

**AIDS RESOURCE CENTER OF WISCONSIN, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended August 31, 2016 and 2015**

**AIDS RESOURCE CENTER OF WISCONSIN, INC.**

**TABLE OF CONTENTS**

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT .....	1 - 2
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position .....	3 - 4
Consolidated Statements of Activities .....	5 - 6
Consolidated Statements of Functional Expenses .....	7 - 8
Consolidated Statements of Cash Flows .....	9
Notes to Consolidated Financial Statements .....	10 - 24
SUPPLEMENTARY INFORMATION	
Schedule of ARCW Unrestricted Functional Revenues and Expenses .....	25 - 27
Schedules of Unrestricted Functional Revenues and Expenses – Milwaukee AIDS Housing Corporation .....	28
Schedules of Unrestricted Functional Revenues and Expenses – ARCW Pharmacy, LLC .....	29
Schedules of Functional Revenues and Expenses – ARCW Endowment Fund, Inc. ....	30

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
AIDS Resource Center of Wisconsin, Inc.  
Milwaukee, Wisconsin

### Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of AIDS Resource Center of Wisconsin, Inc. (a Wisconsin nonprofit organization), which comprise the consolidated statements of financial position as of August 31, 2016 and 2015, 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 Consolidated 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.

### Auditors' 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 audits 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 auditors' 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 auditors consider 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.

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AIDS Resource Center of Wisconsin, Inc. as of August 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter**

### *Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The financial information listed in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements.

The 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. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

## **Report Issued in Accordance with *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2016, on our consideration of AIDS Resource Center of Wisconsin, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 AIDS Resource Center of Wisconsin, Inc.'s internal control over financial reporting and compliance.



Certified Public Accountants

Milwaukee, Wisconsin  
December 6, 2016

AIDS RESOURCE CENTER OF WISCONSIN, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
August 31, 2016 and 2015

ASSETS	2016	2015
<u>Current assets</u>		
Cash and cash equivalents	\$ 6,692,704	\$ 7,631,792
Contributions receivable, current portion	968,811	1,032,142
Government grants receivable	2,387,563	2,286,885
ARCW Medical Center receivable	253,945	171,535
ARCW Pharmacy receivable	1,529,634	1,464,605
ARCW Pharmacy inventory	1,773,097	1,140,607
Prepaid expenses	237,850	157,539
Other current assets	-	8,635
Total current assets	13,843,604	13,893,740
Property and equipment, net	4,786,673	2,953,595
<u>Other assets</u>		
Contributions receivable, long-term portion	192,796	102,187
Deposits	10,123	10,123
HUD restricted escrow	50,897	47,743
Endowment investments	541,464	490,853
Investments held for non-qualified deferred compensation	75,535	-
Other investments	144,653	195,144
Total other assets	1,015,468	846,050
Total assets	\$ 19,645,745	\$ 17,693,385

See accompanying notes to consolidated financial statements.

AIDS RESOURCE CENTER OF WISCONSIN, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
August 31, 2016 and 2015

LIABILITIES AND NET ASSETS	2016	2015
<u>Current liabilities</u>		
ARCW accounts payable	\$ 667,068	\$ 2,410,169
ARCW Pharmacy accounts payable	179,814	203,014
MAHC accounts payable	693	3,851
Accrued payroll and vacation	671,224	803,205
Current portion of capital lease obligations	-	3,354
MAHC security deposits	451	451
Refundable advances	589,267	1,250,833
Total current liabilities	2,108,517	4,674,877
Capital lease obligations	-	2,400
Deferred compensation obligation	18,915	-
MAHC mortgage	680,090	680,090
Total liabilities	2,807,522	5,357,367
<u>Net assets</u>		
Unrestricted		
ARCW unrestricted funds	5,893,272	4,597,015
ARCW board designated fund	6,508,000	5,008,000
MAHC operating deficit	(940,088)	(853,357)
ARCW property and equipment less related debt	4,106,583	2,267,751
Total unrestricted net assets	15,567,767	11,019,409
Temporarily restricted	754,307	800,461
Permanently restricted	516,149	516,149
Total net assets	16,838,223	12,336,019
Total liabilities and net assets	\$ 19,645,745	\$ 17,693,386

See accompanying notes to consolidated financial statements.

## AIDS RESOURCE CENTER OF WISCONSIN, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES  
Year Ended August 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Revenue</u>				
Federal government grants				
U.S. Department of Health and Human Services	\$ 1,363,285	\$ -	\$ -	\$ 1,363,285
U.S. Department of Housing and Urban Development	916,919	-	-	916,919
State government grants				
Department of Health Services	7,340,644	-	-	7,340,644
Department of Administration	449,291	-	-	449,291
Local government grants				
City of Milwaukee	600,306	-	-	600,306
Milwaukee County	90,401	-	-	90,401
City of Madison	26,898	-	-	26,898
Dane County	143,073	-	-	143,073
Grants and public support				
Foundation contributions	342,444	121,000	-	463,444
Corporate contributions	674,005	285,181	-	959,186
Individual contributions	790,024	9,517	-	799,541
Special events				
Events - participants	644,154	-	-	644,154
Events - corporate	298,824	-	-	298,824
Special events expenses	(691,611)	-	-	(691,611)
United Way	81,609	218,713	-	300,322
Net assets released from restrictions:				
United Way	295,912	(295,912)	-	-
Foundation contributions	2,500	(2,500)	-	-
Individual contributions	407,468	(407,468)	-	-
Contractual partnerships				
Medical College of Wisconsin	121,464	-	-	121,464
Reimbursement for services				
ARCW Medical Center	1,470,383	-	-	1,470,383
ARCW Pharmacy	45,956,021	-	-	45,956,021
Rental income	70,795	-	-	70,795
Other income				
340B Revenue sharing	414,262	-	-	414,262
Investment income	38,061	25,315	-	63,376
Miscellaneous income	33,893	-	-	33,893
Total revenue	61,881,025	(46,154)	-	61,834,871
<u>Expenses</u>				
Clinical and program services				
ARCW Medical Center	7,375,275	-	-	7,375,275
ARCW Pharmacy	37,137,302	-	-	37,137,302
ARCW Social Services	5,443,856	-	-	5,443,856
MAHC expenses	135,865	-	-	135,865
Prevention services	3,463,028	-	-	3,463,028
Public affairs	544,118	-	-	544,118
Management and supporting services	2,543,914	-	-	2,543,914
Fund development	689,308	-	-	689,308
Total expenses	57,332,666	-	-	57,332,666
Change in net assets related to operations	4,548,359	(46,154)	-	4,502,205
Net assets, beginning of year	11,019,409	800,461	516,149	12,336,019
Net assets, end of year	\$ 15,567,767	\$ 754,307	\$ 516,149	\$ 16,838,223

See accompanying notes to consolidated financial statements.

## AIDS RESOURCE CENTER OF WISCONSIN, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES  
Year Ended August 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Revenue</u>				
Federal government grants				
U.S. Department of Health and Human Services	\$ 1,289,055	\$ -	\$ -	\$ 1,289,055
U.S. Department of Housing and Urban Development	690,341	-	-	690,341
State government grants				
Department of Health Services	6,685,035	-	-	6,685,035
Department of Administration	448,854	-	-	448,854
Local government grants				
City of Milwaukee	613,958	-	-	613,958
Milwaukee County	112,060	-	-	112,060
Dane County	60,756	-	-	60,756
Grants and public support				
AIDS Network, Inc. endowment gift	-	-	500,000	500,000
Foundation contributions	264,706	2,500	-	267,206
Corporate contributions	520,754	1,000	-	521,754
Individual contributions	618,075	72,433	3,262	693,770
Special events				
Events - participants	828,144	-	-	828,144
Events - corporate	199,735	-	-	199,735
Special events expenses	(768,713)	-	-	(768,713)
United Way	22,406	359,271	-	381,677
Net assets released from restrictions:				
United Way	308,174	(308,174)	-	-
Foundation contributions	50,000	(50,000)	-	-
Corporate contributions	67,000	(67,000)	-	-
Individual contributions	342,704	(342,704)	-	-
Contractual partnerships				
Medical College of Wisconsin	135,537	-	-	135,537
NIH Tulane University	128,850	-	-	128,850
Reimbursement for services				
ARCW Medical Center	1,165,113	-	-	1,165,113
ARCW Pharmacy	40,600,724	-	-	40,600,724
Rental income	71,953	-	-	71,953
Other income				
340B Revenue sharing	350,966	-	-	350,966
Investment loss	(7,694)	(67)	-	(7,761)
Miscellaneous income	21,297	-	-	21,297
Total revenue	54,819,790	(332,741)	503,262	54,990,311
<u>Expenses</u>				
Clinical and program services				
ARCW Medical Center	6,469,044	-	-	6,469,044
ARCW Pharmacy	33,114,783	-	-	33,114,783
ARCW Social Services	5,142,530	-	-	5,142,530
MAHC expenses	161,492	-	-	161,492
Prevention services	3,168,704	-	-	3,168,704
Public affairs	515,383	-	-	515,383
Management and supporting services	2,471,990	-	-	2,471,990
Fund development	675,029	-	-	675,029
Total expenses	51,718,955	-	-	51,718,955
Change in net assets related to operations	3,100,835	(332,741)	503,262	3,271,356
Other changes in net assets:				
Contribution recognized on acquisition of AIDS Network, Inc.	165,720	-	-	165,720
Total change in net assets	3,266,555	(332,741)	503,262	3,437,076
Net assets, beginning of year	7,752,854	1,133,202	12,887	8,898,943
Net assets, end of year	\$ 11,019,409	\$ 800,461	\$ 516,149	\$ 12,336,019

See accompanying notes to consolidated financial statements.



AIDS RESOURCE CENTER OF WISCONSIN, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended August 31, 2016

	Clinical and Program Services	Management and Supporting Services	Fund Development	Total
<u>Expenses</u>				
Personnel expenses				
Salaries and wages	\$ 7,038,332	\$ 1,795,432	\$ 360,698	\$ 9,194,462
Payroll taxes	493,907	115,365	25,313	634,585
Employee benefits	1,488,475	481,210	34,193	2,003,878
Total personnel expenses	9,020,714	2,392,007	420,204	11,832,925
Pharmacy cost of sales	34,644,542	-	-	34,644,542
Pharmacy services, excludes depreciation	2,464,272	-	-	2,464,272
MAHC expenses, excludes depreciation	101,783	-	-	101,783
Endowment expenses	-	-	20	20
Contracted program services	1,067,870	(10,000)	-	1,057,870
Client financial assistance	11,102	-	-	11,102
Patient financial assistance	4,486	-	-	4,486
Patient food assistance	249,610	-	-	249,610
Patient rent assistance	611,793	-	-	611,793
Patient housing facilities	-	-	-	-
Patient parking	38,102	1,800	-	39,902
Program materials	928,639	1,445	-	930,084
Patient medications	724,516	-	-	724,516
Patient laboratory	182,149	-	-	182,149
Employee travel and education	350,118	84,791	13,449	448,358
Printing and copying	16,627	51,042	17,183	84,852
Professional services	243,280	387,320	33,693	664,293
Telephone	-	235,209	-	235,209
Insurance	43,903	95,986	-	139,889
Office supplies	23,252	62,341	986	86,579
Postage and delivery	1,972	61,888	-	63,860
Meeting costs	11,865	41,813	19,323	73,001
Recruiting	32	21,626	-	21,658
Advertising	10,779	-	599	11,378
Repairs and maintenance	35,925	325,139	59	361,123
Information technology	78,251	334,107	29,498	441,856
Interest expense	-	6,378	-	6,378
Other expenses	-	11,890	-	11,890
Occupancy	757,092	50,473	16,824	824,389
Depreciation	725,021	84,732	23,109	832,862
Licenses and fees	57,545	51,310	33,267	142,122
Uncollectible donor pledges	-	-	9,000	9,000
Deferred compensation	-	18,915	-	18,915
Total direct functional expenses	52,405,240	4,310,212	617,214	57,332,666
Department allocations	1,694,204	(1,766,298)	72,094	-
Total functional expenses	\$ 54,099,444	\$ 2,543,914	\$ 689,308	\$ 57,332,666

See accompanying notes to consolidated financial statements.

AIDS RESOURCE CENTER OF WISCONSIN, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended August 31, 2015

	Clinical and Program Services	Management and Supporting Services	Fund Development	Total
<u>Expenses</u>				
Personnel expenses				
Salaries and wages	\$ 6,441,109	\$ 1,717,775	\$ 274,844	\$ 8,433,728
Payroll taxes	458,347	113,196	19,464	591,007
Employee benefits	1,421,913	346,233	34,201	1,802,347
Total personnel expenses	8,321,369	2,177,204	328,509	10,827,082
Pharmacy cost of sales	30,739,415	-	-	30,739,415
Pharmacy services, excludes depreciation	2,344,185	-	-	2,344,185
MAHC expenses, excludes depreciation	125,076	-	-	125,076
Contracted program services	669,939	-	-	669,939
Client financial assistance	221,286	-	-	221,286
Patient financial assistance	29,767	-	-	29,767
Patient food assistance	255,571	75	-	255,646
Patient rent assistance	481,879	-	-	481,879
Patient housing facilities	52,757	-	-	52,757
Patient parking	39,038	3,975	-	43,013
Program materials	792,830	11,414	-	804,244
Patient medications	568,975	-	-	568,975
Patient laboratory	182,811	-	-	182,811
Employee travel and education	264,622	74,106	8,226	346,954
Printing and copying	13,203	43,185	12,191	68,579
Professional services	257,222	402,404	68,310	727,936
Telephone	-	242,313	-	242,313
Insurance	40,549	99,895	-	140,444
Office supplies	8,146	35,219	609	43,974
Postage and delivery	235	63,200	6,921	70,356
Meeting costs	14,079	41,044	22,115	77,238
Recruiting	-	24,840	-	24,840
Advertising	5,827	93	3,450	9,370
Repairs and maintenance	18,434	310,811	-	329,245
Information technology	23,937	541,758	-	565,695
Interest expense	-	59	-	59
Other expenses	-	192	-	192
Occupancy	689,668	45,978	15,326	750,972
Depreciation	601,254	68,258	18,616	688,128
Licenses and fees	51,068	33,205	32,326	116,599
Grant disbursements	5,000	118,500	-	123,500
Uncollectible donor pledges	-	-	46,486	46,486
Total direct functional expenses	46,818,142	4,337,728	563,085	51,718,955
Department allocations	1,753,794	(1,865,738)	111,944	-
Total functional expenses	<u>\$ 48,571,936</u>	<u>\$ 2,471,990</u>	<u>\$ 675,029</u>	<u>\$ 51,718,955</u>

See accompanying notes to consolidated financial statements.

## AIDS RESOURCE CENTER OF WISCONSIN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended August 31, 2016 and 2015

	2016	2015
<u>Cash flows from operating activities</u>		
Change in net assets	\$ 4,502,205	\$ 3,437,076
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	832,862	688,128
Provision for uncollectible contributions	9,000	9,000
Discounts to net present value of contributions receivable	3,571	(2,646)
Gain on disposal of property and equipment	(13,553)	(5,061)
Deferred compensation	18,915	-
Permanently restricted contributions	-	(503,262)
Noncash contribution recognized on acquisition of AIDS Network, Inc.	-	(135,601)
Change in operating assets and liabilities:		
Contributions receivable	(39,849)	262,400
Government grants receivable	(100,678)	13,386
ARCW Medical Center receivable	(82,410)	(72,930)
ARCW Pharmacy receivable	(65,029)	120,306
ARCW Pharmacy inventory	(632,490)	(49,346)
Prepaid expenses	(80,311)	6,439
Other current assets	8,635	5,456
Change in deposits and HUD restricted escrow	(3,154)	9,910
ARCW accounts payable	(1,743,101)	812,103
ARCW Pharmacy accounts payable	(23,200)	68,644
MAHC accounts payable	(3,158)	(19,796)
Accrued payroll and vacation	(131,981)	463,350
Refundable advances	(661,566)	(401,072)
Net cash provided by operating activities	1,794,707	4,706,484
<u>Cash flows from investing activities</u>		
Purchases of property and equipment	(2,667,131)	(547,051)
Proceeds from disposal of property and equipment	14,744	5,061
Increase (decrease) in investments, net	50,491	(14,817)
Increase in investments held for non-qualified deferred compensation	(75,535)	-
Increase in endowment investments	(50,611)	(477,899)
Net cash used in investing activities	(2,728,042)	(1,034,706)
<u>Cash flows from financing activities</u>		
Payments on capital leases	(5,754)	(5,964)
Permanently restricted contributions	-	503,262
Net cash provided by (used in) financing activities	(5,754)	497,298
Net increase (decrease) in cash and cash equivalents	(939,089)	4,169,076
Cash and cash equivalents, beginning of year	7,631,793	3,462,717
Cash and cash equivalents, end of year	\$ 6,692,704	\$ 7,631,793
Supplemental information		
Cash paid for interest	\$ 6,378	\$ 59

See accompanying notes to consolidated financial statements.

AIDS RESOURCE CENTER OF WISCONSIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 1 – ORGANIZATION, NATURE OF ACTIVITIES AND BASIS OF CONSOLIDATION

The AIDS Resource Center of Wisconsin, Inc. is a provider of HIV health care, social services and prevention services in the State of Wisconsin. The ARCW Medical Center has been designated by the Centers for Medicare and Medicaid as the nation's only HIV Medical Home with integrated medical, dental, mental health, pharmacy and social services for all people with HIV disease. The Organization operates throughout Wisconsin with locations in Appleton, Beloit, Eau Claire, Green Bay, La Crosse, Kenosha, Madison, Milwaukee, Schofield/Wausau and Superior.

The consolidated financial statements (Organization) include the accounts of AIDS Resource Center of Wisconsin, Inc. (ARCW) and the following entities: Milwaukee AIDS Housing Corporation, Inc. (MAHC), ARCW Pharmacy, LLC (Pharmacy) and ARCW Endowment Fund, Inc. (Endowment). MAHC is registered under Section 811 of the National Affordable Housing Act of 1990. The Pharmacy was created exclusively for HIV patients as a limited liability company solely owned by ARCW. ARCW is the sole corporate member of MAHC and the Endowment. All significant intercompany transactions and accounts are eliminated.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting.

Basis of presentation - The Organization is required to report information regarding its net assets and its activities on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization are classified and reported in the following three classes:

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization or passage of time.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Agency.

Use of estimates - The preparation of the consolidated financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

AIDS RESOURCE CENTER OF WISCONSIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax-exempt status - The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under section 509(a)(2). The Organization is also exempt from Wisconsin income taxes.

Cash and cash equivalents - For purposes of the statement of cash flows, cash and cash equivalents including short-term investments include all highly liquid debt instruments with original maturities of three months or less. Certificates of deposit with remaining maturities less than one year, if any, are classified as cash and cash equivalents.

Concentration of credit risk: The Organization maintains cash accounts and various certificates of deposit and money market accounts at a financial institution. Deposits with the financial institutions are insured by the Federal Deposit Insurance Corporation in the amount of \$250,000 per official custodian. The Organization's cash deposits, certificates of deposit and money market balances may exceed these federally insured limits at times during the year. The Organization has not experienced any losses on these accounts and management believes the Organization is not exposed to any significant credit risk.

Valuation of investments and income recognition: The Organization's investments are recorded at fair value based upon quoted market prices, when available, or estimates of fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Quoted market prices in active markets are used to value investments. Donated assets are recorded at fair value at the date of donation, or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation).

Risks and uncertainties: The Organization invests in various investment securities within its investments and endowment investments. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in these financial statements.

Fiscal agent – The Organization acts as a fiscal agent for the Latino Health Council. The Organization coordinates the financial activities on behalf of the Latino Health Council through receipt and disbursement of funds. Cash receipts in excess of disbursements are reflected in accounts payable in the Statements of Financial Position.

Contributions receivable - Contributions made to the Organization are recorded in the year the unconditional promise is made. Any contributions that are expected to be collected after one year are discounted and are reflected in the consolidated financial statements at their net present value. The allowance for uncollectible contributions is based on previous experiences, adjusted for current conditions.

AIDS RESOURCE CENTER OF WISCONSIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ARCW Pharmacy inventory - Inventory is comprised of pharmaceuticals held at the ARCW Pharmacy. Inventory is valued at the lower of cost, determined using the average cost method, or market.

Property and equipment - Property and equipment are recorded at cost if purchased and at fair value at date of the gift if donated. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Leasehold improvements are amortized over the shorter of the remaining lease term or the estimated useful life of the asset. All acquisitions of equipment in excess of \$5,000 and all expenditures for improvements and betterments that materially prolong the useful lives of assets are capitalized. Maintenance, repairs, and minor improvements are expensed as incurred.

Revenue recognition - Funds due from government grants are recognized as revenue in the accounting period in which the related expenses are incurred. Contributions, including promises receivable, are recognized in the period received and are considered available for the Organization's general programs unless specifically restricted by the donor. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

A portion of the Organization's revenue is billed to third-party payors, including insurance companies, managed care plans, and governmental payors. Reimbursements for services are recognized when the services are delivered. Revenue is recorded net of estimated differences between charges and amounts expected to be collected from third-party payors.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets or are designated for future periods. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and as an increase unrestricted net assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statements of Activities as net assets released from restrictions.

Advertising costs - The Organization uses advertising to promote its programs and special events and for recruiting employees. The costs of communicating advertisements are expensed as the items or services are received. Advertising costs for special events were \$34,751 and \$93,023 for the years ended August 31, 2016 and 2015 and are included in special events expenses. Advertising costs for programming were \$11,378 and \$9,370 and for recruiting were \$21,658 and \$24,840 for the years ended August 31, 2016 and 2015, respectively.

Expense allocation - The costs of providing the various programs and other activities have been summarized on a functional basis in the Consolidated Statements of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

AIDS RESOURCE CENTER OF WISCONSIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications - Certain balances as of and for the year ended August 31, 2015 have been reclassified to be consistent with the presentation as of and for the year ended August 31, 2016 with no impact on previously reported consolidated net assets and changes in net assets.

Subsequent events - The Organization has evaluated events and transactions for potential recognition or disclosure in the consolidated financial statements through December 6, 2016, the date on which the consolidated financial statements were available to be issued.

NOTE 3 – RESTRICTIONS ON CASH

Milwaukee AIDS Housing Corporation, Inc. maintained a separate, restricted cash account as required by U.S. Department of Housing and Urban Development (HUD). The balances in the account as of August 31, 2016 and 2015 were \$50,897 and \$47,743, respectively.

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Outstanding contributions receivable at August 31, 2016 and 2015 are as follows:

	2016	2015
Less than one year	\$ 992,910	\$ 1,047,241
One to five years	197,390	103,210
	<u>1,190,300</u>	<u>1,150,451</u>
Less allowance for uncollectible contributions	(24,099)	(15,099)
Less discount to present value	<u>(4,594)</u>	<u>(1,023)</u>
	1,161,607	1,134,329
Contributions receivable, current portion	<u>968,811</u>	<u>1,032,142</u>
Contributions receivable, long-term portion	<u>\$ 192,796</u>	<u>\$ 102,187</u>

Contributions receivable to be collected in excess of one year are discounted using a rate of 1.30% and 1.00% as of August 31, 2016 and 2015, respectively.

AIDS RESOURCE CENTER OF WISCONSIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
August 31, 2016 and 2015

**NOTE 5 – GOVERNMENT GRANT RECEIVABLE**

Government grants receivable consists of the following as of August 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
State of Wisconsin -		
Department of Health Services	\$ 1,765,318	\$ 1,819,144
Department of Administration	48,841	106,328
U.S. Department of Health and Human Services	283,694	139,853
U.S. Department of Housing and Urban Development	176,482	59,802
City of Milwaukee	39,726	62,322
Medical College of Wisconsin	35,721	26,722
Milwaukee County	23,241	36,054
Dane County	13,707	28,523
Other	833	8,137
Total government grants receivable	<u>\$ 2,387,563</u>	<u>\$ 2,286,885</u>

**NOTE 6 – ARCW MEDICAL CENTER AND ARCW PHARMACY RECEIVABLES**

ARCW Medical Center receivable consists of reimbursement for medical, dental, mental health and medical home services provided by the ARCW Medical Center as well as case management services. The Organization has agreements with third-party payors that provide for reimbursement at amounts which vary from its established rates. Revenue for services to patients covered under the Medicare and Medicaid programs is reimbursed based on rates established by the federal and state governments, respectively. The ARCW Medical Center receivable is recorded net of contractual allowances, patient subsidies, and estimated uncollectible amounts. Gross receivables were \$298,098 and \$186,951, less allowances of \$44,153 and \$15,416, for a net expected reimbursement receivable of \$253,945 and \$171,535 at August 31, 2016 and 2015, respectively.

ARCW Pharmacy reimbursement receivable consists of reimbursement for pharmacy services and pharmaceuticals. The ARCW Pharmacy reimbursement receivable is recorded net of contractual allowances, patient subsidies, and estimated uncollectible amounts. Gross receivables were \$1,832,732 and \$1,698,203, less allowances of \$303,098 and \$233,598, for a net expected reimbursement receivable of \$1,529,635 and \$1,464,605 at August 31, 2016 and 2015, respectively.

Because of inherent uncertainties in estimating contractual adjustments and other allowances on ARCW Medical Center and ARCW Pharmacy receivables, it is at least reasonably possible that the Organization's estimate of the reserve for uncollectible accounts will change significantly in the near term.



AIDS RESOURCE CENTER OF WISCONSIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at August 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 200	\$ 200
Garden View Apartments	766,732	761,717
Leasehold improvements	5,334,820	3,311,869
Furniture and fixtures	1,210,097	790,001
Office equipment and technology	1,378,972	1,231,145
Motor vehicles	109,579	121,484
Health care equipment	680,647	614,769
Pharmacy equipment	7,460	7,460
Leased office equipment	148,125	148,125
Total property and equipment	9,641,995	6,986,770
Less accumulated depreciation	<u>(4,855,322)</u>	<u>(4,033,175)</u>
Net property and equipment	<u>\$ 4,786,673</u>	<u>\$ 2,953,595</u>

NOTE 8 – OPERATING LEASES

The Organization has several non-cancelable operating leases for the rental of buildings in Beloit, Eau Claire, Green Bay, Kenosha, La Crosse, Wausau, Madison, and Milwaukee with expirations at various dates through 2024.

Future minimum lease payments under operating leases are as follows:

<u>Year Ending August 31,</u>	
2017	\$ 711,786
2018	648,203
2019	608,380
2020	598,985
2021	598,985
Thereafter	<u>1,020,708</u>
Total	<u>\$ 4,187,047</u>

Total rent and related occupancy expenses was \$841,213 and \$766,297 for the years ended August 31, 2016 and 2015, respectively.

AIDS RESOURCE CENTER OF WISCONSIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 9 – REFUNDABLE ADVANCES

Refundable advances consist of funds that were received by the Organization as of August 31, 2016 and 2015 for use in the subsequent fiscal years:

	<u>2016</u>	<u>2015</u>
State of Wisconsin -		
Department of Health Services	<u>\$ 589,267</u>	<u>\$ 1,250,833</u>

NOTE 10 – LINE OF CREDIT

Effective March 28, 2016, the organization has a line of credit with a bank of \$4,800,000. The line of credit has an interest rate of one month LIBOR plus 1.30% and matures on March 28, 2021. The line of credit is secured by the general assets of the Organization. The line of credit had no outstanding balances at August 31, 2016 and 2015.

NOTE 11 – MAHC MORTGAGE

Milwaukee AIDS Housing Corporation, Inc. currently has a mortgage payable to the Department of Housing and Urban Development (HUD) in the amount of \$680,090. The proceeds were used to construct Garden View Apartments to house people with HIV and AIDS. The mortgage matures on July 1, 2037 and does not accrue interest as long as the building is used for the stated exempt purpose which is for housing of very low-income persons with disabilities in accordance with Section 811 of the National Affordable Housing Act of 1990. At the time this mortgage matures, the entire loan amount will be forgiven. Prepayment of the mortgage is not allowed without HUD approval. If the loan would be paid before the maturity date, interest would be due at the rate of 7% per year.

NOTE 12 – LETTER OF CREDIT FOR UNEMPLOYMENT COMPENSATION

Under Wisconsin law, the Organization has elected the reimbursement financing method for unemployment compensation. As of August 31, 2016 and 2015, the Organization has a letter of credit available for the payment of unemployment compensation claims.

NOTE 13 – ARCW BOARD DESIGNATED FUND

The Organization's board of directors established a board designated fund to ensure continued success and long-term financial stability for the Organization. The ARCW board designated cash reserves are available for future critical needs of the Organization and use of these reserves require board of director approval. The Organization has accumulated cash reserves of \$6,508,000 and \$5,008,000 as of August 31, 2016 and 2015, respectively, and these cash reserves are included in cash and cash equivalents.

AIDS RESOURCE CENTER OF WISCONSIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
August 31, 2016 and 2015

**NOTE 14 – DEFERRED COMPENSATION PLAN**

Effective January 1, 2016, the Organization and a member of management entered into a deferred compensation agreement whereby the Organization is obligated to make monthly contributions, as defined in the agreement, on behalf of the executive. The cumulative contribution payments are maintained in a separate investment account in the Organization's name. Each annual contribution amount will individually vest over a five year period or until the executive's attainment of age 65. As of August 31, 2016, investments of \$75,535 are reflected as investments held for non-qualified deferred compensation and an accrued liability for the earned deferred compensation obligation of \$18,915 are included in the accompanying consolidated Statement of Financial Position. Deferred compensation expense was \$18,915 for the year ended August 31, 2016.

**NOTE 15 – ENDOWMENT**

The Organization follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Enhanced Disclosures for All Endowment Funds. UPMIFA requires that the portion of a donor restricted endowment fund that is classified as permanently restricted net assets is not reduced by losses on the investment of the fund, except to the extent required by the donor. Likewise, the amount of permanently restricted net assets is not reduced by an organization's appropriations from the fund. The portion of the fund that is not classified as permanently restricted net assets is reported as temporarily restricted net assets until appropriated for expenditure by the Organization.

The board of directors of the ARCW Endowment Fund, Inc. has adopted a policy that there shall be no active fundraising for the ARCW Endowment Fund, Inc. until the ARCW strategic plan financial reserve goal is achieved. However, during the year ended August 31, 2015, in conjunction with the merger of AIDS Network, Inc. as further explained in Note 25, a gift of \$500,000 was made to the ARCW Endowment Fund.

Endowment investment and net asset composition as of August 31, 2016 and 2015 are summarized as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>
Money market account	\$ -	\$ 85	\$ 16,149	\$ 16,234
Investments	-	25,230	500,000	525,230
Total	<u>\$ -</u>	<u>\$ 25,315</u>	<u>\$ 516,149</u>	<u>\$ 541,464</u>

AIDS RESOURCE CENTER OF WISCONSIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 15 – ENDOWMENT (CONTINUED)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total
Money market account	\$ -	\$ 82	\$ 12,887	\$ 12,969
Receivables	-	-	3,262	3,262
Investments	(22,034)	(82)	500,000	477,884
Total	<u>\$ (22,034)</u>	<u>\$ -</u>	<u>\$ 516,149</u>	<u>\$ 494,115</u>

Changes in endowment investment and net asset composition for the years ended August 31, 2016 and 2015 are provided as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total
Endowment net assets, beginning of year	\$ (22,034)	\$ -	\$ 516,149	\$ 494,115
Investment income	22,054	25,315	-	47,369
Miscellaneous expenses	(20)	-	-	(20)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 25,315</u>	<u>\$ 516,149</u>	<u>\$ 541,464</u>

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total
Endowment net assets, beginning of year	\$ -	\$ 67	\$ 12,887	\$ 12,954
Contributions	-	-	503,262	503,262
Investment loss	(22,034)	(82)	-	(22,116)
Interest income	-	15	-	15
Endowment net assets, end of year	<u>\$ (22,034)</u>	<u>\$ -</u>	<u>\$ 516,149</u>	<u>\$ 494,115</u>

NOTE 16 – FAIR VALUE MEASUREMENTS

The Organization reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 16 – FAIR VALUE MEASUREMENTS (CONTINUED)

The three levels of the fair value hierarchy that determines fair value are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the methodologies used for investments reported at fair value:

Mutual funds: Valued at the daily closing price as reported by the funds. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are actively traded and are required to publish their daily net asset value (NAV) and to transact at that price.

Real estate: Investment represents a timeshare in certain property and is valued at the estimated fair market value on the date of donation.

The preceding valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

AIDS RESOURCE CENTER OF WISCONSIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
August 31, 2016 and 2015

**NOTE 16 – FAIR VALUE MEASUREMENTS (CONTINUED)**

The following tables provide by level, within the fair value hierarchy, the Organization's investment assets as of August 31, 2016 and 2015:

August 31, 2016				
	(Level 1)	(Level 2)	(Level 3)	Total
Investments, at fair value				
Money market fund	\$ 1,787	\$ -	\$ -	\$ 1,787
Bond mutual funds	198,288	-	-	198,288
Equity mutual funds	537,343	-	-	537,343
Real estate	-	-	8,000	8,000
	<u>\$ 737,418</u>	<u>\$ -</u>	<u>\$ 8,000</u>	745,418
Money market account				<u>16,234</u>
Total investments				<u>\$ 761,652</u>

	August 31, 2015			
	(Level 1)	(Level 2)	(Level 3)	Total
Investments, at fair value				
Money market fund	\$ 167	\$ -	\$ -	\$ 167
Bond mutual funds	92,216	-	-	92,216
Equity mutual funds	509,296	-	-	509,296
Real estate	-	-	8,000	8,000
	<u>\$ 601,679</u>	<u>\$ -</u>	<u>\$ 8,000</u>	609,679
Certificates of deposit				63,349
Money market account				<u>12,969</u>
Total investments				<u>\$ 685,997</u>

AIDS RESOURCE CENTER OF WISCONSIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 16 – FAIR VALUE MEASUREMENTS (CONTINUED)

Investments are classified in the accompanying Statements of Financial Position as of August 31, 2016 and 2015 as follows:

	2016	2015
Endowment investments	\$ 541,464	\$ 490,853
Investments held for non-qualified deferred compensation	75,535	-
Other investments	144,653	195,144
Total	<u>\$ 761,652</u>	<u>\$ 685,997</u>

NOTE 17 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of August 31, 2016 and 2015 consist of the following:

	2016	2015
United Way	\$ 308,294	\$ 385,493
Foundation contributions	121,000	2,500
Corporate contributions	290,775	1,000
Individual contributions	13,517	412,491
Endowment interest income	25,315	-
Less present value discount for long term contributions	(4,594)	(1,023)
Total temporarily restricted net assets	<u>\$ 754,307</u>	<u>\$ 800,461</u>

NOTE 18 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from donor and time restrictions consist of the following for the years ended August 31, 2016 and 2015:

	2016	2015
United Way	\$ 295,912	\$ 308,174
Foundation contributions	2,500	50,000
Corporate contributions	-	67,000
Individual contributions	407,468	342,704
Total	<u>\$ 705,880</u>	<u>\$ 767,878</u>

AIDS RESOURCE CENTER OF WISCONSIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
August 31, 2016 and 2015

**NOTE 19 – ARCW UNCOMPENSATED CARE AND TREATMENT**

Revenue from reimbursement for health services is net of contractual allowances and patient subsidies. ARCW provided the following uncompensated care and treatment to its medical, dental and mental health patients for the years ended August 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Contractual allowances	\$ 1,523,437	\$ 1,571,149
Patient subsidy	382,313	774,965
Patient medications	724,516	568,975
Patient laboratory testing	74,683	182,811
Patient assistance	<u>4,486</u>	<u>29,767</u>
Total	<u>\$ 2,709,435</u>	<u>\$ 3,127,667</u>

**NOTE 20 – ARCW MEDICAL CENTER AND SOCIAL SERVICES EXPENSES**

The AIDS Resource Center of Wisconsin, Inc. provides integrated health and social services in its HIV medical home model of care to achieve the best clinical outcomes for its patients and clients. The Organization's Consolidated Statements of Activities identifies expenses for the ARCW Medical Center and ARCW Social Services. These expenses include professional staff expense for physicians, nurse practitioners, nurses, dentists, dental hygienists, mental health therapists, attorneys, social workers and other staff serving HIV patients and clients.

Following is an itemization of the health and social services expenses for the years ended August 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
<u>ARCW Medical Center</u>		
Medical Clinic	\$ 4,077,861	\$ 3,439,129
Dental Clinic	1,621,360	1,547,353
Behavioral Health and Wellness Clinic	<u>1,676,054</u>	<u>1,482,562</u>
Total ARCW Medical Center expenses	<u>\$ 7,375,275</u>	<u>\$ 6,469,044</u>
<u>ARCW Social Services</u>		
Case management	\$ 4,470,059	\$ 4,209,991
Food services	627,614	686,473
Legal services	<u>346,183</u>	<u>246,066</u>
Total ARCW Social Services expenses	<u>\$ 5,443,856</u>	<u>\$ 5,142,530</u>



AIDS RESOURCE CENTER OF WISCONSIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
August 31, 2016 and 2015

NOTE 21 – RELATED PARTIES

During the years ended August 31, 2016 and 2015, the Organization incurred expenses with entities or individuals considered to be related parties and are disclosed as follows. Auctioneer services in the amount of \$3,615 and \$3,004 were purchased for the Organization's annual special event from a company owned by the brother-in-law of a vice-president of the Organization. Purchases of \$169,928 and \$0 were made from a furniture company whose owner is the spouse of a board member. Legal fees of \$74,560 and \$5,365 were paid to a law firm for which a principal of the firm is a board member. Fees of \$12,573 and \$11,802 were paid to an insurance company in which the husband of a board member is an agent. In addition, the Organization's board of directors and staff has made donations totaling \$24,788 and \$86,268 during the years ended August 31, 2016 and 2015. None of these related party activities had an adverse effect on any governmental or privately funded programs.

NOTE 22 – IN-KIND GOODS AND SERVICES

In-kind goods and services included in the accompanying consolidated financial statements have an estimated value of \$260,793 and \$62,486 for the years ended August 31, 2016 and 2015, respectively. The Organization received \$78,684 and \$41,184 of medical services, \$181,259 and \$21,302 of furniture and \$850 and \$0 of other goods and services, respectively.

NOTE 23– RETIREMENT PLANS

The Organization maintains a flexible investment in a safe harbor 401(k) plan. The Organization matched up to 5% of gross wages for all participating employees. Total employer contributions to the 401(k) plan were \$317,578 and \$258,844 for the years ended August 31, 2016 and 2015, respectively.

NOTE 24 – CONTINGENCIES

In the normal course of business, the Organization is involved in litigation incidental to the conduct of the business. The Organization does not believe that the ultimate disposition of currently pending claims, individually or in the aggregate, would have a material adverse effect on their consolidated financial position, results of activities or cash flows.

AIDS RESOURCE CENTER OF WISCONSIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2016 and 2015

NOTE 25 – MERGER OF AIDS NETWORK, INC.

On February 1, 2015, ARCW merged operations with AIDS Network, Inc. (an unrelated non-profit organization). Prior to the merger, the Aids Network, Inc. Board made a gift to the ARCW Endowment Fund of \$500,000 (see Note 15). Under terms of the transaction, no consideration was transferred and AIDS Network, Inc. was dissolved. Pursuant to Generally Accepted Accounting Principles, the Organization accounted for the transaction as an acquisition recognizing the underlying assets and liabilities acquired at fair value resulting in a contribution of \$165,720 being recognized in the statement of activities.

The valuation of assets acquired at February 1, 2015 was as follows:

Cash	\$ 30,120
Grants and contributions receivable	220,817
Prepaid expenses	3,976
Investments	180,327
Property and equipment	2,067
Accounts payable and accrued expenses	(13,321)
Refundable advances	<u>(258,266)</u>
Contribution recognized on acquisition of AIDS Network, Inc.	<u>\$ 165,720</u>

NOTE 26 – SUBSEQUENT EVENT

ARCW is in negotiations with another not-for-profit AIDS organization outside the State of Wisconsin to merge their operations as a strategy to provide access to HIV services on a national level and to enhance the financial resources of ARCW. It is anticipated that the transaction would be accounted for as an acquisition by ARCW and ARCW would recognize the underlying assets and liabilities acquired at fair value with the net amount to be recorded as a contribution in the next fiscal year when the transaction is consummated.

AIDS RESOURCE CENTER OF WISCONSIN, INC.

SCHEDULE OF ARCW UNRESTRICTED FUNCTIONAL REVENUES AND EXPENSES

Year Ended August 31, 2016

(With summarized totals for the year ended August 31, 2015)

	ARCW Medical Center	Social Services	Prevention Services	Public Affairs	Management and Supporting Services	Fund Development	2016 Total	2015 Total
<b>Revenue</b>								
Federal government grants								
U.S. Department of Health and Human Services	\$ 595,526	\$ 30,712	\$ 627,812	\$ -	\$ 109,235	\$ -	\$ 1,363,285	\$ 1,289,055
U.S. Department of Housing and Urban Development	262,499	626,872	-	-	27,548	-	916,919	690,341
Total federal revenue	858,025	657,584	627,812	-	136,783	-	2,280,204	1,979,396
State government grants								
Department of Health Services	3,151,987	2,376,897	1,202,998	-	608,762	-	7,340,644	6,685,035
Department of Administration	-	417,841	-	-	31,450	-	449,291	448,854
Total State of Wisconsin revenue	3,151,987	2,794,738	1,202,998	-	640,212	-	7,789,935	7,133,889
Local government grants								
City of Milwaukee	-	487,712	67,500	-	45,094	-	600,306	613,958
Milwaukee County	-	-	90,401	-	-	-	90,401	112,060
City of Madison	-	26,898	-	-	-	-	26,898	-
Dane County	-	-	122,140	-	20,933	-	143,073	60,756
Total local government revenue	-	514,610	280,041	-	66,027	-	860,678	786,774
Grants and public support								
Foundation contributions	-	-	-	-	-	344,944	344,944	314,706
Corporate contributions	-	-	-	-	-	674,005	674,005	587,754
Individual donations	-	-	-	-	-	1,197,492	1,197,492	960,779
Events - participants	-	-	-	-	-	644,154	644,154	828,144
Events - corporate	-	-	-	-	-	298,824	298,824	199,735
Special events expenses	-	-	-	-	-	(691,611)	(691,611)	(768,713)
United Way	156,671	84,943	135,908	-	-	-	377,521	330,580
Total private fundraising and support	156,671	84,943	135,908	-	-	2,467,808	2,845,329	2,452,985
Contractual partnerships								
Medical College of Wisconsin	-	(1,593)	113,830	-	9,227	-	121,464	135,537
NIH - Tulane University	-	-	-	-	-	-	-	128,850
Total contractual partnerships	-	(1,593)	113,830	-	9,227	-	121,464	264,387
Revenue carried forward	\$ 4,166,683	\$ 4,050,282	\$ 2,360,589	\$ -	\$ 852,249	\$ 2,467,808	\$ 13,897,610	\$ 12,617,431

AIDS RESOURCE CENTER OF WISCONSIN, INC.

SCHEDULE OF ARCW UNRESTRICTED FUNCTIONAL REVENUES AND EXPENSES

Year Ended August 31, 2016

(With summarized totals for the year ended August 31, 2015)

	ARCW Medical Center	Social Services	Prevention Services	Public Affairs	Management and Supporting Services	Fund Development	2016 Total	2015 Total
<b>Revenue</b>								
Revenue brought forward	\$ 4,166,683	\$ 4,050,282	\$ 2,360,589	\$ -	\$ 852,249	\$ 2,467,808	\$ 13,897,610	\$ 12,617,431
Reimbursement for services - Medical Center								
Patient payments	44,747	-	480	-	-	-	45,227	(23,296)
Medicare	192,886	-	-	-	-	-	192,886	185,918
Commercial insurance	232,763	-	-	-	-	-	232,763	438,115
Medicaid	666,941	332,566	-	-	-	-	999,507	564,376
Total reimbursement for services	1,137,337	332,566	480	-	-	-	1,470,383	1,165,113
Pharmacy services								
ARCW pharmacy contribution	-	-	-	-	8,818,719	-	8,818,719	7,485,941
Total pharmacy services	-	-	-	-	8,818,719	-	8,818,719	7,485,941
Other revenue								
340B Revenue sharing	414,262	-	-	-	-	-	414,262	350,966
Investment income	-	-	-	-	15,950	-	15,950	14,283
Rental income	-	22,042	-	-	-	-	22,042	19,426
Gain on disposal of fixed asset	-	-	-	-	13,553	-	13,553	5,061
Miscellaneous income	3,573	3,600	-	-	12,542	300	20,015	16,220
Total other revenue	417,835	25,642	-	-	42,045	300	485,822	405,956
Total revenue (carried forward)	\$ 5,721,855	\$ 4,408,490	\$ 2,361,069	\$ -	\$ 9,713,013	\$ 2,468,108	\$ 24,672,534	\$ 21,674,441

AIDS RESOURCE CENTER OF WISCONSIN, INC.

SCHEDULE OF ARCW UNRESTRICTED FUNCTIONAL REVENUES AND EXPENSES

Year Ended August 31, 2016

(With summarized totals for the year ended August 31, 2015)

	ARCW Medical Center	Social Services	Prevention Services	Public Affairs	Management and Supporting Services	Fund Development	2016 Total	2015 Total
Total revenue (brought forward)	\$ 5,721,855	\$ 4,408,490	\$ 2,361,069	\$ -	\$ 9,713,013	\$ 2,468,108	\$ 24,672,534	\$ 21,674,441
<b>Expenses</b>								
Personnel expenses								
Salaries and wages	3,334,187	2,200,859	1,227,858	275,428	1,795,432	360,698	9,194,462	8,433,728
Medicaid	1,000	-	1,500	-	26,000	-	28,500	-
Payroll taxes	235,606	151,609	87,050	19,642	115,365	25,313	634,585	591,007
Employee benefits	611,110	477,273	341,180	56,412	455,210	34,193	1,975,378	1,802,347
Total personnel expenses	4,181,903	2,829,741	1,657,588	351,482	2,392,007	420,204	11,832,925	10,827,082
Contracted program services	652,615	78,287	336,968	-	(10,000)	-	1,057,870	669,939
Client financial assistance	2,746	8,356	-	-	-	-	11,102	221,286
Patient financial assistance	4,486	-	-	-	-	-	4,486	29,767
Patient food assistance	-	249,610	-	-	-	-	249,610	255,646
Patient rent assistance	-	611,399	394	-	-	-	611,793	481,879
Patient housing facilities	-	-	-	-	-	-	-	52,757
Patient parking	28,202	9,900	-	-	1,800	-	39,902	43,013
Program materials	193,987	32,213	701,944	495	1,445	-	930,084	804,244
Patient medications	724,516	-	-	-	-	-	724,516	568,975
Patient laboratory	182,013	-	136	-	-	-	182,149	182,811
Employee travel and education	135,543	103,758	99,463	11,354	84,791	13,449	448,358	346,954
Printing and copying	2,957	219	3,144	10,307	51,042	17,183	84,852	68,579
Professional services	184,845	10,225	-	48,210	387,320	33,693	664,293	727,936
Telephone	-	-	-	-	235,209	-	235,209	242,313
Insurance	1,633	16,786	25,484	-	95,986	-	139,889	140,444
Office supplies	10,768	10,026	2,192	266	62,341	986	86,579	43,974
Postage and delivery	8	700	1,264	-	61,888	-	63,860	70,356
Meeting costs	4,307	2,667	2,798	2,093	41,813	19,323	73,001	77,238
Recruiting	32	-	-	-	21,626	-	21,658	24,840
Advertising	2,510	-	2,066	6,203	-	599	11,378	9,370
Repairs and maintenance	-	32,728	3,197	-	325,139	59	361,123	329,245
Information technology	74,669	64	-	3,518	334,107	29,498	441,856	565,695
Interest expense	-	-	-	-	6,378	-	6,378	59
Other expenses	-	-	-	-	11,890	-	11,890	192
Occupancy	134,595	471,079	134,594	16,824	50,473	16,824	824,389	750,972
Depreciation	223,384	285,008	130,950	23,109	84,732	23,109	770,292	620,529
Licenses and fees	16,759	6,199	377	34,210	51,310	33,267	142,122	116,599
Grant disbursements	-	-	-	-	-	-	-	123,500
Uncollectible donor pledges	-	-	-	-	-	9,000	9,000	46,486
Deferred compensation	-	-	-	-	18,915	-	18,915	-
Total direct functional expenses	6,762,478	4,758,965	3,102,559	508,071	4,310,212	617,194	20,059,479	18,442,680
Department allocations	612,797	684,891	360,469	36,047	(1,766,298)	72,094	-	-
Total expenses	7,375,275	5,443,856	3,463,028	544,118	2,543,914	689,288	20,059,479	18,442,680
Change in net assets	\$ (1,653,420)	\$ (1,035,366)	\$ (1,101,959)	\$ (544,118)	\$ 7,169,099	\$ 1,778,820	\$ 4,613,055	\$ 3,231,761
Fixed Asset Additions	\$ 1,367,727	\$ 113,010	\$ -	\$ -	\$ 1,186,394	\$ -	\$ 2,667,131	\$ 547,051

AIDS RESOURCE CENTER OF WISCONSIN, INC.  
MILWAUKEE AIDS HOUSING CORPORATION

SCHEDULES OF UNRESTRICTED FUNCTIONAL REVENUES AND EXPENSES  
Years Ended August 31, 2016 and 2015

	2016	2015
<u>Revenue</u>		
Rental income	\$ 48,753	\$ 52,527
Interest income	57	73
Miscellaneous income	325	-
	<hr/>	<hr/>
Total revenue	49,135	52,600
	<hr/>	<hr/>
<u>Expenses</u>		
Management fees	3,000	3,000
Occupancy	8,366	8,091
Security patrol contract	41,817	39,778
Snow removal	-	53
Professional services	500	5,450
Insurance	7,190	8,217
Repairs and maintenance	40,338	60,351
Miscellaneous taxes, licenses and permits	572	136
Depreciation	34,082	36,416
	<hr/>	<hr/>
Total expenses	135,865	161,492
	<hr/>	<hr/>
Change in net assets	<u>\$ (86,730)</u>	<u>\$ (108,892)</u>

AIDS RESOURCE CENTER OF WISCONSIN, INC.  
ARCW PHARMACY, LLC

SCHEDULES OF UNRESTRICTED FUNCTIONAL REVENUES AND EXPENSES  
Years Ended August 31, 2016 and 2015

	2016	2015
<u>Revenue</u>		
Gross sales		
Medicaid	\$ 17,071,283	\$ 14,776,650
Medicare	11,336,464	11,798,236
Wisconsin AIDS drug assistance program	4,433,692	3,995,307
Commercial insurance	11,672,150	8,767,617
340B program	20,526	7,590
Patient payments	327,233	239,220
Medical assistance drug program	240,022	222,282
Gross sales	45,101,370	39,806,902
Cost of goods sold	(34,644,542)	(30,739,415)
Net sales revenue	10,456,828	9,067,487
Services provided under contract, net	852,851	792,386
Other program income	1,800	1,436
Total revenue	11,311,479	9,861,309
<u>Expenses</u>		
Salaries	1,327,873	1,147,145
Payroll taxes	91,186	79,662
Employee benefits	187,708	156,163
Professional services	151,654	331,655
Office supplies	7,236	32,108
Telephone	32,940	26,881
Postage and delivery	69,453	66,705
Printing and copying	22,668	25,365
Information technology	57,485	32,202
Occupancy	107,714	82,627
Depreciation	28,488	31,183
Employee travel	18,839	9,312
Employee meetings	6,119	4,477
Employee education	4,909	5,369
Insurance	54,187	46,360
Bad debt and uncollectible insurance expense	69,500	69,500
Licenses and fees	43,574	52,062
Advertising	35,218	23,966
Patient care supplies	3,304	326
Program equipment	4,234	-
Other expenses	18,471	2,300
Total operating expenses	2,342,760	2,225,368
Net income from operations	8,968,719	7,635,941
Grant disbursements	(8,968,719)	(7,635,941)
Change in net assets	\$ -	\$ -

AIDS RESOURCE CENTER OF WISCONSIN, INC.  
ARCW ENDOWMENT FUND, INC.

SCHEDULES OF FUNCTIONAL REVENUES AND EXPENSES  
Years Ended August 31, 2016 and 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>
<u>Revenue</u>				
Investment income	\$ 22,054	\$ 25,315	\$ -	\$ 47,369
<u>Expenses</u>				
Miscellaneous	(20)	-	-	(20)
Change in net assets	<u>\$ 22,034</u>	<u>\$ 25,315</u>	<u>\$ -</u>	<u>\$ 47,349</u>

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015 Total</u>
<u>Revenue</u>				
Contributions	\$ -	\$ -	\$ 503,262	\$ 503,262
Interest income	-	15	-	15
Investment loss	(22,034)	(82)	-	(22,116)
Total revenue	<u>(22,034)</u>	<u>(67)</u>	<u>503,262</u>	<u>481,161</u>
Change in net assets	<u>\$ (22,034)</u>	<u>\$ (67)</u>	<u>\$ 503,262</u>	<u>\$ 481,161</u>