

**SIXTEENTH STREET COMMUNITY  
HEALTH CENTERS, INC.**

Milwaukee, Wisconsin

**FINANCIAL STATEMENTS**

Including Independent Auditors' Report

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

# SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Sixteenth Street Community Health Centers, Inc.  
Milwaukee, Wisconsin

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

We have audited the accompanying financial statements of Sixteenth Street Community Health Centers, Inc. (the "Organization"), which comprise the statements of financial position as of March 31, 2019 and 2018, 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 of America; 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.

### ***Auditors' 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 auditors' 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 the Organization as of March 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis-of-Matter**

As discussed in Note 1 to the financial statements, the Organization adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

## **Other Matters**

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of expenditures of federal and state awards and settlement of DHS cost reimbursement award, 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*, are presented for purposes of additional analysis and are 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 of America. 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 July 23, 2019 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

*Baker Tilly Virchow Krause, LLP*

Milwaukee, Wisconsin  
July 23, 2019

**SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.**

STATEMENTS OF FINANCIAL POSITION  
As of March 31, 2019 and 2018

<b>ASSETS</b>		
	<u>2019</u>	<u>2018</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,560,359	\$ 4,887,394
Patient receivable	2,252,681	1,595,812
Medicaid receivable	3,941,102	4,648,142
Grants receivable	1,446,139	1,925,953
Other accounts receivable	341,972	396,301
Prepaid expenses and other current assets	<u>392,818</u>	<u>221,545</u>
Total Current Assets	12,935,071	13,675,147
<b>PROPERTY AND EQUIPMENT</b>	<u>14,354,450</u>	<u>14,005,744</u>
<b>TOTAL ASSETS</b>	<u>\$ 27,289,521</u>	<u>\$ 27,680,891</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ 260,754	\$ 254,460
Current portion of capital lease obligation	94,816	90,436
Accounts payable	703,132	1,178,166
Accrued expenses including payroll and payroll taxes	1,573,680	1,461,165
Deferred revenue	4,082	186,652
Other current liabilities	<u>5,000</u>	<u>7,221</u>
Total Current Liabilities	<u>2,641,464</u>	<u>3,178,100</u>
<b>LONG-TERM LIABILITIES</b>		
Long-term debt	3,706,807	3,962,713
Long-term capital lease obligation	-	94,816
Other long-term liabilities	<u>25,833</u>	<u>23,507</u>
Total Long-Term Liabilities	<u>3,732,640</u>	<u>4,081,036</u>
Total Liabilities	<u>6,374,104</u>	<u>7,259,136</u>
<b>NET ASSETS</b>		
Without donor restrictions	18,922,112	18,400,199
With donor restrictions	<u>1,993,305</u>	<u>2,021,556</u>
Total Net Assets	<u>20,915,417</u>	<u>20,421,755</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 27,289,521</u>	<u>\$ 27,680,891</u>

See accompanying notes to financial statements.

# SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.

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

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	2019 Total	Without Donor Restrictions	With Donor Restrictions	2018 Total
<b>PUBLIC SUPPORT</b>						
Government grants	\$ 8,045,773	\$ -	\$ 8,045,773	\$ 7,570,719	\$ -	\$ 7,570,719
Contributions	1,264,043	586,036	1,850,079	2,317,860	453,319	2,771,179
United Way	166,849	133,288	300,137	164,792	38,682	203,474
Net assets released from restrictions	<u>747,575</u>	<u>(747,575)</u>	<u>-</u>	<u>1,785,058</u>	<u>(1,785,058)</u>	<u>-</u>
Total Public Support	<u>10,224,240</u>	<u>(28,251)</u>	<u>10,195,989</u>	<u>11,838,429</u>	<u>(1,293,057)</u>	<u>10,545,372</u>
<b>REVENUE</b>						
Insurance and patient fees	29,951,141	-	29,951,141	25,116,097	-	25,116,097
Interest income	32,861	-	32,861	8,183	-	8,183
Rental Income	199,454	-	199,454	199,230	-	199,230
Unrealized gain (loss) on interest rate swap	(17,596)	-	(17,596)	40,743	-	40,743
Other	<u>203,609</u>	<u>-</u>	<u>203,609</u>	<u>177,493</u>	<u>-</u>	<u>177,493</u>
Total Revenue	<u>30,369,469</u>	<u>-</u>	<u>30,369,469</u>	<u>25,541,746</u>	<u>-</u>	<u>25,541,746</u>
Total Public Support and Revenue	<u>40,593,709</u>	<u>(28,251)</u>	<u>40,565,458</u>	<u>37,380,175</u>	<u>(1,293,057)</u>	<u>36,087,118</u>
<b>EXPENSES</b>						
Program	33,917,231	-	33,917,231	29,839,380	-	29,839,380
Management and general	5,266,643	-	5,266,643	5,221,685	-	5,221,685
Fundraising	<u>887,922</u>	<u>-</u>	<u>887,922</u>	<u>617,608</u>	<u>-</u>	<u>617,608</u>
Total Expenses	<u>40,071,796</u>	<u>-</u>	<u>40,071,796</u>	<u>35,678,673</u>	<u>-</u>	<u>35,678,673</u>
<b>CHANGE IN NET ASSETS</b>	521,913	(28,251)	493,662	1,701,502	(1,293,057)	408,445
<b>NET ASSETS -</b>						
Beginning of Year (as adjusted)	<u>18,400,199</u>	<u>2,021,556</u>	<u>20,421,755</u>	<u>16,698,697</u>	<u>3,314,613</u>	<u>20,013,310</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 18,922,112</u>	<u>\$ 1,993,305</u>	<u>\$ 20,915,417</u>	<u>\$ 18,400,199</u>	<u>\$ 2,021,556</u>	<u>\$ 20,421,755</u>

See accompanying notes to financial statements.

## SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.

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

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 493,662	\$ 408,445
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Provision for bad debt	2,016,712	1,462,343
Depreciation	826,102	757,328
Amortization of loan origination fees included in interest expense	4,848	4,598
Accretion expense	494	470
Unrealized loss (gain) on interest rate swap	17,596	(40,743)
Donated property and equipment	-	(999,000)
Changes in assets and liabilities		
Patient receivable	(2,673,581)	(1,758,373)
Medicaid receivable	707,040	2,633,764
Grants receivable	479,814	(886,002)
Other accounts receivable	54,329	(127,160)
Prepaid expenses and other current assets	(188,869)	(16,849)
Accounts payable	(402,863)	282,935
Accrued expenses including payroll and payroll taxes	112,515	174,178
Deferred revenue	(182,570)	50,365
Other current liabilities	(2,221)	(199,402)
Other long-term liabilities	1,832	(3,162)
Net Cash Flows from Operating Activities	1,264,840	1,743,735
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(1,246,979)	(1,625,847)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on long-term debt	(254,460)	(247,763)
Principal payments on capital lease	(90,436)	(86,257)
Net Cash Flows from Financing Activities	(344,896)	(334,020)
<b>Net Change in Cash and Cash Equivalents</b>	(327,035)	(216,132)
CASH AND CASH EQUIVALENTS - Beginning of Year	4,887,394	5,103,526
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 4,560,359	\$ 4,887,394
<b>Supplemental cash flow disclosures</b>		
Cash paid for interest	\$ 87,019	\$ 92,256
<b>Noncash investing and financing activities</b>		
Property and equipment purchased with accounts payable	\$ 103,534	\$ 175,705
Donated property and equipment	\$ -	\$ 999,000

See accompanying notes to financial statements.

**SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.**

STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended March 31, 2019

	Health	Behavioral	Other	Total Program	Management and General	Fundraising	Total
Salaries and Wages	\$ 13,777,457	\$ 2,027,879	\$ 2,528,492	\$ 18,333,828	\$ 2,897,256	\$ 505,618	\$ 21,736,702
Payroll Taxes and Employee Benefits	3,454,701	527,692	648,834	4,631,227	787,047	129,114	5,547,388
Total Salaries and Related Expenses	17,232,158	2,555,571	3,177,326	22,965,055	3,684,303	634,732	27,284,090
Advertising and Promotion	-	-	5,329	5,329	97	136,555	141,981
Depreciation of Tangible Assets	355,816	13,304	62,958	432,078	391,588	2,436	826,102
Insurance	40,017	366	2,351	42,734	98,266	-	141,000
Interest and Bank Charges	-	-	1,035	1,035	115,079	3,698	119,812
Dues and Subscriptions	165	165	-	330	44,461	12,293	57,084
Memberships and Licenses	55,520	4,034	2,867	62,421	1,741	-	64,162
Office Expenses	173,043	14,833	41,072	228,948	41,341	13,279	283,568
Professional Fees	2,481,188	828,286	215,801	3,525,275	442,370	26,503	3,994,148
Occupancy	1,320,502	104,492	211,714	1,636,708	353,355	28,027	2,018,090
Supplies	2,527,795	2,898	99,741	2,630,434	485	-	2,630,919
Travel Expenses	6,721	259	30,483	37,463	49,830	15,813	103,106
Professional Development Conferences and Seminars	152,461	85,337	23,885	261,683	21,242	14,586	297,511
Bad Debt Expense	1,921,529	95,183	-	2,016,712	-	-	2,016,712
Other Operating Expenses	20,453	4,610	45,963	71,026	22,485	-	93,511
Total Expenses	\$ 26,287,368	\$ 3,709,338	\$ 3,920,525	\$ 33,917,231	\$ 5,266,643	\$ 887,922	\$ 40,071,796

See accompanying notes to financial statements.



## SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.

### STATEMENT OF FUNCTIONAL EXPENSES For the Year Ended March 31, 2018

	Health	Behavioral	Other	Total Program	Management and General	Fundraising	Total
Salaries and Wages	\$ 11,913,288	\$ 1,741,433	\$ 2,368,034	\$ 16,022,755	\$ 2,902,838	\$ 348,766	\$ 19,274,359
Payroll Taxes and Employee Benefits	<u>3,023,048</u>	<u>453,174</u>	<u>595,660</u>	<u>4,071,882</u>	<u>728,781</u>	<u>82,046</u>	<u>4,882,709</u>
Total Salaries and Related Expenses	14,936,336	2,194,607	2,963,694	20,094,637	3,631,619	430,812	24,157,068
Advertising and Promotion	1	-	1,418	1,419	27	89,838	91,284
Depreciation of Tangible Assets	264,315	12,664	64,457	341,436	413,886	2,006	757,328
Insurance	35,594	-	1,456	37,050	90,970	-	128,020
Interest and Bank Charges	-	-	999	999	110,549	1,686	113,234
Dues and Subscriptions	-	-	20	20	45,271	1,962	47,253
Memberships and Licenses	43,617	3,871	860	48,348	1,889	-	50,237
Office Expenses	145,369	13,823	41,902	201,094	44,109	4,090	249,293
Professional Fees	2,421,471	766,491	251,770	3,439,732	467,045	18,107	3,924,884
Occupancy	826,001	82,336	169,437	1,077,774	352,815	16,065	1,446,654
Supplies	2,691,179	21,762	89,811	2,802,752	513	-	2,803,265
Travel Expenses	8,180	14	21,961	30,155	40,841	43,474	114,470
Professional Development Conferences and Seminars	152,681	52,615	22,316	227,612	15,383	9,559	252,554
Bad Debt Expense	1,325,461	129,717	7,165	1,462,343	-	-	1,462,343
Other Operating Expenses	<u>12,403</u>	<u>16,339</u>	<u>45,267</u>	<u>74,009</u>	<u>6,768</u>	<u>9</u>	<u>80,786</u>
Total Expenses	<u>\$ 22,862,608</u>	<u>\$ 3,294,239</u>	<u>\$ 3,682,533</u>	<u>\$ 29,839,380</u>	<u>\$ 5,221,685</u>	<u>\$ 617,608</u>	<u>\$ 35,678,673</u>

See accompanying notes to financial statements.

# SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.

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

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### **NOTE 1 - Summary of Significant Accounting Policies**

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#### *Nature of Activities*

Sixteenth Street Community Health Centers, Inc. (the "Organization") is an innovative, case-managed, and family-based primary health care provider committed to improving the health and well-being of Milwaukee and surrounding communities. The Organization is dedicated to playing an active leadership role in the development, delivery, accessibility and advocacy of primary health care to improve the health and well-being of the individuals in the community they serve. The Organization's health services are designed to serve people in the context of their community, family and culture and free of linguistic and economic barriers. As a catalyst for community well-being, the Organization is a collaborative participant in the quest for the continuous improvement of, and the affordable access to, community health care that is reflective and responsive to their community. The Organization continues to provide a work environment that is conducive to staff development, teamwork and flexibility to optimize cost effective performance with quality health services to ensure continued financial stability.

#### *Cash and Cash Equivalents*

The Organization defines cash and cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less.

#### *Accounts Receivable*

Patient receivables, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Patient receivables due directly from patients are carried at the original charge for the service provided, less amounts covered by third-party payors and less an estimated allowance for doubtful accounts.

Medicaid receivable is stated at the amount management expects to collect and is based on a predetermined rate formula under a contractual arrangement with the Medicaid program.

Grants receivable, which generally are receivable within 30 days from the invoice or billing date, are stated at the invoice amount.

The Organization provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Organization's estimate is based on historical collection experience and a review of the current status of grant, patient, Medicaid, and other accounts receivable. When an account is deemed uncollectible, the account is written off against the allowance. It is reasonably possible that the Organization's estimate of the allowance for doubtful accounts will change. Patient receivable is shown net of an allowance for doubtful accounts of \$754,512 and \$575,030 as of March 31, 2019 and 2018, respectively. No allowance was considered necessary for grants receivable, Medicaid receivable and other accounts receivable at March 31, 2019 and 2018.

# SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.

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

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### **NOTE 1 - Summary of Significant Accounting Policies** (continued)

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#### *Property and Equipment*

Property and equipment are stated at cost if purchased or fair value at the date of the gift if donated. All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, and betterments that materially prolong the useful lives of assets are capitalized. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

Donated property and equipment are recorded as increases in net assets without donor restrictions at their estimated fair value as of the date received unless the use is restricted by a donor. Contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service unless the donor requires the restriction to be released over time. In those situations, the Organization reclassifies net assets with donor restrictions to net assets without donor restrictions as the asset is depreciated.

The Organization purchased property and equipment with federal funding. The cost of property and equipment purchased with federal funding including a signed reversionary interest agreement was \$2,483,886 at March 31, 2019 and 2018. The cost of other property and equipment purchased with federal funds was \$2,797,556 and \$2,012,912 as of March 31, 2019 and 2018, respectively.

Pro Healthcare has a reversionary interest of \$1,956,636 in the Waukesha Community Health Center as of March 31, 2019 and 2018.

Aurora Healthcare Metro, Inc. donated a building to the Organization with a fair value of \$999,000 during the year ending March 31, 2018. The Organization is required to operate the building as a clinic for a period of fifteen years along with other terms and conditions, but has the ability to amend certain terms of the agreement with written permission from the donor, therefore this is reflected as a contribution without donor restrictions. This building was put in operation in April 2018.

Property and equipment are depreciated using the straight-line method over their estimated useful lives.

The Organization has recorded a liability for the conditional asset retirement obligation related to encapsulated asbestos material in its buildings, in accordance with authoritative guidance. A liability of \$10,365 and \$9,871 was recorded at March 31, 2019 and 2018, respectively, and is included in other long-term liabilities in the statements of financial position.

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

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

# SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.

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

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### **NOTE 1 - Summary of Significant Accounting Policies** (continued)

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#### *Net Assets*

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

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

**Net Assets With Donor Restrictions** - Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time or are required to be maintained permanently. 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 to net assets without donor restrictions and reported in the statements of activities as "net assets released from restrictions."

#### *Board Designated Net Assets*

The Organization's Board of Directors has the ability to designate identified amounts of net assets without restrictions to be used by management for specific future projects or activities. These designations can be modified or removed by the Board of Directors at any time. The Board of Directors has not designated any amounts as of March 31, 2019 and 2018.

#### *Tax-Exempt Status*

The Organization has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of State law and, accordingly, is not subject to federal or state income taxes. However, any unrelated business income may be subject to taxation.

In order to account for any uncertain tax positions, the Organization determines whether it is more likely than not that a tax position will be sustained upon examination of the technical merits of the position, assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. The Organization does not believe it has any uncertain tax positions at March 31, 2019 and 2018.

#### *Revenue Recognition*

Government grants revenue represents grants and contracts with the various federal and state sources and are recognized as earned.

Insurance and patient fees are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors 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.

# SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.

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

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### **NOTE 1 - Summary of Significant Accounting Policies** (continued)

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#### *Revenue Recognition* (continued)

Contributions, including pledges receivable, are recognized in the period received. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

The Organization reports gifts of cash and other assets as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets.

#### *Donated Services*

Contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Such services totaled \$71,697 and \$66,627 for the years ended March 31, 2019 and 2018, respectively, and are reflected as public support and expense on the statements of activities.

#### *In-Kind Contributions*

The Organization reports gifts of supplies as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used.

#### *Functional Expenses*

The costs of providing program and other activities have been summarized on a functional basis in the statements of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Certain costs have been allocated among program services, management and general and fundraising services benefited.

Expenses related to more than one function are charged to program and supporting services on the basis of time and effort. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

#### *Advertising*

Advertising costs are charged to operations when incurred.

#### *Subsequent Events*

The Organization has evaluated subsequent events through July 23, 2019 which is the date that the financial statements were approved and available to be issued.

#### *Reclassification*

For comparability, certain 2018 amounts have been reclassified to conform with classifications adopted in 2019. The reclassifications have no effect on reported amounts of net assets or change in net assets.

**SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended March 31, 2019 and 2018

**NOTE 1 - Summary of Significant Accounting Policies (continued)**

*Estimates*

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

*Change in Accounting Principle*

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

- The unrestricted net asset class has been renamed net assets without donor restrictions
- The temporarily restricted net asset class has been renamed net assets with donor restrictions
- The placed in service approach for releasing restrictions related to the contributions for long-lived assets has been adopted
- The financial statements includes disclosures about liquidity and availability of resources (Note 17)

Summary of the adjustments resulting from the adoption of ASU 2016-14 as of March 31, 2017:

Net Asset Classifications	ASU 2016-14 Classifications		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
As previously presented:			
Unrestricted	\$ 14,642,813	\$ -	\$ 14,642,813
Temporarily restricted	-	5,370,497	5,370,497
Net assets previously reported	14,642,813	5,370,497	20,013,310
Reclassification to implement ASU 2016-14:			
Grant funded construction	2,055,884	(2,055,884)	-
Net assets after reclassification	\$ 16,698,697	\$ 3,314,613	\$ 20,013,310

In addition, the adoption of ASU 2016-14 resulted in the net assets released from restrictions during the year ended March 31, 2018 being reduced by \$114,332.

# SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.

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

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### **NOTE 1 - Summary of Significant Accounting Policies** (continued)

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#### *New Accounting Pronouncements*

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

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

In August 2016, FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU No. 2016-15 addresses eight cash flow issues with specific guidance on how certain cash receipts and cash payments should be presented on the statement of cash flows. ASU No. 2016-15 is effective for annual periods beginning after December 15, 2018 (2020). Management is currently assessing the effect that ASU No. 2016-15 will have on its financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* that amends the treatment for leases. The new accounting model for leases capitalizes all leases greater than twelve months, both capital and operating, as assets and liabilities on the statement of financial position. For not-for-profit entities that have issued, or are a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the counter market, ASU No. 2016-02 (as amended) is effective for annual periods beginning after December 15, 2018 (2020). All other entities will be required to apply the standard for annual periods beginning after December 15, 2019 (2021). Early adoption is permitted. Management is currently assessing the effect that ASU No. 2016-02 will have on its financial statements.

# SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.

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

### **NOTE 2 - Fair Value Measurements**

According to current authoritative guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization uses various valuation methods including the market, income and cost approaches. The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be either readily observable, market corroborated, or generally unobservable inputs. Whenever possible, the Organization attempts to utilize valuation methods that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation methods the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

Assets and liabilities measured, reported and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

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

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy.

	March 31, 2019			
	Total	Level 1	Level 2	Level 3
Interest rate swap asset	\$ 19,088	\$ -	\$ -	\$ 19,088
	March 31, 2018			
	Total	Level 1	Level 2	Level 3
Interest rate swap asset	\$ 36,684	\$ -	\$ -	\$ 36,684

The interest rate swap is a pay fixed, receive variable interest rate swap based on LIBOR swap rate. The interest rate swap valuation is based on unobservable inputs including expected cash flow, maturity date, notional amount, interest rates, and risk of non-performance through the duration of the agreement and is considered a level 3 item. See Note 6 for additional interest rate swap agreement disclosures.



## SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.

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

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#### **NOTE 2 - Fair Value Measurements** (continued)

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The changes in Level 3 liabilities measured at fair value on a recurring basis are summarized as follows:

	<u>Interest Rate Swap Asset (Liability)</u>
Balance, March 31, 2017	\$ (4,059)
Unrealized gain included in change in net assets	<u>40,743</u>
Balance, March 31, 2018	36,684
Unrealized loss included in change in net assets	<u>(17,596)</u>
Balance, March 31, 2019	<u>\$ 19,088</u>

Unrealized gains and losses included in change in net assets are reported in the statements of activities as unrealized gain (loss) on interest rate swap.

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#### **NOTE 3 - FQHC Medicaid Reimbursement**

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The Omnibus Budget Reconciliation Act of 1989 required that Federally Qualified Health Centers (FQHC) receive reimbursement for Medicaid services provided based on actual cost.

Approximately 25% and 29% of total public support and revenue for the years ending March 31, 2019 and 2018, respectively, are based on a predetermined rate formula under contractual arrangement with the Medicaid program under Title XIX of the Social Security Act. Rate adjustments are reflected in income when determinable. Medicaid revenue is subject to audit and retroactive adjustment at any time.

The Organization recorded net reimbursements received from Title XIX, Medicaid and health maintenance organizations for services provided for the years ended March 31, 2019 and 2018 of \$10,096,186 and \$10,323,567, respectively.

The State of Wisconsin previously required an annual cost report submission in order to settle the amounts paid for services provided to Medicaid recipients through fiscal year end of March 31, 2017. All outstanding estimated settlement amounts are included in Medicaid receivable.

## SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended March 31, 2019 and 2018

### NOTE 4 - Property and Equipment

The major categories of property and equipment at March 31 are summarized as follows:

	Depreciable Lives	2019	2018
Land	N/A	\$ 1,451,951	\$ 1,451,951
Land Improvements	10 yrs.	426,644	426,644
Buildings	30-40 yrs.	16,159,484	14,832,194
Equipment and fixtures	7 yrs.	4,727,639	4,307,389
Computer equipment	3-5 yrs.	1,967,788	1,867,287
Construction in progress	N/A	911,334	1,584,692
 Total Property and Equipment		 25,644,840	 24,470,157
 Less: Accumulated depreciation		 (11,290,390)	 (10,464,413)
 Net Property and Equipment		 \$ 14,354,450	 \$ 14,005,744

### NOTE 5 - Long-Term Debt

Long-term debt consists of the following at March 31:

	2019	2018
Adjustable Rate Demand Revenue Bonds payable, Series 2015 in the amount of \$4,985,000. Monthly varying payments began in May 2015 with a demand date of April 1, 2020 and a maturity date of April 1, 2032. The bonds are secured by substantially all assets of the Organization. The bonds carry a variable interest rate, but the Organization entered into an interest rate swap to pay a fixed interest rate of 1.185%.	\$ 4,027,087	\$ 4,281,547
Less: Current portion	(260,754)	(254,460)
Long-Term Portion	3,766,333	4,027,087
Debt issuance costs, net of accumulated amortization	(59,526)	(64,374)
Total Long-term Portion, net	\$ 3,706,807	\$ 3,962,713

Principal requirements on long-term debt for years ending after March 31, 2019 are presented as follows:

2020	\$ 260,754
2021	3,766,333
Total	\$ 4,027,087

## SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.

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

#### **NOTE 5 - Long-Term Debt** (continued)

The Organization is subject to certain restrictions and covenants relating to their debt. The Organization represents that it is in compliance with or has received a waiver for all covenants as of March 31, 2019.

Total loan origination fees related to long term debt are \$78,168. The loan origination fees are being amortized over the life of the debt on a straight line basis which approximates the effective interest rate method. Accumulated amortization as of March 31, 2019 and 2018 was \$18,642 and \$13,794, respectively.

#### **NOTE 6 - Derivative Financial Instruments and Hedging Activities**

As disclosed in Note 5, the bonds bear interest at a variable rate. To minimize the effect of changes in the market, the Organization entered into an interest rate swap contract under which it pays interest at a fixed 1.185% rate. See Note 2 for additional interest rate swap disclosures. The following represents the notional amount hedged, fair value of the interest rate swap outstanding at March 31, 2019 and 2018 (included in prepaid expenses and other current assets in the statements of financial position) and the amount of exposure recorded in change in net assets without donor restrictions for the year ended March 31, 2019 and 2018, respectively.

	Notional Amount	As of March 31 Asset	Year Ended March 31 Gain (Loss)	Classification of Gain (Loss)
2019 PNC Derivative	\$ 4,027,087	\$ 19,088	\$ (17,596)	Unrealized gain (loss) on interest rate swap
2018 PNC Derivative	\$ 4,281,547	\$ 36,684	\$ 40,743	Unrealized gain (loss) on interest rate swap

#### **NOTE 7 - Capital Lease**

The Organization entered into a lease for a phone system under a capital lease agreement. At March 31, 2019, the gross value of these assets and the related accumulated amortization were \$453,191 and \$236,216, respectively. At March 31, 2018, the gross value of these assets and the related accumulated amortization were \$453,191 and \$171,475, respectively. The assets are included in property and equipment in the statements of financial position.

The following is a schedule of future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of March 31:

2020	\$ 99,408
Less: Amount representing interest	(4,592)
Present Value of Future Minimum Lease Payments	<u>\$ 94,816</u>

## SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.

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

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#### NOTE 8 - Net Assets

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Net assets with donor restrictions at year end are composed of:

	<u>2019</u>	<u>2018</u>
Purpose restricted	\$ 432,490	\$ 390,133
Waukesha Community Health Center	1,527,509	1,592,741
Time restricted	<u>33,306</u>	<u>38,682</u>
Totals	<u>\$ 1,993,305</u>	<u>\$ 2,021,556</u>

Net assets with donor restrictions include \$1,527,509 and \$1,592,741 as of March 31, 2019 and 2018, respectively, related to the Waukesha Community Health Center. The Organization signed a reversionary interest in the building, fixtures and equipment with Pro Healthcare. See Note 1 for the Organization's policy regarding release of these restrictions.

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#### NOTE 9 - Retirement Plans

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##### *Defined Contribution Retirement Plans*

The Organization has a 401(k) retirement savings plan. The Organization will match eligible employee contributions under the formula of: 100% of contributions that are not in excess of 3% of employee compensation, plus 50% of the amount of employee contributions that exceed 3% but do not exceed 5% of compensation. The employer match expense was \$509,317 and \$477,528 for the years ended March 31, 2019 and 2018, respectively.

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#### NOTE 10 - Self-Insured Dental Plan

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The Organization maintains a self-insured dental care coverage plan for its employees. The plan provides annual coverage up to a maximum of \$1,250 per employee per calendar year.

Total expense incurred under this program for the years ended March 31, 2019 and 2018 amounted to \$179,790 and \$149,451, respectively.

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#### NOTE 11 - Health Reimbursement Account

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The Organization provides a Health Reimbursement Account whereby employees will be reimbursed after meeting the first \$500 of their deductible. The cost to the Organization will be dependent on employee utilization of this account. Expenses relating to the Health Reimbursement Account were \$267,133 and \$225,682 for the years ended March 31, 2019 and 2018, respectively.

## SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.

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

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#### **NOTE 12 - Rental Income**

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The Organization leases space in the buildings that it owns and operates to several tenants. The leases have terms ranging from one year to ten years with monthly payments between \$827 and \$5,802.

Future minimum lease payments to be received under these operating leases for years ending after March 31, 2019 are as follows:

2020	\$ 151,863
2021	154,641
2022	157,471
2023	164,716
2024	167,608
Thereafter	<u>170,702</u>
Total	<u>\$ 967,001</u>

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#### **NOTE 13 - Operating Leases**

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The Organization leases postage, fax and copier equipment and laptop computers. All leases are accounted for as operating leases.

Future minimum lease payments for years ending after March 31, 2019 are as follows:

2020	\$ 14,629
2021	14,629
2022	2,319
2023	2,319
2024	<u>594</u>
Total	<u>\$ 34,490</u>

Rent expense on the operating leases was \$85,008 and \$76,891 for the years ended March 31, 2019 and 2018, respectively.

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#### **NOTE 14 - Concentrations**

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The Organization maintains cash balances in one institution which exceed the federally insured limit of \$250,000. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

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#### **NOTE 15 - Commitments and Contingencies**

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##### *Financial Awards from Grantors*

Financial awards from federal, state and local governments in the form of grants are subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

# SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.

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

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### **NOTE 16 - Waukesha Community Health Center**

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In 2012, the Organization received a contribution of approximately \$2 million to purchase a building and operate a federally qualified health center in Waukesha (the Waukesha Community Health Center). The Organization has signed a reversionary interest agreement for the building (30 years) and renovations at the Waukesha Community Health Center.

The Organization signed a Memorandum of Understanding ("MOU") with the donor that contributed the building. According to the MOU, the Organization will receive a ten year operating grant supplement to cover service deficits. The initial annual amount was dependent on the initial pro forma with subsequent years contingent upon approval of an operating budget. A reconciliation and settlement is done within ninety days of the Waukesha Community Health Center grant year.

During the year ending March 31, 2019 and 2018, contributions include \$319,958 and \$326,911, respectively, of grant revenue to cover deficits incurred. Grants receivable as of March 31, 2019 and 2018 were \$284,592 and \$301,925, respectively.

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### **NOTE 17 - Availability of Financial Assets**

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

Cash and cash equivalents	\$	4,560,359
Patient receivable		2,252,681
Medicaid receivable		3,941,102
Grants receivable		1,446,139
Other accounts receivable		<u>341,972</u>
Total	\$	<u>12,542,253</u>

The Organization's goal is to maintain liquid financial assets to meet 90 days of operating expenses.

**OTHER INDEPENDENT AUDITORS' REPORTS**

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

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Sixteenth Street Community Health Centers, Inc.  
Milwaukee, Wisconsin

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Sixteenth Street Community Health Centers, Inc. (the "Organization"), which comprise the statement of financial position as of March 31, 2019, and the related statements of activities, 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 July 23, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 the Organization'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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Baker Tilly Virchow Krause, LLP*

Milwaukee, Wisconsin  
July 23, 2019

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND MAJOR STATE PROGRAM AND REPORT  
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND THE  
*STATE SINGLE AUDIT GUIDELINES*

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Sixteenth Street Community Health Centers, Inc.  
Milwaukee, Wisconsin

**Report on Compliance for Each Major Federal and Major State Program**

We have audited Sixteenth Street Community Health Centers, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *State Single Audit Guidelines* that could have a direct and material effect on each of the Organization's major federal and major state programs for the year ended March 31, 2019. The Organization's major federal and major state programs are identified in the summary of auditors' 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 the terms and conditions of its awards applicable to its federal and state programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Organization's major federal and major 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* ("Guidelines"). Those standards, the Uniform Guidance and the *Guidelines* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or a major state program occurred. An audit includes examining, on a test basis, evidence about the Organization'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 major state program. However, our audit does not provide a legal determination of the Organization's compliance.

### ***Opinion on Each Major Federal and Major State Program***

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and major state programs for the year ended March 31, 2019.

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

Management of the Organization 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 the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal or major 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 or major state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the *Guidelines*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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. *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.

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

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 the Uniform Guidance and the *Guidelines*. Accordingly, this report is not suitable for any other purpose.

*Baker Tilly Virchow Krause, LLP*

Milwaukee, Wisconsin

July 23, 2019

## **SUPPLEMENTAL INFORMATION**

**SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.**

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
For the Year Ended March 31, 2019

FEDERAL AWARDS Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through Wisconsin Department of Health Services			
Special Supplemental Food Program for Women, Infants, and Children (WIC Program)	10.557	154710	\$ 1,137,122
WIC Breastfeeding Peer Counselor	10.557	154760	<u>24,305</u>
Total U.S. Department of Agriculture			<u>1,161,427</u>
<b>U.S. DEPARTMENT OF COMMERCE</b>			
Passed through Wisconsin Department of Administration			
The Kinnickinnic River Flood Management Project	11.463	Unavailable	<u>22,401</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Direct award			
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	Not Applicable	<u>1,236,532</u>
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	Not Applicable	2,328,608
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program - Expanded Services	93.527	Not Applicable	468,673
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program - Certified Application Counselors Enrollment	93.527	Not Applicable	185,398
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program - Quality Improvements	93.527	Not Applicable	244,709
Affordable Care Act (ACA) Grants for New and Expanded Services and the Healthcare Program - Health Infrastructure Investment Program	93.527	Not Applicable	<u>770,629</u>
Total Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program			<u>3,998,017</u>
Total Health Centers Program Cluster			<u>5,234,549</u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	Not Applicable	<u>373,508</u>
Passed through the University of Wisconsin - Madison			
Organized Approaches to Increase Colorectal Cancer Screening	93.800	168442	<u>16,706</u>

See accompanying notes to schedule of expenditures of federal and state awards.

**SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.**

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (concluded)  
For the Year Ended March 31, 2019

FEDERAL AWARDS	Federal CFDA	Pass-Through Grantor's	Federal
Grantor/Pass-Through Grantor/Program Title	Number	Number	Expenditures
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)</b>			
Passed through Wisconsin Department of Health Services			
Ryan White Title II - Prevention	93.917	155919	\$ 136,439
Ryan White Title II - Community Care	93.917	155919	163,277
Ryan White Title II - Linkage to Care	93.917	155990	18
Total Ryan White Title II Program			<u>299,734</u>
Immunization Cooperative Agreements - Immunization Program	93.268	150179	<u>32,892</u>
Chronic Disease Prevention	93.270	Unavailable	<u>17,367</u>
HIV Minority Prevention	93.940	155958	<u>181,104</u>
Total U.S. Department of Health and Human Services			<u>6,155,860</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$ 7,339,688</u></b>

STATE AWARDS	State ID	State
Grantor/Pass-Through Grantor/Program Title	Number	Expenditures
<b>WISCONSIN DEPARTMENT OF HEALTH SERVICES</b>		
Direct award		
Community Health Centers - Management	435.151301	\$ 520,706
Community Health Centers - Health Education	435.151302	38,586
Special Supplemental Food Program for Women, Infants, and Children (WIC Program)-Farmer's Market	435.154720	7,118
GPR Childhood Lead Poisoning Prevention	435.157799	122,535
State Minority Health	435.65594	<u>17,140</u>
<b>TOTAL EXPENDITURES OF STATE AWARDS</b>		<b><u>\$ 706,085</u></b>

## SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS For the Year Ended March 31, 2019

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#### *Basis of Presentation*

The accompanying schedule of expenditures of federal and state awards (the "Schedule") includes the federal and state grant activity of Sixteenth Street Community Health Centers, Inc. (the "Organization") under programs of the federal and state government for the year ended March 31, 2019. The information in this Schedule is presented in accordance with the 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 Single Audit Guidelines*. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

#### *Summary of Significant Accounting Policies*

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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

#### *Indirect Cost Rate*

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

#### *Pass-Through Grantor's Number*

As requested by the funder, the Schedule presents the CARS profile number as the pass-through grantor's number for federal funding that passes through the State of Wisconsin Department of Health Services.

**SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended March 31, 2019

**Section I: Summary of Auditors' Results**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

unmodified

Internal control over financial reporting:  
Material weakness(es) identified?

_____	yes	_____ <u>X</u> _____	no none reported
_____	yes	_____ <u>X</u> _____	

Significant deficiency(ies) identified?

Noncompliance material to financial statements noted?

_____	yes	_____ <u>X</u> _____	no
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**Federal and State Awards**

Internal control over major programs:  
Material weakness(es) identified?

_____	yes	_____ <u>X</u> _____	no none reported
_____	yes	_____ <u>X</u> _____	

Significant deficiency(ies) identified?

Type of auditors' report issued on compliance for major programs:

unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____	yes	_____ <u>X</u> _____	no
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Identification of federal and state major programs:

CFDA Number(s)

10.557

93.918

Name of Federal Program or Cluster

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program)

Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease

CFDA or State ID Number(s)

10.557

Name of State Program or Cluster

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program)

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

Federal

\$750,000

State of Wisconsin

\$250,000

Auditee qualified as low-risk auditee?

_____ <u>X</u> _____	yes	_____ no
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**SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (concluded)  
For the Year Ended March 31, 2019

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**Section II: Financial Statement Findings**

There were no findings.

**Section III: Federal and State Award Findings and Questioned Costs**

There were no findings or questioned costs.

**Section IV: Other Issues**

Does the auditor have substantial doubt as to the auditee's ability to continue as a going concern? \_\_\_\_\_ yes      X   no

Does the audit report show audit issues (i.e. material non-compliance, non-material non-compliance, questioned costs, material weakness, significant deficiencies, management letter comment, excess revenue or excess reserve) related to grants/ contracts with funding agencies that require audits to be in accordance with the *State Single Audit Guidelines*:

Department of Health Services                    \_\_\_\_\_ yes      X   no  
Department of Administration                    \_\_\_\_\_ yes      X   no

Was a management letter or other document conveying audit comments issued as a result of this audit? \_\_\_\_\_ yes      X   no

Name and signature of partner

  
\_\_\_\_\_  
Krista K. Pankop, CPA

Date of the report

July 23, 2019

**SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
For the Year Ended March 31, 2019

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The prior year single audit disclosed no findings, and therefore, no uncorrected or unresolved findings exist from prior single audits.

**SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.**

Settlement of DHS Cost Reimbursement Award Schedule

For the Year Ended March 31, 2019

Grant Name	GPR Childhood Lead Poisoning Prevention		HIV Minority Prevention		WIC Peer Counseling	
	157799	157799	155958	155958	154760	154760
DHS identification number (CARS Profile)	157799	157799	155958	155958	154760	154760
Award amount	\$125,000	\$125,000	\$151,394	\$172,000	\$24,715	\$35,786
Award period	7/1/17 - 6/30/18	7/1/18 - 6/30/19	1/1/18 - 12/31/18	1/1/19 - 12/31/19	1/1/18 - 12/31/18	1/1/19 - 12/31/19
Period of award within audit period	4/1/18 - 6/30/18	7/1/18 - 3/31/19	4/1/18 - 12/31/18	1/1/19 - 3/31/19	4/1/18 - 12/31/18	1/1/19 - 3/31/19
<b>A. Expenditures reported to DHS for payment</b>	<u>\$ 29,029</u>	<u>\$ 93,506</u>	<u>\$ 141,392</u>	<u>\$ 39,712</u>	<u>\$ 18,513</u>	<u>\$ 5,792</u>
<b>B. Actual allowable cost of award</b>						
<b>Program expenses</b>						
Salaries and Wages	22,362	54,894	77,539	28,144	12,030	5,105
Retirement Plans	536	1,292	1,883	610	342	58
Other Employee Benefits	4,075	7,922	13,442	3,632	2,478	239
Payroll Taxes	1,757	3,823	5,603	2,044	953	104
Fee for Services	138	856	-	-	-	-
Office Expenses	271	11,465	11,564	937	7	22
Occupancy	5,265	9,221	8,729	(1,639)	480	62
Travel	-	906	3,397	1,141	-	-
Conferences	-	-	1,475	500	-	-
Depreciation	133	309	-	-	-	-
Membership and Licenses	-	-	150	-	-	-
All Other Expenses	-	-	1,450	278	-	-
<b>Management and general expenses allocated to program</b>						
Indirect Cost	<u>5,089</u>	<u>12,294</u>	<u>17,567</u>	<u>4,220</u>	<u>2,444</u>	<u>372</u>
Total expenses	39,626	102,982	142,799	39,867	18,734	5,962
<b>C. Less program revenue and other offsets to costs (identify in notes)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>F. Total allowable cost</b>	<u>\$ 39,626</u>	<u>\$ 102,982</u>	<u>\$ 142,799</u>	<u>\$ 39,867</u>	<u>\$ 18,734</u>	<u>\$ 5,962</u>

**SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.**

Settlement of DHS Cost Reimbursement Award Schedule (continued)

For the Year Ended March 31, 2019

Grant Name	Community Health Centers - Health Education		WIC Program		Immunization Program	
	151302	151302	154710	154710	150179	150179
DHS identification number (CARS Profile)	151302	151302	154710	154710	150179	150179
Award amount	\$50,000	\$50,000	\$1,306,213	\$1,126,329	\$16,446	\$16,446
Award period	7/1/17 - 6/30/18	7/1/18 - 6/30/19	1/1/18 - 12/31/18	1/1/19 - 12/31/19	4/1/17 - 6/30/18	7/1/18 - 6/30/19
Period of award within audit period	4/1/18 - 6/30/18	7/1/18 - 3/31/19	4/1/18 - 12/31/18	1/1/19 - 3/31/19	4/1/18 - 6/30/18	7/1/18 - 3/31/2019
<b>A. Expenditures reported to DHS for payment</b>	<u>\$ 72</u>	<u>\$ 38,514</u>	<u>\$ 826,630</u>	<u>\$ 310,492</u>	<u>\$ 16,446</u>	<u>\$ 16,446</u>
<b>B. Actual allowable cost of award</b>						
<b>Program expenses</b>						
Salaries and Wages	2,004	28,383	498,188	192,503	17,083	17,083
Retirement Plans	48	670	11,864	4,495	451	831
Other Employee Benefits	370	4,397	83,612	26,962	2,662	4,280
Payroll Taxes	160	2,011	35,183	15,102	1,231	2,227
Fees for Services	-	-	14,091	1,055	-	-
Office Expenses	2	18	19,279	17,788	-	6
Occupancy	56	1,367	46,553	14,883	-	531
Travel	-	-	6,050	186	-	-
Conferences	-	-	5,152	1,455	-	-
Depreciation	-	-	9,026	3,009	-	-
Membership and Licenses	-	-	250	-	-	-
All Other Expenses	-	-	4,397	907	-	-
<b>Management and general expenses allocated to program</b>						
Indirect Cost	411	4,982	102,233	35,146	2,508	2,851
Total expenses	3,051	41,828	835,878	313,491	23,935	27,809
<b>C. Less program revenue and other offsets to costs (identify in notes)</b>	-	-	-	-	-	-
<b>F. Total allowable cost</b>	<u>\$ 3,051</u>	<u>\$ 41,828</u>	<u>\$ 835,878</u>	<u>\$ 313,491</u>	<u>\$ 23,935</u>	<u>\$ 27,809</u>

**SIXTEENTH STREET COMMUNITY HEALTH CENTERS, INC.**

Settlement of DHS Cost Reimbursement Award Schedule (concluded)

For the Year Ended March 31, 2019

Grant Name	Community Health Centers - Management		Ryan White Title II - Linkage to Care	WIC Program - Farmers Market	Ryan White Title II - Prevention and Community Care	
	151301	151301	155990	154720	155919	155919
DHS identification number (CARS Profile)	151301	151301	155990	154720	155919	155919
Award amount	\$463,540	\$482,508	\$43,370	\$7,500	\$192,000	\$174,887
Award period	7/1/17 - 6/30/18	7/1/18 - 6/30/19	4/1/18 - 3/31/19	1/1/18 - 12/31/18	9/30/18 - 9/29/19	9/30/17 - 9/29/18
Period of award within audit period	4/1/18 - 6/30/18	7/1/18 - 3/31/19	4/1/18 - 3/31/19	4/1/18 - 12/31/18	9/30/18 - 3/31/19	4/1/18 - 9/29/18
<b>A. Expenditures reported to DHS for payment</b>	<u>\$ 161,525</u>	<u>\$ 359,181</u>	<u>\$ 18</u>	<u>\$ 7,118</u>	<u>\$ 136,439</u>	<u>\$ 163,277</u>
<b>B. Actual allowable cost of award</b>						
<b>Program expenses</b>						
Salaries and Wages	115,938	241,562	-	1,430	62,820	107,056
Retirement Plans	2,775	5,724	-	34	1,497	2,465
Other Employee Benefits	21,090	33,814	-	233	9,396	17,238
Payroll Taxes	9,108	15,769	-	97	4,419	7,605
Fees for Services	675	2,775	-	-	35,867	-
Office Expenses	2,908	4,268	-	4,505	401	1,689
Occupancy	1,873	10,777	-	50	2,669	9,127
Travel	405	1,283	18	-	2,812	1,577
Conferences	768	1,911	-	-	815	705
Membership and Licenses	-	165	-	-	-	-
All Other Expenses	1,026	-	-	-	574	-
<b>Management and general expenses allocated to program</b>						
Indirect Cost	<u>14,150</u>	<u>50,295</u>	<u>3</u>	<u>830</u>	<u>17,584</u>	<u>18,893</u>
Total expenses	<u>170,716</u>	<u>368,343</u>	<u>21</u>	<u>7,179</u>	<u>138,854</u>	<u>166,355</u>
<b>C. Less program revenue and other offsets to costs (identify in notes)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>F. Total allowable cost</b>	<u>\$ 170,716</u>	<u>\$ 368,343</u>	<u>\$ 21</u>	<u>\$ 7,179</u>	<u>\$ 138,854</u>	<u>\$ 166,355</u>