

Milwaukee Health Services, Inc.

Milwaukee, Wisconsin

Financial Statements and Supplementary Information

Years Ended January 31, 2014 and 2013

Milwaukee Health Services, Inc.

Financial Statements

Years Ended January 31, 2014 and 2013

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Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Milwaukee Health Services, Inc. (a nonprofit organization), which comprise the statements of financial position as of January 31, 2014 and 2013, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Milwaukee Health Services, Inc. at January 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Uncertainty Regarding Going Concern

The accompanying financial statements have been prepared assuming that Milwaukee Health Services, Inc. will continue as a going concern. As discussed in Note 17, Milwaukee Health Services, Inc. has suffered recurring losses from operations and has current liabilities in excess of current assets of \$4,653,228. Milwaukee Health Services, Inc. is currently in arrears on accounts with certain vendor creditors which, among other things, cause the balances to become due on demand. Milwaukee Health Services, Inc. is in default on certain loan covenants at January 31, 2014, primarily as a result of the decrease in net assets in the current period, and current liabilities being in excess of current assets. The Organization continues to pursue reducing overall debt by restructuring loans with its banks at more favorable credit terms and to raise capital to pay vendors and creditors. Management's plans to resolve its solvency issue are discussed in Note 17. These conditions raise substantial doubt about the Milwaukee Health Services, Inc.'s ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Report on Supplementary Information

Our audits were performed 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 29 through 34 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 and related notes appearing on pages 35 through 37 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of 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 audit 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 as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2016, 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 on 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* in considering Milwaukee Health Services, Inc.'s internal control over financial reporting and compliance.

Wipfli LLP

Wipfli LLP

January 5, 2016
Milwaukee, Wisconsin

Milwaukee Health Services, Inc.

Statements of Financial Position

January 31, 2014 and 2013

Assets	2014	2013
Current assets:		
Cash and cash equivalents	\$ 66,121	\$ 3,024,756
Patient services receivable, net	2,178,006	1,741,795
Grants receivable	687,459	268,790
Contributions receivable	-	189,339
Inventories	110,091	126,632
Prepaid expenses and other	74,439	121,925
Total current assets	3,116,116	5,473,237
Investments	-	86,320
Property and equipment:		
Land	711,442	711,442
Buildings and improvements	13,369,289	12,132,900
Furniture and equipment	5,009,222	3,787,297
Leasehold improvements	416,893	416,893
Vehicles	17,920	17,920
Construction in progress	-	818,013
Total property and equipment	19,524,766	17,884,465
Less: Accumulated depreciation	7,533,740	6,307,882
Property and equipment - Net	11,991,026	11,576,583
Restricted assets - Cash	-	363,287
TOTAL ASSETS	\$ 15,107,142	\$ 17,499,427

<i>Liabilities and Net Assets (Deficit)</i>	2014	2013
Current liabilities:		
Current maturities of long-term debt	\$ 4,749,831	\$ 1,011,855
Current maturities of capital lease obligations	56,959	11,734
Accounts payable	1,231,556	783,049
Accrued salaries and benefits	897,751	822,300
Other accruals	833,247	262,732
Total current liabilities	7,769,344	2,891,670
Long-term liabilities:		
Obligations under capital leases, less current maturities	107,112	-
Long-term debt, less current maturities	2,429,928	6,276,348
Due to third party reimbursement programs	9,920,000	828,835
Total long-term liabilities	12,457,040	7,105,183
Total liabilities	20,226,384	9,996,853
Net assets (deficit):		
Unrestricted:		
Undesignated	(5,553,066)	5,899,143
Board designated reserve	-	1,158,293
Total unrestricted assets (deficit)	(5,553,066)	7,057,436
Temporarily restricted net assets	433,824	445,138
Total net assets (deficit)	(5,119,242)	7,502,574
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 15,107,142	\$ 17,499,427

Milwaukee Health Services, Inc.

Statements of Operations and Changes in Net Assets

Years Ended January 31, 2014 and 2013

	2014	2013
Unrestricted support and revenue:		
Patient service revenue, net	\$ 3,205,730	\$ 14,291,464
Federal and state grants	3,718,419	4,301,490
Contract services and other grants	502,960	1,167,329
Contributions and other	290,995	694,354
Net assets released from restrictions	629,557	217,557
Total unrestricted support and revenue	8,347,661	20,672,194
Operating expenses:		
Program services	17,695,536	19,838,690
General and administrative	3,262,294	3,043,543
Total operating expenses	20,957,830	22,882,233
Loss from operations	(12,610,169)	(2,210,039)
Other changes in net assets:		
Impairment loss	-	(2,335,028)
Investment income	-	26,787
Decrease in unrestricted net assets	(12,610,169)	(4,518,280)
Temporarily restricted net assets:		
Contributions	617,910	445,138
Net assets released from restrictions	(629,557)	(217,557)
Increase (decrease) in temporarily restricted net assets	(11,647)	227,581
Changes in net assets (deficit)	(12,621,816)	(4,290,699)
Net assets at beginning	7,502,574	11,793,273
Net assets (deficit) at end	\$ (5,119,242)	\$ 7,502,574

Milwaukee Health Services, Inc.

Statements of Cash Flows

Years Ended January 31, 2014 and 2013

	2014	2013
Increase (decrease) in cash:		
Cash flows from operating activities:		
Changes in net assets (deficit)	\$(12,621,816)	\$ (4,290,699)
Adjustments to reconcile changes in net assets (deficit) to net cash used in operating activities:		
Provision for bad debts	2,471,028	2,830,417
Depreciation and amortization	1,225,858	670,612
Realized and unrealized (gain) loss on investments	(24,480)	4,080
Grant revenue related to purchase of long lived assets	(75,341)	(704,369)
Impairment loss	-	2,335,028
Changes in operating assets and liabilities:		
Patient services receivable	(2,977,263)	(3,340,328)
Grants receivable	(418,669)	296,546
Contributions receivable	189,339	(189,339)
Inventories	16,541	18,128
Prepaid expenses and other	105,816	(16,950)
Accounts payable	448,507	297,653
Accrued salaries and benefits	75,451	213,853
Deferred revenue	2,259	(104,687)
Due to third-party reimbursement program	9,091,165	(415,000)
Other accruals	638,280	79,799
Net cash used in operating activities	(1,853,325)	(2,315,256)
Cash flows used in investing activities:		
Purchases of property and equipment	(1,535,358)	(3,618,029)
Decrease (Increase) in restricted assets - Cash	363,287	(29,683)
Proceeds from sale of investments	110,800	-
Net cash used in investing activities	(1,061,271)	(3,647,712)

Milwaukee Health Services, Inc.

Statements of Cash Flows (Continued)

Years Ended January 31, 2014 and 2013

	2014	2013
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	\$ 841,577	\$ 2,721,800
Principal paid on long-term debt	(950,021)	-
Principal paid on capital lease obligations	(10,936)	(93,441)
Grants received for the purchase of long lived assets	75,341	704,369
Net cash provided by (used in) financing activities	(44,039)	3,332,728
Decrease in cash and cash equivalents	(2,958,635)	(2,630,240)
Cash and cash equivalents at beginning	3,024,756	5,654,996
Cash and cash equivalents at end	\$ 66,121	\$ 3,024,756
Supplemental schedule of other cash flow information:		
Cash paid during the year for interest	\$ 254,186	\$ 330,318
Supplemental schedule of noncash investing and financing activities:		
Equipment acquired through capital lease obligations	\$ 163,274	\$ -

Milwaukee Health Services, Inc.

Statement of Functional Expenses

Years Ended January 31, 2014

	Program Services	General and Administrative	Total
Salaries and wages	\$ 11,002,431	\$ 1,085,672	\$ 12,088,103
Fringe benefits	2,442,456	238,848	2,681,304
Professional services	80,755	785,382	866,137
Consumable supplies	230,587	6,489	237,076
Contract services	505,302	19,500	524,802
Pharmaceuticals	435,159	-	435,159
Occupancy	900,427	11,555	911,982
Laboratory fees	351,547	-	351,547
Insurance	-	135,487	135,487
Repairs and maintenance	53,115	54,142	107,257
Telephone	147,418	69,373	216,791
Travel, conferences and meetings	24,011	9,710	33,721
Postage and freight	11,009	11,009	22,018
Dues and subscriptions	5,350	19,615	24,965
Staff training and recruiting	34,328	2,440	36,768
Printing and publications	10,081	1,047	11,128
Health promotions	52,257	21,096	73,353
Equipment rental	526,921	94,299	621,220
Patient assistance	9,158	-	9,158
Depreciation and amortization	833,583	392,275	1,225,858
Interest	-	254,186	254,186
Other	39,641	50,169	89,810
Total expenses	\$ 17,695,536	\$ 3,262,294	\$ 20,957,830

Milwaukee Health Services, Inc.

Statement of Functional Expenses (Continued) Years Ended January 31, 2013

	Program Services	General and Administrative	Total
Salaries and wages	\$ 12,278,709	\$ 1,342,474	\$ 13,621,183
Fringe benefits	2,732,057	295,344	3,027,401
Professional services	325,564	234,079	559,643
Consumable supplies	413,435	19,504	432,939
Contract services	832,720	23,956	856,676
Pharmaceuticals	892,616	-	892,616
Occupancy	853,576	60,686	914,262
Laboratory fees	288,539	-	288,539
Insurance	-	143,858	143,858
Repairs and maintenance	49,195	61,848	111,043
Telephone	157,529	74,131	231,660
Travel, conferences and meetings	20,366	5,271	25,637
Postage and freight	13,207	13,206	26,413
Dues and subscriptions	4,618	38,155	42,773
Staff training and recruiting	64,146	5,192	69,338
Printing and publications	23,998	150	24,148
Health promotions	188,801	19,586	208,387
Equipment rental	164,041	98,449	262,490
Patient assistance	55,705	-	55,705
Depreciation and amortization	456,016	214,596	670,612
Interest	-	337,784	337,784
Other	23,852	55,274	79,126
Total expenses	\$ 19,838,690	\$ 3,043,543	\$ 22,882,233

Milwaukee Health Services, Inc.

Notes to Financial Statements

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, 2014 and 2013.

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

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

Patient services 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 patient services 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 services receivable are recorded in the accompanying statements of financial position 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 services 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

Note 1 Summary of Significant Accounting Policies (Continued)

Patient Services Receivable and Credit Policy (Continued)

The carrying amounts of patient services receivable are reduced by contractual and bad debt allowances that reflect management's estimate of uncollectible amounts.

Contributions Receivable

Contributions 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 contributions receivable are expected to be fully collected within one year and, accordingly, no allowance for doubtful balances has been recorded.

Inventories

Pharmacy and supplies inventories are 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. Property and equipment are items with a cost of \$1,000 or more and a useful life of more than one year. 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 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 \$3,254,570 and \$2,996,490 at January 31, 2014 and 2013, respectively.

Milwaukee Health Services, Inc.

Notes to Financial Statements

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.

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

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 2014 and 2013, the Organization received approximately 21% 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 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

Note 1 Summary of Significant Accounting Policies (Continued)

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 asset 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.

Subsequent Events

Subsequent events have been evaluated through January 5, 2016, 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:

Milwaukee Health Services, Inc.

Notes to Financial Statements

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

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, 2011.

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, 2009 through 2014, have been estimated as a total due to DHS of \$9,920,000 at January 31, 2014. The amounts due of \$2,500,000 represents a final audited amount for 2009 and 2010 based on DHS's audit of those years and a negotiated settlement with the organization. Payments of this amount will be made through withholding of a monthly amount of \$31,250 from the Medicaid wrap reimbursements for 80 months beginning February 1, 2016. Final determination of the actual amount due or receivable for the years ending January 31, 2011 through 2014, has not been determined as of the release of this report, and is considered a significant estimate.

Milwaukee Health Services, Inc.

Notes to Financial Statements

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

Medicaid (Continued)

Estimated FQHC reimbursement (due) receivable

2014	\$ (823,000)
2013	163,000
2012	(3,290,000)
2011	(3,470,000)
2009 and 2010 final audited	(2,500,000)
<hr/>	
Total estimated FQHC reimbursement due	\$ (9,920,000)

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. At January 31, 2014, the Organization recorded a liability of \$9,920,000 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.

Milwaukee Health Services, Inc.

Notes to Financial Statements

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

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.

Note 3 Grants Receivable

Grants receivable balances at January 31, 2014 and 2013, consist of amounts due from funding sources as follows:

	2014	2013
Federal Grants:		
CHC 330	\$ 169,793	\$ -
Federal EIS Primary Care	18,978	2,956
Ryan White Title III	256,327	55,428
ARRA - Capital Improvement Program	-	17,994
Federal PCMH	30,617	-
State of Wisconsin Department of Health Services:		
Wisconsin Community Health Center	133,116	34,731
Immunization grant	12,383	6,227
Ryan White-EIP-Title II	8,366	-
Ryan White-MAI	550	334
WIC	(3,871)	4,920
WIC - SNAP Education - Fit Families	-	499
WIC - Peer Counselor	2,640	2,401
Milwaukee County Well Women	33,510	52,525
Alzheimer's Institute	-	44,533
Other	25,050	49,198
Total	\$ 687,459	\$ 268,790

Milwaukee Health Services, Inc.

Notes to Financial Statements

Note 4 Patient Services Receivable - Net

Patient services receivable - net consisted of the following at January 31, 2014 and 2013:

	2014	2013
Patient services receivable	\$ 6,443,104	\$ 3,016,111
Less:		
Allowance for doubtful accounts	819,351	-
Contractual adjustments	3,445,747	1,274,316
Patient services receivable - Net	<u>\$ 2,178,006</u>	<u>\$ 1,741,795</u>

The Organization's allowance for doubtful accounts for self-pay patients increased from 0.0% of self-pay accounts receivable at January 31, 2013 to 100.0% of self-pay accounts receivable at January 31, 2014. Due to historically low collection rates on self-pay accounts receivable the self-pay accounts receivable balance of \$819,351 was fully allowed for at January 31, 2014. In the prior year, all self-pay accounts receivable were written off as of year end other than the amounts which were collected subsequent to year end, therefore there was no allowance for doubtful accounts at January 31, 2013. The Organization has not changed its uncompensated care policy during fiscal 2014 or 2013.

Note 5 Net Patient Service Revenue and Medicare/Medicaid Reimbursement

Net patient service revenue is comprised of the following for the year ended January 31, 2014 and 2013:

	2014	2013
Medicare	\$ 2,558,191	\$ 2,181,394
Medicaid	10,065,095	17,282,180
Insurance and other	907,596	613,899
Private pay	2,830,434	2,389,955
Total gross patient service revenue	16,361,316	22,467,428
Less:		
Provision for uncollectible accounts	2,471,028	2,830,417
Contractual adjustments and discounts	10,684,558	5,345,547
Patient service revenue - Net	<u>\$ 3,205,730</u>	<u>\$ 14,291,464</u>

Milwaukee Health Services, Inc.

Notes to Financial Statements

Note 6 Long-Term Debt

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

	2014	2013
Construction note payable to IFF with interest only payments due in monthly installments. Principal and interest due in monthly installments of \$12,557 beginning May 1, 2013. The note bears interest at 5.875% per annum. Unpaid principal and interest are due at maturity on November 1, 2026. The note is secured by specific real estate.	\$ 1,452,153	\$ 1,500,000
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. This note was refinanced in June of 2013.	-	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. This note was refinanced in June of 2013.	-	575,000
Construction note payable to PNC Bank with interest due in monthly installments until March 31, 2013, at the London Inter-Bank Offered Rate (LIBOR) plus 3.00%. This note was converted to a fixed rate note bearing an interest rate of 5.5%. Principal and interest payments commenced April 1, 2013, in equal monthly installments of \$12,778. Unpaid principal and interest are due at maturity on September 7, 2017	2,172,211	1,458,423
Note payable to Centene Corporation. The note bears interest at 5.00% per annum. The note payable was secured by Centene shares of stock owned by the Organization. These shares were sold during the year to pay down a portion of the loan balance. The balance of this loan was forgiven by Centene Corporation in February of 2014.	120,998	231,798
Note payable to GE Healthcare Financial Services due in monthly installments of principal and interest of \$13,000 until January 1, 2014, and monthly installments of principal and interest of \$15,279 thereafter through January 1, 2018. The note bears interest at 4.25%. This note is secured by specific software.	660,543	797,981

Milwaukee Health Services, Inc.

Notes to Financial Statements

Note 6 Long-Term Debt (Continued)

	2014	2013
Note payable to IFF with interest and principal payments due in monthly installments of \$4,968. The note bears interest at 5.5% per annum. Unpaid principal and interest are due at maturity on October 1, 2028. The note is secured by specific real estate.	\$ 568,516	\$ -
Note payable to Layton State Bank with interest and principal payments due in monthly installments of \$18,632. The note bears interest at 5.5% per annum. Unpaid principal and interest are due at maturity on June 28, 2018. The note is secured by specific real estate.	2,205,338	-
Totals	7,179,759	7,288,202
Current maturities	4,749,831	1,011,855
Long-term portion	\$ 2,429,928	\$ 6,276,347

Notes payable to Layton State Bank and PNC Bank at January 31, 2014, were secured by specific assets and specific real estate and require the Organization to maintain certain financial ratios and places restrictions on the transfer of assets and incurrence of additional indebtedness. As of January 31, 2014, the Organization was not in compliance with certain of its financial covenants. The balance due on these two notes have been included in current liabilities as the notes can be called by the lender.

In June 2013, the Organization refinanced a portion of its \$2,725,000 note with Layton State Bank on a long term basis. A new note was issued for \$2,230,000 with the balance of the principal, interest and fees in the amount of \$541,117 being paid at closing. The certificate of deposit in the amount of \$227,275 and the sinking fund reserve in the amount of \$136,012 which secured the previous note at January 31, 2013, were used as part of the payment at closing. The note carries an interest rate of 5.50%. Payments on this note began with four monthly interest only payments beginning July 28, 2013, and will be followed with monthly principal and interest payments of \$18,632 beginning on November 28, 2013, and will be paid monthly through May 28, 2018. A final principal and interest payment of approximately \$1,721,000 will be due on June 28, 2018. This note is secured by specific real estate and assigned rents, and a general business security agreement on specific assets with that real estate. The note agreement also requires the organization to maintain certain financial ratios and places restrictions on the transfer of assets and incurrence of additional indebtedness. The outstanding balance on this note as of January 31, 2014 was \$2,205,338.

Milwaukee Health Services, Inc.

Notes to Financial Statements

Note 6 Long-Term Debt (Continued)

In June 2013, the Organization refinanced its \$575,000 Layton State Bank note of \$575,000 with a new note from IFF. The note carries an initial interest rate of 5.50% which will be adjusted once every five years to an interest rate equal to the greater of 5.00% or the rate of a U.S. Treasury obligation with a maturity date equal to the note payable plus 2.00%. Payments on this note begin with four monthly interest only payments beginning July 15, 2013, followed by 180 principal and interest payments of \$4,698 beginning November 1, 2013 through the date of maturity October 1, 2028. This note is secured by specific real estate. The outstanding balance on this note as of January 31, 2014 was \$568,516.

Scheduled principal payments on long-term debt at January 31, 2014, are summarized as follows:

2015	\$ 4,749,831
2016	263,646
2017	276,627
2018	274,986
2019	116,972
Thereafter	1,497,697
<hr/>	
Total	\$ 7,179,759

Note 7 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, 2014:

2015	\$ 59,978
2016	58,722
2017	58,722
<hr/>	
Total minimum lease payments	177,422
Amount representing interest	13,351
<hr/>	
Present value of net minimum lease payments	164,071
Less - Current portion	56,959
<hr/>	
Long-term obligation under capital lease	\$ 107,112

Assets under capital leases with a total cost of \$163,275 and accumulated amortization of \$2,721 are included in furniture and equipment in the accompanying balance sheet. Amortization of the related lease obligation is included in depreciation expense.

Milwaukee Health Services, Inc.

Notes to Financial Statements

Note 8 Board Designated Net Assets

Board designated net assets of \$1,158,293 as of January 31, 2013, this amount represented cash designated to retire debt due at its maturity. There were no board designated net assets as of January 31, 2014.

Note 9 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, 2014 and 2013:

	2014	2013
UW - Partnership Award Capacity	\$ 56,326	\$ -
UW - Partnership Emergency Department	50,000	-
UW - PNCC Caring Hands Grant	-	24,391
UW - Partnership Award Access	55,803	-
UWM - Young Parenthood	12,478	-
Susan G. Komen Grant	29,659	39,672
General Electric Grant	202,620	350,000
American Cancer Society	24,738	28,875
Other grants	2,200	2,200
Total temporarily restricted net assets	\$ 433,824	\$ 445,138

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, 2014 and 2013, are as follows:

	2014	2013
WI Primary Health Care Grant	\$ -	\$ 5,800
UW - Partnership Award Capacity	343,674	-
UW - PNCC Caring Hands Grant	24,724	-
UW - Alzheimers Grant	-	21,759
Susan G. Komen Grant	83,051	41,645
General Electric Grant	147,380	145,853
American Cancer Society	30,728	-
Other grants	-	2,500
Total released from restrictions	\$ 629,557	\$ 217,557

Milwaukee Health Services, Inc.

Notes to Financial Statements

Note 10 Commitments and Contingencies

Laws and Regulations

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 Centers for Medicare and Medicaid Services (CMS) uses recovery audit contractors (RACs) as part of its further efforts to ensure accurate payments. RACs search for potentially inaccurate Medicare payments that might have been made to health care providers and that were not detected through existing CMS program integrity efforts. Once an RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from, or addition to, the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The Organization will then have the opportunity to appeal the adjustment before final settlement of the claim is made. An RAC review of the Organization's Medicare claims is anticipated; however, the outcome of such a review is unknown, and any financial impact cannot be reasonably estimated at January 31, 2014.

Other

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.

Milwaukee Health Services, Inc.

Notes to Financial Statements

Note 11 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.

Information regarding the fair value of assets measured at fair value on a recurring basis as of January 31, 2013, follows:

	Assets Measured at Fair Value	Recurring Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Common stock	\$ 86,320	\$ 86,320	\$ -	\$ -

Note 12 Concentration of Credit Risk

The Organization maintains depository relationships with financial institutions in Milwaukee, Wisconsin. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Balances in excess of FDIC limits are uninsured. 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

Note 12 Concentration of Credit Risk (Continued)

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

	2014	2013
Medicare	14 %	10 %
Medicaid	62 %	85 %
Insurance and other	5 %	3 %
Private pay	19 %	2 %
Totals	100 %	100 %

Note 13 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 14 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, 2014:

2015	\$	92,820
2016		92,820
2017		92,820
2018		92,820
2019		38,675

Note 15 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 made no discretionary contributions to the plan during the years ended January 31, 2014 and 2013.

Milwaukee Health Services, Inc.

Notes to Financial Statements

Note 16 Impairment Loss

On January 31, 2013, the Organization's medical records software was impaired due to limited functionality. The carrying amount of the software was reduced to zero and an impairment loss of \$2,335,028 was recognized.

Note 17 Emphasis of a Matter

During the year ended January 31, 2014, the Organization had a decrease in net assets of \$12,621,816. Total current liabilities exceed current assets by \$4,653,228. The Organization is currently in arrears on accounts with certain vendor creditors which, among other things, cause the balances to become due on demand. The Organization is in default on certain loan covenants at January 31, 2014, primarily as a result of the decrease in net assets in the current period, and current liabilities being in excess of current assets. The Organization continues to pursue reducing overall debt by restructuring loans with its banks at more favorable credit terms and to raise capital to pay vendors and creditors. Management's plan in regard to this matter is as follows:

Short Term Actions:

- Reduce expense through staff reduction and salary adjustments,
- Eliminate, reduce or consolidate programs to cut expense and reduce losses,
- Restructure and extend terms on loans agreements with its borrowers, and major vendors,
- Optimize the use of new EHR software to raise clinical productivity, optimize the use of new EHR software to raise clinical productivity,
- Request technical assistance from HRSA and WPHCA to meet obligations and continue operations,
- Negotiate favorable payback terms with third party reimbursement programs
- Control wage expense through the non-renewal of underperforming provider contracts and select provider replacements to enhance payer mix,
- Increase cash flow through local and federal grant programs,
- Negotiate obligation forgiveness from major vendors.

Milwaukee Health Services, Inc.

Notes to Financial Statements

Note 17 **Emphasis of a Matter** (Continued)

Long Term Plans:

- Match provider schedules and compensation structures to patient demand patterns in order to maximize the provider productivity and attain HRSA guidelines;
- Align clinical staff schedules to provider schedules, minimizing surplus staff;
- Maximize provider scheduling capacity with “Same Day Open Access” schedules to fill “No Show” visits.
- Grow patient demand through in-depth market analysis of the surrounding zip code maps and strategically target outreach activities to address existing barriers to accessing MHSI.
- Identify patient service opportunities through data mining of the EHR database,
- Capture additional revenue sources of Meaningful Use reimbursement, external 340b pharmacy partnerships, and Accountable Care Organizations (ACOs) shared savings opportunities,
- Develop shared service arrangements with external healthcare organizations to reduce administrative costs.
- Replace bank financing with tax-exempt financing to stretch the repayment period, and increase cash flow for reinvestment into the organization.

The financial statements do not include any adjustments that might result from the outcome of these activities. If the Organization is unable to improve its financial condition, it could have an impact on the Organization’s ability to realize assets at their recognized values to extinguish liabilities in the normal course of business at the amounts stated in the financial statements.

Supplementary Information

Milwaukee Health Services, Inc.

Schedule of Revenues and Expenses by Program

Year Ended January 31, 2014

	State Community Health Center Program	Ryan White Linkage to Care Grant	HIV Home/ Community Care (RW)	Ryan White MAI HIV Care Services Grant	Immunization	Ryan White Title III	Health Center Cluster - Federal 330 Grant	Public Health Emergency Preparedness
Support and revenue:								
Patient service revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Department of Health and Human Services	-	-	-	-	-	482,042	1,654,406	-
State of Wisconsin Department of Health Services	557,883	62,069	11,951	24,218	12,455	-	-	-
Wisconsin Division of Public Health	-	-	-	-	-	-	-	11,250
Medical College of Wisconsin, Inc.	-	-	-	-	-	-	-	-
Contract services and other grants	-	-	-	-	-	-	-	-
Contributions and other	-	-	-	-	-	-	-	-
Net assets released from restrictions	-	-	-	-	-	-	-	-
Total support and revenue	557,883	62,069	11,951	24,218	12,455	482,042	1,654,406	11,250
Expenses:								
Salaries and wages	16,065	46,317	-	19,792	12,383	321,181	1,407,165	-
Fringe benefits	3,373	10,182	-	3,958	-	66,829	247,241	-
Professional services	-	-	-	-	-	-	-	-
Consumable supplies	32,441	2,070	-	47	72	1,018	-	-
Contract services	-	-	-	-	-	90,911	-	-
Pharmaceuticals	-	-	-	-	-	-	-	-
Occupancy	-	-	-	-	-	-	-	-
Laboratory fees	-	-	11,951	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-
Repairs and maintenance	-	-	-	-	-	-	-	-
Telephone and internet	-	1,121	-	421	-	-	-	-
Travel, conferences and meetings	-	1,372	-	-	-	1,139	-	-
Postage and freight	-	-	-	-	-	-	-	-
Dues and subscriptions	-	-	-	-	-	-	-	-
Staff training and recruiting	-	-	-	-	-	-	-	-
Printing and publications	-	-	-	-	-	-	-	-
Health promotions	-	-	-	-	-	-	-	-
Noncapitalizable equipment and software fees	430,663	-	-	-	-	-	-	11,250
Patient assistance	-	1,007	-	-	-	-	-	-
Depreciation and amortization	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-
Building and equipment capitalized	75,341	-	-	-	-	-	-	-
Other	-	-	-	-	-	964	-	-
Total expenses	557,883	62,069	11,951	24,218	12,455	482,042	1,654,406	11,250
Support and revenue in excess (deficiency) of expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Milwaukee Health Services, Inc.

Schedule of Revenues and Expenses by Program (Continued)

Year Ended January 31, 2014

	Health Care and Other Facilities	Federal Patient- Centered Medical Home	Federal Outreach and Enrollment Grant	Depression Intervention for AAA	WIC	SNAP ED Fit Families	MAPP - Pregnancy Outreach	Maternal and Child Health Services Block Grant to the States
Support and revenue:								
Patient service revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Department of Health and Human Services	226,747	39,434	33,343	-	-	-	-	-
State of Wisconsin Department of Health Services	-	-	-	-	542,554	18,680	-	-
Wisconsin Division of Public Health	-	-	-	-	-	-	-	-
Medical College of Wisconsin, Inc.	-	-	-	-	-	-	41,387	-
Contract services and other grants	-	-	-	46,380	-	-	-	7,290
Contributions and other	-	-	-	-	-	-	-	-
Net assets released from restrictions	-	-	-	-	-	-	-	-
Total support and revenue	226,747	39,434	33,343	46,380	542,554	18,680	41,387	7,290
Expenses:								
Salaries and wages	187,394	39,434	25,732	17,413	368,424	14,306	34,146	3,994
Fringe benefits	39,353	-	5,661	4,527	77,369	3,005	6,147	839
Professional services	-	-	-	24,440	-	-	-	-
Consumable supplies	-	-	-	-	14,964	1,369	1,094	2,457
Contract services	-	-	-	-	28,000	-	-	-
Pharmaceuticals	-	-	-	-	-	-	-	-
Occupancy	-	-	-	-	35,000	-	-	-
Laboratory fees	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-
Repairs and maintenance	-	-	-	-	-	-	-	-
Telephone and internet	-	-	780	-	9,565	-	-	-
Travel, conferences and meetings	-	-	-	-	560	-	-	-
Postage and freight	-	-	-	-	1,354	-	-	-
Dues and subscriptions	-	-	-	-	120	-	-	-
Staff training and recruiting	-	-	1,170	-	450	-	-	-
Printing and publications	-	-	-	-	-	-	-	-
Health promotions	-	-	-	-	2,751	-	-	-
Noncapitalizable equipment and software fees	-	-	-	-	3,770	-	-	-
Patient assistance	-	-	-	-	227	-	-	-
Depreciation and amortization	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-
Building and equipment capitalized	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total expenses	226,747	39,434	33,343	46,380	542,554	18,680	41,387	7,290
Support and revenue in excess (deficiency) of expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Milwaukee Health Services, Inc.

Schedule of Revenues and Expenses by Program (Continued)

Year Ended January 31, 2014

	Patient Services and Other	Administration	Adjustment to GAAP	Total
Support and revenue:				
Patient service revenue	\$ 3,205,730	\$ -	\$ -	\$ 3,205,730
U.S. Department of Health and Human Services	-	-	-	2,435,972
State of Wisconsin Department of Health Services	-	-	-	1,229,810
Wisconsin Division of Public Health	-	-	-	11,250
Medical College of Wisconsin, Inc.	-	-	-	41,387
Contract services and other grants	449,290	-	-	502,960
Contributions and other	290,995	-	-	290,995
Net assets released from restrictions	629,557	-	-	629,557
Total support and revenue	4,575,572	-	-	8,347,661
Expenses:				
Salaries and wages	8,488,684	1,085,672	-	12,088,102
Fringe benefits	1,973,973	238,848	-	2,681,305
Professional services	56,315	785,382	-	866,137
Consumable supplies	175,055	6,489	-	237,076
Contract services	386,391	19,500	-	524,802
Pharmaceuticals	435,159	-	-	435,159
Occupancy	865,427	11,555	-	911,982
Laboratory fees	339,596	-	-	351,547
Insurance	-	135,487	-	135,487
Repairs and maintenance	53,115	54,142	-	107,257
Telephone and internet	135,531	69,373	-	216,791
Travel, conferences and meetings	20,940	9,710	-	33,721
Postage and freight	9,655	11,009	-	22,018
Dues and subscriptions	5,230	19,615	-	24,965
Staff training and recruiting	32,708	2,440	-	36,768
Printing and publications	10,081	1,047	-	11,128
Health promotions	49,506	21,096	-	73,353
Noncapitalizable equipment and software fees	81,238	94,299	-	621,220
Patient assistance	7,924	-	-	9,158
Depreciation and amortization	833,583	392,275	-	1,225,858
Interest	-	254,186	-	254,186
Building and equipment capitalized	-	-	(75,341)	-
Other	38,678	50,168	-	89,810
Total expenses	13,998,789	3,262,293	(75,341)	20,957,830
Support and revenue in excess (deficiency) of expenses	\$ (9,423,217)	\$ (3,262,293)	\$ 75,341	\$ (12,610,169)

Milwaukee Health Services, Inc.

Settlement of DHS Cost Reimbursement Award

Year ended January 31, 2014

DHS Identification number	Immunization Cooperative Agreements		Community Health Centers		Supplemental Nutrition Assistance Program		Women, Infants, and Children (WIC) Total Grants							
	CARS Profile 435.150179		CARS Profile 435.151301		CARS Profile 435.154661		CARS Profile 435.154710							
Award amount	\$	12,455	\$	463,540	\$	447,370	\$	26,000	\$	26,104	\$	580,197	\$	556,989
Award period		1/1/13 - 12/31/13		7/1/12 - 6/30/13		7/1/13 - 6/30/14		10/1/12 - 9/30/13		10/1/13 - 9/30/14		1/1/13 - 12/31/13		1/1/14 - 12/31/14
Period of award within audit period		2/1/13 - 12/31/13		2/1/13 - 6/30/13		7/1/13 - 1/31/14		2/1/13 - 9/30/13		10/1/12 - 1/31/14		2/1/13 - 12/31/13		1/1/14 - 1/31/14
A. Expenditures reported to DHS for payment	\$	12,455	\$	312,925	\$	244,959	\$	12,205	\$	6,473	\$	503,467	\$	36,656
B. Actual allowable cost of award														
Salaries and wages		12,383		16,065		-		9,491		4,814		326,678		26,152
Fringe benefits		-		3,374		-		1,993		1,011		68,602		5,492
Consumable supplies		72		32,441		-		721		648		12,302		101
Contract services		-		-		-		-		-		25,667		2,333
Occupancy		-		-		-		-		-		32,083		2,917
Telephone and internet		-		-		-		-		-		8,503		708
Travel, conference and meetings		-		-		-		-		-		560		-
Postage and freight		-		-		-		-		-		924		75
Staff training and recruiting		-		-		-		-		-		470		330
Printing and publications		-		-		-		-		-		489		378
Health promotions		-		-		-		-		-		2,751		-
Equipment, computers and software		-		185,704		244,959		-		-		2,431		1,339
Building and equipment capitalized		-		75,341		-		-		-		-		-
Other		-		-		-		-		-		756		-
		-		-		-		-		-		-		-
Total reported expenses		12,455		312,925		244,959		12,205		6,473		482,216		39,825
C. Less program revenue and other offsets to costs		-		-		-		-		-		-		-
D. Total allowable costs	\$	12,455	\$	312,925	\$	244,959	\$	12,205	\$	6,473	\$	482,216	\$	39,825

Milwaukee Health Services, Inc.

Settlement of DHS Cost Reimbursement Award (Continued)

Year ended January 31, 2014

DHS Identification number	Ryan White Minority Aids Initiative CARS Profile 435.155991		Ryan White Special Projects of National Significance Linkage Care CARS Profile 435.155994	
	\$	\$	\$	\$
Award amount	24,521	24,245	31,645	64,030
Award period	4/1/12 - 3/31/13	4/1/13 - 3/31/14	9/1/12 - 8/31/13	9/1/13 - 8/31/14
Period of award within audit period	2/1/13 - 3/31/13	4/1/13 - 1/31/14	2/1/13 - 8/31/13	9/1/13 - 1/31/14
A. Expenditures reported to DHS for payment	\$ 3,744	\$ 20,474	\$ 35,121	\$ 26,948
B. Actual allowable cost of award				
Salaries and wages	3,028	16,764	25,931	20,386
Fringe benefits	606	3,353	6,105	4,077
Consumable supplies	5	42	787	1,283
Telephone and internet	105	315	595	526
Travel, conference and meetings	-	-	1,090	282
Patient assistance	-	-	613	394
Total reported expenses	3,744	20,474	35,121	26,948
C. Less program revenue and other offsets to costs	-	-	-	-
D. Total allowable costs	\$ 3,744	\$ 20,474	\$ 35,121	\$ 26,948

Milwaukee Health Services, Inc.

Schedule of Expenditures of Federal and State Awards

Year Ended January 31, 2014

Federal Grantor/Program Title	Pass Through Grantor	Federal CFDA Number	Expenditures
Federal Awards:			
U.S. Department of Health and Human Services:			
Public Health Emergency Preparedness	Wisconsin Division of Public Health	93.069	\$ 11,250
Affordable Care Act Personal Responsibility Education Program	Medical College of Wisconsin	93.092	41,387
Health Centers Cluster:			
Community Health Center Program	Direct	93.224	1,881,153
Affordable Care Act Grants for New and Expanded Services under the Health Center Program	Direct	93.527	72,777
Total Health Centers Cluster			1,953,930
Immunization Grants	State of Wisconsin Department of Health Services	93.268	12,455
HIV Care Formula Grants	State of Wisconsin Department of Health Services	93.917	98,238
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	Direct	93.918	482,042
Total U.S. Department of Health and Human Services			2,599,302
U.S. Department of Agriculture:			
Supplemental Food Program for Women, Infants, and Children ("WIC")	State of Wisconsin Department of Health Services	10.557	539,632
State Administrative Matching grants for the supplemental Nutrition Assistance Program	State of Wisconsin Department of Health Services	10.561	18,680
WIC Farmers Market Nutrition Program	State of Wisconsin Department of Health Services	10.572	2,922
Total U.S. Department of Agriculture			561,234
Total expenditures of federal awards			\$ 3,160,536

Milwaukee Health Services, Inc.

Schedule of Expenditures of Federal and State Awards (Continued)

Year Ended January 31, 2014

State Grantor/Program Title	Pass Through Grantor	CARS Number	Expenditures
State Awards:			
Wisconsin Department of Health Services:			
Community Health Center program	Direct	435.151301	\$ 557,884
Total expenditures of state awards			\$ 557,884

Milwaukee Health Services, Inc.

Notes to Schedule of Expenditures of Federal and State Awards

Year Ended January 31, 2014

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, 2014. 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, in accordance with the 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, the financial statements of Milwaukee Health Services, Inc. which comprise the statements of financial position as of January 31, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 5, 2016.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-002 to be material weaknesses.

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*.

Milwaukee Health Services, Inc.'s Responses to Findings

Milwaukee Health Services Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Milwaukee Health Services Inc.'s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink that reads "Wipfli LLP". The signature is written in a cursive, flowing style.

Wipfli LLP

January 5, 2016
Milwaukee, Wisconsin



Independent Auditor's Report on Compliance For Each Major Federal and State Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and State Single Audit Guidelines

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

Report on Compliance for Each Major Federal and State Program

We have audited Milwaukee Health Services, Inc.'s, compliance with the types of compliance requirements described in the *U.S. OMB Circular A-133 Compliance Supplement* and the *State Single Audit Guidelines*, issued by the Wisconsin Department of Administration that could have a direct and material effect on each of the Milwaukee Health Services, Inc.'s major federal and state programs for the year ended January 31, 2014. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal and state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Milwaukee Health Services, Inc.'s major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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 Single Audit Guidelines*, issued by the Wisconsin Department of Administration. Those standards and OMB Circular A-133 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 the 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 on compliance for each major federal and state program. However, our audit does not provide a legal determination of the Milwaukee Health Services, Inc.'s compliance.

Basis for Qualified Opinion on 93.224 Health Center Cluster

As described in the accompanying schedule of findings and questioned costs, Milwaukee Health Services, Inc. did not comply with requirements regarding the following:

Finding #	CFDA #/ CARS #	Program Name	Compliance Requirement
2014-004	93.224	Health Center Cluster	Eligibility

Compliance with such requirements is necessary, in our opinion, for Milwaukee Health Services, Inc. to comply with the requirements applicable to that program.

Qualified Opinion on 93.224 Health Center Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Milwaukee Health Services, Inc.'s complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on 93.224 Health Center Cluster for the year ended.

Unmodified Opinion on the Other Major Federal and State Programs

In our opinion, Milwaukee Health Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal and state programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended January 31, 2014.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and the *State Single Audit Guidelines*, and which are described in the accompanying schedule of findings and questioned costs as item 2014-005 and 2014-006. Our opinion on each major federal and state program is not modified with respect to these matters.

The Milwaukee Health Services, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Milwaukee Health Services, Inc.'s response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Milwaukee Health Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Milwaukee Health Services, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on a major federal or state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and *State Single Audit Guidelines*, but not for the purpose of expressing an opinion on the effectiveness of Milwaukee Health Services, Inc.'s internal control over compliance. Accordingly, we do not express any opinion on the effectiveness of Milwaukee Health Services, Inc.'s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-003 and 2014-004 to be material weaknesses.

A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We also identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2014-005 and 2014-006 that we consider to be significant deficiencies.

The Milwaukee Health Services, Inc.'s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Milwaukee Health Services, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing on internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and State Single Audit Guidelines. Accordingly, this report is not suitable for any other purpose.



Wipfli LLP

January 5, 2016
Milwaukee, Wisconsin

Milwaukee Health Services, Inc.

Schedule of Findings and Questioned Costs

Year Ended January 31, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified not considered to be a material weakness?	None reported
Noncompliance material to financial statements noted?	No

Federal and State Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified not considered to be a material weakness?	Yes
Type of auditor's report issued on compliance for major programs	Modified
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>
93.224,	Health Center Cluster
93.527	Health Center Cluster

<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, 2014

Section II - Financial Statement Findings

Findings – Financial Statements Audit

Finding 2014-001: Preparation of the Medicaid Cost Report

Condition

Wipfli noted that a system was not in place to properly estimate the receivable or payable related to the annual Medicaid cost report.

Criteria

Government auditing standards require that the grant recipient have a financial system that provides for accurate, current, and complete disclosure of the financial results of each federal and state sponsored project or program. In addition, Government auditing standards require 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 a proper system to determine the estimated receivable or payable related to the annual Medicaid cost report can result in materially misstated financial statements. We deem the lack of being able to properly estimate the Medicaid receivable or payable to be a material weakness in internal controls.

Recommendation

We recommend that systems are put in place to properly prepare the annual Medicaid cost report.

Management Response

MHSI has reinstated a monthly process to calculate the monthly WRAP funding and to estimate the Medicaid receivable or payable which, is then reconciled and recorded at year-end with the annual cost report preparation.

Milwaukee Health Services, Inc.

Schedule of Findings and Questioned Costs (Continued)

Year Ended January 31, 2014

Findings – Financial Statements Audit (Continued)

Finding 2014-002: Material Adjustments

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 properly reconciled at year end. The lack of effective control over and accountability for funds, property, and other assets indicates a material weakness in internal controls.

Criteria:

Government auditing standards require that the grant recipient have a financial system that provides for accurate, current, and complete disclosure of the financial results of each federal and state sponsored project or program. In addition, Government auditing standards require 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.

Management Response:

In conjunction with its monthly closing process, MHSI reinstated the reconciliation of all significant accounts and records reconciling items in order to properly state general ledger accounts in accordance with generally accepted accounting principles.

Milwaukee Health Services, Inc.

Schedule of Findings and Questioned Costs (Continued)

Year Ended January 31, 2014

Findings – Financial Statements Audit (Continued)

Finding 2014-003: Tracking of Grant Expenses

Condition

Expenses for each grant are tracked in an excel spreadsheet. Expenses from these excel spreadsheets cannot be tied into a specific department in the general ledger system. Grant revenue and expense should be tracked in a general ledger department for each grant.

Criteria

Government auditing standards require that the grant recipient have a financial system that provides for accurate, current, and complete disclosure of the financial results of each federal and state sponsored project or program. In addition, Government auditing standards require 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

The inability to track expenses from the excel spreadsheets, used to track expenses for each grant, to the general ledger system increases the risk of expenses being reimbursed by multiple grants or on multiple reimbursement requests.

Recommendation

Wipfli recommends that grant revenues and expenses be recorded and tracked in separate general ledger departments for each grant. These departments should than be reconciled monthly to the excel spreadsheets used to track each grants respective expenses. This will ensure that excel spreadsheets and the general ledger contain the same expenses for each grant.

Management Response

MHSI utilizes the excel spreadsheets to recap grant transactions in order to prepare the periodic grant funding requests in accordance with grant requirements. In future months, MHSI will add a process to reconcile the spreadsheets to the general ledger accounts monthly.

Milwaukee Health Services, Inc.

Schedule of Findings and Questioned Costs (Continued)

Year Ended January 31, 2014

Findings – Compliance

Finding 2014-004: Self-Pay Sliding Fee Eligibility

Programs

U.S. Department of Health and Human Services, CFDA 93.224 Consolidated Health Centers.

Condition:

Wipfli noted that 11 out of 30 files selected for sliding fee testing could not be located. Due to this Wipfli was unable to test controls surrounding the sliding fee process.

Criteria

As prescribed by 42 CFR 51C, the grantee shall secure payments from patients for services in accordance with the schedule of fees and discounts which has been adjusted based on the patient's ability to pay.

Questioned Costs

None

Effect

Wipfli was unable to determine if the sliding fee adjustments were accurately recorded. We deem the lack of having documentation available for review to be a material weakness in internal controls.

Recommendation

We recommend that Milwaukee Health Services, Inc. maintain supporting documentation in the patient file for every self-pay patient who applies for the sliding fee discount.

Management's Response

MHSI is presently scanning all sliding fee documentation into the patient registration section of the Centricity system so that it can be easily referenced as needed.

Milwaukee Health Services, Inc.

Schedule of Findings and Questioned Costs (Continued) Year Ended January 31, 2014

Findings – Compliance (Continued)

Finding 2014-005: Federal Financial Reporting

Condition

Wipfli noted that Federal Financial Form SF-425 was filed subsequent to its reporting deadline of April 30, 2014.

Criteria

OMB Circular A-110 – Financial reporting, 2 CFR section 215.52 (iv) notes that the Federal awarding agency shall require recipients to submit the federal financial reporting no later than 90 calendar days after the grant year end for annual and final reports.

Questioned Costs

None

Effect

A Federal Financial Report SF-425 was not filed in compliance with grant requirements causing untimely information to be reported to the awarding agency.

Recommendation

Wipfli LLP recommends that a process be implemented to ensure that reports are completed, reviewed for accuracy and filed in a timely manner.

Management Response

The late filing of Form SF-425 resulted from MHSI accounting staff turnover and transition. The MHSI accounting staff have been replaced and the department has stabilized.

Milwaukee Health Services, Inc.

Schedule of Findings and Questioned Costs (Continued)

Year Ended January 31, 2014

Findings – Compliance (Continued)

Finding 2014-006: Federal Financial Reporting

Condition

Wipfli noted that data collection form was not filed with the federal clearing house as required by October 31, 2014.

Criteria

OMB Circular A-133 – The audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Questioned Costs

None

Effect

The data collection form was not filed in compliance with grant requirements causing untimely information to be reported to the federal clearing house.

Recommendation

Wipfli LLP recommends that a process be implemented to ensure that reports are completed, reviewed for accuracy and filed in a timely manner.

Management Response

The data collection form cannot be filed with the federal clearing house until after the completion of the external financial audit. Once the audit report is officially issued, the form will be filed. MHSI is actively addressing its annual audit delays so that the data collection form can be timely filed.

Milwaukee Health Services, Inc.

Schedule of Findings and Questioned Costs (Continued) Year Ended January 31, 2014

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? Yes

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:

Milwaukee Health Services, Inc.

Schedule of Prior Year Findings and Questioned Costs

Year Ended January 31, 2014

Findings – Financial Statements Audit

Finding 2013-001: Accounts Receivable Subsidiary Records

Condition

Wipfli noted that a system was not in place to properly track accounts receivable by payor for 3rd party patient billings. The absence of a proper accounts receivable system makes it difficult to properly bill for all services provided, track write-off of bad debts and contractual allowances and to follow-up on collections of uncollected accounts receivable amounts.

Status

Wipfli noted that during fiscal year 2014, Milwaukee Health Services, Inc. converted its patient accounting system to the Centricity practice management/ electronic health record system.

Finding 2013-002: Allowance for Bad Debt and Contractual Allowance

Condition

Wipfli noted that the allowance for doubtful accounts and contractual allowance was not being properly reviewed and reconciled on a monthly basis. Improperly recording allowance for doubtful accounts and contractual allowances resulted in the reporting of inaccurate interim financial information. Wipfli noted that material client prepared entries were made subsequent to the start of the audit to correct the balances in the allowance accounts.

Status

Wipfli noted that the allowance for doubtful accounts and the contractual allowance was properly reconciled at year end.

Finding 2013-003: Tracking of Grant Expenses

Condition

Expenses for each grant are tracked in an excel spreadsheet. Expenses from these excel spreadsheets cannot be tied into a specific department in the general ledger system. Grant revenue and expense should be tracked in a general ledger department for each grant.

Status:

This finding was repeated in the current year.

Milwaukee Health Services, Inc.

Schedule of Prior Year Findings and Questioned Costs (Continued)

Year Ended January 31, 2014

Findings – Financial Statements Audit (Continued)

Finding 2013-004: Material Adjustments

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.

Status

This finding was repeated in the current year.