

# Milwaukee Health Services, Inc.

Financial Statements and Supplementary Information

Years ended January 31, 2019 and 2018





## Independent 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. (the "Organization"), which comprise the statements of financial position as of January 31, 2019 and 2018, and the related statements of operations and changes in net assets, 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 audit 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 estimates 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. as of January 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

## Emphasis of Matter

As discussed in Note 1 to the financial statements, Milwaukee Health Services, Inc. adopted the amendments in Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statement of Not-for-Profit Entities*, as of and for the year ended June 30, 2019. The amendments have been applied on a retrospective basis with the exception of the omission of certain information as permitted by the ASU.

## Other Matters

### Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information appearing on pages 23 through 30, which includes the schedule of expenditures of federal and state awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the *State Single Audit Guidelines*, issued by the Wisconsin Department of Administration, is presented for the purposes of additional analysis, and is not a required part of the 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 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 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 September 16, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Milwaukee Health Services, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Milwaukee Health Services, Inc.'s internal control over financial reporting and compliance.

*Wipfli LLP*

Wipfli LLP  
Milwaukee, Wisconsin

September 16, 2019

# Milwaukee Health Services, Inc.

## Statements of Financial Position

January 31, 2019 and 2018

<b>Assets</b>	<b>2019</b>	<b>2018</b>
Current assets:		
Cash	\$ 126,116	\$ 726,033
Patient services receivable, net	1,280,029	1,253,631
Due from third-party	4,197,718	-
Grants receivable	1,012,401	916,604
Inventories	98,858	63,263
Prepaid expenses and other	88,392	54,782
<b>Total current assets</b>	<b>6,803,514</b>	<b>3,014,313</b>
Property and equipment:		
Land and improvements	746,728	746,728
Buildings and improvements	13,450,944	13,450,944
Furniture and equipment	5,947,956	5,793,375
Leasehold Improvements	416,893	416,893
<b>Total property and equipment</b>	<b>20,562,521</b>	<b>20,407,940</b>
Less accumulated depreciation	11,772,476	10,968,993
<b>Property and equipment - Net</b>	<b>8,790,045</b>	<b>9,438,947</b>
<b>TOTAL ASSETS</b>	<b>\$ 15,593,559</b>	<b>\$ 12,453,260</b>

**Milwaukee Health Services, Inc.**  
**Statements of Financial Position (Continued)**  
January 31, 2019 and 2018

Liabilities and Net Assets	2019	2018
Current liabilities:		
Current maturities of capital lease obligations	\$ 101,019	\$ 122,173
Current maturities of long-term debt	234,294	2,054,689
Due to third-party, current portion	375,000	375,000
Accounts payable	455,928	378,218
Accrued salaries and benefits	693,532	720,433
Deferred revenue	5,000	16,811
Other accruals	206,859	180,221
<b>Total current liabilities</b>	<b>2,071,632</b>	<b>3,847,545</b>
Long-term liabilities:		
Obligations under capital leases, less current maturities	126,262	221,496
Long-term debt, less current maturities	4,488,482	2,951,846
Due to third-party, less current portion	1,000,000	2,248,008
<b>Total long-term liabilities</b>	<b>5,614,744</b>	<b>5,421,350</b>
<b>Total liabilities</b>	<b>7,686,376</b>	<b>9,268,895</b>
Net assets:		
Without donor restrictions	7,626,175	2,904,745
With donor restrictions	281,008	279,620
<b>Total net assets</b>	<b>7,907,183</b>	<b>3,184,365</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 15,593,559</b>	<b>\$ 12,453,260</b>

See accompanying notes to financial statements.

# Milwaukee Health Services, Inc.

## Statements of Operations and Changes in Net Assets

Years Ended January 31, 2019 and 2018

	2019	2018
Support and revenue without donor restriction:		
Patient service revenue, net	\$ 19,808,849	\$ 15,034,619
Federal and state grants	4,132,767	4,217,941
Contract services and other grants	230,494	231,686
Contributions and other	253,042	325,003
Net assets released from restrictions	28,612	62,500
<b>Total support and revenue without donor restriction</b>	<b>24,453,764</b>	<b>19,871,749</b>
Operating expenses:		
Program services	15,497,629	15,470,175
General and administrative	4,234,705	2,622,457
<b>Total operating expenses</b>	<b>19,732,334</b>	<b>18,092,632</b>
<b>Change in net assets without donor restrictions</b>	<b>4,721,430</b>	<b>1,779,117</b>
Support with donor restrictions:		
Contributions	30,000	-
Net assets released from restriction	(28,612)	(62,500)
<b>Change in net assets with donor restrictions</b>	<b>1,388</b>	<b>(62,500)</b>
<b>Changes in net assets</b>	<b>4,722,818</b>	<b>1,716,617</b>
<b>Net asset at beginning</b>	<b>3,184,365</b>	<b>1,467,748</b>
<b>Net assets at end</b>	<b>\$ 7,907,183</b>	<b>\$ 3,184,365</b>

See accompanying notes to financial statements.

# Milwaukee Health Services, Inc.

## Statements of Cash Flows

Years Ended January 31, 2019 and 2018

	2019	2018
Increase (decrease) in cash:		
Cash flows from operating activities:		
Changes in net assets	\$ 4,722,818	\$ 1,716,617
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Provision for uncollectible accounts	758,316	330,158
Depreciation and amortization	803,483	786,356
Amortization of deferred finance fees	2,993	-
Grant revenue related to purchase of property and equipment	(95,031)	(195,731)
Changes in operating assets and liabilities:		
Patient services receivable	(784,714)	(204,582)
Grants receivable	(95,797)	100,297
Inventories	(35,595)	(2,565)
Prepaid expenses and other	(33,610)	(13,209)
Accounts payable	77,710	(400,557)
Accrued salaries and benefits	(26,901)	11,399
Deferred revenue	(11,811)	14,042
Due to and from third-party reimbursement program	(5,445,726)	(592,914)
Other accruals	26,638	(154,395)
<b>Net cash from operating activities</b>	<b>(137,227)</b>	<b>1,394,916</b>
Cashflows from investing activities:		
Purchase of property and equipment	(154,581)	(270,435)
Cash flows from financing activities:		
Principal paid on long-term debt	(286,752)	(603,279)
Principal paid on capital lease obligations	(116,388)	(114,362)
Grants received related to purchase of Property and equipment	95,031	195,731
<b>Net cash from financing activities</b>	<b>(308,109)</b>	<b>(521,910)</b>
Net change in cash and cash equivalents	(599,917)	602,571
Cash at beginning	726,033	123,462
Cash at end	\$ 126,116	\$ 726,033
<b>Supplemental schedule of other cash flow information:</b>		
Cash paid during the year for interest	\$ 297,385	\$ 276,196
<b>Noncash financing activities:</b>		
Deferred financing fees paid with proceeds from long-term debt	\$ 49,587	-
Refinanced long-term debt	\$ 3,630,874	-

See accompanying notes to financial statements.

# Milwaukee Health Services, Inc.

## Statements of Functional Expenses

Year Ended January 31, 2019

	Program Services	General and Administrative	Total
Salaries and wages	\$ 7,096,430	\$ 1,789,698	\$ 8,886,128
Fringe benefits	2,137,542	698,006	2,835,548
Professional services	758,137	250,090	1,008,227
Consumable supplies	210,124	122,805	332,929
Contract services	482,791	(13,573)	469,218
Pharmaceuticals	3,128,374	-	3,128,374
Occupancy	4,378	329,653	334,031
Laboratory fees	113,055	-	113,055
Insurance	-	33,389	33,389
Repairs and maintenance	226,509	106,592	333,101
Telephone and internet	113,777	44,511	158,288
Travel, conferences and meetings	35,063	20,947	56,010
Postage and freight	13,459	12,979	26,438
Dues and subscriptions	4,738	11,539	16,277
Staff training and recruiting	75,405	17,041	92,446
Printing and publications	9,422	1,579	11,001
Health promotions	62,504	51,291	113,795
Equipment	197,792	97,169	294,961
Software license and hosting	205,191	-	205,191
Patient assistance	37,306	-	37,306
Depreciation and amortization	545,272	258,211	803,483
Interest	-	292,780	292,780
Other	40,360	109,998	150,358
<b>Total expenses</b>	<b>\$ 15,497,629</b>	<b>\$ 4,234,705</b>	<b>\$ 19,732,334</b>

See accompanying notes to financial statements.



**Milwaukee Health Services, Inc.**  
**Statements of Functional Expenses (Continued)**  
Year Ended January 31, 2018

	Program Services	General and Administrative	Total
Salaries and wages	\$ 7,446,603	\$ 997,601	\$ 8,444,204
Fringe benefits	1,930,507	274,850	2,205,357
Professional services	129,547	207,037	336,584
Consumable supplies	151,024	45,308	196,332
Contract services	591,783	8,259	600,042
Pharmaceuticals	3,302,153	-	3,302,153
Occupancy	344,389	162,066	506,455
Laboratory fees	110,309	-	110,309
Insurance	-	74,639	74,639
Repairs and maintenance	119,428	56,201	175,629
Telephone and internet	146,490	68,995	215,485
Travel, conferences and meetings	20,161	14,821	34,982
Postage and freight	7,628	7,627	15,255
Dues and subscriptions	6,257	15,734	21,991
Staff training and recruiting	45,365	11,051	56,416
Printing and publications	7,949	1,331	9,280
Health promotions	111,866	-	111,866
Equipment	433,633	-	433,633
Patient assistance	4,379	25	4,404
Provision for uncollectible accounts	-	27,967	27,967
Depreciation and amortization	534,722	251,634	786,356
Interest	-	290,801	290,801
Other	25,982	106,510	132,492
<b>Total expenses</b>	<b>\$ 15,470,175</b>	<b>\$ 2,622,457</b>	<b>\$ 18,092,632</b>

See accompanying notes to financial statements.

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies

#### Nature of Operations

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 and accounting principles generally accepted in the United States ("GAAP").

#### Net Assets

Net assets and revenues, 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:

**Net assets without donor restrictions:** Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

**Net assets with donor restrictions:** Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

#### Use of Estimates

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

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

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

#### **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 will not 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

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

#### **Inventories**

Inventories as of January 31, 2019 and 2018, are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.

#### **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 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.

#### **Net Patient Service Revenue**

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

#### **Uncompensated Care**

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

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

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

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

#### Contributions

Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is deemed unconditional. The gifts are reported as support with donor restrictions 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, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions 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.

#### Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. These expenses are allocated to the program and supporting services based on employee's equivalents for each activity and square footage.

#### 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.

The Organization recognizes the benefit of a tax position only after determining whether it is more likely than not that the taxing authority would sustain the tax position upon examination of the technical merits of the tax position assuming the taxing authority has full knowledge of all information. The Organization has recorded no assets or liabilities related to uncertain tax positions.

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

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

#### New Accounting Policy

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities* (Topic 958). This ASU provides for certain improvements in financial reporting for not-for-profit organizations and requires changes to net asset classification, enhancements to liquidity presentation and disclosures, presentation of an analysis of expenses by function and by nature, netting of investment expenses with return, among other changes. The guidance in this ASU is effective for the Organization's year ended January 31, 2019 and was applied retrospectively to the 2018 financial statements, with the exception of certain omissions permitted by the ASU.

#### New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures. The new standard supersedes current revenue recognition requirements in FASB Accounting Standards Codification (ASC) Topic 606, *Revenue Recognition*, and most industry-specific guidance. When adopted, the amendments in the ASU must be applied using one of two retrospective methods. ASU No. 2014-09 is effective for nonpublic entities for annual periods beginning after December 15, 2018. The Organization is currently evaluating the impact of the provisions of ASC 606.

On June 21, 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a transaction is conditional. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019, for transactions in which the entity serves as the resource recipient. Early application of the amendments in this update is permitted. The Organization is still evaluating the impact of the provisions of ASU Topic 958.

In 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is intended to improve financial reporting on leasing transactions. ASU No. 2016-02 will require lessees to recognize right of use assets and lease obligations for operating and finance leases under terms greater than 12 months. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. ASU No. 2016-02 must be applied modified retrospectively.

#### Subsequent Events

Subsequent events have evaluated through September 16, 2019, which is the date the financial statements were available to be issued.

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

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### Note 2: Liquidity and Availability of Financial Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

*As of January 31, 2019*

Cash	\$ 126,116
Patient services receivable	1,280,029
Grants receivable	1,012,401
Due from third party	4,197,718
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Subtotal financial resources	6,616,264
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Less:	
Deferred revenue	5,000
Net assets with donor restrictions	281,008
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Total financial resources available for general expenditures	\$ 6,330,256
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### Note 3: 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. The basis of reimbursement with major third-party payors follows:

#### Medicare

The Organization qualifies for the Medicare FQHC program. Under a prospective payment system ("PPS"), this qualification entitles the Organization to reimbursement at 80% of the lesser of charges based on FQHC payment codes or the PPS rate, a national encounter-based rate with geographic and other adjustments. The FQHC PPS base rate is updated annually based on an FQHC market based index.

#### Medicaid

The Organization also qualifies for the Medicaid FQHC program. Federal law requires states to pay Medicaid FQHC services (on a per encounter basis) under a PPS or approved alternative payment methodology ("APM"). Prior to July 1, 2017, the State of Wisconsin reimbursed FQHC's under an APM that provided for reimbursement utilizing a cost settlement process, effective July 1, 2017 the State of Wisconsin began reimbursing all FQHC's under PPS. The PPS rate is adjusted annually by the Medicare Economic Index at the end of the fiscal year and is also adjusted for any change in scope of services. Provider administered drugs, telehealth distant site services, and certain retail pharmacy services are carved out of the PPS rate and reimbursed separately.

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.

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

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### Note 3: Reimbursement Arrangement With Third-Party Payors (Continued)

#### Medicaid (Continued)

Fixed Medicaid FQHC reimbursement settlements due from or due to DHS for the years ended January 31, 2009 through 2019, have been estimated as a total due from Wisconsin Department of Human Services ("DHS") of \$2,822,718 at January 31, 2019, and due to DHS of \$2,623,008 at January 31, 2018. The amounts due of \$1,375,000 as of January 31, 2019 represent a final audited amount of \$2,500,000 for 2009 and 2010 based on DHS's audit of those years less the scheduled monthly payments made through January 31, 2019. Payments of \$31,250 are being made through monthly withholding from the Medicaid wrap reimbursements for 80 months which began February 1, 2016.

Amounts due from 2011 through 2014 were based on DHS's audit of those years and amounted to \$2,500,000 with monthly payments of \$5,000 commencing February 2019. Amounts due from DHS of \$6,565,718 for 2015 through 2017 based on DHS's audit of those years were used to pay down the \$2,500,000 due to DHS for 2011 through 2014 with the remaining amount due from DHS for 2015 through 2017 of \$4,065,718 paid to the Organization subsequent to year-end. Final determination of the actual amount due or receivable for the years ending January 31, 2018 and January 31, 2019 have not been determined as of the release of this report, and is considered a significant estimate.

Estimated net FQHC reimbursement (due) receivable at January 31,	2019	2018
2018 through 2019	\$ 132,000	\$ 108,000
2015 through 2017 final audited	6,565,718	2,989,753
2011 through 2014 final audited	(2,500,000)	(3,970,761)
2009 and 2010 final audited	(1,375,000)	(1,750,000)
<b>Total</b>	<b>\$ 2,822,718</b>	<b>\$ (2,623,008)</b>

#### 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.



# Milwaukee Health Services, Inc.

## Notes to Financial Statements

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### Note 3: Reimbursement Arrangement With Third-Party Payors (Continued)

#### Other

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

#### Compliance

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

### Note 4: Grants Receivable

Grants receivable at January 31, due from funding sources are as follows:	2019	2018
Federal Grants:		
CHC 330	\$ 444,750	\$ 444,778
Ryan White Title III	145,066	141,177
State of Wisconsin Department of Health Services:		
Wisconsin Community Health Center	149,790	103,181
Immunization grant	442	9,848
HIV Home	22,565	31,263
Women, Infants, and Children	102,734	169,495
WIC - Peer Counselor	1,616	2,904
Milwaukee County Well Women	16,057	3,484
American Cancer Society	6,407	-
Colorectal Cancer Screening	8,795	10,474
Milwaukee Health Care Partnership	114,179	-
<b>Total</b>	<b>\$ 1,012,401</b>	<b>\$ 916,604</b>

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

### Note 5: Patient Services Receivable - Net

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

	<b>2019</b>	<b>2018</b>
Patient services receivable	\$ 2,825,115	\$ 3,218,474
Less:		
Allowance for doubtful accounts	(803,409)	(1,371,714)
Contractual adjustments	(741,677)	(593,129)
<b>Total</b>	<b>\$ 1,280,029</b>	<b>\$ 1,253,631</b>

Due to low collection rates on self-pay accounts receivable, the self-pay accounts receivable balance of \$850,666 and \$1,532,156 had an allowance of \$803,409 and \$1,371,714 at January 31, 2019 and 2018, respectively. The Organization has not changed its uncompensated care policy during fiscal 2019 and 2018.

### Note 6: Net Patient Service Revenue and Medicare/Medicaid Reimbursement

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

	<b>2019</b>	<b>2018</b>
Medicaid current year billings and cost report	\$ 11,623,086	\$ 12,150,744
Change in prior years' estimated Medicaid cost reports	5,046,726	109,914
<b>Total Medicaid revenue</b>	<b>16,669,812</b>	<b>12,260,658</b>
Medicare	2,575,823	2,537,395
Insurance and other	5,453,308	5,586,136
Private Pay	576,820	684,589
<b>Total gross patient service revenue</b>	<b>25,275,763</b>	<b>21,068,778</b>
Less:		
Provision for uncollectible accounts	758,316	330,158
Contractual adjustments and discounts	4,708,598	5,704,001
<b>Total</b>	<b>\$ 19,808,849</b>	<b>\$ 15,034,619</b>

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

### Note 7: Long-Term Debt

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

	<b>2019</b>	<b>2018</b>
Note payable to IFF with principal and interest due in monthly installments of \$12,557. The note bears interest at 5.875% per annum. Unpaid principal and interest are due at maturity on April 1, 2028. The note is secured by specific real estate.	\$ 1,072,225	\$ 1,158,214
Unsecured note payable to the City of Milwaukee with no interest, requiring 60 monthly principal payments of \$3,167, maturing on February 2, 2020.	38,000	76,000
Note payable to PNC Bank with principal and interest payments in equal monthly installments of \$12,778. Note matured on March 7, 2018.	-	1,558,878
Note payable to Commerce State Bank with principal and interest payments in equal monthly installments of \$10,841. Unpaid principal and interest is due at maturity on July 27, 2023. The note bears interest at 5.50% per annum. The note is secured by specific real estate.	1,544,205	-
Note payable to Commerce State Bank with principal and interest payments in equal monthly installments of \$15,171. Unpaid principal and interest is due at maturity on January 15, 2024. The note bears interest at 5.95% per annum. The note is secured by specific real estate.	2,115,000	-
Note payable to IFF with interest and principal payments due in monthly installments of \$4,968. The note matured on October 1, 2018.	-	456,456
Note payable to North Shore Bank with interest and principal payments due in monthly installments of \$18,632. The note matured on June 28, 2018.	-	1,756,987
<b>Totals</b>	<b>4,769,430</b>	<b>5,006,535</b>
Less: Deferred finance fees	46,654	-
Less: Current maturities	234,294	2,054,689
<b>Long-term portion</b>	<b>\$ 4,488,482</b>	<b>\$ 2,951,846</b>

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

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### Note 7: Long-Term Debt (Continued)

Scheduled principal payments on long-term debt, net of deferred finance fees, at January 31, 2019, are summarized as follows:

2020	\$	234,294
2021		203,448
2022		215,892
2023		228,467
2024		3,280,234
Thereafter		560,441
<hr/>		
Total	\$	4,722,776
<hr/>		

### Note 8: Capital Lease Obligation

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, 2019.

2020	\$	129,947
2021		129,947
2022		32,487
<hr/>		
Total minimum lease payments		292,381
Amount representing interest		(65,100)
<hr/>		
Present value of net minimum lease payments		227,281
Less - Current portion		(101,019)
<hr/>		
Total	\$	126,262
<hr/>		

Assets under capital leases with a total cost of \$534,313 and accumulated amortization of \$302,777 as of January 31, 2019 and \$195,915 as of January 31, 2018 are included in furniture and equipment in the accompanying statements of financial position. Amortization of the related lease obligation is included in depreciation and amortization expense.

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

### Note 9: Net Assets With Donor Restrictions

Net assets with donor restrictions include assets set aside in accordance with donor restrictions as to time or use. Net assets with donor restrictions are available for the following purposes at January 31, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Purpose restricted:		
Aurora Health Care Better Together Fund	\$ 251,008	\$ 279,620
Other grants	30,000	-
Totals	\$ 281,008	\$ 279,620

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, 2019 and 2018, are as follows:

	<b>2019</b>	<b>2018</b>
Purpose restricted:		
Aurora Health Care Better Together Fund	\$ 28,612	\$ -
Other grants	-	62,500
Totals	\$ 28,612	\$ 62,500

### 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 ("RAC") 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, 2019.

# Milwaukee Health Services, Inc.

## Notes to Financial Statements

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### Note 11: 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.

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.

In fiscal years 2019 and 2018, the Organization received approximately 17% and 22%, respectively, of its revenue from grants from government agencies with 12% and 15%, respectively, of their revenue coming specifically from the U.S. Department of Health and Human Services. Management believes the Agencies 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. 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.

The mix of patient service revenue at January 31, was as follows:	2019	2018
Medicare	10 %	12 %
Medicaid	66 %	58 %
Insurance and other	22 %	27 %
Private pay	2 %	3 %
<b>Total</b>	<b>100 %</b>	<b>100 %</b>

### Note 12: 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 13: Retirement Plan

The Organization has a defined contribution retirement plan covering substantially all employees. The Organization makes contributions to the plan at the discretion of the Board of Directors. The Organization made no discretionary contributions to the plan during the years ended January 31, 2019 and 2018.

## **Supplementary Information**

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# Milwaukee Health Services, Inc.

## Schedule of Revenue and Expenses by Program - Without Donor Restrictions

Year Ended January 31, 2019

	University of Wisconsin							
	State Community Health Center Program	Carbone Center - Colorectal Cancer Screening	Ryan White Part B Supplemental	Immunization 2	Ryan White Part C	Federal Community Health Center Program	Advancing Precision Medicine	Well Women
Support and revenue:								
Patient service revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Department of Health and Human Services	-	-	-	-	453,146	2,571,352	28,322	-
City of Milwaukee	-	-	-	-	-	-	-	89,194
State of Wisconsin Department of Health Services	368,661	-	95,648	2,607	-	-	-	-
Contract services and other grants	-	34,102	-	-	-	-	-	-
Contributions and other	-	-	-	-	-	-	-	-
Net assets released from restrictions	-	-	-	-	-	-	-	-
<b>Total support and revenue</b>	<b>368,661</b>	<b>34,102</b>	<b>95,648</b>	<b>2,607</b>	<b>453,146</b>	<b>2,571,352</b>	<b>28,322</b>	<b>89,194</b>
Expenses:								
Salaries and wages	-	26,668	73,315	1,732	336,118	2,160,800	25,669	67,991
Fringe benefits	-	5,334	14,663	346	67,224	410,552	-	-
Professional services	-	-	-	-	-	-	-	-
Consumable supplies	18,428	-	111	-	6,666	-	-	-
Contract services	-	-	-	-	9,813	-	-	21,203
Pharmaceuticals	-	-	-	-	208	-	-	-
Occupancy	-	-	-	-	-	-	-	-
Laboratory fees	-	-	-	-	13,375	-	689	-
Insurance	-	-	-	-	-	-	-	-
Repairs and maintenance	-	-	-	-	-	-	-	-
Telephone and internet	-	-	6,241	-	140	-	-	-
Travel, conferences and meetings	-	-	226	-	5,427	-	-	-
Postage and freight	-	-	-	-	-	-	-	-
Dues and subscriptions	-	-	-	-	-	-	-	-
Staff training and recruiting	3,000	-	-	-	650	-	-	-
Printing and publications	-	-	-	-	-	-	-	-
Health promotions	9,106	-	-	-	-	-	1,964	-
Equipment	132,936	2,100	692	529	-	-	-	-
Software license and hosting	205,191	-	-	-	-	-	-	-
Patient assistance	-	-	400	-	-	-	-	-
Depreciation and amortization	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-
Other	-	-	-	-	13,525	-	-	-
<b>Total expenses</b>	<b>368,661</b>	<b>34,102</b>	<b>95,648</b>	<b>2,607</b>	<b>453,146</b>	<b>2,571,352</b>	<b>28,322</b>	<b>89,194</b>
Support and revenue in excess (deficiency) of expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -



# Milwaukee Health Services, Inc.

## Schedule of Revenue and Expenses by Program - Without Donor Restrictions (Continued)

Year Ended January 31, 2019

	WIC	WIC Peer Counseling	WIC Farmers Market	American Cancer Society Grant	Patient Services and Other	Administration	Adjustment to GAAP	Total
<b>Support and revenue:</b>								
Patient service revenue	\$ -	\$ -	\$ -	\$ -	\$ 19,808,849	\$ -	\$ -	\$ 19,808,849
U.S. Department of Health and Human Services	-	-	-	-	-	-	-	3,052,820
City of Milwaukee	-	-	-	-	-	-	-	89,194
State of Wisconsin Department of Health Services	505,066	14,330	4,441	-	-	-	-	990,753
Contract services and other grants	-	-	-	41,968	154,424	-	-	230,494
Contributions and other	-	-	-	-	47,790	205,252	-	253,042
Net assets released from restrictions	-	-	-	-	-	28,612	-	28,612
<b>Total support and revenue</b>	<b>505,066</b>	<b>14,330</b>	<b>4,441</b>	<b>41,968</b>	<b>20,011,063</b>	<b>233,864</b>	<b>-</b>	<b>24,453,764</b>
<b>Expenses:</b>								
Salaries and wages	354,401	11,151	3,702	23,388	4,011,495	1,789,698	-	8,886,128
Fringe benefits	69,842	2,342	739	-	1,566,500	698,006	-	2,835,548
Professional services	-	-	-	-	758,137	250,090	-	1,008,227
Consumable supplies	6,179	-	-	-	178,740	122,805	-	332,929
Contract services	16,000	-	-	-	435,775	(13,573)	-	469,218
Pharmaceuticals	-	-	-	-	3,128,166	-	-	3,128,374
Occupancy	35,000	-	-	-	(30,622)	329,653	-	334,031
Laboratory fees	-	-	-	-	98,991	-	-	113,055
Insurance	-	-	-	-	-	33,389	-	33,389
Repairs and maintenance	-	-	-	-	226,509	106,592	-	333,101
Telephone and internet	12,000	837	-	-	94,559	44,511	-	158,288
Travel, conferences and meetings	915	-	-	-	28,495	20,947	-	56,010
Postage and freight	479	-	-	-	12,980	12,979	-	26,438
Dues and subscriptions	150	-	-	-	4,588	11,539	-	16,277
Staff training and recruiting	1,804	-	-	-	69,951	17,041	-	92,446
Printing and publications	-	-	-	-	9,422	1,579	-	11,001
Health promotions	4,918	-	-	18,580	27,936	51,291	-	113,795
Equipment	3,051	-	-	-	153,515	97,169	(95,031)	294,961
Software license and hosting	-	-	-	-	-	-	-	205,191
Patient assistance	327	-	-	-	36,579	-	-	37,306
Depreciation and amortization	-	-	-	-	545,272	258,211	-	803,483
Interest	-	-	-	-	-	292,780	-	292,780
Other	-	-	-	-	26,835	109,998	-	150,358
<b>Total expenses</b>	<b>505,066</b>	<b>14,330</b>	<b>4,441</b>	<b>41,968</b>	<b>11,383,823</b>	<b>4,234,705</b>	<b>(95,031)</b>	<b>19,732,334</b>
<b>Support and revenue in excess (deficiency) of expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 8,627,240</b>	<b>\$ (4,000,841)</b>	<b>\$ 95,031</b>	<b>\$ 4,721,430</b>

See Independent Auditor's Report

**Milwaukee Health Services, Inc.**  
**Settlement of DHS Cost Reimbursement Award**  
Year Ended January 31, 2019

DHS Identification number	Community Health Centers		Ryan White Part B Supplemental	
	CARS Profile 435.151301		CARS Profile 435.155990	
<b>Award amount</b>	\$ 312,620	\$ 331,469	\$ 130,260	\$ 130,520
<b>Award period</b>	7/1/17 - 6/30/18	7/1/18 - 6/30/19	10/1/17 - 9/30/18	10/1/18 - 9/30/19
<b>Period of award within audit period</b>	2/1/18 - 6/30/18	7/1/18 - 1/31/19	2/1/18 - 9/30/18	10/1/18 - 1/31/19
<b>A. Expenditures reported to DHS for payment</b>	\$ 145,880	\$ 222,781	\$ 73,083	\$ 22,565
<b>B. Actual allowable cost of award</b>				
Salaries and wages	-	-	55,032	18,283
Fringe benefits	-	-	11,006	3,657
Consumable supplies	18,428	-	-	111
Telephone and internet	-	-	5,727	514
Travel, conference and meetings	-	-	226	-
Staff training and recruiting	-	3,000	-	-
Health promotions	-	9,106	-	-
Equipment	28,672	104,264	692	-
Software license and hosting	98,780	106,411	-	-
Patient assistance	-	-	400	-
Total reported expenses	145,880	222,781	73,083	22,565
<b>C. Less program revenue and other offsets to costs</b>	-	-	-	-
<b>D. Total allowable costs</b>	\$ 145,880	\$ 222,781	\$ 73,083	\$ 22,565

**Milwaukee Health Services, Inc.**  
**Settlement of DHS Cost Reimbursement Award (Continued)**  
Year Ended January 31, 2019

DHS Identification number	Immunization 2		Women, Infants, and Children (WIC)	
	CARS Profile 435.150180		Total Grants	
	CARS Profile 435.150180		CARS Profile 435.154710	
<b>Award amount</b>	\$	12,455	\$ 549,288	\$ 520,435
<b>Award period</b>		4/1/17 - 6/30/18	1/1/18 - 12/31/18	1/1/19 - 12/31/19
<b>Period of award within audit period</b>		2/1/18 - 6/30/18	2/1/18 - 12/31/18	1/1/19 - 1/31/19
<b>A. Expenditures reported to DHS for payment</b>	\$	2,607	\$ 470,575	\$ 34,491
<b>B. Actual allowable cost of award</b>				
Salaries and wages		1,732	330,472	23,929
Fringe benefits		346	65,202	4,640
Consumable supplies		-	5,313	866
Contract supplies		-	14,666	1,333
Occupancy		-	32,083	2,917
Telephone and internet		-	11,227	773
Travel, conference and meetings		-	915	-
Postage and freight		-	446	33
Dues and subscriptions		-	150	-
Staff training and recruiting		-	1,804	-
Health promotions		-	4,918	-
Equipment		529	3,051	-
Patient assistance		-	328	-
Total reported expenses		2,607	470,575	34,491
<b>C. Less program revenue and other offsets to costs</b>		-	-	-
<b>D. Total allowable costs</b>	\$	2,607	\$ 470,575	\$ 34,491

**Milwaukee Health Services, Inc.**  
**Settlement of DHS Cost Reimbursement Award (Continued)**  
Year Ended January 31, 2019

DHS Identification number	<u>WIC Peer Counseling</u>		<u>WIC Farmers Market</u>	
	<u>CARS Profile 435.154760</u>		<u>CARS Profile 435.154720</u>	
<b>Award amount</b>	\$ 14,806	\$ 18,123	\$ 4,442	\$ 3,220
<b>Award period</b>	1/1/18 - 12/31/18	1/1/19 - 12/31/19	1/1/18 - 12/31/18	1/1/19 - 12/31/19
<b>Period of award within audit period</b>	2/1/18 - 12/31/18	1/1/19 - 1/31/19	2/1/18 - 12/31/18	1/1/19 - 1/31/19
<b>A. Expenditures reported to DHS for payment</b>	\$ 13,459	\$ 871	\$ 4,441	\$ -
<b>B. Actual allowable cost of award</b>				
Salaries and wages	10,492	659	3,702	-
Fringe benefits	2,203	138	739	-
Telephone and internet	764	74	-	-
Total reported expenses	13,459	871	4,441	-
<b>C. Less program revenue and other offsets to costs</b>	-	-	-	-
<b>D. Total allowable costs</b>	\$ 13,459	\$ 871	\$ 4,441	\$ -

See Independent Auditor's Report.

**Milwaukee Health Services, Inc.**  
**Schedule of Expenditures of Federal and State Awards**  
Year Ended January 31, 2019

Federal Grantor/Program Title	Pass Through Grantor	Pass Through Identifying Number	Federal CFDA Number	Federal Expenditures
<b>Federal Awards:</b>				
U.S. Department of Health and Human Services:				
Health Centers Cluster:				
Community Health Center Program	Direct		93.224	\$ 817,591
Grants for New and Expanded Services under the Health Center Program	Direct		93.527	1,782,083
Total Health Centers Cluster				2,599,674
Immunization Cooperative Agreements	State of Wisconsin Department of Health Services	435.150180	93.268	2,607
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	Direct		93.918	453,146
HIV Care Formula Grants	State of Wisconsin Department of Health Services	435.155990	93.917	95,648
Total U.S. Department of Health and Human Services				3,151,075
U.S. Department of Agriculture:				
Supplemental Food Program for Women, Infants, and Children ("WIC")	State of Wisconsin Department of Health Services	435.154710	10.557	505,066
Supplemental Food Program for Women, Infants, and Children ("WIC")	State of Wisconsin Department of Health Services	435.154760	10.557	14,330
Total U.S. Department of Agriculture				519,396
Total expenditures of federal awards				\$ 3,670,471

**Milwaukee Health Services, Inc.**  
**Schedule of Expenditures of Federal and State Awards (Continued)**  
 Year Ended January 31, 2019

State Grantor/Program Title	Pass Through Grantor	CARS Number	State Expenditures
<b>State Awards:</b>			
Wisconsin Department of Health Services:			
WIC Farmers Market Nutrition Program	Direct	435.154720	\$ 4,441
Community Health Center program	Direct	435.151301	368,661
Total expenditures of state awards			\$ 373,102

See Accompanying Independent Auditor's Report and Notes to the Schedules of Expenditures of Federal and State Awards.

# Milwaukee Health Services, Inc.

## Notes to Schedules of Expenditures of Federal, State and Local Awards

Year Ended January 31, 2019

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### **Note 1: General**

The accompanying schedule of expenditures of federal and state awards ("schedule") includes the federal and state grant activity of Milwaukee Health Services, Inc. under programs of the federal and state governments for the year ended January 31, 2019. The information in this schedule is presented in accordance with requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State of Wisconsin *State Single Audit Guidelines*. 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 Services, 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 the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

### **Note 3: Sub-recipients**

The Organization does not have sub-recipients of federal or state awards.

### **Note 4: Indirect Cost**

The Organization has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



## **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. (a nonprofit organization), which comprise the statement of financial position as of January 31, 2019, and the related statements of operations and changes in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 16, 2019.

### **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.

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. A significant deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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





### **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 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.

*Wipfli LLP*

Wipfli LLP  
Milwaukee, Wisconsin

September 16, 2019



## **Independent Auditor’s Report on Compliance for Each Major Federal and State Program and on Internal Control Over Compliance Required by the Uniform Guidance**

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 *OMB 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 Milwaukee Health Services, Inc.’s major federal and state programs for the year ended January 31, 2019. 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 federal and state statutes, regulations, and terms and conditions of its federal and state awards applicable to its federal and state programs.

#### Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of 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 of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the *State Single Audit Guidelines*, issued by the Wisconsin Department of Administration. Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about Milwaukee Health Services, Inc.’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of Milwaukee Health Services, Inc.’s compliance.

#### ***Basis for Qualified Opinion on Health Center Cluster 93.224 and 93.527***

As described in the accompanying schedule of findings and questions costs, Milwaukee Health Services, Inc. did not comply with requirements regarding Health Center Cluster 93.224 and 93.527 as described in finding number 2019-001 for Sliding Fee. Compliance with such requirements is necessary, in our opinion, for Milwaukee Health Services, Inc. to comply with the requirements to that program.

## ***Qualified Opinion on Health Center Cluster 93.224 and 93.527***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 Health Center Cluster 93.224 and 93.527 for the year ended January 31, 2019.

## ***Unmodified Opinion on State Program***

In our opinion, the 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 major state program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended January 31, 2019.

## **Other Matters**

Milwaukee Health Services, Inc. response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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.

## **Report on Internal Control Over Compliance**

Management of 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 of compliance, 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 each major federal or state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with Uniform Guidance and the *State Single Audit Guidelines*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 have not been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2019-001 to be a material weakness.

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.



Milwaukee Health Services, Inc.'s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance and the State Single Audit Guidelines. Accordingly, this report is not suitable for any other purpose.

*Wipfli LLP*

Wipfli LLP  
Milwaukee, Wisconsin

September 16, 2019

# Milwaukee Health Services, Inc.

## Schedule of Findings and Questioned Costs

Year Ended January 31, 2019

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### 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?	No
Significant deficiency(ies) identified?	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?	No
Type of auditor's report issued on compliance for major programs	Qualified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance [2 CFR 200.516(a)] and State Single Audit Guidelines, as applicable	Yes

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	\$750,000
State	\$250,000
Auditee qualified as low-risk auditee Federal?	No
Auditee qualified as low risk auditee State?	No

### Section II - Financial Statement Findings

None

# Milwaukee Health Services, Inc.

## Schedule of Findings and Questioned Costs (Continued)

Year Ended January 31, 2019

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

#### Finding 2019-001: Sliding Fee

CFDA Title: Health Center Cluster  
Federal Award Number: 93.224 and 93.527  
Federal Award Year: 2/1/18 – 1/31/19  
Federal Agency: US Department of Health and Human Services

#### Condition

Wipfli reviewed 40 sliding fee charges to test if the amount charged, was calculated properly based on the patients' income level and in compliance with Milwaukee Health Services' sliding fee policy. Wipfli noted that 5 of the charges were not properly determined and 3 charges were not supported. This is a repeat of finding 2018-001.

#### Questioned Costs

No questioned costs.

#### Criteria

Health centers must prepare and apply a sliding fee discount schedule (SFDS) so that the amounts owed for health center services by eligible patients are adjusted (discounted) based on the patient's ability to pay.

#### Cause

Milwaukee Health Services, Inc. did not consistently follow the Organization's policies for documenting and calculating charges for services when using the sliding fee scale.

#### Effect

Patients may be charged the improper amount if proper procedures and controls are not in place to ensure the sliding fee is applied in accordance with Milwaukee Health Services' sliding fee policy.

#### Recommendation

Review policies and implement and monitor controls surrounding the determination of the fees charged to patients to determine that fees are being determined in accordance with Milwaukee Health Services' sliding fee policy.

#### View of Responsible Management

Management agrees with the findings and has committed to a corrective action plan.

**Milwaukee Health Services, Inc.**  
**Schedule of Findings and Questioned Costs (Continued)**  
Year Ended January 31, 2019

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**Section IV – Other Issues**

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

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

Department of Health Services No

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

Name and Signature of Partner in Charge:

  
\_\_\_\_\_  
Stephanie Cavadeas, CPA

Date of Report: September 16, 2019

# Milwaukee Health Services, Inc.

## Schedule of Prior Year Findings and Questioned Costs

Year Ended January 31, 2019

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### Findings – Financial Statements Audit

#### Finding 2018-001: Sliding Fee

CFDA Title: Health Center Cluster

Federal Award Number: 93.224 and 93.527

Federal Award Year: 2/1/17 – 1/31/18

Federal Agency: US Department of Health and Human Services

#### Condition

Wipfli reviewed 40 sliding fee charges to test if the amount charged, was calculated properly based on the patients' income level and in compliance with Milwaukee Health Services' sliding fee policy. Wipfli noted that 4 of the charges were not properly determined and 3 charges were not supported.

#### Status

The Finding is repeated. See Finding No. 2019-001





Milwaukee Health Services, Inc. (“MHSI”) submits the following corrective action plan for all identified findings and questioned costs for the year ending January 31, 2019.

**Finding 2019-001: Sliding Fee**

**Statement of Condition:** Wipfli reviewed 40 sliding fee charges to test if the amount charged, was calculated properly based on the patients’ income level and in compliance with Milwaukee Health Services’ sliding fee policy. Wipfli noted that 5 of the charges were not properly determined and 3 charges were not supported.

**Corrective Action:** Health Resources and Services Administration (HRSA) performed a site visit regarding the 330 grant in 2016. During the site visit, the sliding fee discount program requirement was classified as “not met”. The Sliding Fee Discount policy revisions were subsequently taken to the Board of Directors for more than one update in an effort to have the program requirement “met”. MHSI’s leadership worked with the HRSA Fiscal agents along with their project officer to ensure the policy was worded properly and the intention of the program was met. Following HRSA lifting the condition for this program requirement, MHSI recreated the registration forms and the sliding fee discount document to match the new board approved policy language. Leadership also performed training for all staff on the updated policies and procedures. We provided continuous training with responsible staff to ensure the Sliding Fee Discount program would apply consistently for all patients as appropriate. HRSA performed a site visit regarding the 330 Grant in May 2019. During that site visit, the Sliding Fee Discount program requirement was classified as “met”. The audited timeframe for this fiscal year was during the period when we were rewriting policy language, updating procedures and training new staff. The Sliding Fee Policy was updated in May 2019 to require only one pay stub to be submitted. The automated Sliding Fee calculation in the Centricity system is being utilized. 100% of Sliding Fee accounts are being audited and corrections are being made immediately in the Centricity system and on related forms. The Billing Department is being notified of corrections, and bills are appropriately being reprocessed.

**Person Responsible for Corrective Action:** Chief Financial Officer (Laurie Yake), Chief Operating Officer (Michele Grant)

**Anticipated Timing for Completion of Corrective Action:** August 8, 2019.

Respectfully submitted,

Laurie B. Yake, Chief Financial Officer