

# **Milwaukee Health Services, Inc.**

Milwaukee, Wisconsin

## **Financial Statements and Supplementary Information**

Years Ended January 31, 2012 and 2011

# Milwaukee Health Services, Inc.

## Financial Statements

Years Ended January 31, 2012 and 2011

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### Table of Contents

|  |    |
|--|----|
| Auditor's Report.....  | 1  |
| Financial Statements   |    |
| Statements of Financial Position.....  | 3  |
| Statements of Operations and Changes in Net Assets.....  | 5  |
| Statements of Cash Flows.....  | 6  |
| Statements of Functional Expense.....  | 7  |
| Notes to Financial Statements.....   | 9  |
| Supplementary Information  |    |
| Schedule of Revenue and Expenses by Program.....   | 24 |
| Schedule of Expenditures of Federal and State Awards.....  | 26 |
| Notes to Schedule of Expenditures and State Awards.....  | 28 |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.....            | 29 |
| Independent Auditor's Report on Compliance With Requirements that Could Have a Direct and Material Effect on Each Major Federal and State Programs and Internal Control Over Compliance in Accordance With OMB Circular A-133..... | 31 |
| Schedule of Findings and Questioned Costs.....   | 33 |
| Schedule of Prior Year Findings and Questioned Costs.....  | 35 |



## Auditor's Report

Board of Directors  
Milwaukee Health Services, Inc.  
Milwaukee, Wisconsin

We have audited the accompanying statements of financial position of Milwaukee Health Services, Inc. as of January 31, 2012 and 2011, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of Milwaukee Health Services, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Milwaukee Health Services, Inc. at January 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2012, on our consideration of Milwaukee Health Services, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Milwaukee Health Services, Inc. taken as a whole. The supplementary information appearing on pages 23 through 27 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *Wisconsin State Single Audit Guidelines*, issued by the Wisconsin Department of Administration and is not a required part of the basic 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

*Wipfli LLP*

Wipfli LLP

October 29, 2012  
Milwaukee, Wisconsin

# Milwaukee Health Services, Inc.

## Statements of Financial Position

January 31, 2012 and 2011

| <b>Assets</b>                       | <b>2012</b>          | <b>2011</b>          |
|-------------------------------------|----------------------|----------------------|
| Current assets:                     |                      |                      |
| Cash and cash equivalents           | \$ 5,870,902         | \$ 6,791,683         |
| Patient services receivable, net    | 1,231,883            | 3,430,919            |
| Grants receivable                   | 565,336              | 1,255,210            |
| Pledges receivable                  | -                    | 200,000              |
| Inventories                         | 144,760              | 154,623              |
| Prepaid expenses and other          | 104,975              | 112,555              |
| <b>Total current assets</b>         | <b>7,917,856</b>     | <b>11,944,990</b>    |
| Investments                         | 90,400               | 55,440               |
| Property and equipment:             |                      |                      |
| Land                                | 711,442              | 648,616              |
| Buildings and improvements          | 7,319,009            | 7,312,108            |
| Furniture and equipment             | 3,180,109            | 2,925,261            |
| Leasehold improvements              | 416,893              | 416,893              |
| Vehicles                            | 17,920               | 17,920               |
| Construction in progress            | 4,347,031            | 2,231,246            |
| <b>Total property and equipment</b> | <b>15,992,404</b>    | <b>13,552,044</b>    |
| Less: Accumulated depreciation      | 5,826,190            | 5,115,775            |
| <b>Property and equipment - Net</b> | <b>10,166,214</b>    | <b>8,436,269</b>     |
| Restricted assets - Cash            | 117,698              | 96,028               |
| <b>TOTAL ASSETS</b>                 | <b>\$ 18,292,168</b> | <b>\$ 20,532,727</b> |

| <i>Liabilities and Net Assets</i>                         | <b>2012</b>          | <b>2011</b>          |
|---|----------------------|----------------------|
| Current liabilities:                                      |                      |                      |
| Current maturities of long-term debt                      | \$ 200,000           | \$ -                 |
| Current maturities of capital lease obligations           | 16,747               | 15,774               |
| Accounts payable  | 485,396              | 132,344              |
| Accrued salaries and benefits                             | 608,447              | 716,364              |
| Deferred revenue  | 105,562              | 30,126               |
| Due to third party reimbursement programs                 | 1,243,835            | -                    |
| Other accruals  | 182,058              | 478,581              |
| <b>Total current liabilities</b>                          | <b>2,842,045</b>     | <b>1,373,189</b>     |
| Long-term liabilities:                                    |                      |                      |
| Obligations under capital leases, less current maturities | 11,735               | 28,481               |
| Long-term debt, less current maturities                   | 3,645,115            | 3,500,000            |
| <b>Total long-term liabilities</b>                        | <b>3,656,850</b>     | <b>3,528,481</b>     |
| <b>Total liabilities</b>                                  | <b>6,498,895</b>     | <b>4,901,670</b>     |
| Net assets:   |                      |                      |
| Unrestricted:   |                      |                      |
| Undesignated  | 10,455,573           | 14,259,805           |
| Board designated reserve                                  | 1,120,143            | 1,075,385            |
| <b>Total unrestricted assets</b>                          | <b>11,575,716</b>    | <b>15,335,190</b>    |
| Temporarily restricted                                    | 217,557              | 295,867              |
| <b>Total net assets</b>                                   | <b>11,793,273</b>    | <b>15,631,057</b>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>                   | <b>\$ 18,292,168</b> | <b>\$ 20,532,727</b> |

# Milwaukee Health Services, Inc.

## Statements of Operations and Changes in Net Assets

Years Ended January 31, 2012 and 2011

|   | 2012                 | 2011                 |
|---|----------------------|----------------------|
| Unrestricted support and revenue:                               |                      |                      |
| Patient service revenue, net                                    | \$ 18,860,489        | \$ 21,984,587        |
| Federal and state grants  | 4,272,226            | 5,668,362            |
| Contract services and other grants                              | 249,007              | 443,115              |
| Contributions and other   | 409,270              | 261,844              |
| Net assets released from restrictions                           | 141,715              | 76,232               |
| <b>Total unrestricted support and revenue</b>                   | <b>23,932,707</b>    | <b>28,434,140</b>    |
| Operating expenses:   |                      |                      |
| Program services  | 21,123,651           | 18,565,528           |
| General and administrative                                      | 3,200,734            | 5,989,432            |
| <b>Total operating expenses</b>                                 | <b>24,324,385</b>    | <b>24,554,960</b>    |
| Income (loss) from operations                                   | (391,678)            | 3,879,180            |
| Other changes in net assets:                                    |                      |                      |
| Other expense   | -                    | (339,506)            |
| Retroactive reimbursement adjustment for prior periods          | (3,458,521)          | -                    |
| Investment income   | 90,726               | 107,755              |
| <b>Increase (decrease) in unrestricted net assets</b>           | <b>(3,759,473)</b>   | <b>3,647,429</b>     |
| Temporarily restricted net assets:                              |                      |                      |
| Contributions   | 63,404               | 235,814              |
| Net assets released from restrictions                           | (141,715)            | (76,232)             |
| <b>Increase (decrease) in temporarily restricted net assets</b> | <b>(78,311)</b>      | <b>159,582</b>       |
| Changes in net assets   | (3,837,784)          | 3,807,011            |
| Net assets at beginning   | 15,631,057           | 11,824,046           |
| <b>Net assets at end</b>  | <b>\$ 11,793,273</b> | <b>\$ 15,631,057</b> |

# Milwaukee Health Services, Inc.

## Statements of Cash Flows

Years Ended January 31, 2012 and 2011

|  | 2012           | 2011         |
|--|----------------|--------------|
| Increase (decrease) in cash and cash equivalents:  |                |              |
| Cash flows from operating activities:  |                |              |
| Changes in net assets  | \$ (3,837,784) | \$ 3,807,011 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: |                |              |
| Provision for bad debts  | 613,472        | 1,438,124    |
| Depreciation and amortization  | 710,415        | 531,032      |
| Unrealized gain on investments   | (34,960)       | (16,940)     |
| Grant revenue related to purchase of long lived assets                                       | (1,121,259)    | -            |
| Changes in operating assets and liabilities:   |                |              |
| Patient services receivable  | 1,585,564      | 403,260      |
| Grants receivable  | 689,874        | (844,683)    |
| Pledges receivable   | 200,000        | (200,000)    |
| Inventories  | 9,863          | (351)        |
| Prepaid expenses and other   | 7,580          | 83,618       |
| Accounts payable   | 353,052        | (373,270)    |
| Accrued salaries and benefits  | (107,917)      | 135,449      |
| Deferred revenue   | 75,436         | (562,232)    |
| Due to third-party reimbursement program   | 1,243,835      | -            |
| Other accruals   | (296,523)      | 114,395      |
| Net cash provided by operating activities  | 90,648         | 4,515,413    |
| Cash flows used in investing activities:   |                |              |
| Purchases of property and equipment  | (2,440,360)    | (2,147,521)  |
| Increase in restricted assets - cash   | (21,670)       | (20,421)     |
| Net cash used in investing activities  | (2,462,030)    | (2,167,942)  |
| Cash flows from financing activities:  |                |              |
| Net payments on line of credit   | -              | (124,602)    |
| Proceeds from issuance of long-term debt   | 345,115        | 60,000       |
| Principal paid on long-term debt   | -              | (456,040)    |
| Principal paid on capital lease obligations  | (15,773)       | (50,170)     |
| Grants received for the purchase of long lived assets  | 1,121,259      | -            |
| Net cash provided by (used in) financing activities  | 1,450,601      | (570,812)    |
| Increase (decrease) in cash and cash equivalents   | (920,781)      | 1,776,659    |
| Cash and cash equivalents at beginning   | 6,791,683      | 5,015,024    |
| Cash and cash equivalents at end   | \$ 5,870,902   | \$ 6,791,683 |
| <b>Supplemental schedule of other cash flow information:</b>                                 |                |              |
| Cash paid during the year for interest   | \$ 222,314     | \$ 270,140   |

See accompanying notes to financial statements.

# Milwaukee Health Services, Inc.

## Statement of Functional Expenses

Years Ended January 31, 2012

|                                  | <b>Program<br/>Services</b> | <b>General and<br/>Administrative</b> | <b>Total</b>         |
|----------------------------------|-----------------------------|---------------------------------------|----------------------|
| Salaries and wages               | \$ 12,372,335               | \$ 1,427,573                          | \$ 13,799,908        |
| Fringe benefits                  | 2,661,534                   | 307,099                               | 2,968,633            |
| Professional services            | 55,161                      | 382,387                               | 437,548              |
| Consumable supplies              | 368,300                     | 53,302                                | 421,602              |
| Contract services                | 1,011,067                   | 166,706                               | 1,177,773            |
| Pharmaceuticals                  | 1,084,643                   | -                                     | 1,084,643            |
| Occupancy                        | 881,825                     | 53,487                                | 935,312              |
| Laboratory fees                  | 166,593                     | -                                     | 166,593              |
| Insurance                        | 1,977                       | 138,606                               | 140,583              |
| Repairs and maintenance          | 101,410                     | 24,378                                | 125,788              |
| Telephone                        | 147,116                     | 64,061                                | 211,177              |
| Travel, conferences and meetings | 30,325                      | 21,867                                | 52,192               |
| Postage and freight              | 12,457                      | 11,636                                | 24,093               |
| Dues and subscriptions           | 27,345                      | 86,104                                | 113,449              |
| Staff training and recruiting    | 91,939                      | 49,815                                | 141,754              |
| Printing and publications        | 71,457                      | -                                     | 71,457               |
| Health promotions                | 288,469                     | 47,391                                | 335,860              |
| Equipment rental                 | 336,390                     | 62,132                                | 398,522              |
| Patient assistance               | 26,047                      | -                                     | 26,047               |
| Provision for bad debts          | 613,472                     | -                                     | 613,472              |
| Depreciation and amortization    | 483,082                     | 227,333                               | 710,415              |
| Interest                         | 250,595                     | -                                     | 250,595              |
| Other                            | 40,112                      | 76,857                                | 116,969              |
| <b>Total expenses</b>            | <b>\$ 21,123,651</b>        | <b>\$ 3,200,734</b>                   | <b>\$ 24,324,385</b> |

# Milwaukee Health Services, Inc.

## Statement of Functional Expenses (Continued) Years Ended January 31, 2011

|                                  | Program<br>Services  | General and<br>Administrative | Total                |
|----------------------------------|----------------------|-------------------------------|----------------------|
| Salaries and wages               | \$ 10,564,650        | \$ 2,202,987                  | \$ 12,767,637        |
| Fringe benefits                  | 2,373,409            | 494,914                       | 2,868,323            |
| Professional services            | 269,078              | 394,521                       | 663,599              |
| Consumable supplies              | 586,238              | 301,463                       | 887,701              |
| Contract services                | 1,160,059            | 214,117                       | 1,374,176            |
| Pharmaceuticals                  | 1,207,583            | -                             | 1,207,583            |
| Occupancy                        | 344,637              | 162,182                       | 506,819              |
| Laboratory fees                  | 250,778              | -                             | 250,778              |
| Insurance                        | 64,367               | 30,291                        | 94,658               |
| Repairs and maintenance          | 273,542              | 140,665                       | 414,207              |
| Telephone                        | 149,739              | 77,001                        | 226,740              |
| Travel, conferences and meetings | 75,260               | 38,701                        | 113,961              |
| Dues and subscriptions           | 104,945              | 53,967                        | 158,912              |
| Staff training and recruiting    | 124,548              | 64,047                        | 188,595              |
| Printing and publications        | 63,815               | 32,816                        | 96,631               |
| Health promotions                | 273,649              | -                             | 273,649              |
| Equipment rental                 | 106,749              | 54,894                        | 161,643              |
| Patient assistance               | 37,112               | -                             | 37,112               |
| Provision for bad debts          | -                    | 1,438,124                     | 1,438,124            |
| Depreciation and amortization    | 361,102              | 169,930                       | 531,032              |
| Interest                         | 160,591              | 75,572                        | 236,163              |
| Other                            | 13,677               | 43,240                        | 56,917               |
| <b>Total expenses</b>            | <b>\$ 18,565,528</b> | <b>\$ 5,989,432</b>           | <b>\$ 24,554,960</b> |

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

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### Note 1 Summary of Significant Accounting Policies

#### Nature of Activities

Milwaukee Health Services, Inc. (the "Organization") is a nonstock, not-for-profit organization incorporated under the laws of the State of Wisconsin. The Organization operates healthcare clinics in Milwaukee, Wisconsin. The Organization provides a broad range of health services to a largely medically underserved population.

The U.S. Department of Health and Human Services ("DHHS") provides substantial support to the Organization. The Organization is obligated under the terms of the DHHS grants to comply with specified conditions and program requirements set forth by the grantor.

#### Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with acceptable practices of the health care industry ("GAAP").

#### Classification of Net Assets

Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

*Unrestricted Net Assets* – Net assets that are not subject to donor-imposed stipulations where donor-imposed stipulations are met in the year of the contribution.

*Temporarily Restricted Net Assets* – Net assets subject to donor-imposed stipulations that may or may not be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Permanently Restricted Net Assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. The Organization does not have permanently restricted net assets as of January 31, 2012 and 2011.

#### Use of Estimates

The preparation of the accompanying financial statements in conformity with GAAP requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

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### Note 1 Summary of Significant Accounting Policies (Continued)

#### Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, excluding amounts whose use is limited or restricted.

#### Patient Services Receivable and Credit Policy

Accounts receivable are generally uncollateralized patient obligations, most of whom are local residents, and are stated at the amount management expects to collect from the outstanding balances. The Organization bills third-party payors on the patients' behalf, or if a patient is uninsured, the patient is billed directly less any applicable sliding-fee discount. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for copayment and deductible amounts that are the patients' responsibility. Payments on accounts receivable are applied to the specific claim identified on the remittance advice or statement. The Organization does not have a policy to charge interest on past due accounts.

Patient accounts receivable are recorded in the accompanying balance sheets net of contractual adjustments and allowances for doubtful accounts which reflect management's best estimate of the amounts that won't be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to patient accounts receivable. In addition, management provides for probable uncollectible amounts, primarily uninsured patients and amounts patients are personally responsible for, through a reduction of gross revenue and a credit to a valuation allowance.

In evaluating the collectibility of patient accounts receivable, the Organization analyzes past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. Specifically, for receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

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### Note 1 Summary of Significant Accounting Policies (Continued)

#### Patient Services Receivable and Credit Policy (Continued)

The carrying amounts of accounts receivable are reduced by contractual and bad debt allowances that reflect management's estimate of uncollectible amounts. Those allowances totaled \$3,327,851 and \$3,805,374 at January 31, 2012 and 2011, respectively.

#### Pledges Receivable

Pledges are recorded as receivables in the year pledged. Pledges and other promises to give whose eventual uses are restricted by the donors are recorded as increases in temporarily restricted net assets; unrestricted pledges to be collected in future periods are also recorded as an increase to temporarily restricted net assets, and reclassified to unrestricted net assets when received. All pledges receivable are expected to be collected within one year.

#### Inventories

Inventory of supplies is valued at the lower of cost, determined using the FIFO method, or market.

#### Property and Equipment

Property and equipment acquisitions are recorded at cost or, if donated, at fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter of the period of the lease term or the estimated useful life of the equipment. Such amortization is included with depreciation expense in the accompanying financial statements. Estimated useful lives range from 3 to 9 years for vehicles and major movable equipment and from 5 to 30 years for land improvements, buildings, and fixed equipment. Property and equipment are items with a cost of \$1,000 or more and a useful life of more than one year.

Property and equipment acquired with grant funds are owned by the Organization while used in the programs for which it was purchased or in other future authorized programs. However, the funding source has a reversionary interest in assets purchased with grant funds. Their disposition, as well as the ownership of any proceeds there from, is subject to funding source regulations. The book value of grant funded property and equipment is \$2,913,467 and \$1,083,620 at January 31, 2012 and 2011, respectively.

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

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### Note 1 Summary of Significant Accounting Policies (Continued)

#### Investments and Investment Income

Investments in marketable securities are reported at their fair values on the statement of financial position. Investment income (including realized and unrealized gains and losses, interest, and dividends) is reported as unrestricted revenue unless the income is restricted by donor or law. Realized gains or losses are determined by specific identification.

#### Deferred Revenue

Funds received but not earned as of the date of the statements of financial position have been classified as deferred revenue. Revenues will be recognized in future periods as the expenses are incurred.

#### Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers and sliding fee scale discounts. Retroactive adjustments for cost based settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

#### Uncompensated Care

The Organization provides uncompensated care to patients who meet certain criteria under its sliding-fee schedule without charge or at amounts less than its established rates. The amount that charges are discounted from established rates under the sliding-fee schedule is based on income and household size. Because the Organization provides services at a discounted fee, these discounts are considered charity care and not reported as revenue.

The estimated cost of providing care to patients under the Organization's sliding-fee schedule is calculated by multiplying the Organization's ratio of cost to gross charges by the gross uncompensated charges associated with providing care to patients under the sliding-fee schedule.

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

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### Note 1 Summary of Significant Accounting Policies (Continued)

#### Contributions

Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is deemed unconditional. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

#### Grant Revenue

Grant revenue represents grants and contracts with the various federal, state and local funding sources. In general, grant revenue is recognized under the following methods:

Cost reimbursement contracts are reimbursed based on expenses incurred. The revenue is recognized in the accounting period when the expenses are incurred.

Performance contracts are reimbursed based on accomplishment of contract objectives without regard for expenditures. Performance revenue is recognized in the accounting period when the contracted services have been performed.

In fiscal year 2012 and 2011, the Organization received approximately 18% and 20% respectively, of its revenue from government agencies. Significant changes have and will continue to be made in government paying programs, and such changes could have a material impact on the financial condition of the Organization.

#### Income Taxes

The Organization is a tax-exempt corporation as described in Section 501(c)(3) of the Internal Revenue Code ("Code") and is exempt from federal and state income taxes on related income pursuant to Section 509(a)(2) of the code. The Organization is also exempt from state income taxes on related income.

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

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### Note 1 Summary of Significant Accounting Policies (Continued)

#### Income Taxes (Continued)

In order to account for any uncertain tax positions, the Organization determines whether it is more likely than not that a tax position will be sustained upon examination on the technical merits of the position, assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. The Organization has recorded no assets or liabilities related to uncertain tax positions. Tax returns for the year ended January 31, 2009 and all subsequent years remain subject to examination by the applicable taxing authorities.

#### Fair Value Measurements

The Organization measures the fair value of its financial instruments using a three-tier hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The Organization determines fair value by:

- 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 active 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 of 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's 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.

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

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### Note 1 Summary of Significant Accounting Policies (Continued)

#### Subsequent Events

Subsequent events have been evaluated through October 29, 2012, which is the date the financial statements were available to be issued.

### Note 2 Reimbursement Arrangement With Third-Party Payors

The Organization has agreements with third-party payors that provide for reimbursement to the Organization at amounts that vary from its established rates. A summary of the basis of reimbursement with major third-party payors follows:

#### Medicare

The Organization qualifies for the Medicare Federally Qualified Health Center (FQHC) program. This qualification entitles the Organization to reimbursement at the lesser of cost (per encounter) or the maximum allowable rates per encounter, as determined annually by the U.S. Department of Health and Human Services, for covered Medicare services. The per-encounter rate is determined based upon an annual cost report filed with the Medicare fiscal intermediary. The Organization's cost reports have been examined by the Medicare fiscal intermediary for periods through January 31, 2010.

#### Medicaid

The Organization also qualifies for the Medicaid FQHC program. Federal law requires the State of Wisconsin to pay Medicaid FQHC services (on a per encounter basis) under a prospective payment system (PPS). The PPS encounter rate was determined by averaging 100% of the Organization's reasonable costs for fiscal years 1999 and 2000 for Medicaid-covered services. The PPS rate is then increased annually by the change in the Medicare Economic Index (MEI) and adjusted for any changes in scope of services.

The Organization contracts with a number of Medicaid Health Maintenance Organizations (HMO) that pay based on established fee schedules. This amount is generally significantly less than the PPS rate. Federal law requires the State of Wisconsin to reimburse the Organization the difference between the HMO-established fee schedule and the final PPS rate. In Wisconsin, HMOs are required to electronically submit payment and encounter data on a quarterly basis to the Wisconsin Department of Human Services (DHS). DHS remits monthly interim advances to the Organization for the deficiency between the HMO payments received and the PPS rate in effect for the period. A final settlement is made when all HMO data for a fiscal year has been received and reviewed by DHS.

Fixed Medicaid FQHC reimbursement settlements due from or due to DHS for the years ended January 31, 2012, 2011, 2010 and 2009 have been estimated as a total due to DHS of \$1,243,835 at January 31, 2012. Final determination of the actual amount due, has not been determined as of January 31, 2012.

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

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### Note 2 Reimbursement Arrangement With Third-Party Payors (Continued)

#### Accounting for Contractual Arrangements

The Organization has contracted with the State of Wisconsin Department of Health Services to perform certain healthcare services and receives Medicaid and Medicare revenue from the State of Wisconsin and the federal government. Reimbursements received under these contracts and payments under Medicaid and Medicare are subject to audit by the federal and state governments and the Organization may be required to refund amounts in question.

Medicaid and Medicare revenue is reimbursed to the Organization at the net reimbursement rates as determined by each program. Reimbursement rates are subject to revisions under the provisions of reimbursement regulations.

Retroactive adjustments under reimbursement agreements are estimated and recorded when information becomes available to reasonably estimate a settlement and the settlement becomes probable. Estimates are adjusted in future periods as final settlements are determined. During the year ended January 31, 2012, the Organization recorded a liability of \$1,243,835 for estimated amounts due to DHS.

#### Other

The Organization has also entered into payment agreements with certain commercial insurance carriers, health maintenance organization, and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per procedure and discounts from established charges.

#### Compliance

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and billing regulations. Government activity with respect to investigations and allegations concerning possible violations of such regulations by health care providers has increased. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed. Management believes that the Organization is in compliance with applicable government laws and regulations. While no significant regulatory inquiries have been made of the Organization, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

### Note 3 Grants Receivable

Grants receivable balances at January 31, 2012 and 2011, consist of amounts due from funding sources as follows:

|  | 2012              | 2011                |
|--|-------------------|---------------------|
| Federal Grants:  |                   |                     |
| CHC 330  | \$ -              | \$ 84,452           |
| SAMHSA   | -                 | 88,168              |
| Ryan White Title III   | 148,289           | 85,157              |
| Community Development Block Grant                            | 225,000           | 225,000             |
| ARRA - Capital Improvement Program                           | -                 | 571,532             |
| IDS  | 78,267            | 110,104             |
| State of Wisconsin Department of Health and Family Services: |                   |                     |
| Immunization grant   | 12,455            | 12,455              |
| Ryan White-EIP-Title II                                      | 5,130             | 11,508              |
| WIC - Peer Counselor   | 5,999             | 5,582               |
| WIC - Special Projects                                       | -                 | 2,100               |
| Milwaukee County Well Women                                  | 49,350            | 16,275              |
| Other  | 40,846            | 42,877              |
| <b>Total</b>   | <b>\$ 565,336</b> | <b>\$ 1,255,210</b> |

### Note 4 Long-Term Debt

Long-term debt consisted of the following at January 31:

|  | 2012       | 2011      |
|--|------------|-----------|
| Construction note payable to IFF with interest only payments due in monthly installments until the operations' commencement date. After this date principal and interest due in monthly installments of \$12,557. The note bears interest at 5.875% per annum. Unpaid principal and interest are due at the maturity on November 1, 2026. The note is secured by specific real estate. | \$ 345,115 | \$ -      |
| Note payable to Layton State Bank with interest only due in monthly installments at 7.43% per annum. Unpaid principal and accrued interest are due at maturity on April 6, 2013.   | 2,725,000  | 2,725,000 |
| Note payable to Layton State Bank with interest only due in monthly installments at 2.61% per annum. Unpaid principal and accrued interest are due at maturity on April 6, 2013.   | 575,000    | 575,000   |

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

### Note 4 Long-Term Debt (Continued)

|   | 2012         | 2011         |
|---|--------------|--------------|
| Note payable to Centene Corporation with interest and principal due May 19, 2012. The note bears interest at 5.00% per annum. | \$ 200,000   | \$ 200,000   |
| Totals  | 3,845,115    | 3,500,000    |
| Current maturities  | 200,000      | -            |
| Long-term portion   | \$ 3,645,115 | \$ 3,500,000 |

All notes to Layton State Bank are secured by specific real estate, a certificate of deposit of \$215,906 and a sinking fund reserve of \$117,698 on account at the Bank on January 31, 2012. The notes also require the Organization to maintain certain financial ratios and place restrictions on the occurrence of additional indebtedness. As of January 31, 2012 and 2011, management believes the Organization was in compliance with all of the established covenants. The note payable to Centene Corporation is secured by Centene shares of stock owned by Organization. These shares were valued at \$90,400 at year-end.

Draws made subsequent to year-end on the IFF note payable amounted to \$1,154,885 which are being used to fund construction related to the expansion of the Martin Luther King location.

Scheduled principal payments on long-term debt at January 31, 2012 are summarized as follows:

|            |              |
|------------|--------------|
| 2013       | \$ 200,000   |
| 2014       | 3,300,000    |
| Thereafter | 345,115      |
| Total      | \$ 3,845,115 |

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

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### Note 5 Capital Lease Obligations

The Organization uses certain equipment under lease agreements classified as capital leases. Minimum future payments under capital lease obligations consisted of the following for the years subsequent to January 31, 2012,

|   |    |        |
|---|----|--------|
| 2013  | \$ | 18,000 |
| 2014  |    | 12,000 |
| <hr/>                                       |    |        |
| Total minimum lease payments                |    | 30,000 |
| Amount representing interest                |    | 1,518  |
| <hr/>                                       |    |        |
| Present value of net minimum lease payments |    | 28,482 |
| Less - Current portion                      |    | 16,747 |
| <hr/>                                       |    |        |
| Long-term obligation under capital lease    | \$ | 11,735 |

Assets under capital leases with a total cost of \$252,379 and accumulated amortization of \$223,897 are included in furniture and equipment in the accompanying balance sheet. Amortization of the related lease obligation is included in depreciation expense.

### Note 6 Board Designated Net Assets

Board designated net assets of \$1,120,143 and \$1,075,385 as of January 31, 2012 and 2011, respectively, represent cash designated to retire debt due at its maturity in April 2013.

### Note 7 Temporarily Restricted Net Assets

Temporarily restricted net assets include assets set aside in accordance with donor restrictions as to time or use. Temporarily restricted net assets are available for the following purposes at January 31, 2012 and 2011:

|   | 2012       | 2011       |
|---|------------|------------|
| Wisconsin Primary Health Care Grant     | \$ 5,800   | \$ 5,800   |
| UW - Alzheimers Grant                   | 21,759     | 24,617     |
| Susan G. Komen Grant                    | 41,645     | 41,129     |
| General Electric Grant                  | 145,853    | 221,821    |
| Other grants                            | 2,500      | 2,500      |
| <hr/>                                   |            |            |
| Total temporarily restricted net assets | \$ 217,557 | \$ 295,867 |

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

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### Note 7 Temporarily Restricted Net Assets (Continued)

Net assets were released from restrictions by incurring expenses, satisfying the restricted purpose or by occurrence of other events specified by donors. Net assets released from restriction as of January 31, 2012 and 2011 are as follows:

|                                  | 2012              | 2011             |
|----------------------------------|-------------------|------------------|
| WI Primary Health Care Grant     | \$ -              | \$ 19,200        |
| UW - Alzheimers Grant            | 24,617            | 53,798           |
| Susan G. Komen Grant             | 41,129            | -                |
| General Electric Grant           | 75,969            | -                |
| Other grants                     | -                 | 3,234            |
| Total released from restrictions | <u>\$ 141,715</u> | <u>\$ 76,232</u> |

### Note 8 Commitments and Contingencies

The Organization is subject to legal proceedings and claims that arise in the ordinary course of business. While any proceeding or litigation has an element of uncertainty, management of the Organization believes that the outcome of any pending or threatened actions will not have a material adverse effect on the financial condition of the Organization.

The Organization derives a large portion of its revenue from the U.S. Department of Health and Human Services (the "Agency"). Management believes the Agency will continue funding the Organization's programs, however, the loss of all or a portion of this funding could have a significant impact on the Organization and its financial position, programs, and cash flow.

At year end the Organization had a commitment of \$2,570,000 remaining on a construction contract related to expansion of it's facilities on Martin Luther King Drive. As part of the financing of this construction the Organization has secured commitments on two notes payable in the in the amounts of \$2,300,000 and \$1,500,000, respectively. \$2,395,000 has been drawn on these notes as of the date of the audit report.

### Note 9 Fair Value Measurements

Investments consist of shares of common stock held in a publicly traded company. The shares of common stock are valued based on quoted market values from active markets.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while 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.

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

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### Note 9 Fair Value Measurements (Continued)

Information regarding the fair value of assets measured at fair value on a recurring basis as of January 31, 2012, follows:

|              | Assets<br>Measured at<br>Fair Value | Recurring Fair Value Measurements<br>Using |         |         |
|--------------|-------------------------------------|--|---------|---------|
|              |                                     | Level 1                                    | Level 2 | Level 3 |
| Common stock | \$ 90,400                           | \$ 90,400                                  | \$ -    | \$ -    |

Information regarding the fair value of assets measured at fair value on a recurring basis as of January 31, 2011, follows:

|              | Assets<br>Measured at<br>Fair Value | Recurring Fair Value Measurements<br>Using |         |         |
|--------------|-------------------------------------|--|---------|---------|
|              |                                     | Level 1                                    | Level 2 | Level 3 |
| Common stock | \$ 55,440                           | \$ 55,440                                  | \$ -    | \$ -    |

### Note 10 Concentration of Credit Risk

The Organization maintains a depository relationship with one financial institution, which at times may exceed Federal Deposit Insurance Corporation (FDIC) limits. On November 9, 2010, the FDIC issued a final rule implementing section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides for unlimited coverage of non-interest-bearing transaction accounts through December 31, 2012. Interest-bearing accounts are insured by the FDIC up to \$250,000. The Organization has not experienced any losses with these accounts. Management believes the Organization is not exposed to any significant risk on cash and cash equivalents.

The Organization's operations are concentrated in the healthcare industry. In addition, the Organization operates in a heavily regulated environment. The operations of the Organization are subject to the administrative directives, rules and regulations of federal, state, and local regulatory agencies. Such administrative directives, rules, and regulations are subject to change. Such changes may occur with little notice or with inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

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### Note 10 Concentration of Credit Risk (Continued)

The mix of patient services receivables at January 31 was as follows:

|                   | 2012  | 2011  |
|-------------------|-------|-------|
| Medicare          | 6 %   | 2 %   |
| Medicaid          | 82 %  | 89 %  |
| Private pay/other | 8 %   | 3 %   |
| Pharmacy          | 4 %   | 6 %   |
| Totals            | 100 % | 100 % |

### Note 11 Professional Liability Insurance

For professional liability insurance purposes, Milwaukee Health Services, Inc. is deemed to be an employee of the federal government in accordance with Section 224(h) of the Public Health Service Act as amended by the Federally Supported Health Centers Assistance Act of 1995. Liability protection is provided under the Federal Tort Claims Act (FTCA) for the Organization and its employees when they are providing services within the scope of employment included under FQHC activities. The Organization maintains gap insurance for claims that are not covered under FTCA.

### Note 12 Software Development and Maintenance Agreement

The Organization has entered into an agreement to purchase electronic health records software and the related maintenance and database administration subsequent to installation. Minimum future payments under the maintenance and administration portion of the agreement consisted of the following at January 31, 2012:

|      |            |
|------|------------|
| 2013 | \$ 150,831 |
|------|------------|

### Note 13 Retirement Plan

The Organization has a defined contribution retirement plan covering substantially all employees. The Organization makes contributions to the plan at the discretion of the Board of Directors. The Organization retirement plan expense totaled \$0 and \$73,630 in 2012 and 2011, respectively.

## **Supplementary Information**

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# Milwaukee Health Services, Inc.

## Schedule of Revenues and Expenses by Program Year Ended January 31, 2012

|  | State Community |                  | ARRA - Health<br>Center Integrated<br>Services |                |               | Federal<br>Community<br>Health Center |                  | Public Health | ARRA - Health Center |
|--|-----------------|------------------|--|----------------|---------------|---------------------------------------|------------------|---------------|----------------------|
|  | Health Center   | HIV Care Formula | SAMSHA   | Development    | Immunization  | Ryan White Title                      | Health Center    | Emergency     | Integrated Services  |
|  | Program         | Grants           |  | Initiative     |               | III                                   | Program          | Preparedness  | Development          |
|  |                 |                  |  |                |               |                                       |                  |               | Initiative           |
| Support and revenue:                                   |                 |                  |  |                |               |                                       |                  |               |                      |
| Patient service revenue                                | \$ -            | \$ -             | \$ 18,120                                      | \$ -           | \$ -          | \$ -                                  | \$ -             | \$ -          | \$ -                 |
| U.S. Department of Health and Human Services           | -               | -                | 377,995  | 496,713        | -             | 472,595                               | 1,527,144        | -             | -                    |
| Wisconsin Primary Health Care Association              | -               | -                | -  | -              | -             | -                                     | -                | 1,342         | -                    |
| City of Milwaukee                                      | -               | -                | -  | -              | -             | -                                     | -                | 1,877         | -                    |
| State of Wisconsin Department of Health Services       | 158,758         | 138,232          | -  | -              | 12,455        | -                                     | -                | -             | 305,240              |
| Black Health Coalition                                 | -               | -                | -  | -              | -             | -                                     | -                | -             | -                    |
| Medical College of Wisconsin, Inc.                     | -               | -                | -  | -              | -             | -                                     | -                | -             | -                    |
| Contract services and other grants                     | -               | -                | -  | -              | -             | -                                     | -                | -             | -                    |
| Contributions and other                                | -               | -                | -  | -              | -             | -                                     | -                | -             | -                    |
| Net assets released from restrictions                  | -               | -                | -  | -              | -             | -                                     | -                | -             | -                    |
| <b>Total support and revenue</b>                       | <b>158,758</b>  | <b>138,232</b>   | <b>396,115</b>                                 | <b>496,713</b> | <b>12,455</b> | <b>472,595</b>                        | <b>1,527,144</b> | <b>3,219</b>  | <b>305,240</b>       |
| Expenses:  |                 |                  |  |                |               |                                       |                  |               |                      |
| Salaries and wages                                     | 69,334          | 111,822          | 159,217  | -              | 7,988         | 230,457                               | 1,279,903        | -             | 272,446              |
| Fringe benefits  | 14,485          | 22,262           | 41,396   | -              | -             | 49,064                                | 247,241          | -             | 32,794               |
| Professional services                                  | -               | -                | -  | -              | -             | -                                     | -                | -             | -                    |
| Consumable supplies                                    | 20,255          | -                | 979  | -              | 4,467         | (1,693)                               | -                | 3,219         | -                    |
| Contract services                                      | 1,170           | 4,148            | 174,899  | -              | -             | 37,374                                | -                | -             | -                    |
| Drugs and solutions                                    | -               | -                | -  | -              | -             | 34,990                                | -                | -             | -                    |
| Occupancy  | -               | -                | -  | -              | -             | -                                     | -                | -             | -                    |
| Laboratory fees  | -               | -                | -  | -              | -             | 93,316                                | -                | -             | -                    |
| Insurance  | -               | -                | -  | -              | -             | -                                     | -                | -             | -                    |
| Repairs and maintenance                                | -               | -                | -  | -              | -             | -                                     | -                | -             | -                    |
| Telecommunications                                     | -               | -                | -  | -              | -             | 969                                   | -                | -             | -                    |
| Travel, conferences and meetings                       | -               | -                | 5,175  | -              | -             | 2,071                                 | -                | -             | -                    |
| Postage and freight                                    | -               | -                | 130  | -              | -             | -                                     | -                | -             | -                    |
| Dues and subscriptions                                 | -               | -                | -  | -              | -             | -                                     | -                | -             | -                    |
| Staff training and recruiting                          | -               | -                | 1,213  | -              | -             | -                                     | -                | -             | -                    |
| Printing and publications                              | -               | -                | 556  | -              | -             | -                                     | -                | -             | -                    |
| Health promotions                                      | -               | -                | 11,055   | -              | -             | -                                     | -                | -             | -                    |
| Equipment rental                                       | 13,664          | -                | 7,135  | -              | -             | -                                     | -                | -             | -                    |
| Patient assistance                                     | -               | -                | -  | -              | -             | 26,047                                | -                | -             | -                    |
| Provision for bad debt                                 | -               | -                | -  | -              | -             | -                                     | -                | -             | -                    |
| Depreciation and amortization                          | -               | -                | -  | -              | -             | -                                     | -                | -             | -                    |
| Interest   | -               | -                | -  | -              | -             | -                                     | -                | -             | -                    |
| Building and equipment                                 | 29,957          | -                | -  | 496,713        | -             | -                                     | -                | -             | -                    |
| Other  | 9,893           | -                | -  | -              | -             | -                                     | -                | -             | -                    |
| <b>Total expenses</b>                                  | <b>158,758</b>  | <b>138,232</b>   | <b>401,755</b>                                 | <b>496,713</b> | <b>12,455</b> | <b>472,595</b>                        | <b>1,527,144</b> | <b>3,219</b>  | <b>305,240</b>       |
| Support and revenue in excess (deficiency) of expenses | \$ -            | \$ -             | \$ (5,640)                                     | \$ -           | \$ -          | \$ -                                  | \$ -             | \$ -          | \$ -                 |

# Milwaukee Health Services, Inc.

## Schedule of Revenues and Expenses by Program (continued) Year Ended January 31, 2012

|  | Centers for<br>Disease Control<br>and Prevention | WIC            | SNAP ED Fit<br>Families | MAPP -<br>Pregnancy<br>Outreach | Maternal and<br>Child Health<br>Services Block<br>Grant to the<br>States | Patient Services<br>and Other | Administration   | Adjustment to<br>GAAP | Total             |
|--|--|----------------|-------------------------|---------------------------------|--|-------------------------------|------------------|-----------------------|-------------------|
| Support and revenue:                                   |  |                |                         |                                 |  |                               |                  |                       |                   |
| Patient service revenue                                | \$ -   | \$ -           | \$ -                    | \$ -                            | \$ -   | \$ 18,842,369                 | \$ -             | \$ -                  | \$ 18,860,489     |
| U.S. Department of Health and Human Services           | -  | -              | -                       | -                               | -  | -                             | -                | -                     | 2,874,447         |
| Wisconsin Primary Health Care Association              | -  | -              | -                       | -                               | -  | -                             | -                | -                     | 1,342             |
| City of Milwaukee                                      | -  | -              | -                       | -                               | -  | -                             | -                | -                     | 1,877             |
| State of Wisconsin Department of Health Services       | -  | 536,954        | 3,222                   | -                               | -  | -                             | -                | -                     | 1,154,861         |
| Black Health Coalition                                 | 195,300  | -              | -                       | -                               | -  | -                             | -                | -                     | 195,300           |
| Medical College of Wisconsin, Inc.                     | -  | -              | -                       | 44,399                          | -  | -                             | -                | -                     | 44,399            |
| Contract services and other grants                     | -  | -              | -                       | -                               | 15,348   | 233,659                       | -                | -                     | 249,007           |
| Contributions and other                                | -  | -              | -                       | -                               | -  | 409,270                       | -                | -                     | 409,270           |
| Net assets released from restrictions                  | -  | -              | -                       | -                               | -  | 141,715                       | -                | -                     | 141,715           |
| <b>Total support and revenue</b>                       | <b>195,300</b>                                   | <b>536,954</b> | <b>3,222</b>            | <b>44,399</b>                   | <b>15,348</b>  | <b>19,627,013</b>             | <b>-</b>         | <b>-</b>              | <b>23,932,707</b> |
| Expenses:  |  |                |                         |                                 |  |                               |                  |                       |                   |
| Salaries and wages                                     | 156,696  | 358,080        | 1,482                   | 35,158                          | 4,580  | 9,685,172                     | 1,427,573        | -                     | 13,799,908        |
| Fringe benefits  | 38,604   | 75,197         | 163                     | 6,328                           | -  | 2,134,000                     | 307,099          | -                     | 2,968,633         |
| Professional services                                  | -  | -              | -                       | -                               | -  | 55,161                        | 382,387          | -                     | 437,548           |
| Consumable supplies                                    | -  | 19,651         | 161                     | 2,913                           | 180  | 318,168                       | 53,302           | -                     | 421,602           |
| Contract services                                      | -  | 25,042         | -                       | -                               | -  | 768,434                       | 166,706          | -                     | 1,177,773         |
| Drugs and solutions                                    | -  | -              | -                       | -                               | -  | 1,049,653                     | -                | -                     | 1,084,643         |
| Occupancy  | -  | 32,000         | -                       | -                               | -  | 849,825                       | 53,487           | -                     | 935,312           |
| Laboratory fees  | -  | -              | -                       | -                               | -  | 73,277                        | -                | -                     | 166,593           |
| Insurance  | -  | -              | -                       | -                               | -  | 1,977                         | 138,606          | -                     | 140,583           |
| Repairs and maintenance                                | -  | 807            | -                       | -                               | -  | 100,603                       | 24,378           | -                     | 125,788           |
| Telecommunications                                     | -  | 9,276          | -                       | -                               | -  | 136,871                       | 64,061           | -                     | 211,177           |
| Travel, conferences and meetings                       | -  | 7,823          | -                       | -                               | -  | 15,256                        | 21,867           | -                     | 52,192            |
| Postage and freight                                    | -  | 692            | -                       | -                               | -  | 11,635                        | 11,636           | -                     | 24,093            |
| Dues and subscriptions                                 | -  | -              | -                       | -                               | -  | 27,345                        | 86,104           | -                     | 113,449           |
| Staff training and recruiting                          | -  | -              | -                       | -                               | -  | 90,726                        | 49,815           | -                     | 141,754           |
| Printing and publications                              | -  | 850            | -                       | -                               | -  | 70,051                        | -                | -                     | 71,457            |
| Health promotions                                      | -  | -              | 1,416                   | -                               | 10,588   | 265,410                       | 47,391           | -                     | 335,860           |
| Equipment rental                                       | -  | -              | -                       | -                               | -  | 315,591                       | 62,132           | -                     | 398,522           |
| Patient assistance                                     | -  | -              | -                       | -                               | -  | -                             | -                | -                     | 26,047            |
| Provision for bad debt                                 | -  | -              | -                       | -                               | -  | 613,472                       | -                | -                     | 613,472           |
| Depreciation and amortization                          | -  | -              | -                       | -                               | -  | 483,082                       | 227,333          | -                     | 710,415           |
| Interest   | -  | -              | -                       | -                               | -  | 250,595                       | -                | -                     | 250,595           |
| Building and equipment                                 | -  | -              | -                       | -                               | -  | -                             | -                | (526,670)             | -                 |
| Other  | -  | 7,536          | -                       | -                               | -  | 22,683                        | 76,857           | -                     | 116,969           |
| <b>Total expenses</b>                                  | <b>195,300</b>                                   | <b>536,954</b> | <b>3,222</b>            | <b>44,399</b>                   | <b>15,348</b>  | <b>17,338,987</b>             | <b>3,200,734</b> | <b>(526,670)</b>      | <b>24,324,385</b> |
| Support and revenue in excess (deficiency) of expenses | \$ -   | \$ -           | \$ -                    | \$ -                            | \$ -   | \$ 2,288,026                  | \$ (3,200,734)   | \$ 526,670            | \$ (391,678)      |

# Milwaukee Health Services, Inc.

## Schedule of Expenditures of Federal and State Awards

Year Ended January 31, 2012

| Federal Grantor/Program Title  | Pass Through Grantor                             | Federal<br>CFDA Number | Expenditures |
|--|--|------------------------|--------------|
| <b>Federal Awards:</b>   |  |                        |              |
| U.S. Department of Health and Human Services:  |  |                        |              |
| Public Health Emergency Preparedness:  |  |                        |              |
| Public Health Emergency Preparedness   | Wisconsin Primary Health Care Association        | 93.069                 | \$ 1,342     |
| Public Health Emergency Preparedness   | City of Milwaukee                                | 93.069                 | 1,877        |
| Total Public Health Emergency Preparedness   |  |                        | 3,219        |
| Health Centers Cluster:  |  |                        |              |
| Community Health Center Program  | Direct   | 93.224                 | 1,527,144    |
| ARRA - Health Center Integrated Services Development Initiative                        | Direct   | 93.703 - ARRA          | 496,713      |
| ARRA - Health Center Integrated Services Development Initiative                        | State of Wisconsin Department of Health Services | 93.703 - ARRA          | 305,240      |
| Total Health Centers Cluster   |  |                        | 2,329,097    |
| HIV/AIDS Related Mental Health Services in Minority Communities                        | Direct   | 93.243                 | 377,995      |
| Immunization Grants  | State of Wisconsin Department of Health Services | 93.268                 | 12,455       |
| Centers for Disease Control and Prevention - Investigations and Technical Assistance   | Black Health Coalition                           | 93.283                 | 195,300      |
| HIV Care Formula Grants  | State of Wisconsin Department of Health Services | 93.917                 | 138,232      |
| Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease   | Direct   | 93.918                 | 472,595      |
| Maternal and Child Health Services Block Grant to the States                           | State of Wisconsin Department of Health Services | 93.994                 | 15,348       |
| Total U.S. Department of Health and Human Services                                     |  |                        | 3,544,241    |
| U.S. Department of Agriculture:  |  |                        |              |
| Supplemental Food Program for Women, Infants, and Children ("WIC")                     | State of Wisconsin Department of Health Services | 10.557                 | 534,032      |
| State Administrative Matching grants for the supplemental Nutrition Assistance Program | State of Wisconsin Department of Health Services | 10.561                 | 3,222        |
| WIC Farmers Market Nutrition Program   | State of Wisconsin Department of Health Services | 10.572                 | 2,922        |
| Total U.S. Department of Agriculture   |  |                        | 540,176      |
| Total expenditures of federal awards   |  |                        | \$ 4,084,417 |

# Milwaukee Health Services, Inc.

## Schedule of Expenditures of Federal and State Awards (Continued)

Year Ended January 31, 2012

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| <b>State Grantor/Program Title</b>       | <b>Pass Through Grantor</b>        | <b>CARS Number</b> | <b>Expenditures</b> |
|--|------------------------------------|--------------------|---------------------|
| <b>State Awards:</b>                     |                                    |                    |                     |
| Wisconsin Department of Health Services: |                                    |                    |                     |
| Community Health Center program          | Direct                             | 435.151301         | \$ 158,758          |
| Medical Assistance Program               | Medical College of Wisconsin, Inc. | 435.159353         | 44,399              |
| Total expenditures of state awards       |                                    |                    | \$ 203,157          |

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# Milwaukee Health Services, Inc.

## Notes to Schedule of Expenditures of Federal and State Awards Year Ended January 31, 2012

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### **Note 1**

#### **General**

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of Milwaukee Health Services, Inc. under programs of the federal and state government for the year ended January 31, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State of Wisconsin Single Audit Guidelines, issued by the Wisconsin Department of Administration. Because the schedule presents only a selected portion of the operations of Milwaukee Health Services, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Milwaukee Health Centers, Inc.

### **Note 2**

#### **Basis of Accounting**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Office of Management and Budget (OMB) Circular A-122, Cost Principles for Nonprofit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.



## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

Board of Directors  
Milwaukee Health Services, Inc.  
Milwaukee, Wisconsin

We have audited the financial statements of Milwaukee Health Services, Inc., as of and for the year ended January 31, 2012, and have issued our report thereon dated October 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

Management of Milwaukee Health Services, Inc. is responsible for establishing and maintaining internal control over financial reporting. In planning and performing our audit, we considered Milwaukee Health Services, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement but not for the purpose of expressing an opinion on the effectiveness of the Milwaukee Health Services, Inc. internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the organizations internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

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

This report is intended for the information of the Board of Directors, management, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wipfli LLP

*Wipfli LLP*

October 29, 2012  
Milwaukee, Wisconsin



## **Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Federal and State Program and Internal Control Over Compliance in Accordance with OMB Circular A-133**

Board of Directors  
Milwaukee Health Services, Inc.  
Milwaukee, Wisconsin

### **Compliance**

We have audited the compliance of Milwaukee Health Services, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB Circular A-133 Compliance Supplement*) and the *State of Wisconsin Single Audit Guidelines, issued by the Wisconsin Department of Administration* that could have a direct and material effect on its major federal or state programs for the year ended January 31, 2012. Milwaukee Health Services, Inc.'s major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal and state programs is the responsibility of Milwaukee Health Services, Inc.'s management. Our responsibility is to express an opinion on Milwaukee Health Services, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* and the *State of Wisconsin Single Audit Guidelines, issued by the Wisconsin Department of Administration*. Those standards and *OMB Circular A-133* and the *Wisconsin Single Audit Guidelines*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about Milwaukee Health Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Milwaukee Health Services, Inc.'s compliance with those requirements.

In our opinion, Milwaukee Health Services, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended January 31, 2012.

## Internal Control Over Compliance

The management of Milwaukee Health Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal or state programs. In planning and performing our audit, we considered Milwaukee Health Services, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the Wisconsin State Single Audit Guidelines, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Wipfli LLP

October 29, 2012  
Milwaukee, Wisconsin

# Milwaukee Health Services, Inc.

## Schedule of Findings and Questioned Costs

Year Ended January 31, 2012

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### Section I - Summary of Auditor's Results

#### Financial Statements

|  |             |
|--|-------------|
| Type of auditor's report issued  | Unqualified |
| Internal control over financial reporting:                                       |             |
| Material weakness(es) identified?  | No          |
| Significant deficiency(ies) identified not considered to be a material weakness? | No          |
| Noncompliance material to financial statements noted?                            | No          |

#### Federal and State Awards

|   |             |
|---|-------------|
| Internal control over major programs:   |             |
| Material weakness(es) identified?   | No          |
| Significant deficiency(ies) identified not considered to be a material weakness?                                  | No          |
| Type of auditor's report issued on compliance for major programs  | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? | No          |

Identification of major federal and state programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u>                               |
|--------------------|---|
| 10.557             | Special Supplemental Nutrition Program for Women, Infants, and Children |
| 93.224,            | Health Center Cluster   |
| 93.703 - ARRA      | Health Center Cluster   |
| 93.243             | HIV/AIDS Related Mental Health Services in Minority Communities         |

| <u>Identifying Number</u> | <u>Name of State Program</u>    |
|---------------------------|---------------------------------|
| 435.151301                | Community Health Center Program |

Dollar threshold used to distinguish between Type A and Type B programs:

|         |           |
|---------|-----------|
| Federal | \$300,000 |
| State   | \$100,000 |

Auditee qualified as low-risk auditee? No

# Milwaukee Health Services, Inc.

Schedule of Findings and Questioned Costs (Continued)  
Year Ended January 31, 2012

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## Section II - Financial Statement Findings

### Findings – Financial Statements Audit

#### Finding: Current Year

None

## Section III - Federal and State Award Findings and Questioned Costs

None

## Section IV – Other Issues

Does the auditor's report or the notes to the financial statements include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern? No

Does the audit report show audit issues (i.e., material noncompliance, nonmaterial noncompliance, questioned costs, material weakness, reportable condition, management letter comment) related to grants/contracts with funding agencies that require audits to be in accordance with the *State Single Audit Guidelines*:

Department of Health Services No

Was a management letter or other document conveying audit comments issued as a result of this audit? Yes

Name and Signature of Partner in Charge:



David Globig, CPA

Date of Report: October 29, 2012

# Milwaukee Health Services, Inc.

## Schedule of Prior Year Findings and Questioned Costs Year Ended January 31, 2011

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### Findings – Financial Statements Audit

#### Finding: Year ended January 31, 2011

#### MATERIAL ADJUSTMENTS (013111-01)

##### Condition:

Wipfli LLP proposed a number of adjusting journal entries as a result of the year-end audit, which we deem to be material to the financial statements. It was noted that several significant accounts were not being reconciled or monitored on a regular basis. The lack of effective control over and accountability for funds, property, and other assets indicates a material weakness in internal controls.

##### Criteria:

OMB Circular A-110, Subpart C.21(b)(1), requires that *...the grant recipient have a financial system that provides for accurate, current, and complete disclosure of the financial results of each federally-sponsored project or program.* In addition, OMB Circular A-110 Subpart C.21(b)(3), requires *...Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.* Milwaukee Health Services, Inc. should have proper controls in place to ensure that all significant balances and accounts are being reconciled on a regular basis, that general ledger transactions be recorded in accordance with accounting principles generally accepted in the United States, and that accountability and control be maintained for all funds, property, and other assets.

##### Effect:

A lack of proper internal controls over critical accounting areas could result in materially misstated financial statements. As a result of this condition, there is a material weakness in internal control.

##### Recommendation:

Significant account balances should be reconciled and monitored regularly during the year and at year end. Revenues and support must be recognized when earned as opposed to only when invoiced or collected.

##### Status:

Wipfli noted during the audit that all significant accounts were reconciled.

# Milwaukee Health Services, Inc.

## Schedule of Prior Year Findings and Questioned Costs

Year Ended January 31, 2011

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### Finding: Year ended January 31, 2011

#### EMBEZZLED FUNDS (013111-02)

##### Condition:

Wipfli LLP noted that management of Milwaukee Health Services, Inc. discovered a material embezzlement in the current year. A material amount of funds was stolen through the cash disbursements function over a period of approximately three years. Internal controls in place at the organization did not discover the fraud in a timely basis. The lack of effective control over and accountability for funds, property, and other assets indicates a material weakness in internal controls. The embezzlement did not affect federal and state grant awards.

##### Criteria:

OMB Circular A-110, Subpart C.21(b)(1), requires that *...the grant recipient have a financial system that provides for accurate, current, and complete disclosure of the financial results of each federally-sponsored project or program.* In addition, OMB Circular A-110 Subpart C.21(b)(3), requires *...Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.* Milwaukee Health Services, Inc. should have proper controls in place to ensure that all significant balances and accounts are being reconciled on a regular basis, that general ledger transactions be recorded in accordance with accounting principles generally accepted in the United States, and that accountability and control be maintained for all funds, property, and other assets.

##### Effect:

A lack of proper review inside of the internal controls process over cash and cash reconciliations resulted in misappropriation of funds material to the financial statements. As a result of this condition, there is a material weakness in internal control.

##### Recommendation:

Controls over the cash disbursement approval and review should be reviewed and improved where possible. Persons reviewing and signing checks should pay attention to detail in order to prevent unauthorized payments from being issued. Persons reviewing bank statements should review a sample of cleared checks during their review process.

##### Status:

Wipfli noted that processes have been implemented to prevent and deter fraud. No fraud noted in the current year.