29,339,703	$21,647,369	$23,727,774	$11,790,046	$12,952,381	$236,956,619	$47,970,905	$810,789	$48,781,694	$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,

	2018	2017
Cash flows from operating activities		
Change in net assets	$ (18,963,230)	$ 20,491,141
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	9,136,723	9,368,734
Amortization of deferred financing costs	19,332	13,645
Loss on sale of property and equipment	84,990	208,600
Unrealized investment (gain) loss	14,004,401	(18,480,775)
Change in assets and liabilities		
Accounts receivable, net	(763,511)	2,817,505
Contributions receivable, net	(149,701)	387,034
Prepaid expenses	(50,936)	740,373
Inventories, net	(3,116,885)	(692,971)
Other assets	46,825	613,670
Accounts payable	979,899	(327,107)
Accrued expenses	(3,160,664)	445,115
Other long-term liabilities	(4,178,157)	(8,231,539)
Net cash (used in) provided by operating activities	(6,110,914)	7,353,425
Cash flows from investing activities		
Purchases and construction of property and equipment	(6,661,518)	(7,782,613)
Proceeds from sale of property and equipment	52,904	100,935
Purchases of investments	(45,630,030)	(98,642,529)
Proceeds from sales and maturities of investments	53,023,698	87,218,194
Net cash provided by (used in) investing activities	785,054	(19,106,013)
Cash flows from financing activities		
Payment of long-term debt	(4,224,851)	(1,246,495)
Net cash used in financing activities	(4,224,851)	(1,246,495)
Net decrease in cash and cash equivalents	(9,550,711)	(12,999,083)
Cash and cash equivalents, beginning of year	40,697,420	53,696,503
Cash and cash equivalents, end of year	$ 31,146,709	$ 40,697,420
Supplemental disclosure of cash flow information		
Interest paid	$ 86,549	$ 127,660

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

NOTE A - ORGANIZATION

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

Wisconsin is a Wisconsin based non-stock, not-for-profit organization formed in 1947 exclusively for charitable, scientific and educational purposes. Wisconsin serves patients and health care providers by recruiting volunteer blood donors, and collecting, processing and distributing blood and blood components. Wisconsin 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 Wisconsin.

Versiti BloodCenter Research Institute Foundation, Inc., formerly known as BloodCenter Research Foundation, Inc. (Foundation) is a Wisconsin based 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, Wisconsin, Illinois, Michigan, 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 Wisconsin's research facility. Wisconsin's 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.

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

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, Wisconsin, Foundation, Illinois, 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 $3,629,000 and $3,344,000 at December 31, 2018 and 2017, 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 Wisconsin, Illinois, 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.

The Organization 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, 2018 and 2017.

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 $14,755,000 and $13,836,000 at December 31, 2018 and 2017, 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:

	2018	2017
Land and land improvements	$ 7,068,485	$ 7,068,485
Buildings and improvements	105,292,273	103,776,944
Furniture and equipment and vehicles	87,262,354	84,753,122
Leasehold improvements	1,898,497	1,841,456
Construction and equipment in progress	203,080	1,163,064
Total property and equipment	201,724,689	198,603,071
Less accumulated depreciation	(138,913,238)	(133,178,521)
Property and equipment, net	$ 62,811,451	$ 65,424,550

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 at December 31, 2018 and 2017. 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 $157,040 and $221,360 as of December 31, 2018 and 2017, respectively.

Ilinois, 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.

	2018		
	Illinois	Michigan	Indiana
Investment in Exchange	$ 164,461	$ 90,186	$ 119,714
Notes receivable from Exchange	416,043	247,144	-

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

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:

	2018	2017
Total contributions receivable	$493,824	$362,049
Less adjustment to present value for future cash flows for contributions receivable	(145)	(3,127)
Present value of contributions receivable	493,679	358,922
Less allowance for doubtful contributions receivable	(8,346)	(23,290)
Net contributions receivable	$485,333	$335,632

Pledges expected to be received after one year are discounted at a rate commensurate with the risk involved, with rates ranging from 1.93% to 2.51% as of December 31, 2018, and 1.76% to 2.21% as of December 31, 2017.

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,	
2019	$340,294
2020	147,473
2021	6,057
	$493,824

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.

Advertising Costs

The Organization expenses advertising costs as incurred. Advertising costs for the years ended December 31, 2018 and 2017, were $504,422 and $617,156, respectively.

Income Taxes

Versiti, Wisconsin, Illinois, 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, Wisconsin, Illinois, 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. Wisconsin 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 Wisconsin or the Foundation for 2010 through 2018, 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 2018, 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, Illinois 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 Illinois for tax years 2014 through 2018, 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 2018, 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, 2018 and 2017.

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.

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.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (ASU No. 2014-09) as a new topic, Accounting Standards Codification (ASC) Topic 606. The amendments are intended to provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices and improve disclosure requirements. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers; Deferral of the Effective Date* which deferred the effective date of ASU No. 2014-09 by one year. This ASU 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 plans to adopt using the modified retrospective approach and is currently evaluating the impact on the consolidated financial statements at this time.

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.

Reclassification

Certain prior year amounts have been reclassified to conform to current year presentation. There is no impact on change in net assets as previously reported.

NOTE C - INVESTMENTS

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

	2018		2017	
	Carrying value	Cost	Carrying value	Cost
Money market funds	$ 736,597	$ 736,597	$ 1,114,337	$ 1,110,209
Commercial paper	-	-	411,536	411,536
Certificates of deposit	-	-	1,749,375	1,750,000
Fixed income mutual funds	70,539,189	72,391,113	76,852,319	75,499,733
Common stock mutual funds	77,098,964	75,215,713	88,256,545	73,621,601
Common stock	5,712,954	5,370,486	5,689,073	4,720,210
Alternative investments	24,540,553	22,855,812	25,517,543	23,124,129
Mixed asset mutual funds	5,108,232	5,124,494	5,543,830	5,324,140
Total investments	$183,736,489	$181,694,215	$205,134,558	$185,561,558

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, 2018 or 2017.

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:

	2018			
	Level 1	Level 2	Level 3	Total
Fixed income mutual funds	$ 70,539,189	$ -	$ -	$ 70,539,189
Common stock mutual funds	77,098,964	-	-	77,098,964
Mixed asset mutual funds	5,108,232	-	-	5,108,232
Common stock	5,712,954	-	-	5,712,954
Investments, at fair value	$158,459,339	$ -	$ -	158,459,339
Alternative investments, valued at NAV				24,540,553
Total investments				$182,999,892

	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

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

	Fair Value 2018	Fair Value 2017	Unfunded commitments	Redemption frequency	Redemption notice period
Defensive equity fund Parametric Defensive Equity Fund, LLC [(a)]	$ 4,561,181	$4,807,921	$ -	Monthly	5 days
Hedge fund Corbin Opportunity Fund, LTD [(b)]	4,918,937	4,596,136	-	Quarterly	70 days
Equity fund Copper Rock International Small Cap Fund, LLC [(c)]	-	4,719,467	-	Daily	10 days
Private real estate fund Clarion Lion Properties Fund, LP [(d)]	11,603,856	10,752,668	-	Quarterly	90 days
Landmark Equity Partners Xvi, LP[(e)]	80,780	-	2,919,220	Not permitted	
Wellington Trust Company Emerging Markets Research Equity [(f)]	2,379,414	-	-	Weekly	10 days
Singular Guff (g)	996,385	641,351	1,079,832	Not permitted	
Total	$24,540,553	$25,517,543	$3,999,052		

(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 fund seeks to achieve a substantial return on capital through opportunistic investments primarily in a broad range of public and private credit instruments. 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 fund 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's strategy is focused on using their quantitative strategies group (QRG) to offer free private equity portfolio analysis to plan sponsors and other private equity investors in order to collect market data and generate deal flow. As the fund is a private equity fund, there are typically no redemptions allowed until the fund has sold its investments and capital is distributed.
(f) The fund's objective is to provide long-term total return in excess of the MSCI Emerging Markets Index. The portfolio consists of several sub portfolios that are each actively managed by Wellington's Global Industry Analysts who have discretion over stock selection and timing of investments within their respective industries.
(g) 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 companies doing business in the United States and Canada. Up to 40% of the fund's aggregate capital commitments may be allocated to direct investments. As the fund is a private equity fund, there are typically no redemptions allowed until the fund has sold its investments and capital is distributed.

NOTE E - RETIREMENT PLANS

Pension Plan

Wisconsin sponsors a non-contributory defined benefit pension plan (Pension Plan) that covers substantially all full-time employees of Wisconsin 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 Organization's board of directors approved the termination of the plan. In May 2018, the Plan notified their employees of the intent to terminate the Plan and notified the IRS that the Plan would be terminated effective July 31, 2018. Plan participants were paid out in accordance with their elections during the latter part of 2018, with a final annuity contract of approximately $27,000,000 purchased for any remaining participants and those who had elected an annuity. The Organization contributed an additional $4,700,000 in November 2018 to the Plan to enable the payout of all amounts due. The majority of participant distributions from the Plan were made by December 2018, with the Plan expected to close on March 31, 2019.

Wisconsin 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. Given the termination, there were no amounts recorded for the year ended December 31, 2018.

	2017
Net unrecognized actuarial loss	$21,548,760

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, 2017:

Actuarial loss	$646,786

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

Current-year actuarial loss	$1,658,175
Amortization of actuarial gain	(458,824)
	$1,199,351

The following table sets forth the benefit obligations and the assets of the Pension Plan at December 31, 2017:

Change in benefit obligation	
Benefit obligation at beginning of year	$44,027,525
Interest cost	1,839,313
Actuarial loss	4,562,880
Gross benefits paid	(1,409,432)
Benefit obligation at end of year	49,020,286
Change in plan assets	
Fair value of assets at beginning of year	31,954,818
Actual return on plan assets	4,903,689
Wisconsin contributions	9,600,000
Gross benefits paid	(1,409,432)
Fair value of assets at end of year	45,049,075
Funded status	$ (3,971,211)

The unfunded status of the Pension Plan is recognized in the accompanying consolidated statements of financial position as other long-term liabilities.

Net pension cost includes the following components at December 31, 2017:

Interest cost	$ 1,839,313
Expected return on assets	(1,998,984)
Amortization of actuarial gain	458,824
Net periodic pension cost	$ 299,153

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, include the following:

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

Wisconsin considered 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 was based on a diversified portfolio consisting of domestic and international equity investments and fixed income investments.

Wisconsin's investment policy for the Pension Plan was 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 were 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 monitored the maturities of fixed income investments so that there was sufficient liquidity to meet current benefit payment obligations. Wisconsin'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 Wisconsin investment policy. The Pension Plan fair value asset allocations by asset category are as follows at December 31, 2017:

Equity securities	46%
Debt securities	48
Real estate	6
Total	100%

In 2018 and 2017, the Pension Plan's assets consisted of $0 and $45,049,075, 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, 2017:

	Fair value 2017	Redemption frequency	Redemption notice period
Principal Global Investors Large Cap S&P 500 Index [(a)]	12,864,607	Daily	1 day
Principal Global Investors MidCap S&P 400 Index [(b)]	1,115,144	Daily	1 day
Principal Global Investors SmallCap S&P 600 Index [(c)]	420,105	Daily	1 day
Principal Global Investors International Emerging Markets [(d)]	757,348	Daily	1 day
Causeway/Barrow Hanley Overseas [(e)]	4,631,988	Daily	1 day
Principal Real Estate Investment U.S. Property [(f)]	2,684,514	Daily	1 day
Edge Asset Management, Inc. LDI Intermediate Duration [(g)]	3,499,874	Daily	1 day
Principal Global Investors LDI Long Duration [(h)]	16,801,613	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		

(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 invests in value equity securities, with an investment strategy that emphasizes buying equity securities that appear to be undervalued.
(f) The 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.

Defined Contribution Plans

403(b)

Wisconsin maintained two section 403(b) plans until December 2017. The matched plan covered those employees who met the eligibility requirements of the plan. During the year ended December 31, 2017, Wisconsin 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. Wisconsin contributions of $1,453,587 were deposited for the year ended December 31, 2017.

Wisconsin also sponsored a 403(b) non-contributory defined contribution plan until December 2017 that covered substantially all full-time employees of Wisconsin. Wisconsin contributed 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 was funded by Wisconsin on an annual basis. Wisconsin contributions of $2,191,216 were deposited for the year ended December 31, 2017.

In December 2017, the assets of the Wisconsin 403(b) non-contributory defined contribution plan were merged into the matched plan and renamed the Versiti 403(b) plan. The Versiti 403(b) plan is frozen.

401(k)

In December 2017, the Organization created the Versiti 401(k) plan. Subsequent to December 2017, Wisconsin contributions under the match plan and non-contributory plan are made to the Versiti 401(k) plan. Wisconsin recorded contributions of $1,448,685 and $2,139,124 for the match plan and non-contributory plan during the year ended December 31, 2018. Versiti recorded expense of $57,088 and $0 for the years ended December 31, 2018 and 2017, respectively, related to retirement plan contributions.

The Organization merged the Illinois 401(k) plan into the Versiti 401(k) plan in December 2017 and the Michigan and Indiana 401(k) plans into the Versiti 401(k) plan during April 2018. Expenses continue to be recorded on the books of each affiliate.

Illinois maintains a 401(k) defined contribution plan that permits employee and employer contributions. Illinois makes discretionary contributions to the plan, which amounted to 3% of qualifying salaries in 2018 and 2017. Illinois also provided for a match of 50% of the first 8% of wages contributed by the employee. Subsequent to the merger of the plan into the Versiti 401(k) plan in December 2017, Illinois contributions are recorded in the Versiti 401(k) plan. Illinois recorded expense of $608,870 and $668,322 for the years ended December 31, 2018 and 2017, 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. Subsequent to the merger of the plan into the Versiti 401(k) plan in April 2018, Michigan contributions are recorded in the Versiti 401(k) plan. Michigan recorded expense of $507,528 and $460,570 for the years ended December 31, 2018 and 2017, 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. Subsequent to the merger of the plan into the Versiti 401(k) plan in April 2018, Indiana contributions are recorded in the Versiti 401(k) plan. Indiana recorded expense of $579,693 and $604,430 for the years ended December 31, 2018 and 2017, respectively, related to retirement plan contributions.

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 affiliate as of December 31:

	2018	2017
Versiti	$ 228,666	$ 179,523
Wisconsin	4,466,312	4,851,257
Illinois	150,582	219,161
Indiana	186,839	176,319
Michigan	75,833	117,570

In December 2017, the Organization created the Versiti 457(b) plan. Contributions for all affiliates after December 2017 are made to the Versiti 457(b) plan.

LTIP
Versiti maintained an LTIP covering several key employees. There was an outstanding balance of $252,738 and $142,321 as of December 31, 2018 and 2017, respectively, 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 the Organization. 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. The incurred but not reported liability for claims included in accrued expenses on the accompanying consolidated statements of financial position as of December 31, 2018 and 2017, was approximately $1,500,000 and $900,000, respectively.

NOTE F - LONG-TERM DEBT

The Organization paid off all outstanding debt during 2018. Long-term debt of Wisconsin and Michigan as of December 31, 2017 consisted of the following:

	2017
Wisconsin	
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% at December 31, 2017); paid in full in 2018	$ 3,195,000
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%; paid in full in 2018	1,029,851
	4,224,851
Less	
Deferred financing costs	(19,332)
Current maturities	(1,319,168)
	$ 2,886,351

Wisconsin has a letter of credit that expires December 31, 2022, in favor of the Treasurer of the Wisconsin Unemployment Reserve Fund in the amount of $563,580 that has been issued to satisfy state unemployment compensation requirements as of December 31, 2018 and 2017.

Indiana had a $3,000,000 line of credit that expired on June 30, 2018, and was not renewed. At December 31, 2017, there were no borrowings on the line of credit. The line of credit was collateralized by substantially all of Indiana's assets. Interest on the line of credit was variable and was stated at the daily LIBOR rate plus 2.25%.

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

Board-designated endowment funds for the Foundation totaled $77,632,272 and $86,045,725 as of December 31, 2018 and 2017, 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 Wisconsin and the Foundation to alter the designations by a 75% vote.

With donor restrictions

Net assets with donor imposed restrictions were $2,274,729 and $2,288,732 as of December 31, 2018 and 2017, respectively. These assets are subject to purpose and time restrictions. During the years ended December 31, 2018 and 2017, Versiti released $841,793 and $857,286, respectively, of net assets from restrictions.

Endowment Net Assets

The Organization's endowment includes funds designated by Wisconsin'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 endowment and (3) accumulations to the 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, 2018 and 2017.

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:

	2018		
	Without donor restriction	With donor restriction	Total
Board-designated endowment funds	$77,632,272	$ -	$77,632,272
	$77,632,272	$ -	$77,632,272

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

	Years ended December 31,	
	2018	2017
Endowment net assets at beginning of year	$86,045,725	$76,439,806
Total investment return, net	(4,472,887)	11,411,375
Transfers from operating fund to endowment fund		
License revenue	240,938	226,033
Contributions/transfers	60,800	2,068,881
Appropriation of endowment assets for expenditure	(4,242,304)	(4,100,370)
Endowment net assets at end of year	$77,632,272	$86,045,725

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, 2018:

Years ending December 31,	
2019	$1,701,481
2020	1,113,311
2021	786,343
2022	495,148
2023	106,345
Thereafter	53,137
	$4,255,765

Total rent expense for leases was $2,031,185 and $2,399,010 during the years ended December 31, 2018 and 2017, 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 $162,649 and $214,357 as of December 31, 2018 and 2017, respectively.

NOTE I - LEASE REVENUE

Wisconsin leased office space on a month-to-month basis to a 501(c)(3) organization that shared Wisconsin'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, 2018 and 2017. As of December 31, 2018, there are no future minimum lease rentals obligated to Wisconsin.

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 $56,794,982 and $55,679,743 for the years ended December 31, 2018 and 2017, respectively. Receivables from related parties totaled $6,494,229 and $6,557,030 at December 31, 2018 and 2017, respectively.

Contributions from board of director's members totaled $671,108 and $395,006 for the years ended December 31, 2018 and 2017, respectively. Contributions receivable from these related parties totaled $342,244 and $203,000 at December 31, 2018 and 2017, respectively.

NOTE K - COMMITMENTS AND CONTINGENCIES

In 2011, Wisconsin 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 2018 and 2017, the building was being used for research activities in compliance with the grant agreement.

Wisconsin 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 Wisconsin 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, 2018 and 2017, Wisconsin earned Program-related revenue (Program Income) of approximately $14,343,000 and $13,522,000, 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, 2018 and 2017, Wisconsin expended approximately $12,943,000 and $12,271,000, 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, 2018 and 2017, Wisconsin and Foundation maintain approximately $18,380,000 and $16,980,000, 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 RBC kits from Terumo. The agreement holds Versiti liable for $2,000,000 to be evenly recognized for the duration of the 7 year agreement. For each year 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, 2018 and 2017, the outstanding short-term liability was recorded as an accrued expense of $285,700 within the accompanying consolidated statements of financial position. At December 31, 2018 and 2017, the outstanding long-term liability is $857,200 and $1,142,900, respectively, and is recorded within other long-term liabilities on 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, 2018 and 2017, 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, 2018 and 2017, $4,242,304 and $4,100,370, 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 $3,628,894	$27,517,815
Accounts receivable, net of allowance	37,946,526
Contributions receivable, net, current	485,333
	$65,949,674

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 routinely by the Investment and Finance Committee of the Board of Directors.

NOTE O - SUBSEQUENT EVENTS

The Organization evaluated its December 31, 2018, consolidated financial statements for subsequent events through April 29, 2019, 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, 2018

ASSETS	Wisconsin	Foundation	Illinois	Michigan	Indiana	Versiti	Eliminations	Consolidated
CURRENT ASSETS								
Cash and cash equivalents	$ 10,996,001	$ 2,835,511	$ 4,829,478	$ 3,454,886	$ 7,254,557	$1,776,276	$ -	$ 31,146,709
Accounts receivable, net	25,647,851	289,787	5,975,704	5,254,696	9,614,787	4,453,711	(13,338,010)	37,898,526
Prepaid expenses	1,444,706	-	590,460	579,133	834,779	17,573	-	3,466,651
Contributions receivable, net	-	480,026	-	-	-	-	-	480,026
Inventories, net	7,779,785	-	1,879,174	1,153,198	3,664,190	-	-	14,476,347
Total current assets	45,868,343	3,605,324	13,274,816	10,441,913	21,368,313	6,247,560	(13,338,010)	87,468,259
INVESTMENTS	45,568,615	78,615,041	31,321,110	12,505,510	15,497,547	228,666	-	183,736,489
PROPERTY AND EQUIPMENT, NET	37,002,275	-	6,769,346	10,996,982	7,557,615	485,233	-	62,811,451
OTHER ASSETS	18,663	79,167	622,783	337,330	276,754	380,116	-	1,714,813
CONTRIBUTIONS RECEIVABLE, NET	-	5,307	-	-	-	-	-	5,307
TOTAL ASSETS	$128,457,896	$82,304,839	$51,988,055	$34,281,735	$44,700,229	$7,341,575	$(13,338,010)	$335,736,319
Percentage of consolidated total assets	38.3%	24.5%	15.5%	10.2%	13.3%	2.2%	-4.0%	100.0%

Versiti, Inc. and Affiliates
CONSOLIDATING STATEMENT OF FINANCIAL POSITION - CONTINUED
December 31, 2018

LIABILITIES AND NET ASSETS	Wisconsin	Foundation	Illinois	Michigan	Indiana	Versiti	Eliminations	Consolidated
CURRENT LIABILITIES								
Accounts payable	$ 9,487,359	$ -	$ 3,120,858	$ 1,890,019	$ 5,569,705	$3,380,442	$(12,161,054)	$ 11,287,329
Accrued expenses	18,597,130	1,194,218	2,135,866	3,216,342	2,136,302	2,501,195	(1,176,956)	28,604,097
Total current liabilities	28,084,489	1,194,218	5,256,724	5,106,361	7,706,007	5,881,637	(13,338,010)	39,891,426
OTHER LONG-TERM LIABILITIES	52,257	-	-	-	360,508	1,109,938	-	1,522,703
Total liabilities	28,136,746	1,194,218	5,256,724	5,106,361	8,066,515	6,991,575	(13,338,010)	41,414,129
NET ASSETS								
Without donor restriction								
Board-designated endowment funds, Foundation	-	77,632,272	-	-	-	-	-	77,632,272
Operating funds	100,321,150	1,809,914	46,731,331	29,044,116	36,158,678	350,000	-	214,415,189
Total net assets without donor restriction	100,321,150	79,442,186	46,731,331	29,044,116	36,158,678	350,000	-	292,047,461
With donor restriction	-	1,668,435	-	131,258	475,036	-	-	2,274,729
Total net assets	100,321,150	81,110,621	46,731,331	29,175,374	36,633,714	350,000	-	294,322,190
TOTAL LIABILITIES AND NET ASSETS	$128,457,896	$82,304,839	$51,988,055	$34,281,735	$44,700,229	$7,341,575	$(13,338,010)	$335,736,319

Versiti, Inc. and Affiliates
CONSOLIDATING STATEMENT OF ACTIVITIES
Year ended December 31, 2018

	Wisconsin	Foundation	Illinois	Michigan	Indiana	Versiti	Eliminations	Consolidated
Revenue and other support								
Blood Services	$ 49,664,522	$ -	$48,252,640	$48,322,472	$62,892,383	$ (193,165)	$(40,000,099)	$168,938,753
Diagnostic Laboratories	35,415,362	-	2,960,591	2,282,090	3,698,888	-	(527,106)	43,829,825
Pharmacy	28,977,267	-	-	-	-	-	-	28,977,267
Blood Research Institute	24,177,316	452,793	-	-	-	-	(8,207,689)	16,422,420
Organ and Tissue Donation	13,776,762	-	-	-	-	-	(10,150)	13,766,612
Medical Services	8,671,922	-	-	4,924,345	801,749	-	(34,120)	14,363,896
Contributions from affiliates	-	3,810,000	-	-	-	-	(3,810,000)	-
Contributions from third parties	-	1,046,272	6,653	112,155	32,624	-	-	1,197,704
Affiliate service fees	-	-	-	-	-	22,490,909	(22,490,909)	-
Other, net	87,563	-	591	11,265	73,623	-	-	173,042
Total revenue and other support	160,770,714	5,309,065	51,220,475	55,652,327	67,499,267	22,297,744	(75,080,073)	287,669,519
Percentage of consolidated total revenue and other support	55.9%	1.8%	17.8%	19.3%	23.5%	7.8%	-26.1%	100.0%
Expenses								
Salaries and benefits	78,201,717	1,003,396	21,242,325	22,976,972	23,897,230	14,576,807	(14,560,609)	147,337,838
Supplies	17,594,570	3,266	5,358,373	6,256,335	30,577,493	(283,131)	130,347	59,637,253
Purchased products	25,797,454	-	8,573,148	11,717,471	271,016	-	(19,828,817)	26,530,272
Purchased services	26,502,163	208,359	10,843,033	9,067,400	4,922,955	7,156,157	(27,941,137)	30,758,930
Depreciation	4,894,514	4,145	1,192,687	1,710,478	1,299,020	18,994	(18,994)	9,100,844
Contributions to affiliates	3,810,000	-	-	-	-	-	(3,810,000)	-
Occupancy and maintenance	4,485,703	1,910	2,314,322	2,713,104	2,127,488	3,634	(3,634)	11,642,527
Interest	70,733	-	-	15,816	-	-	-	86,549
Support of research and occupancy	-	8,217,840	-	-	-	-	(8,217,840)	-
Other	5,096,513	78,323	2,060,922	2,295,810	2,233,472	735,283	(739,389)	11,760,934
Total expenses	166,453,367	9,517,239	51,584,810	56,753,386	65,328,674	22,207,744	(74,990,073)	296,855,147
Change in net assets before non-operating items	(5,682,653)	(4,208,174)	(364,335)	(1,101,059)	2,170,593	90,000	(90,000)	(9,185,628)
Non-operating items								
Investment return, net	(2,064,240)	(4,472,041)	(1,307,236)	(548,315)	(656,981)	(90,000)	90,000	(9,048,813)
Additional minimum pension expense	(728,789)	-	-	-	-	-	-	(728,789)
Change in net assets	(8,475,682)	(8,680,215)	(1,671,571)	(1,649,374)	1,513,612	-	-	(18,963,230)
Net assets, beginning of year	108,796,832	89,790,836	48,402,902	30,824,748	35,120,102	350,000	-	313,285,420
Net assets, end of year	$100,321,150	$81,110,621	$46,731,331	$29,175,374	$36,633,714	$ 350,000	$ -	$294,322,190

Versiti, Inc. and Affiliates
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended December 31, 2018

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			$ 8,502,677	$344,790
Pass-Through Program from Brigham and Women’s Hospital Inc.		HL107146	296,034	-
Pass-Through Program from Oklahoma Medical Research Foundation		HL062565	122,904	-
Pass-Through Program from The Scripps Research Institute		HL130678	109,909	-
Pass-Through Program from Medical College of Wisconsin		HL111614, HL102035, HL126645, HL126810,HL127187	438,109	-
Pass-Through Program from University of Pittsburg		HL133815	2,199	-
Total	93.839		9,471,832	344,790
Allergy and Infectious Diseases Research				
Direct Program			1,098,792	-
Pass-Through Program from Brown University		AI083636	72,237	-
Pass-Through Program from University of Arkansas		AI133561	219,890	-
Pass-Through Program from Medical College of Wisconsin		AI102893	45,400	-
Total	93.855		1,436,319	-
Cardiovascular Diseases Research				
Direct Program			496,078	12,232
Pass-Through from Brigham and Women's Hospital		HL119145	3,368	-
Total	93.837		499,446	12,232

Versiti, Inc. and Affiliates
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
Year ended December 31, 2018

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 Marshfield Clinic Research Institute	93.310	OD026555	$ 77,560	$ -
Pass-Through Program from Medical College of Wisconsin	93.310	OD025286	47,286	-
Total			124,846	-
National Center for Advancing Translational Sciences				
Pass-Through Program from Medical College of Wisconsin	93.350	TR001436	37,808	-
Cancer Treatment Research				
Pass-Through Program from Medical College of Wisconsin	93.395	CA179363	249,867	-
Cancer Biology Research				
Direct Program	93.396		523,547	24,250
Diabetes, Digestive, and Kidney Diseases Extramural Research				
Direct Program			32,189	-
Pass-Through Program from Medical University of South Carolina		DK111822	20,640	-
Total	93.847		52,829	-
Retrovirus Epidemiology Donor Study				
Direct Program	HHSN268201100003I		452,053	1,250
NIH expenditures			12,848,547	382,522
Food and Drug Administration				
Food and Drug Administration Research				
Pass-Through Programs from Vanderbilt University Medical Center	93.103	FD004117	41,012	-

The accompanying footnotes are an integral part of this schedule.

Federal grantor/federal agency/program title or pass-through grantor and program description	Federal CFDA number	Pass-through ID	Federal expenditures	Awarded to subrecipients
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	$ 42,972	$ -
Centers for Disease Control and Prevention (CDC)				
Disabilities Prevention				
Pass-Through Programs from Great Lakes Hemophilia Foundation, Inc.	93.184	DD001155	52,822	-
U.S. Department of Defense				
Defense Threat Reduction Agency	12.351	HDTRA11710052-1	84,386	-
Pass-Through Programs from ioGenetics				
Total expenditures of federal awards - research and development cluster			$13,069,739	$382,522

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, 2018.

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

Wisconsin 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, 2018, Wisconsin earned Program-related revenue (Program Income) of $14,343,000. 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, 2018, Wisconsin expended $8,492,000 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, 2018, Wisconsin maintains approximately $18,380,000 of cumulative Program Income in cash and cash equivalents and investments on the consolidated statements of financial position that is restricted, as described above.

GRANT THORNTON LLP
2501 E. Enterprise Avenue, Suite 300
Appleton, WI 54913-7805

D +1 920 968 6700
F +1 920 968 6700

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 Organization), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 29, 2019.

Internal control over financial reporting
In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 Organization'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 Organization's 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 Organization'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 Organization'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 Organization'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 Organization's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Appleton, Wisconsin
April 29, 2019

GRANT THORNTON LLP
2501 E. Enterprise Avenue, Suite 300
Appleton, WI 54913-7805

D +1 920 968 6700
F +1 920 968 6719

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 Organization) 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, 2018. The Organization'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 Organization's federal programs.

Auditor's responsibility
Our responsibility is to express an opinion on compliance for each of the Organization'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 Organization'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 Organization's compliance.

Opinion on each major federal program
In our opinion, the Organization 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, 2018.

Report on internal control over compliance

Management of the Organization 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 Organization'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 Organization'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 Organization'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
April 29, 2019

Versiti, Inc. and Affiliates
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2018

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.