

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

Milwaukee, Wisconsin

**CONSOLIDATED FINANCIAL STATEMENTS**

Including Independent Auditors' Report

As of and for the Years Ended August 31, 2019 and 2018

# **AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
AIDS Resource Center of Wisconsin, Inc. and Affiliates  
Milwaukee, Wisconsin

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of AIDS Resource Center of Wisconsin, Inc. and Affiliates (the "Organization"), which comprise the consolidated statements of financial position as of August 31, 2019 and 2018, and the related consolidated statements of activities, cash flows and functional expenses 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.

### ***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 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 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of August 31, 2019 and 2018, 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.

## ***Emphasis of Matter***

As discussed in Note 2 to the consolidated financial statements, the Organization adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Report on Consolidating Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information included in the table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual organizations, and it is not a required part of the consolidated financial statements. Such 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 consolidating 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 consolidating 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 December 10, 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.

*Baker Tilly Virchow Krause, LLP*

Milwaukee, Wisconsin  
December 10, 2019

# AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of August 31, 2019 and 2018

<b>ASSETS</b>		
	<u>2019</u>	<u>2018</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 18,574,701	\$ 14,080,231
Contributions receivable, net	2,032,791	796,737
Accounts and grants receivable, net	9,879,130	7,241,810
Inventory	2,605,601	2,099,923
Prepaid expenses	520,540	342,011
Total Current Assets	<u>33,612,763</u>	<u>24,560,712</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>5,510,078</u>	<u>4,367,915</u>
<b>OTHER ASSETS</b>		
Contributions receivable, net current portion	248,571	27,660
HUD restricted escrow and other assets	51,994	38,154
Investments	9,436,994	7,225,911
Total Other Assets	<u>9,737,559</u>	<u>7,291,725</u>
<b>TOTAL ASSETS</b>	<u>\$ 48,860,400</u>	<u>\$ 36,220,352</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 2,214,662	\$ 1,764,152
Accrued expenses	1,495,449	1,102,128
Other current liabilities	8,631	987
Capital advance	680,090	-
Total Current Liabilities	<u>4,398,832</u>	<u>2,867,267</u>
<b>LONG-TERM LIABILITIES</b>		
Deferred compensation obligation	80,914	76,458
Capital advance	-	680,090
Total Long-Term Liabilities	<u>80,914</u>	<u>756,548</u>
Total Liabilities	<u>4,479,746</u>	<u>3,623,815</u>
<b>NET ASSETS</b>		
Without donor restrictions		
Undesignated	23,370,714	17,101,512
Board designated	13,200,032	10,312,500
Property and equipment less related debt	4,829,988	3,687,825
Total Net Assets Without Donor Restrictions	<u>41,400,734</u>	<u>31,101,837</u>
With donor restrictions	2,979,920	1,494,700
Total Net Assets	<u>44,380,654</u>	<u>32,596,537</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 48,860,400</u>	<u>\$ 36,220,352</u>

See accompanying notes to consolidated financial statements.

# AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES

## CONSOLIDATED STATEMENTS OF ACTIVITIES For the Years Ended August 31, 2019 and 2018

	2019			2018		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
<b>REVENUE</b>						
Government grants	\$ 17,397,989	\$ -	\$ 17,397,989	\$ 13,055,841	\$ -	\$ 13,055,841
Grants and public support	1,104,289	2,266,952	3,371,241	1,137,550	744,237	1,881,787
Special events						
Special events revenue	1,169,733	-	1,169,733	970,008	-	970,008
Special events expense	(683,415)	-	(683,415)	(581,555)	-	(581,555)
Contractual partnerships	436,217	-	436,217	338,157	-	338,157
Reimbursement for services and pharmacy	101,773,981	-	101,773,981	84,401,414	-	84,401,414
Other income	63,881	28,255	92,136	150,721	70,569	221,290
Net assets released from restriction	809,987	(809,987)	-	251,064	(251,064)	-
Total Revenue	<u>122,072,662</u>	<u>1,485,220</u>	<u>123,557,882</u>	<u>99,723,200</u>	<u>563,742</u>	<u>100,286,942</u>
<b>EXPENSES</b>						
Clinical and program services						
Medical center	10,938,612	-	10,938,612	9,184,067	-	9,184,067
Pharmacy	75,760,152	-	75,760,152	64,106,185	-	64,106,185
Social services and other	11,911,661	-	11,911,661	7,880,918	-	7,880,918
Prevention services	5,075,878	-	5,075,878	4,454,588	-	4,454,588
Management and general	7,771,571	-	7,771,571	5,643,778	-	5,643,778
Fundraising	971,918	-	971,918	795,971	-	795,971
Total Expenses	<u>112,429,792</u>	<u>-</u>	<u>112,429,792</u>	<u>92,065,507</u>	<u>-</u>	<u>92,065,507</u>
Change in Net Assets Related to Operations	9,642,870	1,485,220	11,128,090	7,657,693	563,742	8,221,435
Other change in net assets						
Inherent contribution from acquisition of St. Louis Effort for AIDS, Inc.	656,027	-	656,027	-	-	-
<b>CHANGE IN NET ASSETS</b>	10,298,897	1,485,220	11,784,117	7,657,693	563,742	8,221,435
NET ASSETS - Beginning of Year	<u>31,101,837</u>	<u>1,494,700</u>	<u>32,596,537</u>	<u>23,444,144</u>	<u>930,958</u>	<u>24,375,102</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 41,400,734</u>	<u>\$ 2,979,920</u>	<u>\$ 44,380,654</u>	<u>\$ 31,101,837</u>	<u>\$ 1,494,700</u>	<u>\$ 32,596,537</u>

See accompanying notes to consolidated financial statements.

# AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES

## CONSOLIDATED STATEMENTS OF CASH FLOWS For the Years Ended August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 11,784,117	\$ 8,221,435
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	1,183,587	898,917
Gain on disposal of property and equipment	-	(300)
Deferred compensation	4,456	34,189
Inherent contribution from acquisition of St. Louis Effort for AIDS, Inc.	(656,027)	-
Net unrealized gain on investments	(99,225)	(23,753)
Changes in operating assets and liabilities		
Contributions receivable	(1,456,965)	67,673
Accounts and grants receivable	(2,235,001)	319,939
Inventory	(505,678)	(505,651)
Prepaid expenses	(164,909)	37,060
Change in deposits and HUD restricted escrow	(13,840)	21,721
Accounts payable	521,427	80,973
Accrued expenses	388,293	(175,194)
Other current liabilities	7,644	(167)
Net Cash Flows from Operating Activities	<u>8,757,879</u>	<u>8,976,842</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(2,396,667)	(766,131)
Proceeds from disposal of property and equipment	-	300
Purchase of investments	(2,111,858)	(6,307,702)
Cash acquired from acquisition of St. Louis Effort for AIDS, Inc.	245,116	-
Net Cash Flows from Investing Activities	<u>(4,263,409)</u>	<u>(7,073,533)</u>
<b>Net Change in Cash and Cash Equivalents</b>	4,494,470	1,903,309
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>14,080,231</u>	<u>12,176,922</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 18,574,701</u>	<u>\$ 14,080,231</u>
<b>Noncash investing and financing activities</b>		
Purchase of property and equipment financed with accounts payable	\$ -	\$ 70,917
Acquisition of St. Louis Effort for AIDS, Inc. assets and liabilities	\$ 410,911	\$ -

See accompanying notes to consolidated financial statements.

# AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended August 31, 2019

	Medical Center	Pharmacy	Social Services and Other	Prevention Services	Total Clinical and Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 5,189,455	\$ 2,569,139	\$ 5,386,423	\$ 2,041,158	\$ 15,186,175	\$ 3,267,023	\$ 537,479	\$ 18,990,677
Payroll taxes	374,681	186,770	412,203	153,833	1,127,487	161,599	37,837	1,326,923
Employee benefits	<u>886,966</u>	<u>460,758</u>	<u>1,209,623</u>	<u>478,647</u>	<u>3,035,994</u>	<u>635,673</u>	<u>60,890</u>	<u>3,732,557</u>
Total personnel expenses	6,451,102	3,216,667	7,008,249	2,673,638	19,349,656	4,064,295	636,206	24,050,157
Pharmacy cost of sales	-	71,454,008	-	-	71,454,008	-	-	71,454,008
Contracted program services	1,112,020	-	816,171	191,760	2,119,951	16,500	-	2,136,451
Client and patient assistance	103,746	-	1,909,041	4,351	2,017,138	-	3,000	2,020,138
Program materials	238,210	9,515	45,791	1,373,145	1,666,661	5,666	-	1,672,327
Patient medications and laboratory	1,197,539	-	-	-	1,197,539	-	-	1,197,539
Employee travel and education	137,494	42,759	182,941	131,746	494,940	161,717	17,029	673,686
Office and insurance	152,359	438,951	215,568	96,813	903,691	587,781	51,846	1,543,318
Professional services	364,212	11,700	80,785	22,124	478,821	1,623,574	88,404	2,190,799
Repairs and maintenance	129,167	33,318	209,066	72,960	444,511	90,489	13,948	548,948
Occupancy	453,790	96,505	798,689	258,408	1,607,392	150,672	48,827	1,806,891
Depreciation	382,569	73,513	439,027	169,242	1,064,351	89,490	29,746	1,183,587
Information technology	165,984	96,534	169,456	58,215	490,189	228,297	48,290	766,776
Other expenses	<u>50,420</u>	<u>286,682</u>	<u>36,877</u>	<u>23,476</u>	<u>397,455</u>	<u>753,090</u>	<u>34,622</u>	<u>1,185,167</u>
Total Expenses	<u>\$ 10,938,612</u>	<u>\$ 75,760,152</u>	<u>\$ 11,911,661</u>	<u>\$ 5,075,878</u>	<u>\$ 103,686,303</u>	<u>\$ 7,771,571</u>	<u>\$ 971,918</u>	<u>\$ 112,429,792</u>

See accompanying notes to consolidated financial statements.



# AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended August 31, 2018

	Medical Center	Pharmacy	Social Services and Other	Prevention Services	Total Clinical and Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 4,386,927	\$ 1,834,513	\$ 3,754,940	\$ 1,468,218	\$ 11,444,598	\$ 2,694,565	\$ 466,809	\$ 14,605,972
Payroll taxes	310,503	130,803	275,969	110,801	828,076	155,965	31,889	1,015,930
Employee benefits	766,863	316,018	855,039	328,707	2,266,627	492,089	46,704	2,805,420
Total personnel expenses	5,464,293	2,281,334	4,885,948	1,907,726	14,539,301	3,342,619	545,402	18,427,322
Pharmacy cost of sales	-	60,923,141	-	-	60,923,141	-	-	60,923,141
Contracted program services	1,006,372	-	69,029	337,644	1,413,045	-	-	1,413,045
Client and patient assistance	82,757	-	1,293,090	4,320	1,380,167	-	-	1,380,167
Program materials	122,155	2,821	38,831	1,571,443	1,735,250	2,726	-	1,737,976
Patient medications and laboratory	1,021,839	-	-	-	1,021,839	-	-	1,021,839
Employee travel and education	144,676	29,721	108,722	90,497	373,616	88,663	12,661	474,940
Office and insurance	112,954	335,146	152,227	71,648	671,975	409,215	44,158	1,125,348
Professional services	307,699	32,933	41,893	1,850	384,375	863,442	38,237	1,286,054
Repairs and maintenance	177,775	48,936	226,076	89,865	542,652	69,747	19,986	632,385
Occupancy	324,487	104,180	520,402	176,559	1,125,628	124,067	15,932	1,265,627
Depreciation	292,395	51,836	337,125	133,895	815,251	57,031	26,635	898,917
Information technology	87,928	85,556	185,783	65,117	424,384	208,892	46,372	679,648
Other expenses	38,737	210,581	21,792	4,024	275,134	477,376	46,588	799,098
Total Expenses	<u>\$ 9,184,067</u>	<u>\$ 64,106,185</u>	<u>\$ 7,880,918</u>	<u>\$ 4,454,588</u>	<u>\$ 85,625,758</u>	<u>\$ 5,643,778</u>	<u>\$ 795,971</u>	<u>\$ 92,065,507</u>

See accompanying notes to consolidated financial statements.

# AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2019 and 2018

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### **NOTE 1 - Organization, Nature of Activities and Basis of Consolidation**

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The AIDS Resource Center of Wisconsin, Inc. and Affiliates (the "Organization") is a provider of HIV health care, social services and prevention services in the States of Wisconsin, Colorado and Missouri. 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 in Denver, Colorado, St. Louis, Missouri and throughout Wisconsin with locations in Appleton, Beloit, Eau Claire, Green Bay, La Crosse, Kenosha, Madison, Milwaukee, Schofield/Wausau and Superior.

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

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### **NOTE 2 - Summary of Significant Accounting Policies**

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#### *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 two classes:

**Without Donor Restriction** - Net assets that are not subject to donor-imposed stipulations.

**With Donor Restriction** - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization or passage of time. 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 Organization.

#### *Board Designated Net Assets*

The Organization's Board of Directors has the ability to designate identified amounts of net assets without donor restrictions to be used by management for specific future projects or activities. These designations can be modified or removed by the Board of Directors at any time. See Note 16 for more information regarding the amount and purpose of board designated net assets of the Organization.

## AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2019 and 2018

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#### **NOTE 2 - Summary of Significant Accounting Policies** (continued)

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##### *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.

##### *Risks and Uncertainties*

The Organization invests in various investment securities, which 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 consolidated financial statements.

##### *Tax-Exempt Status*

ARCW, MAHC, and the Endowment are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, ARCW, MAHC, and the Endowment qualify for the charitable contribution deduction under Section 170(b)(1)(A) and have been classified as organizations that are not private foundations under section 509(a)(2). ARCW, MAHC, and the Endowment are also exempt from Wisconsin income taxes.

##### *Cash and Cash Equivalents*

For purposes of the consolidated financial statements, cash and cash equivalents including short-term investments include all highly liquid debt instruments with original maturities of three months or less.

##### *Concentration of Credit Risk*

The Organization maintains cash accounts, 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.

##### *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. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2019 and 2018

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#### **NOTE 2 - Summary of Significant Accounting Policies** (continued)

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##### *Accounts and Grants Receivable*

Accounts and grants receivable consist of reimbursement for medical, dental, mental health and medical home services 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. In addition, accounts and grants receivable include reimbursement for pharmacy services and pharmaceuticals. Accounts and grants receivable are recorded net of contractual allowances, patient subsidies, and estimated uncollectible amounts. Management of the Organization reviews the collectibility of accounts and grants receivable on an ongoing basis based on previous experience and the current status of the receivables. Accounts and grants receivable are written off against the allowance when deemed uncollectible.

##### *Inventory*

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

##### *Property and Equipment*

Property and equipment is 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.

##### *Impairment of Long-Lived Assets*

The Organization reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of the asset. To date, there have been no such losses.

##### *Investments*

The Organization has engaged professional investment advisors to manage its portfolio. The Organization's investments are stated at fair value based upon quoted market prices, when available, or estimates of fair value. The Board of Directors has provided the firm with guidelines consistent with a socially responsible prudent investment policy and the conservative nature of the Organization. Gains and losses that result from market fluctuations are recorded in the period in which the fluctuation occurs.

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).

## AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2019 and 2018

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#### **NOTE 2 - Summary of Significant Accounting Policies** (continued)

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##### *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 consolidated statements of financial position.

##### *Revenue Recognition*

Funds due from government grants are recognized as revenue in the accounting period in which the revenue is earned. Unconditional 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.

The Organization reports gifts of cash and other assets as with donor restrictions if they are received with donor stipulations that limit the use of the donated assets or are designated for future periods. Contributions received with restrictions that are met in the same reporting period are reported as contributions without donor restrictions. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Certain clinical and program services are 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.

##### *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 recognized by the Organization were \$510,920 and \$188,365 for the years ended August 31, 2019 and 2018, 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 consolidated statements of functional expenses. Expenses are directly charged throughout the year to the appropriate program or supporting service. Certain costs, such as personnel expenses have been allocated based on time and effort of employees. Expenses such as occupancy, depreciation, and information technology are allocated based on full-time equivalents within departments.

# AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2019 and 2018

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### **NOTE 2 - Summary of Significant Accounting Policies** (continued)

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#### *Measure of Operations*

The consolidated statements of activities include change in net assets related to operations that represents the results of operations. Other activities which are excluded from change in net assets related to operations include activities incidental to the operations of the Organization including the inherent contribution from the acquisition of St. Louis Effort for AIDS, Inc.

#### *Change in Accounting Principle*

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Organization adopted ASU No. 2016-14 in 2019 and has applied the changes retrospectively to all periods presented, except for the disclosures around liquidity and availability of resources. These disclosures have been presented for 2019 only as allowed by ASU No. 2016-14. The new standard changes the following aspects of the consolidated financial statements:

- > The unrestricted net asset class has been renamed net assets without donor restrictions
- > The temporarily restricted and permanently restricted net asset classes have been renamed net assets with donor restrictions
- > The consolidated financial statements include disclosures about liquidity and availability of resources (Note 3)
- > Expenses within the consolidated statements of activities and consolidated statements of functional expenses were reclassified to apply the clarified guidance

#### *New Accounting Pronouncements*

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. Additional updates defer the effective date of ASU No. 2014-09, clarify the implementation guidance on principal versus agent considerations, clarify the identification of performance obligations and the licensing implementation guidance. ASU No. 2014-09 (as amended) is effective for annual periods beginning after December 15, 2018 (2020). The changes may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. Management is currently assessing the effect that ASU No. 2014-09 (as amended) will have on its consolidated financial statements.

In June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in ASU No. 2018-08 should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU No. 2018-08 is effective for contributions received during annual periods beginning after December 15, 2018 (2020) and contributions made during annual periods beginning after December 15, 2019 (2021). Management is currently assessing the effect that ASU No. 2018-08 will have on its consolidated financial statements.

## AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2019 and 2018

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#### NOTE 2 - Summary of Significant Accounting Policies (continued)

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In November 2016, FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This standard will require cash flow statements to explain the change during a reporting period of the totals for cash, cash equivalents, restricted cash, and restricted cash equivalents. Amounts reported as restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update also includes a requirement that the footnotes to the financial statements explain the nature of the restrictions. The Organization will be required to apply the standard for annual periods beginning after December 15, 2018 (2020). Management is currently assessing the effect that ASU No. 2016-18 will have on its consolidated financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02") that amends the treatment for leases. The new accounting model for leases capitalizes all leases greater than twelve months, both capital and operating, as assets and liabilities on the statement of financial position. In November 2019, FASB issued ASU No. 2019-10, *Financial Instruments - Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which delays the effective date of ASU No. 2016-02 one year for certain entities. The Organization will be required to apply the standard for fiscal years and reporting periods beginning after December 15, 2020 (2022). Early adoption is permitted. Management is currently evaluating the impact of ASU No. 2016-02 on the Organization's consolidated financial statements.

#### *Subsequent Events*

The Organization has evaluated events and transactions for potential recognition or disclosure in the consolidated financial statements through December 10, 2019, the date on which the consolidated financial statements were available to be issued.

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#### NOTE 3 - Availability of Financial Assets

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The following represents the Organization's financial assets at August 31, 2019:

Cash and cash equivalents	\$ 18,574,701
Contributions receivable, net	2,032,791
Accounts and grants receivable, net	9,879,130
Less: Cash and cash equivalents held for others	(37,158)
Less: Net assets with donor restrictions	(2,979,920)
Less: Board designated net assets	<u>(13,200,032)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 14,269,512</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. If needed, the Board designated funds of \$13,200,000 could be released for general expenditures after receiving Board approval. In addition, as referenced in Note 12, the Organization has a line of credit of \$4,800,000 that could be drawn upon to support expenditures, if needed.

## AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2019 and 2018

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#### NOTE 4 - Merger of St. Louis Effort for AIDS, LLC

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On September 1, 2018, ARCW merged operations with St. Louis Effort for AIDS, Inc. (an unrelated non-profit organization) to expand operations of the Organization into a new market. Under terms of the transaction, no consideration was transferred to either organization and St. Louis Effort for AIDS, Inc. was dissolved and included in the operations of ARCW. Pursuant to generally accepted accounting principles, the Organization accounted for the transactions as an acquisition recognizing the underlying assets and liabilities acquired at fair value, resulting in an inherent contribution of \$656,027 recognized in the consolidated statements of activities.

The valuation of net assets acquired at September 1, 2018 for St. Louis Effort for AIDS, Inc. was as follows:

Cash	\$	245,116
Accounts and grants receivable		402,319
Prepaid expenses		13,620
Accrued expenses		<u>(5,028)</u>
Contributions recognized on acquisition of St. Louis Effort for AIDS, Inc.	\$	<u>656,027</u>

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#### NOTE 5 - Fair Value Measurements

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The Organization follows authoritative accounting guidance which provides a framework for measuring, reporting and disclosing fair value under generally accepted accounting principles. These standards apply to all assets and liabilities that are measured, reported and/or disclosed on a fair value basis.

As defined in these standards, 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. In determining fair value, the Organization uses various valuation methods including the market, income and cost approaches. The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be either readily observable, market corroborated, or generally unobservable inputs. Whenever possible the Organization attempts to utilize valuation methods that maximize the use of observable inputs and minimizes the use of unobservable inputs. Based on the observability of the inputs used in the valuation methods the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Assets and liabilities measured, reported and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

- Level 1 – Quoted market prices in active markets for identical assets or liabilities.
- Level 2 – Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3 – Unobservable inputs that are not corroborated by market data.

*Money market fund and certificates of deposit:* Valued at the closing price as reported by the funds and institutions issuing the certificates of deposit. These funds and certificates of deposit are not traded on a regular basis and therefore are classified as level 2 investments.



# AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2019 and 2018

### **NOTE 5 - Fair Value Measurements** (continued)

*Bond and equity 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 recorded at fair value based on quoted prices and are classified as level 1 investments.

*Real estate:* Investment represents a timeshare in certain property and is valued at the estimated fair market value and classified as level 3 investment.

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.

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

2019				
	Level 1	Level 2	Level 3	Total
Investments				
Money market fund	\$ -	\$ 1,228,110	\$ -	\$ 1,228,110
Certificates of deposit	-	7,053,969	-	7,053,969
Bond mutual funds	267,825	-	-	267,825
Equity mutual funds	879,090	-	-	879,090
Real estate	-	-	8,000	8,000
Total Investments	<u>\$ 1,146,915</u>	<u>\$ 8,282,079</u>	<u>\$ 8,000</u>	<u>\$ 9,436,994</u>
2018				
	Level 1	Level 2	Level 3	Total
Investments				
Money market fund	\$ -	\$ 52,936	\$ -	\$ 52,936
Certificates of deposit	-	6,164,811	-	6,164,811
Bond mutual funds	155,385	-	-	155,385
Equity mutual funds	844,779	-	-	844,779
Real estate	-	-	8,000	8,000
Total Investments	<u>\$ 1,000,164</u>	<u>\$ 6,217,747</u>	<u>\$ 8,000</u>	<u>\$ 7,225,911</u>

## AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2019 and 2018

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#### NOTE 6 - Investments

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Investments at August 31 are as follows:

	2019	2018
Endowment investments	\$ 703,869	\$ 675,614
Investments held for non-qualified deferred compensation	296,718	182,527
Other investments	8,436,407	6,367,770
Total	<u>\$ 9,436,994</u>	<u>\$ 7,225,911</u>

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#### NOTE 7 - Contributions Receivable

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Contributions receivable at August 31 are as follows:

	2019	2018
Less than one year	\$ 2,065,818	\$ 829,764
One to five years	253,796	30,000
	2,319,614	859,764
Less: Allowance for uncollectible contributions	(33,027)	(33,027)
Less: Discount to present value	(5,225)	(2,340)
Total contributions receivable, net	2,281,362	824,397
Contributions receivable, current portion	2,032,791	796,737
Contributions receivable, long-term portion	<u>\$ 248,571</u>	<u>\$ 27,660</u>

Contributions receivable to be collected in excess of one year are discounted using a rate of 2% and 1.3% as of August 31, 2019 and 2018, respectively.

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#### NOTE 8 - Accounts and Grants Receivable

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Accounts and grants receivable consists of the following as of August 31:

	2019	2018
Government grants receivable	\$ 3,622,609	\$ 2,425,455
Patient receivables	125,182	132,895
Insurance receivables	6,078,565	4,660,668
340b and other receivables	554,910	521,112
Total	10,381,266	7,740,130
Less: Allowance and related adjustments	(502,136)	(498,320)
Net Accounts and Grants Receivable	<u>\$ 9,879,130</u>	<u>\$ 7,241,810</u>

## AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2019 and 2018

#### **NOTE 9 - Restrictions on Cash**

MAHC maintains a separate, restricted cash account as required by U.S. Department of Housing and Urban Development ("HUD"). Monthly deposits are made as required by HUD for the reserve for replacement and is maintained in an interest bearing account separate from the operating account of MAHC. Disbursements are restricted to replacement of structural elements or equipment and may be made only upon approval by HUD. Upon satisfaction of the mortgage note related to the capital advance (see Note 13), the balance in this fund reverts to the benefit of MAHC. At August 31, 2019 and 2018 the reserve for replacement of MAHC included within restricted cash on the consolidated statements of financial position was \$36,993 and \$33,859, respectively.

#### **NOTE 10 - Property and Equipment**

Property and equipment consists of the following at August 31:

	2019	2018
Land	\$ 200	\$ 200
Garden View Apartments	717,536	730,071
Leasehold improvements	7,382,711	5,743,999
Furniture and fixtures	958,672	1,129,964
Office equipment and technology	955,658	1,510,336
Motor vehicles	170,233	82,351
Health care equipment	669,393	637,029
Leased office equipment	105,136	105,136
Construction in progress	-	288,814
Total	10,959,539	10,227,900
Less: Accumulated depreciation	(5,449,461)	(5,859,985)
Net Property and Equipment	<u>\$ 5,510,078</u>	<u>\$ 4,367,915</u>

#### **NOTE 11 - 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, Wisconsin, Denver, Colorado and St. Louis, Missouri with expirations at various dates through 2028.

Future minimum lease payments under operating leases are as follows:

<u>Year Ended August 31,</u>	
2020	\$ 1,453,205
2021	1,369,797
2022	1,315,000
2023	1,275,553
2024	920,538
Thereafter	3,230,517
	<u>\$ 9,564,610</u>

## **AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** As of and for the Years Ended August 31, 2019 and 2018

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#### **NOTE 11 - Operating Leases (continued)**

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Total rent and related occupancy expenses was \$1,488,381 and \$1,007,921 for the years ended August 31, 2019 and 2018, respectively. During 2019, the Organization terminated an operating lease early due to no longer using the space being rented and recognized a loss on the contract of \$443,764 within other income on the consolidated statements of activities.

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#### **NOTE 12 - Line of Credit**

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The Organization has a \$4,800,000 line of credit with a bank. The line of credit has an interest rate of one month LIBOR plus 1.30% (3.53% as of August 31, 2019) and matures on March 28, 2021. The line of credit is secured by the assets of the Organization. The line of credit had no outstanding balances at August 31, 2019 and 2018.

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#### **NOTE 13 - Capital Advance**

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HUD advanced MAHC funds that were used in the construction of MAHC's Garden View Apartments to house people with HIV and AIDS. HUD will not require repayment of these funds provided MAHC continues to provide housing for low income persons with disabilities, as defined in Section 811 of the National Affordable Housing Act of 1990 and applicable HUD regulations. Failure to meet this restriction, which expires July, 2037, would result in the full balance, including interest from inception, to become payable to HUD. As of August 31, 2019 and 2018, the total HUD capital advances were \$680,090. The entire amount is recorded in capital advance on the accompanying consolidated statements of financial position. At August 31, 2019 the capital advance is classified as a current liability due to management's plan to settle the advance with HUD during fiscal 2020.

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#### **NOTE 14 - Letter of Credit For Unemployment Compensation**

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The Organization is self-funded for state unemployment compensation purposes. In accordance with state laws and regulations, a \$146,184 letter of credit in favor of the Wisconsin unemployment reserve fund is maintained which is collateralized by substantially all assets of the Organization.

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#### **NOTE 15 - Deferred Compensation Plan**

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The Organization and members of management have entered into deferred compensation agreements whereby the Organization is obligated to make quarterly contributions, as defined in the agreement, on behalf of the executives. 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 executives' attainment of age 65 as well as other contractual provisions. As of August 31, 2019 and 2018, investments of \$296,718 and \$182,527 are reflected as investments and an accrued liability for the earned deferred compensation obligation of \$80,914 and \$76,458 are included in the accompanying consolidated statements of financial position. Deferred compensation expense was \$4,456 and \$34,189 for the years ended August 31, 2019 and 2018, respectively.

# AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2019 and 2018

### NOTE 16 - Net Assets

The Organization's Board of Directors created a board designated fund to establish a reserve and ensure continued success and long-term financial stability for the Organization. The reserves are available for future critical needs of the Organization and use of these reserves require Board of Directors approval. The amount of Board designated net assets is as follows at August 31:

	2019	2018
Board designated reserve	\$13,200,032	\$10,312,500

Net assets with donor restrictions as of August 31 consist of the following:

	2019	2018
United Way	\$ 356,938	\$ 230,976
Other contributions receivable	1,924,424	593,421
Unappropriated endowment earnings	182,409	154,154
Investments held in perpetuity	516,149	516,149
Total net assets with donor restrictions	<u>\$ 2,979,920</u>	<u>\$ 1,494,700</u>

### NOTE 17 - Endowment

The Organization follows the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") and Enhanced Disclosures for All Endowment Funds. A key component of the guidance and UPMIFA is a requirement to classify the portion of a donor-restricted endowment fund as net assets with donor restrictions until appropriated for expenditure. Another key component of the guidance is a requirement for expanded disclosures about all endowments.

The Board of Directors of the Endowment has adopted a policy that there shall be no active fundraising for the Endowment until the ARCW strategic plan financial reserve goal is achieved.

The Organization's endowment net asset composition by type of fund is as follows for the years ended August 31:

	2019		
	Accumulated Earnings	Original Gift	Total
Donor restricted	<u>\$ 182,409</u>	<u>\$ 516,149</u>	<u>\$ 698,558</u>
	2018		
	Accumulated Earnings	Original Gift	Total
Donor restricted	<u>\$ 154,154</u>	<u>\$ 516,149</u>	<u>\$ 670,303</u>

## AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2019 and 2018

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#### NOTE 17 - Endowment (continued)

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

	2019		
	Accumulated Earnings	Original Gift	Total
Endowment net assets, beginning of year	\$ 154,154	\$ 516,149	\$ 670,303
Investment income	28,255	-	28,255
Endowment net assets, end of year	<u>\$ 182,409</u>	<u>\$ 516,149</u>	<u>\$ 698,558</u>

  

	2018		
	Accumulated Earnings	Original Gift	Total
Endowment net assets, beginning of year	\$ 86,856	\$ 516,149	\$ 603,005
Investment income	70,569	-	70,569
Amounts appropriated for expenditure	(3,271)	-	(3,271)
Endowment net assets, end of year	<u>\$ 154,154</u>	<u>\$ 516,149</u>	<u>\$ 670,303</u>

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#### NOTE 18 - ARCW Uncompensated Care and Treatment

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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:

	2019	2018
Contractual allowances	\$ 2,829,535	\$ 2,221,748
Patient subsidy	729,410	795,024
Patient medications	563,015	464,286
Patient laboratory testing	210,468	184,869
Patient assistance	397,706	236,972
Total	<u>\$ 4,730,134</u>	<u>\$ 3,902,899</u>

## AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2019 and 2018

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#### NOTE 19 - Medical Center and Social Services Expenses

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The Organization 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 identify expenses for the Medical Center and 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:

Medical Center	2019	2018
Medical Clinic	\$ 7,027,018	\$ 5,805,958
Dental Clinic	1,847,468	1,628,133
Behavioral Health and Wellness Clinic	2,064,126	1,749,976
Total Medical Center expenses	<u>\$ 10,938,612</u>	<u>\$ 9,184,067</u>
Social Services and Other	2019	2018
Case management	\$ 10,326,660	\$ 6,745,953
Food services	937,933	652,000
Legal services	647,068	482,965
Total Social Services and Other expenses	<u>\$ 11,911,661</u>	<u>\$ 7,880,918</u>

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#### NOTE 20 - Related Parties

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The Organization's Board of Directors and staff has made donations totaling \$71,036 and \$75,489 during the years ended August 31, 2019 and 2018, respectively.

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#### NOTE 21 - In-Kind Goods and Services

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In-kind goods and services included in the accompanying consolidated financial statements have an estimated value of \$60,260 and \$499,814 for the years ended August 31, 2019 and 2018, respectively. The Organization received \$0 and \$390,320 of pharmaceuticals, \$60,260 and \$62,654 of medical services, and \$0 and \$46,840 of furniture, respectively.

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#### NOTE 22 - Retirement Plans

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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 \$607,612 and \$450,474 for the years ended August 31, 2019 and 2018, respectively.

## **AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** As of and for the Years Ended August 31, 2019 and 2018

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#### **NOTE 23 - Contingencies**

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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.

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#### **NOTE 24 - Subsequent Events**

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Subsequent to August 31, 2019, the Organization announced that it will be changing its name to Vivent Health in 2020. This change will have no impact on the operating structure of the Organization.



## **SUPPLEMENTAL INFORMATION**

# AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES

## CONSOLIDATING SCHEDULE OF FINANCIAL POSITION As of August 31, 2019

	AIDS Resource Center of Wisconsin, Inc.	ARCW Pharmacy, LLC	CARES Pharmacy, LLC	EFA Pharmacy, LLC	ARCW Endowment Fund, Inc.	Milwaukee AIDS Housing Corporation, Inc.	Eliminations	Consolidated
<b>CURRENT ASSETS</b>								
Cash and cash equivalents	\$ 4,910,375	\$ 10,099,013	\$ 2,408,252	\$ 1,029,874	\$ -	\$ 127,187	\$ -	\$ 18,574,701
Contributions receivable, net	2,032,791	-	-	-	-	-	-	2,032,791
Accounts and grants receivable, net	3,842,512	3,955,887	1,169,318	904,942	-	6,471	-	9,879,130
Inventory	-	1,648,646	660,487	296,468	-	-	-	2,605,601
Prepaid expenses	463,964	41,780	8,243	2,789	-	3,764	-	520,540
Amount due from affiliates	13,306,479	-	-	295,254	-	-	(13,601,733)	-
Total Current Assets	<u>24,556,121</u>	<u>15,745,326</u>	<u>4,246,300</u>	<u>2,529,327</u>	<u>-</u>	<u>137,422</u>	<u>(13,601,733)</u>	<u>33,612,763</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>5,058,930</u>	<u>74,005</u>	<u>10,773</u>	<u>197,731</u>	<u>-</u>	<u>168,639</u>	<u>-</u>	<u>5,510,078</u>
<b>OTHER ASSETS</b>								
Contributions receivable, net current portion	248,571	-	-	-	-	-	-	248,571
HUD restricted escrow and other assets	15,001	-	-	-	-	36,993	-	51,994
Investments	8,733,125	-	-	-	703,869	-	-	9,436,994
Total Other Assets	<u>8,996,697</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>703,869</u>	<u>36,993</u>	<u>-</u>	<u>9,737,559</u>
<b>TOTAL ASSETS</b>	<u>\$ 38,611,748</u>	<u>\$ 15,819,331</u>	<u>\$ 4,257,073</u>	<u>\$ 2,727,058</u>	<u>\$ 703,869</u>	<u>\$ 343,054</u>	<u>\$ (13,601,733)</u>	<u>\$ 48,860,400</u>
<b>CURRENT LIABILITIES</b>								
Accounts payable	\$ 1,887,117	\$ 323,779	\$ 2,648	\$ 934	\$ -	\$ 184	\$ -	\$ 2,214,662
Accrued expenses	780,761	517,195	154,808	42,685	-	-	-	1,495,449
Other current liabilities	7,477	-	-	-	-	1,154	-	8,631
Capital advance	-	-	-	-	-	680,090	-	680,090
Amounts due to affiliates	-	7,865,714	2,355,182	2,579,504	5,311	796,022	(13,601,733)	-
Total Current Liabilities	<u>2,675,355</u>	<u>8,706,688</u>	<u>2,512,638</u>	<u>2,623,123</u>	<u>5,311</u>	<u>1,477,450</u>	<u>(13,601,733)</u>	<u>4,398,832</u>
<b>LONG-TERM LIABILITIES</b>								
Deferred compensation obligation	80,914	-	-	-	-	-	-	80,914
Total Liabilities	<u>2,756,269</u>	<u>8,706,688</u>	<u>2,512,638</u>	<u>2,623,123</u>	<u>5,311</u>	<u>1,477,450</u>	<u>(13,601,733)</u>	<u>4,479,746</u>
<b>NET ASSETS (DEFICIT)</b>								
Undesignated (deficit)	15,315,155	7,038,638	1,733,662	(93,796)	-	(622,945)	-	23,370,714
Board designated	13,200,032	-	-	-	-	-	-	13,200,032
Property and equipment less related debt (deficit)	5,058,930	74,005	10,773	197,731	-	(511,451)	-	4,829,988
Total net assets without donor restrictions	<u>33,574,117</u>	<u>7,112,643</u>	<u>1,744,435</u>	<u>103,935</u>	<u>-</u>	<u>(1,134,396)</u>	<u>-</u>	<u>41,400,734</u>
With donor restrictions	<u>2,281,362</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>698,558</u>	<u>-</u>	<u>-</u>	<u>2,979,920</u>
Total Net Assets	<u>35,855,479</u>	<u>7,112,643</u>	<u>1,744,435</u>	<u>103,935</u>	<u>698,558</u>	<u>(1,134,396)</u>	<u>-</u>	<u>44,380,654</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 38,611,748</u>	<u>\$ 15,819,331</u>	<u>\$ 4,257,073</u>	<u>\$ 2,727,058</u>	<u>\$ 703,869</u>	<u>\$ 343,054</u>	<u>\$ (13,601,733)</u>	<u>\$ 48,860,400</u>

# AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES

## CONSOLIDATING SCHEDULE OF FINANCIAL POSITION As of August 31, 2018

	AIDS Resource Center of Wisconsin, Inc.	ARCW Pharmacy, LLC	CARES Pharmacy, LLC	ARCW Endowment Fund, Inc.	Milwaukee AIDS Housing Corporation, Inc.	Eliminations	Consolidated
<b>CURRENT ASSETS</b>							
Cash and cash equivalents	\$ 4,214,454	\$ 8,868,702	\$ 916,648	\$ -	\$ 80,427	\$ -	\$ 14,080,231
Contributions receivable, net	796,737	-	-	-	-	-	796,737
Accounts and grants receivable, net	2,650,879	3,665,681	920,851	-	4,399	-	7,241,810
Inventory	-	1,565,215	534,708	-	-	-	2,099,923
Prepaid expenses	294,705	37,664	6,243	-	3,399	-	342,011
Amount due from affiliates	15,164,968	-	-	-	-	(15,164,968)	-
Total Current Assets	23,121,743	14,137,262	2,378,450	-	88,225	(15,164,968)	24,560,712
<b>PROPERTY AND EQUIPMENT, NET</b>	4,024,018	95,957	50,083	-	197,857	-	4,367,915
<b>OTHER ASSETS</b>							
Contributions receivable, net current portion	27,660	-	-	-	-	-	27,660
HUD restricted escrow and other assets	4,295	-	-	-	33,859	-	38,154
Investments	6,550,297	-	-	675,614	-	-	7,225,911
Total Other Assets	6,582,252	-	-	675,614	33,859	-	7,291,725
<b>TOTAL ASSETS</b>	<u>\$ 33,728,013</u>	<u>\$ 14,233,219</u>	<u>\$ 2,428,533</u>	<u>\$ 675,614</u>	<u>\$ 319,941</u>	<u>\$ (15,164,968)</u>	<u>\$ 36,220,352</u>
<b>CURRENT LIABILITIES</b>							
Accounts payable	1,467,612	296,540	-	-	-	-	1,764,152
Accrued expenses	640,012	377,075	85,041	-	-	-	1,102,128
Other current liabilities	-	-	-	-	987	-	987
Amounts due to affiliates	-	13,494,496	929,230	5,311	735,931	(15,164,968)	-
Total Current Liabilities	2,107,624	14,168,111	1,014,271	5,311	736,918	(15,164,968)	2,867,267
<b>LONG-TERM LIABILITIES</b>							
Deferred compensation obligation	76,458	-	-	-	-	-	76,458
Capital advance	-	-	-	-	680,090	-	680,090
Total Long-Term Liabilities	76,458	-	-	-	680,090	-	756,548
Total Liabilities	2,184,082	14,168,111	1,014,271	5,311	1,417,008	(15,164,968)	3,623,815
<b>NET ASSETS (DEFICIT)</b>							
Undesignated (deficit)	16,383,016	(30,849)	1,364,179	-	(614,834)	-	17,101,512
Board designated	10,312,500	-	-	-	-	-	10,312,500
Property and equipment less related debt (deficit)	4,024,018	95,957	50,083	-	(482,233)	-	3,687,825
Total net assets without donor restrictions	30,719,534	65,108	1,414,262	-	(1,097,067)	-	31,101,837
With donor restrictions	824,397	-	-	670,303	-	-	1,494,700
Total Net Assets	31,543,931	65,108	1,414,262	670,303	(1,097,067)	-	32,596,537
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 33,728,013</u>	<u>\$ 14,233,219</u>	<u>\$ 2,428,533</u>	<u>\$ 675,614</u>	<u>\$ 319,941</u>	<u>\$ (15,164,968)</u>	<u>\$ 36,220,352</u>

# AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES

## CONSOLIDATING SCHEDULE OF ACTIVITIES For the Year Ended August 31, 2019

	AIDS Resource Center of Wisconsin, Inc.	ARCW Pharmacy, LLC	CARES Pharmacy, LLC	EFA Pharmacy, LLC	ARCW Endowment Fund, Inc.	Milwaukee AIDS Housing Corporation, Inc.	Eliminations	Consolidated
<b>REVENUE</b>								
Government grants	\$ 17,397,989	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,397,989
Grants and public support	3,683,241	-	-	-	-	-	(312,000)	3,371,241
Special events								
Special events revenue	1,169,733	-	-	-	-	-	-	1,169,733
Special events expense	(683,415)	-	-	-	-	-	-	(683,415)
Contractual partnerships	436,217	-	-	-	-	-	-	436,217
Reimbursement for services and pharmacy	2,446,749	73,732,771	20,990,509	4,603,952	-	-	-	101,773,981
Other income	(21,723)	-	-	-	28,255	85,604	-	92,136
Total Revenue	<u>24,428,791</u>	<u>73,732,771</u>	<u>20,990,509</u>	<u>4,603,952</u>	<u>28,255</u>	<u>85,604</u>	<u>(312,000)</u>	<u>123,557,882</u>
<b>EXPENSES</b>								
Clinical and program services								
Medical center	10,938,612	-	-	-	-	-	-	10,938,612
Pharmacy	-	56,714,097	15,169,840	4,188,215	-	-	(312,000)	75,760,152
Social services and other	11,788,728	-	-	-	-	122,933	-	11,911,661
Prevention services	5,075,878	-	-	-	-	-	-	5,075,878
Management and general	4,987,211	2,161,164	623,196	-	-	-	-	7,771,571
Fundraising	971,918	-	-	-	-	-	-	971,918
Total Expenses	<u>33,762,347</u>	<u>58,875,261</u>	<u>15,793,036</u>	<u>4,188,215</u>	<u>-</u>	<u>122,933</u>	<u>(312,000)</u>	<u>112,429,792</u>
Change in Net Assets Related to Operations	<u>(9,333,556)</u>	<u>14,857,510</u>	<u>5,197,473</u>	<u>415,737</u>	<u>28,255</u>	<u>(37,329)</u>	<u>-</u>	<u>11,128,090</u>
Other changes in net assets								
Inherent contribution from acquisition of Effort for AIDS, Inc.	656,027	-	-	-	-	-	-	656,027
Transfer from related parties	12,989,077	-	-	-	-	-	(12,989,077)	-
Transfer to related parties	-	(7,809,975)	(4,867,300)	(311,802)	-	-	12,989,077	-
Total Other Changes in Net Assets	<u>13,645,104</u>	<u>(7,809,975)</u>	<u>(4,867,300)</u>	<u>(311,802)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>656,027</u>
Change in Net Assets	<u>4,311,548</u>	<u>7,047,535</u>	<u>330,173</u>	<u>103,935</u>	<u>28,255</u>	<u>(37,329)</u>	<u>-</u>	<u>11,784,117</u>
<b>NET ASSETS (DEFICIT), BEGINNING OF YEAR</b>	<u>31,543,931</u>	<u>65,108</u>	<u>1,414,262</u>	<u>-</u>	<u>670,303</u>	<u>(1,097,067)</u>	<u>-</u>	<u>32,596,537</u>
<b>NET ASSETS (DEFICIT), END OF YEAR</b>	<u>\$ 35,855,479</u>	<u>\$ 7,112,643</u>	<u>\$ 1,744,435</u>	<u>\$ 103,935</u>	<u>\$ 698,558</u>	<u>\$ (1,134,396)</u>	<u>\$ -</u>	<u>\$ 44,380,654</u>

# AIDS RESOURCE CENTER OF WISCONSIN, INC. AND AFFILIATES

## CONSOLIDATING SCHEDULE OF ACTIVITIES For the Year Ended August 31, 2018

	AIDS Resource Center of Wisconsin, Inc.	ARCW Pharmacy, LLC	CARES Pharmacy, LLC	ARCW Endowment Fund, Inc.	Milwaukee AIDS Housing Corporation, Inc.	Eliminations	Consolidated
<b>REVENUE</b>							
Government grants	\$ 13,055,841	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,055,841
Grants and public support	2,062,687	-	-	-	-	(180,900)	1,881,787
Special events							
Special events revenue	970,008	-	-	-	-	-	970,008
Special events expense	(581,555)	-	-	-	-	-	(581,555)
Contractual partnerships	338,157	-	-	-	-	-	338,157
Reimbursement for services and pharmacy	2,109,836	66,249,709	16,041,869	-	-	-	84,401,414
Other income	88,547	-	-	70,569	62,174	-	221,290
Total Revenue	<u>18,043,521</u>	<u>66,249,709</u>	<u>16,041,869</u>	<u>70,569</u>	<u>62,174</u>	<u>(180,900)</u>	<u>100,286,942</u>
<b>EXPENSES</b>							
Clinical and program services							
Medical center	9,184,067	-	-	-	-	-	9,184,067
Pharmacy	-	50,387,550	13,899,535	-	-	(180,900)	64,106,185
Social services and other	7,753,731	-	-	-	127,187	-	7,880,918
Prevention services	4,454,588	-	-	-	-	-	4,454,588
Management and general	3,012,609	2,269,089	362,080	-	-	-	5,643,778
Fundraising	795,771	-	-	200	-	-	795,971
Total Expenses	<u>25,200,766</u>	<u>52,656,639</u>	<u>14,261,615</u>	<u>200</u>	<u>127,187</u>	<u>(180,900)</u>	<u>92,065,507</u>
Change in Net Assets Related to Operations	(7,157,245)	13,593,070	1,780,254	70,369	(65,013)	-	8,221,435
Other changes in net assets							
Transfer from related parties	15,309,816	-	-	-	-	(15,309,816)	-
Transfer to related parties	-	(13,529,562)	(1,780,254)	-	-	15,309,816	-
Total Other Changes in Net Assets	<u>15,309,816</u>	<u>(13,529,562)</u>	<u>(1,780,254)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	8,152,571	63,508	-	70,369	(65,013)	-	8,221,435
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>23,391,360</u>	<u>1,600</u>	<u>1,414,262</u>	<u>599,934</u>	<u>(1,032,054)</u>	<u>-</u>	<u>24,375,102</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 31,543,931</u>	<u>\$ 65,108</u>	<u>\$ 1,414,262</u>	<u>\$ 670,303</u>	<u>\$ (1,097,067)</u>	<u>\$ -</u>	<u>\$ 32,596,537</u>