**Report 04-8**
**August 2004**

An Audit

# Wisconsin Mental Health Institutes

*Department of Health and Family Services*

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State Auditor - Janice Mueller

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State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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August 31, 2004

Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

We have completed financial audits of the Mendota and Winnebago Mental Health Institutes for the period July 1, 2002, through June 30, 2003. The audits were requested by the Department of Health and Family Services to comply with requirements of the Joint Commission on Accreditation of Healthcare Organizations. We were able to express an unqualified opinion on each Institute's financial statements.

The Institutes reported mixed financial results for fiscal year (FY) 2002-03. Mendota reported a gain of $1.4 million in net assets, while Winnebago reported a loss of $1.8 million in net assets. Winnebago sustained a loss because it did not generate enough revenue to cover its expenses. However, each Institute continued to report a positive accounting balance, which is reflected in its financial statements as unrestricted net assets.

During the course of our audits, we found the Department's treatment of collections received on behalf of state-funded patients, which are primarily forensic patients, was not in compliance with s. 20.435(2)(gk), Wis. Stats., which requires that these funds be treated as general purpose revenue (GPR)-earned. Relying on only s. 20.001(4), Wis. Stats., which defines GPR-earned, the Department retained $815,000 of the $2.3 million received in FY 2001-02 and $759,000 of the $2.1 million received in FY 2002-03 for operation of the Institutes. The Department has, however, agreed to properly treat all collections received on behalf of state-funded patients as GPR-earned in FY 2003-04 and in the future.

We appreciate the courtesy and cooperation extended to us by Department of Health and Family Services staff during our audit.

Respectfully submitted,

Janice Mueller

Janice Mueller
State Auditor

JM/DA/ss

# Introduction ■

Through the Department of Health and Family Services' Division of Disability and Elder Services, the State operates the Mendota and Winnebago Mental Health Institutes, which are licensed and accredited hospitals that provide specialized diagnostic, evaluation, and treatment services for patients with diverse needs, including emotionally disturbed children, mentally ill geriatric patients, and forensic patients referred to the Institutes through the criminal justice system. The Institutes cannot refuse to treat patients who have been denied care in other facilities.

The Department annually requests an audit of the Institutes' financial statements to comply with requirements of the Joint Commission on Accreditation of Healthcare Organizations. As necessary parts of this audit, we reviewed the Institutes' control procedures, assessed the fair presentation of the fiscal year (FY) 2002-03 financial statements, and reviewed compliance with selected statutory provisions.

## Average Daily Population

***The Institutes' average daily populations decreased in FY 2001-02 and FY 2002-03.***

As shown in Table 1, the average daily population of both Mendota and Winnebago steadily increased between FY 1997-98 and FY 2000-01 but decreased in FY 2001-02 and FY 2002-03. At the same time, capacity decreased at each of the Institutes, resulting in higher population-to-capacity rates than in prior years. Mendota's capacity decrease in FY 2002-03 resulted from the closing of a 15-bed adolescent unit, as well as a 5-bed reduction in the Mendota Juvenile Treatment Center. However, Mendota's capacity in adult civil units increased by five beds. Winnebago decreased the number of beds in its children's unit by three and also reduced the number of adult forensic beds by five.

Table 1

**Ten-Year Trends in Average Daily Population and Capacity**
For the Fiscal Year Ending June 30

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Mendota** | | | | | | | | | | |
| Average Daily Population | 244 | 241 | 244 | 268 | 258 | 263 | 269 | 281 | 263 | 261 |
| Capacity | 305 | 295 | 275 | 300 | 300 | 293 | 293 | 299 | 290 | 275 |
| Percentage Filled | 80.0 | 81.7 | 88.7 | 89.3 | 86.0 | 89.8 | 91.8 | 94.0 | 90.7 | 94.9 |
| **Winnebago** | | | | | | | | | | |
| Average Daily Population | 239 | 252 | 242 | 249 | 259 | 267 | 274 | 278 | 277 | 272 |
| Capacity | 330 | 330 | 330 | 330 | 330 | 313 | 313 | 299 | 298 | 290 |
| Percentage Filled | 72.4 | 76.4 | 73.3 | 75.5 | 78.5 | 85.3 | 87.5 | 93.0 | 93.0 | 93.8 |

## Patient Care Funding Sources

***Care for forensic patients is funded primarily by GPR.***

The Institutes are funded through a mix of general purpose revenue (GPR) and program revenue. Forensic patients are referred from the criminal justice system and include individuals being evaluated for competency to stand trial, as well as individuals charged with crimes who have been found either incompetent to stand trial or not guilty of the crimes by reason of mental defect or disease. Forensic patient charges are funded primarily by GPR. The costs of providing care for patients committed through civil proceedings or by voluntary placement are funded primarily through program revenue generated by daily charges for patient care. These charges are paid by counties, the Medicaid program (through which the State funds approximately 40 percent and the federal government funds the remaining 60 percent), Medicare, and private payers.

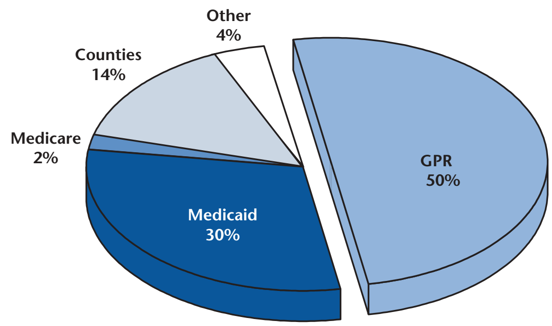
Average daily patient rates as of June 30, 2003, were $619 at Mendota and $548 at Winnebago. These rates, which are intended to cover the full cost of providing patient care services for patients committed through civil proceedings or by voluntary placement, represent an increase of $19 and $16, respectively, over the prior year's rates.

***During FY 2002-03, the Department received $95.1 million in support for patient services.***

Figure 1 illustrates the Institutes' funding sources for patient care during FY 2002-03. GPR directly appropriated to the Institutes accounted for 50 percent of the $95.1 million received. The Medicaid program, which, as noted, is partially funded by the State, represented the largest source of program revenue.

Figure 1

**Patient Care Receipts**[1]
FY 2002-03




[1] Represents cash receipts totaling $95.1 million.

## Treatment of General Purpose Revenue-Earned

The Department attempts to collect reimbursements for state-funded patients from other sources, such as from insurance companies and the Medicare and Medicaid programs. Section 20.435(2)(gk), Wis. Stats., requires that payments received from third parties for state-funded patients be treated as GPR-earned, as defined under s. 20.001(4), Wis. Stats. These funds, therefore, are not available for expenditure by the Department.

Until recently, the Department appropriately treated payments received for state-funded patients as GPR-earned. However, in FYs 2001-02 and 2002-03, it retained $1.6 million of these receipts for operation of the Institutes: $815,000 of the $2.3 million received in FY 2001-02, and $759,000 of the $2.1 million received in FY 2002-03. These retained funds were used to cover computer network costs allocated to state-funded patients.

The computer network costs were not included in the calculation of budgeted costs covered by GPR. The Department notes that on several occasions it requested both GPR and program revenue funding authority for its computer network costs, but only the program revenue request was allowed by the Department of Administration. In prior years, the Department of Health and Family Services covered these costs through a transfer of spending authority from the fringe benefit allocation to the supplies and services allocation within the budgetary appropriation. However, in light of recent budget reductions, such funds were not available to fund the computer network costs allocated to state-funded patients in FY 2001-02 and FY 2002-03.

The Department of Health and Family Services believed that it could use revenue related to state-funded patients based on s. 20.001(4), Wis. Stats., which defines GPR-earned as:

> revenue which is received by a state agency *incidentally* in connection with GPR appropriations in the course of accomplishing program objectives, which is not designated as a refund of an expenditure by the secretary of administration under sub. (5) and *for which no program revenue appropriation is made* shall be designated as GPR-earned. This revenue shall be treated as a nonappropriated receipt and is not available for expenditure [emphasis added].

The Department's position was that the funds received for state-funded patients did not meet this definition because the funds are not incidental and the funds are deposited into a program revenue appropriation when received, indicating that a program revenue appropriation is available for these collections. The Department also contended that an implied assumption of GPR-earned was that any collection of non-GPR revenue is excess and not needed for the operation of the program. Therefore, in the case of the Institutes, the Department believed it was allowed to keep all or a portion of these collections to cover its expenditures, including its computer network costs.

In contrast to the Department's application of s. 20.001(4), Wis. Stats., we believe the Legislature intends that the care of state-funded patients be funded by GPR and that any non-GPR funds be considered incidental. Further, the program revenue appropriation that the Department references as being available for the funds is in the same statutory appropriation that requires that these receipts be treated as GPR-earned—s. 20.435(2)(gk), Wis. Stats. Consequently, while the funds may be initially deposited into a program revenue appropriation, we do not believe such a deposit indicates that an appropriation is made for the purpose of using these funds on behalf of the state-funded patients. To the contrary, we believe the Legislature's intent is clear in requiring that these funds be treated as GPR-earned.

In response to interim correspondence on this issue, the Department indicated that, in reviewing both sections of the statutes, it felt that its calculation of GPR-earned was reasonable and appropriate. Relying on s. 20.001(4), Wis. Stats., it believed the revenue related to Medicare and Medicaid collections for patients at the Institutes did not meet the description of GPR-earned because there is a program revenue appropriation appropriate to the purpose for which the funds were received and because the revenues were not incidental. However, it recognized the Audit Bureau's more stringent interpretation to resolve differences between ss. 20.435(2)(gk) and 20.001(4), Wis. Stats., and agreed to deposit as GPR-earned the full amount of funds received on behalf of state-funded patients during FY 2003-04 and in the future.

While the Legislature could consider requiring the Department to reimburse the General Fund for the $1.6 million retained in FY 2001-02 and FY 2002-03, the Department's options for funding such reimbursement are limited. Nevertheless, we believe it is important that legislative intent be met in the future.

■ ■ ■ ■

# Audit Opinion ■

### *Independent Auditor's Report on the Financial Statements of Mendota Mental Health Institute*

We have audited the accompanying financial statements of the State of Wisconsin Mendota Mental Health Institute's Patient Care Fund, Power Plant Fund, Patient Deposit Fund, and Canteen Fund as of and for the year ended June 30, 2003. These financial statements are the responsibility of the management of Mendota Mental Health Institute and the Wisconsin Department of Health and Family Services. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1A, the financial statements referred to above present only the Wisconsin Mendota Mental Health Institute and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2003, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each of the Mendota Mental Health Institute's funds as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements of the Mendota Mental Health Institute. The supplementary information included as Management's Discussion and Analysis on pages 11 through 15 is presented for purposes of additional analysis and is not a required part of the financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 17, 2004, on our consideration of the Department of Health and Family Services' internal control over financial reporting for Mendota Mental Health Institute and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

LEGISLATIVE AUDIT BUREAU

August 17, 2004 by Diann Allsen

Diann Allsen
Audit Director

# Management's Discussion and Analysis—Mendota Mental Health Institute ▪

*Prepared by the Department of Health and Family Services*

This section of the Mendota Mental Health Institute's annual financial report presents a discussion and analysis of the Institute's financial performance during the fiscal year ended June 30, 2003. This discussion and analysis should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this discussion are the responsibility of the management of Mendota and the Wisconsin Department of Health and Family Services.

## Using the Annual Financial Statements

Mendota prepares its financial statements in accordance with Governmental Accounting Standards Board (GASB) statements.

The balance sheet includes all assets and liabilities. The difference between the assets and liabilities is reported as net assets on the balance sheet. Over time, increases or decreases in Mendota's net assets are one indicator of whether its financial health is improving or deteriorating.

The statement of revenues, expenses, and changes in net assets presents the revenues earned and expenses incurred during the year on an accrual basis. Activities on this statement are reported as either operating or nonoperating. The utilization of capital assets is reflected as depreciation expense, which amortizes the cost of an asset over its estimated useful life.

The statement of cash flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, and capital and related financing activities. This statement reports the sources and uses of cash during the fiscal year and can provide a measure of Mendota's ability to meet its financial obligations as they mature.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

## Noteworthy Financial Activity

Mendota's total net assets increased by 7 percent during FY 2002-03. Our analysis of Mendota's financial activities focuses on the balance sheet and the statement of revenues, expenses, and changes in net assets. We will first review net assets from FY 2001-02 to FY 2002-03 (Table A). We will then look at changes in net assets for the same period (Table B).

Table A

**Net Assets**

| Fiscal Year Ended June 30: | 2003 | 2002 | Percentage Change |
|---|---|---|---|
| Current Assets | $ 9,406,860 | $12,457,567 | -24% |
| Capital Assets | 18,412,623 | 18,094,147 | 2 |
| **Total Assets** | **$27,819,483** | **$30,551,714** | -9 |
| Current Liabilities | $ 4,021,348 | $ 8,291,893 | -52 |
| Noncurrent Liabilities | 1,262,244 | 1,135,633 | 11 |
| **Total Liabilities** | **5,283,592** | **9,427,526** | -44 |
| Net Assets: | | | |
| Invested in Capital Assets, Net of Related Debt | 17,866,590 | 17,461,952 | 2 |
| Restricted | 57,799 | 191,065 | -70 |
| Unrestricted | 4,611,502 | 3,471,171 | 33 |
| **Total Net Assets** | **22,535,891** | **21,124,188** | 7 |
| **Total Liabilities and Net Assets** | **$27,819,483** | **$30,551,714** | -9 |

As shown in Table A, current assets decreased by 24 percent from FY 2001-02 to FY 2002-03. One reason for the net decrease in current assets from FY 2001-02 to FY 2002-03 was a large decrease in the amount due from the State of Wisconsin. In FY 2001-02, Mendota had a contract with the State's Department of Corrections to operate the Mendota Juvenile Treatment Center. The contract amount was for $3,330,700, which was not paid to the Institute until FY 2002-03. Therefore, this amount was recorded as Due from the State of Wisconsin on the FY 2001-02 balance sheet. In FY 2002-03, the payment on the FY 2001-02 contract amount was received during the fiscal year and was reflected as an increase to cash and a decrease to Due from the State of Wisconsin.

The increase in cash from receipt of the FY 2001-02 contract payment from the Department of Corrections was offset by a decrease in the net cash balance in the patient care accounts. Mendota had a large negative cash balance in the patient care accounts for a number of years. This negative cash balance was resolved during FY 2001-02 due to increased collections on the billing backlog, which was eliminated during FY 2001-02. The increased collections also allowed Mendota to reimburse the Southern Wisconsin Center for the Developmentally Disabled for a FY 1993-94 cash transfer from the Center to cover cash deficits. This repayment was recorded in the Due to State account in FY 2001-02 and was paid in FY 2002-03. The payment of this payable along with the return to a more historical level of cash collection resulted in a FY 2002-03 decrease in the net cash balance in the patient care accounts.

Capital assets, which represent the original cost of an asset less accumulated depreciation, increased by only 2 percent from FY 2001-02 to FY 2002-03. The two major increases in capital assets were the purchase of an automated pill packaging machine and additional payments on two ongoing construction projects. One construction project is an upgrade of the steam turbine located in the power plant. The other construction project is a replacement of air handling units.

Current liabilities decreased by 52 percent from FY 2001-02 to FY 2002-03. Part of this decrease is a $1,192,704 decrease in payables for final and tentative settlements of Medicare cost reports audits. Medicare cost report settlements were received and recorded as payables in FY 2001-02. These settlements were paid in FY 2002-03, and no additional payables were recorded.

Another major reason for the decrease in current liabilities from FY 2001-02 to FY 2002-03 was the timing of the payment of the year-end payrolls. The last payroll of FY 2001-02 was paid after June 30 and was therefore recorded as an account payable. In FY 2002-03, the last payroll was paid by June 30 and was recorded as a decrease to cash. This timing difference, along with the payment in FY 2002-03 of the FY 2001-02 payable of $1.0 million to the Southern Wisconsin Center for the Developmentally Disabled, resulted in a large decrease in accounts payable from FY 2001-02 to FY 2002-03.

Noncurrent liabilities increased by 11 percent from FY 2001-02 to FY 2002-03. Some of this increase was due to a $209,774 increase in noncurrent compensated absences. The increase in compensated absences was offset by the payments on capital leases.

Net assets on the balance sheet are computed by subtracting total liabilities from total assets. Net assets are then further segregated on the balance sheet between net assets invested in capital assets net of related debt, net assets restricted by legal requirements from other governments, and unrestricted net assets. Net assets increased from $21,124,188 in FY 2001-02 to $22,535,891 in FY 2002-03. The financial activity that resulted in this increase of $1,411,703, or 7 percent, can be found by looking at the statement of revenues, expenses, and changes in net assets, which is analyzed in Table B.

Table B

**Changes in Net Assets**

| Fiscal Year Ended June 30: | 2003 | 2002 | Percentage Change |
|---|---|---|---|
| Operating Revenue | $53,243,495 | $53,432,626 | 0% |
| Operating Expenses | 52,633,337 | 51,239,893 | 3 |
| **Net Operating Income** | **610,158** | **2,192,733** | -72 |
| Nonoperating Income | 440,028 | 448,440 | -2 |
| Net Transfers In (Out) | 361,517 | (141,415) | 356 |
| **Change in Net Assets** | **$1,411,703** | **$2,499,758** | -44 |

The change in net assets for FY 2002-03 of $1,411,703 shows that Mendota continues to generate revenue sufficient to cover expenses. A comparison of FY 2001-02 to FY 2002-03 shows no major changes in operating financial activities: operating expenses increased by 3 percent, and operating revenues decreased by less than 1 percent.

The most significant change from FY 2001-02 to FY 2002-03 in the statement of revenues, expenses, and change in net assets was a 356 percent change in net transfers in (out). Some of this change was the result of a decrease in transfers out. In FY 2001-02, Mendota transferred $1.0 million to the Southern Wisconsin Center for the Developmentally Disabled. This payment was a reimbursement of a FY 1993-94 cash transfer from the Center to cover cash deficits. No similar transfer was made in FY 2002-03.

## Contacting the Institute's Financial Management

This financial report is designed to provide a general overview of Mendota's financial performance for FY 2002-03. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to:

Sally A. Acuff, Audit Liaison
Department of Health and Family Services
Room 655, 1 W. Wilson
P.O. Box 7850
Madison, WI 53707-7850

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# Financial Statements of Mendota Mental Health Institute ■

# Balance Sheet
# June 30, 2003

| | Patient Care Fund | Power Plant Fund | Patient Deposit Fund | Canteen Fund | Totals (Memorandum Only) |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents (Note 2) | $ 1,619,265 | $ 0 | $ 46,675 | $ 40,457 | $ 1,706,397 |
| Net accounts receivable (Notes 3 and 4) | 4,317,919 | 278,295 | 2,124 | 562 | 4,598,900 |
| Due from the State of Wisconsin | 1,846,261 | 0 | 0 | 0 | 1,846,261 |
| Settlement due from Medicaid/Medicare (Note 5) | 451,876 | 0 | 0 | 0 | 451,876 |
| Supplies and merchandise inventories | 239,547 | 82,271 | 0 | 3,057 | 324,875 |
| Prepaid items | 468,853 | 9,698 | 0 | 0 | 478,551 |
| Total Current Assets | 8,943,721 | 370,264 | 48,799 | 44,076 | 9,406,860 |
| Noncurrent Assets: | | | | | |
| Capital assets (Note 6): | | | | | |
| Land | 301,752 | 4,380 | 0 | 0 | 306,132 |
| Land improvements | 1,490,001 | 75,218 | 0 | 0 | 1,565,219 |
| Buildings | 25,599,680 | 5,229,837 | 0 | 0 | 30,829,517 |
| Equipment | 2,176,775 | 309,642 | 0 | 0 | 2,486,417 |
| Accumulated depreciation | (14,142,744) | (3,406,702) | 0 | 0 | (17,549,446) |
| Construction in progress | 27,550 | 747,234 | 0 | 0 | 774,784 |
| Total Noncurrent Assets | 15,453,014 | 2,959,609 | 0 | 0 | 18,412,623 |
| **TOTAL ASSETS** | **$ 24,396,735** | **$ 3,329,873** | **$ 48,799** | **$ 44,076** | **$ 27,819,483** |
| **LIABILITIES AND NET ASSETS** | | | | | |
| Current Liabilities: | | | | | |
| Accounts payable (Note 3) | $ 423,873 | $ 0 | $ 0 | $ 5,831 | $ 429,704 |
| Due to the federal government | 12,358 | 304 | 0 | 0 | 12,662 |
| Due to the State of Wisconsin (Notes 7 and 8) | 2,026,551 | 300,718 | 0 | 1,045 | 2,328,314 |
| Accrued expenses (Note 3) | 471,738 | 25,586 | 0 | 0 | 497,324 |
| Capital leases (Notes 10 and 11) | 80,456 | 0 | 0 | 0 | 80,456 |
| Compensated absences (Note 10) | 596,862 | 17,889 | 0 | 0 | 614,751 |
| Patient funds held in trust | 0 | 0 | 48,799 | 0 | 48,799 |
| Deferred revenue | 0 | 0 | 0 | 9,338 | 9,338 |
| Total Current Liabilities | 3,611,838 | 344,497 | 48,799 | 16,214 | 4,021,348 |
| Noncurrent Liabilities: | | | | | |
| Capital leases (Notes 10 and 11) | 465,577 | 0 | 0 | 0 | 465,577 |
| Compensated absences (Note 10) | 773,484 | 23,183 | 0 | 0 | 796,667 |
| Total Noncurrent Liabilities | 1,239,061 | 23,183 | 0 | 0 | 1,262,244 |
| **Total Liabilities** | **4,850,899** | **367,680** | **48,799** | **16,214** | **5,283,592** |
| Net Assets: | | | | | |
| Invested in capital assets, net of related debt | 14,906,981 | 2,959,609 | 0 | 0 | 17,866,590 |
| Restricted | 57,799 | 0 | 0 | 0 | 57,799 |
| Unrestricted | 4,581,056 | 2,584 | 0 | 27,862 | 4,611,502 |
| **Total Net Assets** | **19,545,836** | **2,962,193** | **0** | **27,862** | **22,535,891** |
| **TOTAL LIABILITIES AND NET ASSETS** | **$ 24,396,735** | **$ 3,329,873** | **$ 48,799** | **$ 44,076** | **$ 27,819,483** |

*The accompanying notes are an integral part of this statement.*

## Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended June 30, 2003

| | Patient Care Fund | Power Plant Fund | Canteen Fund | Totals (Memorandum Only) |
|---|---|---|---|---|
| **OPERATING REVENUES** | | | | |
| Net Revenue from Patient Care (Notes 1F and 1K) | $ 22,055,044 | $ 0 | $ 0 | $ 22,055,044 |
| Revenue from the State of Wisconsin | 28,475,086 | 0 | 0 | 28,475,086 |
| Utility Sales | 0 | 1,899,477 | 0 | 1,899,477 |
| Canteen Revenue | 0 | 0 | 119,352 | 119,352 |
| Medicaid/Medicare Settlements (Note 5) | 694,536 | 0 | 0 | 694,536 |
| **Total Operating Revenues** | **51,224,666** | **1,899,477** | **119,352** | **53,243,495** |
| **OPERATING EXPENSES** | | | | |
| Salaries | 29,980,954 | 582,603 | 16,684 | 30,580,241 |
| Fringe Benefits | 11,166,244 | 240,008 | 0 | 11,406,252 |
| Materials and Supplies | 8,461,980 | 965,947 | 109,646 | 9,537,573 |
| Depreciation | 919,933 | 189,338 | 0 | 1,109,271 |
| **Total Operating Expenses** | **50,529,111** | **1,977,896** | **126,330** | **52,633,337** |
| **OPERATING INCOME (LOSS)** | **695,555** | **(78,419)** | **(6,978)** | **610,158** |
| **NONOPERATING REVENUES AND EXPENSES** | | | | |
| Revenue from the State of Wisconsin | 1,121 | 0 | 0 | 1,121 |
| Canteen Commissions | 0 | 0 | 6,515 | 6,515 |
| Operating Grants | 173,775 | 0 | 0 | 173,775 |
| Other Nonoperating Revenues | 300,311 | 0 | 0 | 300,311 |
| Interest Expense | (41,694) | 0 | 0 | (41,694) |
| **Total Nonoperating Income (Loss)** | **433,513** | **0** | **6,515** | **440,028** |
| Income (Loss) before Transfers | 1,129,068 | (78,419) | (463) | 1,050,186 |
| Transfers In for Capital Projects | 303,712 | 619,712 | 0 | 923,424 |
| Transfers Out (Note 8) | (540,163) | (21,744) | 0 | (561,907) |
| **CHANGE IN NET ASSETS** | **892,617** | **519,549** | **(463)** | **1,411,703** |
| **NET ASSETS** | | | | |
| Total Net Assets—Beginning of the Year | 18,653,219 | 2,442,644 | 28,325 | 21,124,188 |
| **Total Net Assets—End of the Year** | **$ 19,545,836** | **$ 2,962,193** | **$ 27,862** | **$ 22,535,891** |

*The accompanying notes are an integral part of this statement.*

## Statement of Changes in Assets and Liabilities: Patient Deposit Fund for the Year Ended June 30, 2003

| | Balance June 30, 2002 | Additions | Deductions | Balance June 30, 2003 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and Cash Equivalents | $ 53,717 | $ 656,408 | $ 663,450 | $ 46,675 |
| Net Accounts Receivable | 1,915 | 2,124 | 1,915 | 2,124 |
| **Total Assets** | **$ 55,632** | **$ 658,532** | **$ 665,365** | **$ 48,799** |
| **LIABILITIES** | | | | |
| Patient Funds Held in Trust | $ 55,632 | $ 658,532 | $ 665,365 | $ 48,799 |
| **Total Liabilities** | **$ 55,632** | **$ 658,532** | **$ 665,365** | **$ 48,799** |

*The accompanying notes are an integral part of this statement.*

# Statement of Cash Flows for the Year Ended June 30, 2003

| | Patient Care Fund | Power Plant Fund | Canteen Fund | Totals (Memorandum Only) |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Cash Receipts for Patient Care and Power Plant and Canteen Operations | $52,138,731 | $1,833,846 | $ 129,423 | $54,102,000 |
| Cash Payments to Suppliers for Goods and Services | (8,469,178) | (1,050,453) | (108,253) | (9,627,884) |
| Cash Payments to Employees for Services | (42,162,350) | (827,240) | (16,685) | (43,006,275) |
| Other Sources (Uses) of Cash | (538,926) | 0 | 0 | (538,926) |
| **Net Cash Provided (Used) by Operating Activities** | **968,277** | **(43,847)** | **4,485** | **928,915** |
| **CASH FLOWS FROM NONCAPITOL FINANCING ACTIVITIES** | | | | |
| Transfers Out | (84,095) | (24,596) | 0 | (108,691) |
| Loan from the State of Wisconsin | 0 | 88,997 | 0 | 88,997 |
| **Net Cash Provided (Used) by Noncapital Financing Activities** | **(84,095)** | **64,401** | **0** | **(19,694)** |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Interest Payments | (41,694) | 0 | 0 | (41,694) |
| Capital Lease Obligations | (86,162) | 0 | 0 | (86,162) |
| Payments for Purchases of Capital Assets | (418,918) | (20,554) | 0 | (439,472) |
| **Net Cash Provided (Used) by Capital and Related Financing Activities** | **(546,774)** | **(20,554)** | **0** | **(567,328)** |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **337,408** | **0** | **4,485** | **341,893** |
| Cash and Cash Equivalents—Beginning of the Year | 1,281,857 | 0 | 35,972 | 1,317,829 |
| Cash and Cash Equivalents—End of the Year | $ 1,619,265 | $ 0 | $ 40,457 | $ 1,659,722 |

*The accompanying notes are an integral part of this statement.*

| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATIONS | Patient Care Fund | Power Plant Fund | Canteen Fund | Totals (Memorandum Only) |
|---|---|---|---|---|
| Operating Income (Loss) | $ 695,555 | $ (78,419) | $ (6,978) | $ 610,158 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operations: | | | | |
| Depreciation | 919,933 | 189,338 | 0 | 1,109,271 |
| Miscellaneous nonoperating income (expense) | 475,207 | 0 | 6,515 | 481,722 |
| Changes in assets and liabilities: | | | | |
| Decrease (Increase) in receivables | (1,698,435) | (65,730) | 1,052 | (1,763,113) |
| Decrease (Increase) in Medicaid/Medicare receivables | (451,876) | 0 | 0 | (451,876) |
| Decrease (Increase) in Due from the State of Wisconsin | 3,096,041 | 0 | 0 | 3,096,041 |
| Decrease (Increase) in supplies inventories | (28,547) | (12,772) | 565 | (40,754) |
| Decrease (Increase) in prepaid items | (15,549) | (1,567) | 0 | (17,116) |
| Increase (Decrease) in accrued expenses | 83,449 | 22,124 | 0 | 105,573 |
| Increase (Decrease) in accounts payable | (2,372,676) | (52,101) | 3,871 | (2,420,906) |
| Increase (Decrease) in Due to the State of Wisconsin | 3,817 | (60,617) | 0 | (56,800) |
| Increase (Decrease) in Due to the federal government | 6,592 | 304 | 0 | 6,896 |
| Increase (Decrease) in deferred revenue | 0 | 0 | (540) | (540) |
| Increase (Decrease) in compensated absences | 254,766 | 15,593 | 0 | 270,359 |
| Total Adjustments | 272,722 | 34,572 | 11,463 | 318,757 |
| **Net Cash Provided by Operating Activities** | **$ 968,277** | **$ (43,847)** | **$ 4,485** | **$ 928,915** |
| Noncash Investing, Capital, and Financing Activities: | | | | |
| Transfers In for Capital Projects from the State of Wisconsin | $ 303,712 | $ 619,712 | $ 0 | $ 923,424 |

*The accompanying notes are an integral part of this statement.*

# Notes to the Financial Statements of Mendota Mental Health Institute ■

## 1. Summary of Accounting Policies

### A. Fund Accounting and Basis of Presentation

The accompanying financial statements of Mendota Mental Health Institute have been prepared in conformity with generally accepted accounting principles (GAAP) for proprietary (enterprise) funds as prescribed by the Governmental Accounting Standards Board (GASB), with the exception of the Patient Deposit Fund, which is an agency fund. Proprietary and agency funds are accounted for on the accrual basis of accounting: revenues are recognized when earned, and expenses are recognized when incurred. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, where the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis is financed primarily through user charges. Agency funds account for funds held on behalf of other entities or individuals. These statements do not represent the State as a whole, but instead are only part of the State of Wisconsin financial reporting entity.

The primary purpose of Mendota Mental Health Institute is the diagnosis, care, and treatment of patients with mental and emotional disturbances. Mendota Mental Health Institute also operates a power plant and a canteen. Revenues and expenses that are not related to Mendota Mental Health Institute's primary purpose or to the operation of the power plant and canteen, such as revenues from state and federal grants, gain or loss on the disposal of capital assets, and canteen commissions, are classified as nonoperating revenues and expenses.

Mendota Mental Health Institute applies all applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and accounting research bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Mendota Mental Health Institute has elected not to apply FASB pronouncements issued after November 30, 1989.

**B. Patient Care Fund**

The Patient Care Fund includes general operations of Mendota Mental Health Institute related to providing patient services. Receipt of funds, such as grants and gifts, where outside parties have placed user restrictions on their use are included as restricted net assets. When both restricted and unrestricted net assets are available for use, it is Mendota Mental Health Institute's policy to use restricted net assets first, then unrestricted assets if they are needed.

**C. Power Plant Fund**

The Power Plant Fund accounts for heat, electricity, water, and sewer services provided to Mendota Mental Health Institute and others. Revenue is derived from charges for these sales and services.

**D. Patient Deposit Fund**

The Patient Deposit Fund represents amounts held by Mendota Mental Health Institute on behalf of its patients.

**E. Canteen Fund**

The Canteen Fund reflects the operation of the canteen at Mendota Mental Health Institute.

**F. Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported assets, liabilities, revenues, and expenses during the reported period. For example, revenue from patient care and corresponding receivables are reported net of known and estimated contractual adjustments for Medicaid and Medicare claims, which are subject to change as patient accounts are settled and actual contractual adjustments are determined. In addition, management makes estimates of collectibility for receivables from other third parties. The actual results could differ significantly from these estimates.

**G. Cash and Cash Equivalents**

Cash and cash equivalents include bank accounts, petty cash, cash in transit, and individual funds' shares in the State Investment Fund.

**H. Supplies Inventory**

Inventory consists of stores and pharmacy items and is valued at cost using the first in/first out (FIFO) inventory valuation methodology.

**I. Capital Assets**

An asset is defined as a capital asset if it has an acquisition cost equal to or greater than $5,000 and a useful life of more than two years. Capital assets are valued at cost. Land improvements, buildings, and equipment are depreciated on a straight-line basis. Estimated useful lives are based on an industry standard determined by the publication *Estimated Useful Lives of Depreciable Hospital Assets*, 1998 edition, issued by the American Hospital Association as follows:

| | |
|---|---|
| Land Improvements | 5-25 years |
| Buildings | 5-40 years |
| Equipment | 3-20 years |

**J. Invested in Capital Assets**

The Invested in Capital Assets, Net of Related Debt account reflects the value of the land, buildings, and equipment net of any related debt from capital leases. Most of these assets were financed with general obligation debt. This debt is not an obligation of Mendota Mental Health Institute and therefore is not reported in the financial statements. See Note 8A for additional information on general obligation debt.

**K. Net Patient Service Revenue**

Mendota Mental Health Institute has agreements with third-party payers that provide for payments to Mendota Mental Health Institute at amounts that differ from its established rates. Revenue from patient care includes patient charges at realizable amounts, net of Medicare and Medicaid contractual adjustments and uncollectible amounts. A summary of the payment agreements is as follows:

***Medicare***—Services are reimbursed under the Tax Equity Fiscal Responsibility Act methodology. The federal Department of Health and Human Services' Center for Medicaid and Medicare Services sets a target rate per discharge for each Institute. During the fiscal year, Mendota Mental Health Institute is reimbursed at an interim rate. A final settlement is determined after submission of the annual cost report by Mendota Mental Health Institute and audits thereof by the Medicare fiscal intermediary.

***Medicaid***—Mendota Mental Health Institute is reimbursed at an interim rate with final settlement determined after submission of the annual cost report by Mendota Mental Health Institute and audits thereof by the Wisconsin Department of Health and Family Services.

The interim rate is based on the prior year's rate and is adjusted annually for changes in inflation, where such adjustments are made in accordance with the State's Medicaid Plan.

Settlement amounts with Medicare and Medicaid are difficult to estimate. Proposed settlement amounts included in the annual cost report are subject to audit by fiscal intermediaries and are often revised. Therefore, estimated settlements from these third parties are not incorporated in the financial statements. When audits of the cost reports are completed and additional funding is granted, the amount is recorded as operating revenue. When additional payments are required, this is recorded as an operating expense.

**L. Employee Compensated Absences**

Unused, earned compensated absences other than sick leave are accrued with a resulting liability. The liability and expense for compensated absences are based on current rates of pay.

## 2. DEPOSITS

Mendota Mental Health Institute deposited cash of the Patient Care Fund, Patient Deposit Fund, and the Canteen Fund in several financial institutions. The Patient Care Fund includes deposits in a contingent checking account, which is used to meet the immediate operating needs of Mendota Mental Health Institute. The Patient Deposit Fund includes deposits held on behalf of patients, and the Canteen Fund includes cash received from operations. As of June 30, 2003, the carrying value of these deposits was $85,587, and the bank balance was $94,966.

A petty cash fund and miscellaneous cash amounts, which are held by Mendota Mental Health Institute and reported as cash and cash equivalents in the amount of $5,490, are not included in the carrying amount nor bank deposits in this note because they are not deposits.

Most of Mendota Mental Health Institute's cash, except for the deposits discussed in the preceding two paragraphs, is deposited with the State Treasurer and is invested in the State Investment Fund, which is a short-term pool of state and local funds managed by the State of Wisconsin Investment Board. The State Investment Fund is not registered with the Securities and Exchange Commission as an investment company. Investments of the State Investment Fund consist of direct obligations of the United States and Canada, securities guaranteed by the United States, securities of federally chartered corporations, unsecured notes of financial and industrial issuers, certificates of deposits issued by banks in the United States and solvent financial institutions in the state of Wisconsin, and bankers acceptances. The State of Wisconsin Investment Board's Trustees may approve other prudent investments.

GASB Statement Number 3 requires deposits with financial institutions to be categorized to indicate the level of risk assumed by Mendota Mental Health Institute. At June 30, 2003, all cash deposit balances fall under risk category 1, which means that cash is insured or supported by collateral. As a pooled investment fund, shares in the State Investment Fund are not required to be categorized.

## 3. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE BALANCES

Significant receivable balances as of June 30, 2003, include the following:

| | |
|---|---|
| Patient Receivables | $4,195,562 |
| Utility Sales Receivables | 278,295 |
| Other Receivables | 125,043 |
| Total Accounts Receivable | $4,598,900 |

The patient receivable balance includes patient charges to Medicare, Medicaid, and private insurance providers. These receivables are net of Medicare and Medicaid contractual adjustments and uncollectible amounts. Approximately 94 percent of the patient receivables is expected to be collected in FY 2003-04. The remaining 6 percent is expected to be collected in FY 2004-05. The utility sales and other receivables should all be collected in FY 2003-04.

Significant accounts payable balances as of June 30, 2003, include the following:

| | |
|---|---|
| Vendors | $ 374,502 |
| Salaries and Benefits | 55,202 |
| Total Accounts Payable | $ 429,704 |

Significant accrued expense balances as of June 30, 2003, include the following:

| | |
|---|---|
| Vendors | $ 321,099 |
| Salaries and Benefits | 176,225 |
| Total Accrued Expenses | $ 497,324 |

## 4. CONCENTRATION OF CREDIT RISK

Mendota Mental Health Institute grants credit without collateral to its patients, most of whom are state residents and are insured under third-party payer agreements. If payment is not received from third-party payers, Mendota Mental Health Institute can recover a portion of the outstanding gross charge from a secondary source. The outstanding gross charge attributable to patients who are determined to be the responsibility of the State will be reimbursed by GPR. The outstanding gross charge attributable to patients who are determined to be the responsibility of a county government will be reimbursed by the county government.

## 5. THIRD-PARTY SETTLEMENTS

United Government Services conducted an audit of the FY 1999-2000 Medicare cost report and concluded that Mendota Mental Health Institute owed the Medicare program $26,102 as a final settlement for services provided during FY 1999-2000. The final settlement was reflected as an operating expense and a payable on the FY 2001-02 financial statements. Mendota Mental Health Institute submitted an appeal of the final settlement of the audit, and it was reopened. As a result of this appeal, United Governmental Services concluded that the Medicare program owed Mendota Mental Health Institute an additional $242,660. This additional final settlement is reflected as operating revenue.

United Government Services conducted an audit of the FY 2000-01 Medicare cost report and concluded that the Medicare program owed Mendota Mental Health Institute $433,876 as a final settlement for services provided during FY 2000-01. The final settlement was reflected as operating revenue and a receivable. Mendota Mental Health Institute has submitted an appeal of the final settlement of the audit.

Mendota Mental Health Institute has submitted a Medicare cost report to United Government Services for FY 2001-02 and FY 2002-03. United Government Services has not yet completed an audit of these cost reports but has computed tentative settlements. The tentative settlement concluded that the Institute owed the Medicare Program $561,502 for FY 2001-02 and the Medicare program owed the Institute $18,000 for FY 2002-03. The tentative settlement for FY 2001-02 was reflected as an operating expense and a payable in the FY 2001-02 financial statements, and the tentative settlement for FY 2002-03 is reflected as an operating revenue and a receivable in the current financial statements.

The status of cost reports outstanding is as follows:

| Year | Medicare | Medicaid |
|---|---|---|
| FY 1998-99 | Submitted, finalized, appeal settled | Submitted, not audited |
| FY 1999-2000 | Submitted, finalized, appeal settled | Submitted, not audited |
| FY 2000-01 | Submitted, finalized, appealed | Not submitted |
| FY 2001-02 | Submitted, not audited | Not submitted |
| FY 2002-03 | Submitted, not audited | Not submitted |

## 6. CAPITAL ASSETS

The change in book value from July 1, 2002, to June 30, 2003, is summarized as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Land | $ 306,132 | $ 0 | $ 0 | $ 306,132 |
| Land Improvements | 1,522,643 | 42,576 | 0 | 1,565,219 |
| Buildings | 29,382,046 | 1,447,471 | 0 | 30,829,517 |
| Equipment | 2,196,209 | 301,708 | (11,500) | 2,486,417 |
| Construction in Progress | 1,134,472 | 923,424 | (1,283,112) | 774,784 |
| Total Capital Assets | 34,541,502 | 2,715,179 | (1,294,612) | 35,962,069 |
| Less Accumulated Depreciation for: | | | | |
| Land Improvements | (1,018,815) | (74,182) | 0 | (1,092,997) |
| Buildings | (14,355,395) | (837,972) | 0 | (15,193,367) |
| Equipment | (1,073,145) | (197,116) | 7,179 | (1,263,082) |
| Total Accumulated Depreciation | (16,447,355) | (1,109,270) | 7,179 | (17,549,446) |
| Total Capital Assets, Net | $18,094,147 | $1,605,909 | $(1,287,433) | $18,412,623 |

Construction in progress consists of various projects to construct or improve the facilities of Mendota Mental Health Institute.

## 7. LOAN FROM STATE OF WISCONSIN

The State of Wisconsin General Fund provided the Power Plant Fund a loan of $287,893 as of June 30, 2003, to cover cash overdrafts in its appropriation.

## 8. REIMBURSEMENTS TO OTHER FUNDS

### A. General Obligation Bonds

The State of Wisconsin issues general obligation bonds on behalf of the various state agencies. Proceeds from the sale of bonds may be used to construct and/or purchase assets for Mendota Mental Health Institute. Mendota Mental Health Institute holds title to the assets.

Mendota Mental Health Institute has received proceeds from 35 outstanding bond issuances. The bonds have maturity dates ranging from October 15, 2003, to April 15, 2023. The principal balance outstanding as of June 30, 2003, attributable to Mendota Mental Health Institute is $17,991,871. This debt represents a debt of the State of Wisconsin and is not a debt of Mendota Mental Health Institute.

Accordingly, this debt is not reported in Mendota Mental Health Institute's financial statements. Debt service payments made by the State of Wisconsin for the year ended June 30, 2003, are allocated as follows:

| | |
|---|---|
| Principal | $1,381,031 |
| Interest | 896,056 |
| Total Paid | $2,277,087 |

However, Mendota Mental Health Institute reimburses the State of Wisconsin General Fund for a portion of interest expense based on the number of days of care billable to Medicaid. Mendota Mental Health Institute owed $262,617 to the General Fund as reimbursement of interest expense, which is included in the financial statements as a transfer out.

**B. Overhead and Depreciation**

The State of Wisconsin provided $1,272,839 of administrative services, funded by GPR, to Mendota Mental Health Institute during FY 2002-03. A portion of the administrative overhead and depreciation on assets purchased by the State is later recovered through Medicaid patient revenue. Mendota Mental Health Institute includes overhead expense and depreciation in the Medicaid cost reports, which are used to determine the final Medicaid settlement for the year. During FY 2002-03, Mendota Mental Health Institute owed Medicaid payments related to overhead expense of $145,569 and depreciation of $55,295 to the State of Wisconsin General Fund as reimbursements for administrative services provided and for assets originally purchased by the State. The amount remitted is included in the financial statements as a transfer out.

**C. Insurance Reimbursements for Forensic Patients**

Throughout the year, forensic patients are committed to Mendota Mental Health Institute through the criminal justice system. Mendota Mental Health Institute receives GPR from the State of Wisconsin to cover the costs associated with care of forensic patients. In some cases, forensic patients qualify for medical insurance. The collections for prior-year services and for current-year services above the costs of providing those services are accounted for as GPR of the General Fund, and not as revenue of Mendota Mental Health Institute.

The statements reflect expected reimbursements as a receivable and as a payable to the State of Wisconsin. For the year ending June 30, 2003, both the receivable from Medicaid, Medicare, and private insurers less related contractual adjustments, and the related payable to the State of Wisconsin were $390,695.

In addition, Mendota Mental Health Institute collected $968,094 in FY 2002-03 for prior-year services and for current-year services above the costs of providing these services. The Institute has paid $549,899 of this amount to the State of Wisconsin. The remaining $418,195 is reflected on the statements as a payable due to the State of Wisconsin.

Mendota Mental Health Institute also retained $585,000 of insurance reimbursements in FY 2002-03 to cover costs of providing services to forensic patients. However, in response to an audit recommendation, all future collections received on behalf of forensic patients will be accounted for as GPR of the General Fund as required by statutes.

## 9. INVESTMENT AS A LESSOR

Mendota Mental Health Institute leases excess space to other state agencies, nonprofit organizations, and a private company. The leases are classified as operating leases. The terms of the leases are for one to five years and may be renewed by mutual agreement.

The leased facilities are in buildings with the following costs:

| | |
|---|---|
| Buildings at Historical Cost | $411,378 |
| Less: Accumulated Depreciation | (290,786) |
| Buildings, Net | $120,592 |

Minimum future lease payments to be received during the year ended June 30, 2004, total $124,928.

## 10. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2003, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance | Amounts Due within One Year |
|---|---|---|---|---|---|
| Capital Leases | $ 632,195 | $ 0 | $ (86,162) | $ 546,033 | $ 80,456 |
| Compensated Absences | 1,141,060 | 824,524 | (554,166) | 1,411,418 | 614,751 |
| Long-term Liabilities | $1,773,255 | $824,524 | $(640,328) | $1,957,451 | $695,207 |

## 11. OBLIGATIONS UNDER CAPITAL LEASES

During FY 2002-03, Mendota Mental Health Institute leased a hematology analyzer and participated in statewide master lease agreements to acquire energy-saving improvements. The term of the lease for the hematology analyzer is 60 months. The terms of the leases for the energy-saving improvements are 15 years. As of June 30, 2003, the value of the equipment and improvements under lease was $743,099. The accumulated depreciation totaled $243,422, resulting in a net book value of $499,677.

The following is a schedule of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, as of June 30, 2003:

| | |
|---|---|
| For the Year Ending: | |
| June 30, 2004 | $105,500 |
| June 30, 2005 | 59,502 |
| June 30, 2006 | 59,502 |
| June 30, 2007 | 53,337 |
| June 30, 2008 | 348,694 |
| Total Minimum Lease Payments | 626,535 |
| Less: Amounts Representing Interest | 80,502 |
| Present Value of Minimum Lease Payments | 546,033 |
| Less: Current Maturities | 80,456 |
| Long-term Portion of Present Value of Minimum Lease Payments | $465,577 |

## 12. OBLIGATIONS UNDER OPERATING LEASES

Mendota Mental Health Institute leases copiers and office space. Future minimum rental payments required under the operating leases as of June 30, 2003, are as follows for the year ended:

| | |
|---|---|
| June 30, 2004 | $ 90,472 |
| June 30, 2005 | 91,554 |
| June 30, 2006 | 83,996 |
| June 30, 2007 | 25,538 |
| June 30, 2008 | 0 |
| Thereafter | 0 |
| Total Minimum Payments Required | $291,560 |

The composition of the total rental expense for the year ended June 30, 2003, is as follows:

| | |
|---|---|
| Minimum Rentals | $75,092 |
| Contingent Rentals | 0 |
| Less: Sublease Rentals | 0 |
| Rental Expense | $75,092 |

## 13. EMPLOYEE RETIREMENT PLAN

Permanent, full-time employees of Mendota Mental Health Institute are participants in the Wisconsin Retirement System, a cost-sharing, multiple-employer, defined benefit plan governed by Chapter 40 of Wisconsin Statutes. State and local government public employees are entitled to an annual formula retirement benefit based on: 1) the employee's final average earnings, 2) years of creditable service, and 3) a formula factor. If an employee's contributions, matching employer's contributions, and interest credited to the employee's account exceed the value of the formula benefit, the retirement benefit may instead be calculated as a money purchase benefit. The Wisconsin Retirement System is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information of the Wisconsin Retirement System may be obtained by writing to:

Department of Employee Trust Funds
P.O. Box 7931
Madison, WI 53707-7931

The most current financial report is also available on the Department of Employee Trust Funds' Web site, *http://badger.state.wi.us/agencies/etf/.*

Generally, the State's policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal and prior service costs of the retirement system. Prior service costs are amortized over 40 years, beginning January 2, 1990. The retirement plan requires employee contributions equal to specified percentages of qualified earnings based on the employee's classification, plus employer contributions at a rate determined annually. The State funds the employees' portion of required contributions. Mendota Mental Health Institute's contributions to the plan were $4,162,948 for FY 2002-03. The relative position of Mendota Mental Health Institute in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multiple-employer plan.

▪ ▪ ▪ ▪

# Audit Opinion ▪

### *Independent Auditor's Report on the Financial Statements of Winnebago Mental Health Institute*

We have audited the accompanying financial statements of the State of Wisconsin Winnebago Mental Health Institute's Patient Care Fund, Power Plant Fund, Patient Deposit Fund, and Canteen Fund as of and for the year ended June 30, 2003. These financial statements are the responsibility of the management of Winnebago Mental Health Institute and the Wisconsin Department of Health and Family Services. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1A, the financial statements referred to above present only the Winnebago Mental Health Institute and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2003, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each of the Winnebago Mental Health Institute's funds as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements of the Winnebago Mental Health Institute. The supplementary information included as Management's Discussion and Analysis on pages 39 through 43 is presented for purposes of additional analysis and is not a required part of the financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 17, 2004, on our consideration of the Department of Health and Family Services' internal control over financial reporting for Winnebago Mental Health Institute and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

LEGISLATIVE AUDIT BUREAU

August 17, 2004 by Diann Allsen

Diann Allsen
Audit Director

# Management's Discussion and Analysis— Winnebago Mental Health Institute ▪

***Prepared by the Department of Health and Family Services***

This section of the Winnebago Mental Health Institute's annual financial report presents a discussion and analysis of the Institute's financial performance during the fiscal year ended June 30, 2003. This discussion and analysis should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this discussion are the responsibility of the management of Winnebago and the Wisconsin Department of Health and Family Services.

## Using the Annual Financial Statements

Winnebago prepares its financial statements in accordance with Governmental Accounting Standards Board (GASB) statements.

The balance sheet includes all assets and liabilities. The difference between the assets and liabilities is reported as net assets on the balance sheet. Over time, increases or decreases in Winnebago's net assets are one indicator of whether its financial health is improving or deteriorating.

The statement of revenues, expenses, and changes in net assets presents the revenues earned and expenses incurred during the year on an accrual basis. Activities on this statement are reported as either operating or nonoperating. The utilization of capital assets is reflected as depreciation expense, which amortizes the cost of an asset over its estimated useful life.

The statement of cash flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities. This statement reports the sources and uses of cash during the fiscal year and can provide a measure of Winnebago's ability to meet its financial obligations as they mature.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

## Noteworthy Financial Activity

Winnebago's total net assets decreased by 11 percent during FY 2002-03. Our analysis of Winnebago's financial activities focuses on the balance sheet and the statement of revenues, expenses, and changes in net assets. We will first review net assets from FY 2001-02 to FY 2002-03 (Table A). We will then look at changes in net assets for the same period (Table B).

Table A

**Net Assets**

| Fiscal Year Ended June 30: | 2003 | 2002 | Percentage Change |
|---|---|---|---|
| Current Assets | $ 7,582,048 | $ 9,296,352 | -18% |
| Capital Assets | 14,364,169 | 15,055,831 | -5 |
| **Total Assets** | **$21,946,217** | **$24,352,183** | -10 |
| Current Liabilities | $ 5,997,300 | $ 6,737,200 | -11 |
| Noncurrent Liabilities | 1,216,900 | 1,110,386 | 10 |
| **Total Liabilities** | **7,214,200** | **7,847,586** | -8 |
| Net Assets: | | | |
| Invested in Capital Assets, Net of Related Debt | 13,843,872 | 14,505,155 | -5 |
| Restricted | 50,995 | 27,210 | 87 |
| Unrestricted | 837,150 | 1,972,232 | -58 |
| **Total Net Assets** | **14,732,017** | **16,504,597** | -11 |
| **Total Liabilities and Net Assets** | **$21,946,217** | **$24,352,183** | -10 |

As shown in Table A, current assets decreased by 18 percent from FY 2001-02 to FY 2002-03. The main reason for this decrease in current assets was a decrease in accounts receivable. The decrease in accounts receivable is not the result of increased collections; rather, it is due to an increase in the estimate of contractual adjustments for Medicaid.

Capital assets, which represent the original cost of an asset less accumulated depreciation, decreased by 5 percent from FY 2001-02 to FY 2002-03. Most of this decrease was due to current-year depreciation expense. The only major increase in capital assets was the addition of a construction project for modifications to the kitchen.

Current liabilities decreased by 11 percent from FY 2001-02 to FY 2002-03. The two significant changes in current liability balances were a decrease in accounts payable and an increase in the loan due to the State of Wisconsin.

A major reason for the decrease in current liabilities from FY 2001-02 to FY 2002-03 was the timing of the payment of the year-end payrolls. The last payroll of FY 2001-02 was paid after June 30 and was therefore recorded as an account payable. In FY 2002-03, the last payroll was paid by June 30 and was recorded as a decrease to cash. This timing difference, along with the payment in FY 2002-03 of the FY 2001-02 payable of $1.0 million to the Southern Wisconsin Center for the Developmentally Disabled, resulted in a large decrease in accounts payable from FY 2001-02 to FY 2002-03.

The increase in the Due to the State of Wisconsin balance was mainly due to an increase in the negative cash balance in the patient care accounts. This negative cash balance, which had existed for a number of years, was recorded on the balance sheet as a loan due to the State of Wisconsin. The loan was reduced during FY 2001-02 due to increased collections on the billing backlog, which was eliminated during FY 2001-02. The increased collections allowed Winnebago to reimburse the Southern Wisconsin Center for the Developmentally Disabled for a FY 1993-94 cash transfer from the Center to cover cash deficits. The payment of this payable, along with the return to a more historical level of cash collections during FY 2002-03, resulted in a decrease in the cash balance and an increase in the loan due to the State of Wisconsin.

Noncurrent liabilities increased by 10 percent from FY 2001-02 to FY 2002-03. Some of this increase was due to a $139,690 increase in noncurrent compensated absences. The increase in compensated absences was offset by the payments on capital leases.

Net assets on the balance sheet are computed by subtracting total liabilities from total assets. Net assets are then further segregated on the balance sheet between net assets invested in capital assets net of related debt, net assets restricted by legal requirements from other governments or private donors, and unrestricted net assets. Net assets decreased from $16,504,597 in FY 2001-02 to $14,732,017 in

FY 2002-03. The financial activity that resulted in this decrease of $1,772,580, or 11 percent, can be found by looking at the statement of revenues, expenses, and changes in net assets, which is analyzed in Table B.

Table B

**Changes in Net Assets**

| Fiscal Year Ended June 30: | 2003 | 2002 | Percentage Change |
|---|---|---|---|
| Operating Revenue | $45,381,791 | $46,873,528 | -3% |
| Operating Expenses | 48,479,064 | 46,135,439 | 5 |
| **Net Operating Income (Loss)** | **(3,097,273)** | **738,089** | -520 |
| Nonoperating Income | 2,211,237 | 2,113,356 | 5 |
| Net Transfers Out | (886,544) | (1,827,659) | -51 |
| **Change in Net Assets** | **$(1,772,580)** | **$1,023,786** | -273 |

The change in net assets for FY 2002-03 of $(1,772,580) shows that Winnebago did not generate enough revenue to cover expenses. A comparison of FY 2002-03 to FY 2001-02 shows a small increase in operating expenses and a small decrease in operating income, resulting in a major decrease in net operating income. One of the reasons for the increase in operating expenses was a large increase in health insurance expenses. The main reason for the decrease in operating revenue was a decrease in patient revenues due to an increase in the estimate of contractual adjustments for Medicaid.

Another significant change from FY 2001-02 to FY 2002-03 in the statement of revenues, expenses, and change in net assets was a 51 percent change in net transfers out. Some of this change was the result of a decrease in transfers out. In FY 2001-02, Winnebago transferred $1.0 million to the Southern Wisconsin Center for the Developmentally Disabled. This payment was a reimbursement of a FY 1993-94 cash transfer from the Center to cover cash deficits. No similar transfer was made in FY 2002-03.

## Contacting the Institute's Financial Management

This financial report is designed to provide a general overview of Winnebago's financial performance for FY 2002-03. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to:

Sally A. Acuff, Audit Liaison
Department of Health and Family Services
Room 655, 1 W. Wilson
P.O. Box 7850
Madison, WI 53707-7850

■ ■ ■ ■

# Financial Statements of Winnebago Mental Health Institute ■

# Balance Sheet
# June 30, 2003

| | Patient Care Fund | Power Plant Fund | Patient Deposit Fund | Canteen Fund | Totals (Memorandum Only) |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents (Note 2) | $ 31,851 | $ 0 | $ 15,837 | $ 8,808 | $ 56,496 |
| Investments (Note 2) | 0 | 0 | 53,726 | 9,708 | 63,434 |
| Net accounts receivable (Notes 3 and 4) | 4,948,985 | 302,767 | 2,764 | 1,718 | 5,256,234 |
| Due from the State of Wisconsin | 799,085 | 0 | 0 | 0 | 799,085 |
| Settlement Due from Medicaid/Medicare (Note 5) | 326,151 | 0 | 0 | 0 | 326,151 |
| Supplies and merchandise inventories | 486,559 | 21,486 | 0 | 24,609 | 532,654 |
| Prepaid items | 538,418 | 7,812 | 0 | 1,764 | 547,994 |
| Total Current Assets | 7,131,049 | 332,065 | 72,327 | 46,607 | 7,582,048 |
| Noncurrent Assets: | | | | | |
| Capital assets (Note 6): | | | | | |
| Land | 230,340 | 800 | 0 | 0 | 231,140 |
| Land improvements | 577,314 | 0 | 0 | 0 | 577,314 |
| Buildings | 20,831,219 | 3,093,209 | 0 | 0 | 23,924,428 |
| Equipment | 1,218,246 | 6,098 | 0 | 0 | 1,224,344 |
| Accumulated depreciation | (10,092,534) | (1,540,048) | 0 | 0 | (11,632,582) |
| Construction in progress | 39,525 | 0 | 0 | 0 | 39,525 |
| Total Noncurrent Assets | 12,804,110 | 1,560,059 | 0 | 0 | 14,364,169 |
| **TOTAL ASSETS** | **$ 19,935,159** | **$ 1,892,124** | **$ 72,327** | **$ 46,607** | **$ 21,946,217** |
| **LIABILITIES AND NET ASSETS** | | | | | |
| Current Liabilities: | | | | | |
| Accounts payable (Note 3) | $ 585,848 | $ 0 | $ 0 | $ 71,639 | $ 657,487 |
| Settlement due to Medicaid/Medicare (Note 5) | 409,352 | 0 | 0 | 0 | 409,352 |
| Due to the federal government | 10,742 | 246 | 0 | 0 | 10,988 |
| Due to the State of Wisconsin (Notes 7 and 8) | 3,512,178 | 326,279 | 0 | 2,286 | 3,840,743 |
| Accrued expenses (Note 3) | 361,522 | 13,276 | 0 | 0 | 374,798 |
| Capital leases (Notes 10 and 11) | 29,532 | 3,633 | 0 | 0 | 33,165 |
| Compensated absences (Note 10) | 586,476 | 10,988 | 0 | 720 | 598,184 |
| Patient funds held in trust | 0 | 0 | 72,327 | 0 | 72,327 |
| Deferred revenue | 0 | 0 | 0 | 256 | 256 |
| Total Current Liabilities | 5,495,650 | 354,422 | 72,327 | 74,901 | 5,997,300 |
| Noncurrent Liabilities: | | | | | |
| Capital leases (Notes 10 and 11) | 433,764 | 53,368 | 0 | 0 | 487,132 |
| Compensated absences (Note 10) | 716,347 | 13,421 | 0 | 0 | 729,768 |
| Total Noncurrent Liabilities | 1,150,111 | 66,789 | 0 | 0 | 1,216,900 |
| **Total Liabilities** | **6,645,761** | **421,211** | **72,327** | **74,901** | **7,214,200** |
| Net Assets: | | | | | |
| Invested in capital assets, net of related debt | 12,340,814 | 1,503,058 | 0 | 0 | 13,843,872 |
| Restricted | 50,995 | 0 | 0 | 0 | 50,995 |
| Unrestricted | 897,589 | (32,145) | 0 | (28,294) | 837,150 |
| **Total Net Assets** | **13,289,398** | **1,470,913** | **0** | **(28,294)** | **14,732,017** |
| **TOTAL LIABILITIES AND NET ASSETS** | **$ 19,935,159** | **$ 1,892,124** | **$ 72,327** | **$ 46,607** | **$ 21,946,217** |

*The accompanying notes are an integral part of this statement.*

## Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended June 30, 2003

| | Patient Care Fund | Power Plant Fund | Canteen Fund | Totals (Memorandum Only) |
|---|---|---|---|---|
| **OPERATING REVENUES** | | | | |
| Net Revenue from Patient Care (Notes 1F and 1K) | $ 24,423,286 | $ 0 | $ 0 | $ 24,423,286 |
| Revenue from the State of Wisconsin | 18,995,096 | 0 | 0 | 18,995,096 |
| Utility Sales | 0 | 1,424,669 | 0 | 1,424,669 |
| Canteen Revenues | 0 | 0 | 212,589 | 212,589 |
| Medicaid/Medicare Settlements (Note 5) | 326,151 | 0 | 0 | 326,151 |
| **Total Operating Revenues** | **43,744,533** | **1,424,669** | **212,589** | **45,381,791** |
| **OPERATING EXPENSES** | | | | |
| Salaries | 27,211,198 | 517,169 | 85,485 | 27,813,852 |
| Fringe Benefits | 10,801,293 | 187,724 | 0 | 10,989,017 |
| Materials and Supplies | 7,897,193 | 728,409 | 143,026 | 8,768,628 |
| Depreciation | 743,985 | 163,582 | 0 | 907,567 |
| **Total Operating Expenses** | **46,653,669** | **1,596,884** | **228,511** | **48,479,064** |
| **OPERATING INCOME (LOSS)** | **(2,909,136)** | **(172,215)** | **(15,922)** | **(3,097,273)** |
| **NONOPERATING REVENUES AND EXPENSES** | | | | |
| Revenue from the State of Wisconsin | 1,871,133 | 0 | 0 | 1,871,133 |
| Canteen Commissions | 0 | 0 | 6,673 | 6,673 |
| Operating Grants | 159,714 | 0 | 0 | 159,714 |
| Other Nonoperating Revenues | 195,598 | 0 | 468 | 196,066 |
| Materials and Supplies | 0 | 0 | (979) | (979) |
| Interest Expense | (19,029) | (2,341) | 0 | (21,370) |
| **Total Nonoperating Income (Loss)** | **2,207,416** | **(2,341)** | **6,162** | **2,211,237** |
| Income (Loss) before Transfers | (701,720) | (174,556) | (9,760) | (886,036) |
| Transfers In for Capital Projects | 87,354 | 0 | 0 | 87,354 |
| Transfers Out (Note 8) | (957,364) | (16,534) | 0 | (973,898) |
| **CHANGE IN NET ASSETS** | **(1,571,730)** | **(191,090)** | **(9,760)** | **(1,772,580)** |
| **NET ASSETS** | | | | |
| Total Net Assets—Beginning of the Year | 14,821,691 | 1,662,003 | 21,142 | 16,504,836 |
| Prior-period Adjustments (Note 14) | 39,437 | 0 | (39,676) | (239) |
| **Total Net Assets—End of the Year** | **$ 13,289,398** | **$ 1,470,913** | **$ (28,294)** | **$ 14,732,017** |

*The accompanying notes are an integral part of this statement.*

## Statement of Changes in Assets and Liabilities: Patient Deposit Fund for the Year Ended June 30, 2003

| | Balance June 30, 2002 | Additions | Deductions | Balance June 30, 2003 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and Cash Equivalents | $ 22,796 | $ 1,146,485 | $ 1,153,444 | $ 15,837 |
| Investments | 41,622 | 54,086 | 41,982 | 53,726 |
| Net Accounts Receivable | 5 | 40,935 | 38,176 | 2,764 |
| **Total Assets** | **$ 64,423** | **$ 1,241,506** | **$ 1,233,602** | **$ 72,327** |
| **LIABILITIES** | | | | |
| Patient Funds Held in Trust | $ 64,423 | $ 1,241,506 | $ 1,233,602 | $ 72,327 |
| **Total Liabilities** | **$ 64,423** | **$ 1,241,506** | **$ 1,233,602** | **$ 72,327** |

*The accompanying notes are an integral part of this statement.*

## Statement of Cash Flows
## for the Year Ended June 30, 2003

| | Patient Care Fund | Power Plant Fund | Canteen Fund | Totals (Memorandum Only) |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Cash Receipts for Patient Care and Power Plant and Canteen Operations | $43,259,105 | $ 1,339,755 | $ 228,538 | $44,827,398 |
| Cash Payments to Suppliers for Goods and Services | (7,474,028) | (769,831) | (149,757) | (8,393,616) |
| Cash Payments to Employees for Services | (38,889,433) | (723,271) | (96,942) | (39,709,646) |
| Other Sources (Uses) of Cash | 1,323,698 | 0 | 0 | 1,323,698 |
| **Net Cash Provided (Used) by Operating Activities** | **(1,780,658)** | **(153,347)** | **(18,161)** | **(1,952,166)** |
| **CASH FLOWS FROM NONCAPITOL FINANCING ACTIVITIES** | | | | |
| Transfers Out | (76,823) | (29,371) | 0 | (106,194) |
| Loan from the State of Wisconsin | 1,975,627 | 188,387 | 0 | 2,164,014 |
| **Net Cash Provided (Used) by Noncapital Financing Activities** | **1,898,804** | **159,016** | **0** | **2,057,820** |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Interest Payments | (19,030) | (2,341) | 0 | (21,371) |
| Capital Lease Obligations | (27,051) | (3,328) | 0 | (30,379) |
| Payments for Purchases of Capital Assets | (96,876) | 0 | 0 | (96,876) |
| **Net Cash Provided (Used) by Capital and Related Financing Activities** | **(142,957)** | **(5,669)** | **0** | **(148,626)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Purchase of Investment Securities | 0 | 0 | (107) | (107) |
| Investment and Interest Receipts | 0 | 0 | 107 | 107 |
| **Net Cash Provided (Used) by Investing Activities** | **0** | **0** | **0** | **0** |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(24,811)** | **0** | **(18,161)** | **(42,972)** |
| Cash and Cash Equivalents—Beginning of the Year | 56,662 | 0 | 26,969 | 83,631 |
| Cash and Cash Equivalents—End of the Year | $ 31,851 | $ 0 | $ 8,808 | $ 40,659 |

*The accompanying notes are an integral part of this statement.*

| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATIONS | Patient Care Fund | Power Plant Fund | Canteen Fund | Totals (Memorandum Only) |
|---|---|---|---|---|
| Operating Income (Loss) | $ (2,909,136) | $ (172,215) | $ (15,922) | $ (3,097,273) |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operations: | | | | |
| Depreciation | 743,985 | 163,582 | 0 | 907,567 |
| Miscellaneous nonoperating income (expense) | 2,226,446 | 0 | 6,019 | 2,232,465 |
| Changes in assets and liabilities: | | | | |
| Decrease (Increase) in receivables | (186,767) | (112,836) | (173) | (299,776) |
| Decrease (Increase) in Medicaid/Medicare receivables | (326,151) | 0 | 0 | (326,151) |
| Decrease (Increase) in Due from the State of Wisconsin | 533,947 | 0 | 0 | 533,947 |
| Decrease (Increase) in supplies inventories | 24,891 | (12,816) | 3,108 | 15,183 |
| Decrease (Increase) in prepaid items | (56,549) | (1,828) | (1,764) | (60,141) |
| Increase (Decrease) in accrued expenses | 92,425 | 1,224 | 0 | 93,649 |
| Increase (Decrease) in Medicaid/Medicare payable | 409,353 | 0 | 0 | 409,353 |
| Increase (Decrease) in accounts payable | (2,097,939) | (20,716) | (9,445) | (2,128,100) |
| Increase (Decrease) in Due to the State of Wisconsin | (461,250) | 300 | 0 | (460,950) |
| Increase (Decrease) in Due to the federal government | 5,740 | 246 | 0 | 5,986 |
| Increase (Decrease) in deferred revenue | 0 | 0 | 104 | 104 |
| Increase (Decrease) in compensated absences | 220,347 | 1,712 | (88) | 221,971 |
| Total Adjustments | 1,128,478 | 18,868 | (2,239) | 1,145,107 |
| **Net Cash Provided by Operating Activities** | $ (1,780,658) | $ (153,347) | $ (18,161) | $ (1,952,166) |
| Noncash Investing, Capital, and Financing Activities: | | | | |
| Transfers In for Capital Projects from the State of Wisconsin | $ 87,354 | $ 0 | $ 0 | $ 87,354 |

*The accompanying notes are an integral part of this statement.*

# Notes to the Financial Statements of Winnebago Mental Health Institute ▪

## 1. Summary of Accounting Policies

### A. Fund Accounting and Basis of Presentation

The accompanying financial statements of Winnebago Mental Health Institute have been prepared in conformity with generally accepted accounting principles (GAAP) for proprietary (enterprise) funds as prescribed by the Governmental Accounting Standards Board (GASB) with the exception of the Patient Deposit Fund, which is an agency fund. Proprietary and agency funds are accounted for on the accrual basis of accounting: revenues are recognized when earned, and expenses are recognized when incurred. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, where the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis is financed primarily through user charges. Agency funds account for funds held on behalf of other entities or individuals. These statements do not represent the State as a whole, but instead are only part of the State of Wisconsin financial reporting entity.

The primary purpose of Winnebago Mental Health Institute is the diagnosis, care, and treatment of patients with mental and emotional disturbances. Winnebago Mental Health Institute also operates a power plant and a canteen. Revenues and expenses that are not related to Winnebago Mental Health Institute's primary purpose or to the operation of the power plant and canteen, such as revenues from state and federal grants, gain or loss on the disposal of capital assets, and canteen commissions, are classified as nonoperating revenues and expenses.

Winnebago Mental Health Institute applies all applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and accounting research bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Institute has elected not to apply FASB pronouncements issued after November 30, 1989.

**B. Patient Care Fund**

The Patient Care Fund includes general operations of Winnebago Mental Health Institute related to providing patient services. Receipt of funds, such as grants and gifts, where outside parties have placed user restrictions on their use are included as restricted net assets. When both restricted and unrestricted net assets are available for use, it is Winnebago Mental Health Institute's policy to use restricted net assets first, then unrestricted assets if they are needed.

**C. Power Plant Fund**

The Power Plant Fund accounts for heat, electricity, water, and sewer services provided to Winnebago Mental Health Institute and others, including other state agencies and local citizens. Revenue is derived from charges for these sales and services.

**D. Patient Deposit Fund**

The Patient Deposit Fund represents amounts held by Winnebago Mental Health Institute on behalf of its patients.

**E. Canteen Fund**

The Canteen Fund reflects the operation of the canteen at Winnebago Mental Health Institute.

**F. Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported assets, liabilities, revenues, and expenses during the reported period. For example, revenue from patient care and corresponding receivables are reported net of known and estimated contractual adjustments for Medicaid and Medicare claims, which are subject to change as patient accounts are settled and actual contractual adjustments are determined. In addition, management may make estimates of collectibility for receivables from other third parties. The actual results could differ significantly from these estimates.

### G. Cash and Cash Equivalents

Cash and cash equivalents include bank accounts, petty cash, cash in transit, and short-term investments such as certificates of deposit. Short-term investments have a maturity date within 90 days of the date of acquisition.

### H. Supplies Inventory

Inventory consists of stores and pharmacy items and is valued at cost using the first in/first out (FIFO) inventory valuation methodology.

### I. Capital Assets

An asset is defined as a capital asset if it has an acquisition cost equal to or greater than $5,000 and a useful life of more than two years. Capital assets are valued at cost. Land improvements, buildings, and equipment are depreciated on a straight-line basis. Estimated useful lives are based on an industry standard determined by the publication *Estimated Useful Lives of Depreciable Hospital Assets*, 1998 edition, issued by the American Hospital Association as follows:

| | |
|---|---|
| Land Improvements | 5-25 years |
| Buildings | 5-40 years |
| Equipment | 3-20 years |

### J. Invested in Capital Assets

The Invested in Capital Assets, Net of Related Debt account reflects the value of the land, buildings, and equipment net of any related debt from capital leases. Most of these assets were financed with general obligation debt. This debt is not an obligation of Winnebago Mental Health Institute and therefore is not reported in the financial statements. See Note 8A for additional information on general obligation debt.

### K. Net Patient Service Revenue

Winnebago Mental Health Institute has agreements with third-party payers that provide for payments to Winnebago Mental Health Institute at amounts that differ from its established rates. Revenue from patient care includes patient charges at realizable amounts, net of Medicare and Medicaid contractual adjustments and uncollectible amounts. A summary of the payment agreements is as follows:

***Medicare***—Services are reimbursed under the Tax Equity Fiscal Responsibility Act methodology. The federal Department of Health and Human Services' Center for Medicaid and Medicare Services sets a target rate per discharge for each Institute. During the fiscal year, Winnebago Mental Health Institute is reimbursed at an interim rate. A final settlement is determined after submission of the annual cost report by Winnebago Mental Health Institute and audits thereof by the Medicare fiscal intermediary.

*Medicaid*—Winnebago Mental Health Institute is reimbursed at an interim rate with final settlement determined after submission of the annual cost report by Winnebago Mental Health Institute and audits thereof by the Wisconsin Department of Health and Family Services. The interim rate is based on the prior year's rate and adjusted annually for changes in inflation, where such adjustments are made in accordance with the State's Medicaid Plan.

Settlement amounts with Medicare and Medicaid are difficult to estimate. Proposed settlement amounts included in the annual cost report are subject to audit by fiscal intermediaries and are often revised. Therefore, estimated settlements from these third parties are not incorporated in the financial statements. When audits of the cost reports are completed and additional funding is granted, the amount is recorded as operating revenue. When additional payments are required, this is recorded as an operating expense.

**L. Employee Compensated Absences**

Unused, earned compensated absences other than sick leave are accrued with a resulting liability. The liability and expense for compensated absences are based on current rates of pay.

## 2. DEPOSITS AND INVESTMENTS

Winnebago Mental Health Institute's cash and cash equivalents and investments include deposits of the contingent fund, Patient Care Fund, Patient Deposit Fund, and Canteen Fund in checking accounts and non-negotiable certificates of deposit that are held in several financial institutions. The contingent fund is used to meet the immediate operating needs of the Institute. The Patient Deposit Fund includes deposits held on behalf of patients, and the Canteen Fund includes cash received from operations. As of June 30, 2003, the carrying value of these deposits was $104,771, and the bank balance was $119,290.

A petty cash fund and miscellaneous cash amounts, which are held by Winnebago Mental Health Institute and reported as cash and cash equivalents in the amount of $3,757, are not included in carrying amounts nor bank deposits in this note because they are not deposits.

Most of Winnebago Mental Health Institute's cash, except for the deposits discussed in the preceding two paragraphs, is deposited with the State Treasurer and is invested in the State Investment Fund, which is a short-term pool of state and local funds managed by the State of Wisconsin Investment Board. The State Investment Fund is not registered with the Securities and Exchange Commission as an investment company. Investments of the State Investment Fund consist of direct obligations of the United States and Canada, securities guaranteed by the United States, securities of federally chartered corporations, unsecured notes of financial and industrial issuers, certificates of deposits issued by banks in the United States and solvent financial institutions in the state of Wisconsin, and bankers acceptances. The State of Wisconsin Investment Board's Trustees may approve other prudent investments.

GASB Statement Number 3 requires deposits with financial institutions to be categorized to indicate the level of risk assumed by Winnebago Mental Health Institute. At June 30, 2003, all cash and investment balances fall under risk category 1, which means that balances are insured or supported by collateral.

## 3. Accounts Receivable and Accounts Payable Balances

Significant receivable balances as of June 30, 2003, include the following:

| | |
|---|---|
| Patient Receivables | $4,842,835 |
| Utility Sales Receivables | 234,753 |
| Other Receivables | 178,646 |
| Total Accounts Receivable | $5,256,234 |

The patient receivable balance includes patient charges to Medicare, Medicaid, and private insurance providers. These receivables are net of Medicare and Medicaid contractual adjustments and uncollectible amounts. Approximately 94 percent of the patient receivables is expected to be collected in FY 2003-04. The remaining 6 percent is expected to be collected in FY 2004-05. The utility sales and other receivables should all be collected in FY 2003-04.

Significant accounts payable balances as of June 30, 2003, include the following:

| | |
|---|---|
| Vendors | $ 449,795 |
| Salaries and Benefits | 207,692 |
| Total Accounts Payable | $ 657,487 |

Significant accrued expense balances as of June 30, 2003, include the following:

| | |
|---|---|
| Vendors | $ 216,943 |
| Salaries and Benefits | 157,855 |
| Total Accrued Expenses | $ 374,798 |

## 4. Concentration of Credit Risk

Winnebago Mental Health Institute grants credit without collateral to its patients, most of whom are state residents and are insured under third-party payer agreements. If payment is not received from third-party payers, Winnebago Mental Health Institute can recover a portion of the outstanding gross charge from a secondary source. The outstanding gross charge attributable to patients who are determined to be the responsibility of the State will be reimbursed by GPR. The outstanding gross charge attributable to patients who are determined to be the responsibility of a county government will be reimbursed by the county government.

## 5. THIRD-PARTY CONTRACTUAL SETTLEMENTS

United Government Services conducted an audit of the FY 1999-2000 Medicare cost report and concluded that Winnebago Mental Health Institute owed $233,013 to Medicare as a final settlement for services provided during FY 1999-2000. The final settlement was reflected as an operating expense and a payable on the FY 2001-02 financial statements. Winnebago Mental Health Institute submitted an appeal of the final settlement of the audit, and it was reopened. As a result of this appeal, United Government Services concluded that the Medicare program owed Winnebago Mental Health Institute an additional $274,927. This additional final settlement is reflected as operating revenue and a receivable.

United Government Services conducted an audit of the FY 2000-01 Medicare cost report and concluded that the Medicare program owed Winnebago Mental Health Institute $51,224 as a final settlement for services provided during FY 2000-01. The final settlement was reflected as operating revenue and a receivable. Winnebago Mental Health Institute has submitted an appeal of the final settlement of the audit.

Winnebago Mental Health Institute has submitted a Medicare cost report to United Government Services for FY 2001-02 and FY 2002-03. United Government Services has not yet completed an audit of these cost reports but has computed tentative settlements. The tentative settlement concluded that the Institute owed the Medicare Program $112,581 for FY 2001-02 and $409,352 for FY 2002-03. The tentative settlement for FY 2001-02 was reflected as an operating expense and a payable in the FY 2001-02 financial statements, and the tentative settlement for FY 2002-03 is reflected as an operating expense and a payable in the current financial statements.

The status of cost reports outstanding is as follows:

| Year | Medicare | Medicaid |
|---|---|---|
| FY 1998-99 | Submitted, finalized, appeal settled | Submitted, not audited |
| FY 1999-2000 | Submitted, finalized, appeal settled | Submitted, not audited |
| FY 2000-01 | Submitted, finalized, appealed | Not submitted |
| FY 2001-02 | Submitted, not audited | Not submitted |
| FY 2002-03 | Submitted, not audited | Not submitted |

## 6. CAPITAL ASSETS

The change in book value from July 1, 2002, to June 30, 2003, is summarized as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Land | $ 231,140 | $ 0 | $ 0 | $ 231,140 |
| Land Improvements | 530,248 | 47,066 | 0 | 577,314 |
| Buildings | 23,859,474 | 72,354 | (7,400) | 23,924,428 |
| Equipment | 1,179,102 | 56,961 | (11,719) | 1,224,344 |
| Construction in Progress | 0 | 87,354 | (47,829) | 39,525 |
| Total Capital Assets | 25,799,964 | 263,735 | (66,948) | 25,996,751 |
| Less Accumulated Depreciation for: | | | | |
| Land Improvements | (331,507) | (30,276) | 0 | (361,783) |
| Buildings | (9,588,940) | (760,306) | 7,400 | (10,341,846) |
| Equipment | (823,686) | (116,986) | 11,719 | (928,953) |
| Total Accumulated Depreciation | (10,744,133) | (907,568) | 19,119 | (11,632,582) |
| Total Capital Assets, Net | $ 15,055,831 | $(643,833) | $(47,829) | $ 14,364,169 |

Construction in progress consists of various projects to construct or improve the facilities of the Institute.

## 7. LOAN FROM STATE OF WISCONSIN

The State of Wisconsin General Fund provided Winnebago Mental Health Institute a loan of $2,350,906 as of June 30, 2003, to cover cash overdrafts in its appropriations.

## 8. REIMBURSEMENTS TO OTHER FUNDS

### A. General Obligation Bonds

The State of Wisconsin issues general obligation bonds on behalf of the various state agencies. Proceeds from the sale of bonds may be used to construct and/or purchase assets for Winnebago Mental Health Institute. Winnebago Mental Health Institute holds title to the assets.

Winnebago Mental Health Institute has received proceeds from 32 outstanding bond issuances. The bonds have maturity dates ranging from October 15, 2003, to April 15, 2023. The principal balance outstanding as of June 30, 2003, attributable to Winnebago Mental Health Institute is $12,137,655. This debt represents a debt of the State of Wisconsin and is not a debt of Winnebago Mental Health Institute.

Accordingly, this debt is not reported in Winnebago Mental Health Institute's financial statements. Debt service payments made by the State of Wisconsin for the year ended June 30, 2003, are allocated as follows:

| | |
|---|---|
| Principal | $ 894,001 |
| Interest | 644,767 |
| Total Paid | $1,538,768 |

However, Winnebago Mental Health Institute reimburses the State of Wisconsin General Fund for a portion of interest expense based on the number of days of care billable to Medicaid. Winnebago Mental Health Institute owed $290,678 to the General Fund as reimbursement of interest expense, which is included in the financial statements as a transfer out.

**B. Overhead and Depreciation**

The State of Wisconsin provided $1,290,879 of administrative services, funded by GPR, to Winnebago Mental Health Institute during FY 2002-03. A portion of the administrative overhead and depreciation on assets purchased by the State is later recovered through Medicaid patient revenue. Winnebago Mental Health Institute includes overhead expense and depreciation in the Medicaid cost reports, which are used to determine the final Medicaid settlement for the year. During FY 2002-03, Winnebago Mental Health Institute owed Medicaid payments related to overhead expense of $390,906 and depreciation of $197,167 to the State of Wisconsin General Fund as reimbursements for administrative services provided and for assets originally purchased by the State. The amount remitted is included in the financial statements as a transfer out.

**C. Insurance Reimbursements for Forensic Patients**

Throughout the year, forensic patients are committed to Winnebago Mental Health Institute through the criminal justice system. Winnebago Mental Health Institute receives GPR from the State of Wisconsin to cover the costs associated with the care of forensic patients. In some cases, forensic patients qualify for medical insurance. The collections for prior-year services and for current-year services above the costs of providing those services are accounted for as GPR of the General Fund, and not as revenue of Winnebago Mental Health Institute.

The statements reflect expected reimbursements as a receivable and as a payable to the State of Wisconsin. For the year ending June 30, 2003, both the receivable from Medicaid, Medicare, and private insurers less related contractual adjustments, and the related payable to the State of Wisconsin, were $202,197.

In addition, Winnebago Mental Health Institute collected $375,072 in FY 2002-03 for prior-year services and for current-year services above the costs of providing these services. The Institute has paid $193,452 of this amount to the State of Wisconsin. The remaining $181,620 is reflected on the statements as a payable due to the State of Wisconsin.

Winnebago Mental Health Institute also retained $174,000 of insurance reimbursements in FY 2002-03 to cover costs of providing services to forensic patients. However, in response to an audit recommendation, all future collections received on behalf of forensic patients will be accounted for as GPR of the General Fund as required by statutes.

## 9. INVESTMENT AS A LESSOR

Winnebago Mental Health Institute leases excess space to a nonprofit organization. The lease is classified as an operating lease. The lease is for one year and may be renewed annually by mutual agreement.

The portion of the building being leased has an original cost of $21,855 and has been fully depreciated. Minimum future lease payments to be received during the year ended June 30, 2004 total $1,500.

## 10. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2003 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance | Amounts Due within One Year |
|---|---|---|---|---|---|
| Capital Leases | $ 550,676 | $ 0 | $ (30,379) | $ 520,297 | $ 33,165 |
| Compensated Absences | 1,105,982 | 737,864 | (515,894) | 1,327,952 | 598,184 |
| Long-term Liabilities | $1,656,658 | $737,864 | $(546,273) | $1,848,249 | $ 631,349 |

## 11. OBLIGATION UNDER CAPITAL LEASES

During FY 2002-03, Winnebago Mental Health Institute participated in statewide master lease agreements for energy-saving improvements. The terms of the leases are 15 years. The value of the improvements under lease as of June 30, 2003, was $583,955. The accumulated depreciation totaled $74,625, resulting in a net book value of $509,330.

The following is a schedule of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, as of June 30, 2003:

| For the Year Ending: | |
|---|---|
| June 30, 2004 | $ 51,750 |
| June 30, 2005 | 51,750 |
| June 30, 2006 | 51,749 |
| June 30, 2007 | 51,749 |
| June 30, 2008 | 388,489 |
| Total Minimum Lease Payments | 595,487 |
| Less: Amounts Representing Interest | 75,190 |
| Present Value of Minimum Lease Payments | 520,297 |
| Less: Current Maturities | 33,165 |
| Long-term Portion of Present Value of Minimum Lease Payments | $487,132 |

## 12. OBLIGATIONS UNDER OPERATING LEASES

Winnebago Mental Health Institute leases copiers and facsimile machines. The terms of all leases are three years. Future minimum rental payments required under the operating leases as of June 30, 2003, are as follows for the year ended:

| | |
|---|---|
| June 30, 2004 | $22,436 |
| June 30, 2005 | 8,824 |
| June 30, 2006 | 0 |
| Total Minimum Payments Required | $31,260 |

The composition of the total rental expense for the fiscal year ended June 30, 2003, is as follows:

| | |
|---|---|
| Minimum Rentals | $26,908 |
| Contingent Rentals | 0 |
| Less: Sublease Rentals | 0 |
| Rental Expense | $26,908 |

## 13. EMPLOYEE RETIREMENT PLAN

Permanent, full-time employees of Winnebago Mental Health Institute are participants in the Wisconsin Retirement System, a cost-sharing, multiple-employer, defined benefit plan governed by Chapter 40 of Wisconsin Statutes. State and local government public employees are entitled to an annual formula retirement benefit based on: 1) the employee's final average earnings, 2) years of creditable service, and 3) a formula factor. If an employee's contributions, matching employer's contributions, and interest credited to the employee's account exceed the value of the formula benefit, the retirement benefit may instead be calculated as a money purchase benefit.

The Wisconsin Retirement System is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information of the Wisconsin Retirement System may be obtained by writing to:

Department of Employee Trust Funds
P.O. Box 7931
Madison, WI 53707-7931

The most current financial report is also available on the Department of Employee Trust Funds' Web site, *http://badger.state.wi.us/agencies/etf/.*

Generally, the State's policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal and prior service costs of the retirement system. Prior service costs are amortized over 40 years, beginning January 2, 1990. The retirement plan requires employee contributions equal to specified percentages of qualified earnings based on the employee's classification, plus employer contributions at a rate determined annually. The State funds the employees' portion of required contributions. Winnebago Mental Health Institute's contributions to the plan were $3,548,231 for FY 2002-03. The relative position of Winnebago Mental Health Institute in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multiple-employer plan.

## 14. PRIOR-PERIOD ADJUSTMENTS

The beginning net assets balance was increased by $39,437 in the Patient Care Fund, and decreased by $39,676 in the Canteen Fund. The Canteen Fund did not reimburse the Patient Care Fund for fringe benefits incurred by canteen employees in FY 1999-2000 and FY 2000-01. Therefore, these expenses were charged to the Patient Care Fund on the FY 2000-01 financial statements. However, since these expenses should have been reimbursed by the Canteen Fund, they were moved from the Patient Care Fund to the Canteen Fund.

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# Report on Compliance and Control ■

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

We have audited the financial statements of the State of Wisconsin Mendota Mental Health Institute and Winnebago Mental Health Institute as of and for the year ended June 30, 2003, and have issued our reports thereon dated August 17, 2004. 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.

### Compliance

As part of obtaining reasonable assurance about whether the Institutes' financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts, and grants, 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 that the Department's treatment of collections received on behalf of state-funded patients was not in compliance with statutory provisions requiring that these funds be treated as GPR-earned and, therefore, not be available for expenditure by the Institutes. As further discussed in the audit report section "Treatment of General Purpose Revenue-Earned," the Department retained a portion of these collections for the operation of the mental health Institutes: $815,000 of the $2.3 million received in FY 2001-02, and $759,000 of the $2.1 million received in FY 2002-03. The Department has agreed to properly treat all collections received on behalf of state-funded patients as GPR-earned in FY 2003-04 and in the future.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Institutes' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in the amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This independent auditor's report is intended solely for the information and use of the Department's and the Institutes' management and the Wisconsin Legislature. This independent audit report, upon submission to the Joint Legislative Audit Committee, is a matter of public record and its distribution is not limited. However, because we do not express an opinion on compliance or provide assurance on internal control over financial reporting, this report is not intended to be used by anyone other than these specified parties.

LEGISLATIVE AUDIT BUREAU

August 17, 2004 by Diann Allsen

Diann Allsen
Audit Director