

03-10
September 2003

An Audit

Wisconsin Mental Health Institutes

Department of Health and Family Services

2003-2004 Joint Legislative Audit Committee Members

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State Auditor - Janice Mueller

Audit Prepared by

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State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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September 3, 2003

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, 2001 through June 30, 2002. 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 are able to express an unqualified opinion on each Institute's financial statements.

The financial position of both Institutes improved significantly during fiscal year 2001-02: Mendota reported a net increase in assets of \$2.5 million, and Winnebago reported a net increase of \$1.0 million. In addition, the Institutes have significantly reduced the negative cash balances in their appropriations, which are reported as loans from the State of Wisconsin because the State's pool of cash covers the deficits. Higher billing rates and improved billing and collection procedures have contributed to the Institutes' improved financial positions.

For several years, the Department experienced technical problems in implementing its new billing and accounting system for the Institutes, which resulted in significant billing and collection delays and accounting problems. The Department is taking reasonable steps to address implementation problems and to improve the timeliness and effectiveness of its billing and collection efforts. The Department also continues to improve its process for estimating patient revenues and receivables for financial reporting.

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

Respectfully submitted,

A handwritten signature in cursive script that reads '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) 2001-02 financial statements, and reviewed compliance with selected statutory provisions. We also reviewed the Department's progress in addressing problems with its billing and accounting system for the Institutes and in improving its process for estimating revenue and receivable balances.

Average Daily Population

The Institutes' average daily population decreased in FY 2001-02.

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. The significant decrease in average daily population at Mendota is related to the closure of a

15-bed child’s unit and a reduction from 43 beds to 29 beds at the Mendota Juvenile Treatment Center. Fewer juvenile beds were needed because of increased use of county treatment programs designed to keep children involved in their local communities rather than place them in an institutional care setting. These reductions were partially offset by the addition of 15 adult beds for a new adult forensic unit at Mendota. However, the reduction in juvenile beds occurred in the first half of FY 2001-02 and the adult beds were added in the second half of FY 2001-02, resulting in a lower average daily population overall.

Table 1
Ten-Year Trends in Average Daily Population and Capacity
 For the fiscal year ending June 30

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Mendota										
Average Daily Population	263	244	241	244	268	258	263	269	281	263
Capacity	312	305	295	275	300	300	293	293	299	290
Percentage Filled	84.3	80.0	81.7	88.7	89.3	86.0	89.8	91.8	94.0	90.7
Winnebago										
Average Daily Population	245	239	252	242	249	259	267	274	278	277
Capacity	330	330	330	330	330	330	313	313	299	298
Percentage Filled	74.2	72.4	76.4	73.3	75.5	78.5	85.3	87.5	93.0	93.0

Patient Care Funding Sources

Care for forensic patients is primarily funded 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 primarily funded by GPR, with small amounts funded by other sources such as Medicare and private payers. 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 Medical Assistance

program (through which the State funds approximately 40 percent and the federal government funds the remaining 60 percent), Medicare, and private payers.

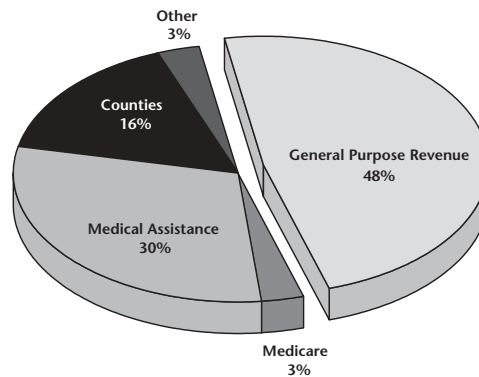
Average daily patient rates as of June 30, 2002, were \$600 at Mendota and \$532 at Winnebago. These rates, which are intended to cover the full cost of providing patient care services, represent an increase of \$19 and \$18, respectively, over the prior-year's rates.

During FY 2001-02, the Department received \$100.2 million in support for patient services.

Figure 1 illustrates the Institutes' funding sources for patient care during FY 2001-02. GPR directly appropriated to the Institutes accounts for 48 percent of the \$100.2 million received. The Medical Assistance program, which is partially funded by the State, represents the largest source of program revenue.

Figure 1

Patient Care Receipts¹
FY 2001-02



¹ Represents cash receipts

Staffing

The Institutes had 1,615 authorized positions as of June 30, 2002.

As of June 30, 2002, the two Institutes had a total of 1,615 authorized full-time equivalent (FTE) positions, which represented an increase of 62 FTE positions, or 4 percent, compared with the prior year. In June 2001, the Legislature approved a request under ss. 16.505 and 16.515, Wis. Stats., to provide 34.5 FTE positions to address population growth and increases in patient acuity, including the addition of the new adult forensic unit at Mendota.

In addition, the Legislature's Joint Committee on Finance authorized an additional 27.96 positions for the Institutes in response to a June 2001 survey of Mendota conducted by the federal Centers for Medicare and Medicaid Services. The unannounced survey, which was conducted to certify Mendota's continued eligibility for federal funding, found deficiencies that included the need for additional nursing staff on night shifts and the need for registered nurses on some units; high use of mandatory overtime; inadequate therapeutic and rehabilitative services; and various documentation deficiencies. The survey indicated that without appropriate corrective action, Mendota would be decertified from participation in federal funding. The Department projected the decertification would result in the loss of up to \$9.4 million in Medical Assistance and Medicare funds. Based on standards used in the federal survey of Mendota, the Department determined staffing levels at Winnebago also were deficient. The additional positions authorized by the Legislature enabled the Department to demonstrate that appropriate action was taken to avoid decertification of Mendota.

Financial Management and Reporting Issues

For several years, the Department experienced technical problems with the implementation of a new billing and accounting system for the Institutes, which resulted in significant billing and collection delays and accounting problems. The Department is taking reasonable steps to address the technical problems and to improve the timeliness and effectiveness of its billing and collection efforts. For example, payments for Medicare claims were received in an average of 101 days during FY 2001-02, which is less than one-half of the average of 211 days in FY 2000-01. The Department also continues to improve its process for estimating patient revenues and receivables for financial reporting.

■ ■ ■ ■

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, 2002. 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 of America. 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, 2002, 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.

As discussed in Note 14, the Mendota Mental Health Institute's beginning net assets balance was restated by \$3,082,077, primarily due to a correction related to an understatement of the accounts receivable balance totaling \$2,289,313. Due to implementation of a new billing system and billing delays that followed, the write-offs taken for uncollectible accounts receivable in the prior year did not fully consider collections already received and, therefore, were overstated.


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, 2002, 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.

As discussed in Note 13, Mendota Mental Health Institute implemented a new financial reporting model for fiscal year 2001-02, as required by the provisions of Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Mendota Mental Health Institute. Management's Discussion and Analysis on pages 9 through 13 has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we will also issue a report dated August 21, 2003, 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.

August 21, 2003

LEGISLATIVE AUDIT BUREAU
by 
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, 2002. 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 Mental Health Institute and the Wisconsin Department of Health and Family Services.

USING THE ANNUAL FINANCIAL STATEMENTS

The Mendota Mental Health Institute prepares its financial statements in accordance with Governmental Accounting Standards Board (GASB) statements. For the fiscal year ended June 30, 2002, Mendota Mental Health Institute implemented GASB Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Government*. As a result, the format of the current year's financial statements differs from the format used in prior financial statements.

In this discussion and analysis, we will review the reasons for the changes in financial activity between FY 2000-01 and FY 2001-02. Therefore, for the comparisons presented in Table A and Table B (pages 11 and 13), we have reformatted the FY 2000-01 financial statements to conform to the current year's presentation.

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 Mental Health Institute'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 Mendota Mental Health Institute'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 Mental Health Institute's net assets increased by 13 percent during FY 2001-02. Our analysis of Mendota Mental Health Institute's financial activities first focuses on the balance sheet. We will review the percentage changes in net assets from FY 2000-01 to FY 2001-02 (Table A). We will then look at the statement of revenues, expenses, and changes in net assets by reviewing the percentage changes in changes in net assets from FY 2000-01 to FY 2001-02 (Table B).

Current assets increased by 28 percent from FY 2000-01 to FY 2001-02. One reason for the net increase in current assets from FY 2000-01 to FY 2001-02 was an increase in cash resulting in part from a decrease in patient accounts receivable. During FY 2001-02, Mendota Mental Health Institute increased billing efforts and eliminated a billing backlog.

Table A
Net Assets

Fiscal Year Ended June 30:	2002	2001	Percentage Change
Current Assets	\$12,457,567	\$ 9,708,661	28%
Capital Assets	18,094,147	17,048,184	6
Total Assets	<u>30,551,714</u>	<u>26,756,845</u>	14
Current Liabilities	8,291,893	7,283,468	14
Noncurrent Liabilities	1,135,633	848,947	34
Total Liabilities	<u>9,427,526</u>	<u>8,132,415</u>	16
Net Assets:			
Invested in capital assets, net of related debt	17,461,952	16,761,009	4
Restricted	191,065	126,658	51
Unrestricted	3,471,171	1,736,763	100
Total Net Assets	<u>21,124,188</u>	<u>18,624,430</u>	13
Total Liabilities and Net Assets	<u>30,551,714</u>	<u>26,756,845</u>	14

The decrease in patient accounts receivable did not result in a corresponding increase in cash on the balance sheet because some of the cash generated was applied to reduce a loan from the State of Wisconsin. Mendota Mental Health Institute had a large negative cash balance in state accounts for a number of years. This negative cash balance was recorded on the prior year's balance sheet as a loan due to the State of Wisconsin. Mendota Mental Health Institute has taken steps to address this financial problem during the last seven years. These steps included increasing billing rates, limiting cost increases, and maximizing federal funding by improving billing and settlement procedures. As a result of these efforts, along with increased patient billing efforts and the elimination of a billing backlog, the loan from the State of Wisconsin was repaid and Mendota Mental Health Institute now has a positive cash balance in the patient care fund.

Another major change in current assets from FY 2000-01 to FY 2001-02 was a large increase in the due from the State of Wisconsin line. In FY 2001-02, Mendota Mental Health Institute had a contract with the State of Wisconsin 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 2000-01, the contract amount was received during the fiscal year and was reflected as cash.

Capital assets, which represent the original cost of an asset less accumulated depreciation, increased by only 6 percent from FY 2000-01 to FY 2001-02. The two major increases in capital assets were the purchase of energy-saving equipment and the addition of a new construction project to replace an absorption chiller in the power plant building.

Current liabilities increased by 14 percent from FY 2000-01 to FY 2001-02. Part of this increase is related to final and tentative settlements of Medicare cost reports audits. This settlement activity is detailed in Note 3 of the notes to the financial statements.

The increase in current liabilities would have been more significant except for a large decrease in payables due to the State of Wisconsin. As mentioned, Mendota Mental Health Institute has had a large negative cash balance for a number of years. The negative cash balance had been recorded as a loan due to the State of Wisconsin on prior years' balance sheets. The loan in the patient care fund was completely repaid in FY 2001-02.

Noncurrent liabilities increased by 34 percent from FY 2000-01 to FY 2001-02. Most of the increase was due to a \$305,256 increase in noncurrent capital lease obligations. In FY 2001-02, Mendota Mental Health Institute entered into capital leases to purchase energy-saving equipment and a hematology analyzer. The leases on the energy-saving equipment will be paid over the next 15 years.

The net assets line on the balance sheet is 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 \$18,624,430 in FY 2000-01 to \$21,124,188 in FY 2001-02. The financial activity that resulted in this increase of \$2,499,758, or 13 percent, can be found by looking at the statement of revenues, expenses, and changes in net assets, which is analyzed in Table B.

The change in net assets for FY 2001-02 of \$2,499,758 shows that Mendota Mental Health Institute continues to generate revenue sufficient to cover expenses and reduce the negative cash balance. A comparison of FY 2000-01 to FY 2001-02 shows no major changes in operating financial activities: operating expenses increased by 3 percent, and operating revenues increased by 1 percent.

Table B
Changes in Net Assets

Fiscal Year Ended June 30:	2002	2001	Percentage Change
Operating Revenue	\$53,432,626	\$52,679,717	1%
Operating Expenses	51,239,893	49,903,454	3
Net Operating Income	2,192,733	2,776,263	-21
Nonoperating Income	448,440	718,128	-38
Net Transfers In (Out)	(141,415)	1,064,344	-113
Change in Net Assets	<u>\$2,499,758</u>	<u>\$4,558,735</u>	-45

The most significant change from FY 2000-01 to FY 2001-02 in the statement of revenues, expenses, and changes in net assets was a 113 percent change in net transfers in (out). Most of this change was the result of a \$1.0 million transfer 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.

CONTACTING THE INSTITUTE'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of Mendota Mental Health Institute's financial performance for FY 2001-02. 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 Mendota Mental Health Institute ■

Balance Sheet

June 30, 2002

	Patient Care Fund	Power Plant Fund	Patient Deposit Fund	Canteen Fund	Totals (Memorandum Only)
ASSETS					
Current Assets:					
Cash and cash equivalents (Note 2)	\$ 1,281,857	\$ 0	\$ 53,717	\$ 35,972	\$ 1,371,546
Net accounts receivable (Note 4)	4,849,615	212,564	1,915	1,613	5,065,707
Due from State of Wisconsin	4,935,318	0	0	0	4,935,318
Settlement due from Medicaid/Medicare (Note 3)	281,038	0	0	0	281,038
Supplies and merchandise inventories	211,000	69,500	0	3,623	284,123
Prepaid items	511,704	8,131	0	0	519,835
Total Current Assets	12,070,532	290,195	55,632	41,208	12,457,567
Noncurrent Assets					
Capital Assets (Note 5):					
Land	301,752	4,380	0	0	306,132
Land improvements	1,447,425	75,218	0	0	1,522,643
Buildings	25,235,862	4,567,588	0	0	29,803,450
Equipment	1,475,423	299,382	0	0	1,774,805
Accumulated depreciation	(13,229,991)	(3,217,364)	0	0	(16,447,355)
Construction in progress	354,995	779,477	0	0	1,134,472
Total Noncurrent Assets	15,585,466	2,508,681	0	0	18,094,147
TOTAL ASSETS	\$ 27,655,998	\$ 2,798,876	\$ 55,632	\$ 41,208	\$ 30,551,714
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable	\$ 2,691,178	\$ 21,900	\$ 0	\$ 2,058	\$ 2,715,136
Settlement due to Medicaid/Medicare (Note 3)	1,192,704	0	0	0	1,192,704
Due to federal government	5,765	0	0	0	5,765
Due to State of Wisconsin (Notes 6 & 7)	2,977,068	305,491	0	947	3,283,506
Accrued expenses	388,289	3,361	0	0	391,650
Capital leases (Notes 9 & 10)	83,455	0	0	0	83,455
Compensated absences (Note 9)	541,792	12,375	0	0	554,167
Patient funds held in trust	0	0	55,632	0	55,632
Deferred revenue	0	0	0	9,878	9,878
Total Current Liabilities	7,880,251	343,127	55,632	12,883	8,291,893
Noncurrent Liabilities:					
Capital leases (Notes 9 & 10)	548,740	0	0	0	548,740
Compensated absences (Note 9)	573,788	13,105	0	0	586,893
Total Noncurrent Liabilities	1,122,528	13,105	0	0	1,135,633
Total Liabilities	9,002,779	356,232	55,632	12,883	9,427,526
Net Assets:					
Invested in capital assets, net of related debt	14,953,271	2,508,681	0	0	17,461,952
Restricted	191,065	0	0	0	191,065
Unrestricted	3,508,883	(66,037)	0	28,325	3,471,171
Total Net Assets	18,653,219	2,442,644	0	28,325	21,124,188
TOTAL LIABILITIES AND NET ASSETS	\$ 27,655,998	\$ 2,798,876	\$ 55,632	\$ 41,208	\$ 30,551,714

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, 2002

	Patient Care Fund	Power Plant Fund	Canteen Fund	Totals (Memorandum Only)
OPERATING REVENUES				
Net Revenue from Patient Care (Notes 1F & 1K)	\$ 24,355,128	\$ 0	\$ 0	\$ 24,355,128
Revenue from State of Wisconsin	26,682,925	0	0	26,682,925
Utility Sales	0	1,713,519	0	1,713,519
Canteen Revenue	0	0	117,608	117,608
Medicaid/Medicare Settlements	563,446	0	0	563,446
Total Operating Revenues	51,601,499	1,713,519	117,608	53,432,626
OPERATING EXPENSES				
Salaries	29,151,019	530,534	9,020	29,690,573
Fringe Benefits	10,600,469	223,471	0	10,823,940
Materials and Supplies	8,666,653	954,366	95,225	9,716,244
Depreciation	817,993	191,143	0	1,009,136
Total Operating Expenses	49,236,134	1,899,514	104,245	51,239,893
OPERATING INCOME (LOSS)	2,365,365	(185,995)	13,363	2,192,733
NONOPERATING REVENUES AND EXPENSES				
Revenue from State of Wisconsin	7,348	0	0	7,348
Gain (Loss) on Sale of Fixed Assets	(54,914)	0	0	(54,914)
Canteen Commissions	0	0	8,402	8,402
Operating Grants	206,311	0	0	206,311
Other Nonoperating Revenues	329,834	0	0	329,834
Materials and Supplies	0	0	(3,836)	(3,836)
Interest Expense	(44,705)	0	0	(44,705)
Total Nonoperating Income (Loss)	443,874	0	4,566	448,440
Income (Loss) before Transfers	2,809,239	(185,995)	17,929	2,641,173
Transfers In for Capital Projects	820,555	726,135	0	1,546,690
Transfers Out (Note 7)	1,657,177	30,928	0	1,688,105
CHANGE IN NET ASSETS	1,972,617	509,212	17,929	2,499,758
NET ASSETS				
Total Net Assets—Beginning of the Year	13,651,867	1,880,090	10,396	15,542,353
Prior-period Adjustments (Note 14)	3,028,735	53,342	0	3,082,077
Total Net Assets—End of the Year	\$ 18,653,219	\$ 2,442,644	\$ 28,325	\$ 21,124,188

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, 2002**

	Balance June 30, 2001	Additions	Deductions	Balance June 30, 2002
ASSETS				
Cash and Cash Equivalents	\$ 62,255	\$ 593,905	\$ 602,443	\$ 53,717
Net Accounts Receivable	<u>0</u>	<u>1,915</u>	<u>0</u>	<u>1,915</u>
Total Assets	<u>\$ 62,255</u>	<u>\$ 595,820</u>	<u>\$ 602,443</u>	<u>\$ 55,632</u>
LIABILITIES				
Patient Funds Held in Trust	<u>\$ 62,255</u>	<u>\$ 595,820</u>	<u>\$ 602,443</u>	<u>\$ 55,632</u>
Total Liabilities	<u>\$ 62,255</u>	<u>\$ 595,820</u>	<u>\$ 602,443</u>	<u>\$ 55,632</u>

The accompanying notes are an integral part of this statement.

**Statement of Cash Flows
for the Year Ended June 30, 2002**

	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	\$ 49,635,620	\$ 1,593,365	\$ 127,707	\$ 51,356,692
Cash Payments to Suppliers for Goods and Services	(6,655,967)	(864,885)	(104,414)	(7,625,266)
Cash Payments to Employees for Services	(39,744,187)	(773,607)	(10,750)	(40,528,544)
Other Sources (Uses) of Cash	547,598	0	0	547,598
Net Cash Provided (Used) by Operating Activities	3,783,064	(45,127)	12,543	3,750,480
CASH FLOWS FROM NONCAPITOL FINANCING ACTIVITIES				
Transfers Out	(1,098,921)	(30,302)	0	(1,129,223)
Loan from State of Wisconsin	(1,076,951)	98,142	0	(978,809)
Net Cash Provided (Used) by Noncapital Financing Activities	(2,175,872)	67,840	0	(2,108,032)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Payments to Vendors	(298,697)	(22,713)	0	(321,410)
Other Cash Flows from Capital Financing Activities	(30,393)	0	0	(30,393)
Net Cash Provided (Used) by Capital and Related Financing Activities	(329,090)	(22,713)	0	(351,803)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,278,102	0	12,543	1,290,645
Cash and Cash Equivalents, Beginning of Year	3,755	0	23,429	27,184
Cash and Cash Equivalents, End of Year	\$ 1,281,857	\$ 0	\$ 35,972	\$ 1,317,829

The accompanying notes are an integral part of this statement.

	Patient Care Fund	Power Plant Fund	Canteen Fund	Totals (Memorandum Only)
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATIONS				
Operating Income	\$ 2,365,365	\$ (185,995)	\$ 13,363	\$ 2,192,733
Adjustments to Reconcile Operating Income to Net Cash Provided by Operations:				
Depreciation	817,993	191,143	0	1,009,136
Miscellaneous nonoperating income (expense)	543,493	0	4,567	548,060
Changes in assets and liabilities:				
Decrease (Increase) in receivables	788,695	(120,154)	65	668,606
Decrease (Increase) in Medicaid/Medicare receivables	(281,038)	0	0	(281,038)
Decrease (Increase) in Due from State of Wisconsin	(3,557,706)	0	0	(3,557,706)
Decrease (Increase) in supplies inventories	(12,663)	(787)	(8)	(13,458)
Decrease (Increase) in prepaid items	(59,614)	212	0	(59,402)
Increase (Decrease) in accrued expenses	65,516	(16,142)	0	49,374
Increase (Decrease) in Medicaid/Medicare payable	1,192,704	0	0	1,192,704
Increase (Decrease) in accounts payable	977,566	25,453	(2,995)	1,000,024
Increase (Decrease) in Due to State of Wisconsin	936,988	61,143	0	998,131
Increase (Decrease) in Due to federal government	5,765	0	0	5,765
Increase (Decrease) in deferred revenue	0	0	(2,449)	(2,449)
Total Adjustments	1,417,699	140,868	(820)	1,557,747
Net Cash Provided by Operating Activities	\$ 3,783,064	\$ (45,127)	\$ 12,543	\$ 3,750,480
Noncash Investing, Capital, and Financing Activities:				
Capital Leases (Initial Year)				
Fair market value	\$ 402,515	\$ 0	\$ 0	\$ 402,515
Current year cash receipts (payments)	(12,034)	0	0	(12,034)
Capital Leases—Reduction from Refinancing	(1,770)	0	0	(1,770)
Transfers In for Capital Projects from State of Wisconsin	820,554	726,135	0	1,546,689

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. 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 for 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 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 Medical Assistance 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 7A 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 Medical Assistance 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’ Centers for Medicare and Medicaid 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.

Medical Assistance—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 Medical Assistance Plan.

Settlement amounts with Medicare and Medical Assistance 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 an 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, 2002, the carrying value of these deposits was \$87,892, and the bank balance was \$96,605.

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 \$5,702, 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, 2002, 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. THIRD-PARTY SETTLEMENTS

United Government Services conducted an audit of the FY 1998-99 Medicare cost report and concluded that the Medicare program owed Mendota Mental Health Institute \$282,408 as a final settlement for services provided during FY 1998-99. The final settlement is reflected as an operating revenue. 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 Government Services concluded that the Medicare program owed Mendota Mental Health Institute an additional \$281,038. This additional final settlement is reflected as an operating revenue and a receivable.

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 is reflected as an operating expense and a payable. 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 2000-01 and FY 2001-02. United Government Services has not yet completed an audit of these cost reports but has computed a tentative settlement. The tentative settlement concluded that Mendota Mental Health Institute owed the Medicare program \$605,100 for FY 2000-01 and \$561,502 for FY 2001-02. These tentative settlements are reflected as an operating expense and a payable.

The status of cost reports outstanding is as follows:

<u>Year</u>	<u>Medicare</u>	<u>Medical Assistance</u>
FY 1998-99	Submitted, finalized, appeal settled	Submitted, not audited
FY 1999-2000	Submitted, finalized, appealed	Not submitted
FY 2000-01	Submitted, not audited	Not submitted
FY 2001-02	Submitted, not audited	Not submitted

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. CAPITAL ASSETS

The change in book value from July 1, 2001, to June 30, 2002, is summarized as follows

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Land	\$ 338,254	\$ 0	\$ (32,122)	\$ 306,132
Land improvements	1,512,189	10,454	0	1,522,643
Buildings	27,236,517	2,566,933	0	29,803,450
Equipment	1,699,121	187,580	(111,896)	1,774,805
Construction in progress	<u>1,789,426</u>	<u>1,546,689</u>	<u>(2,201,643)</u>	<u>1,134,472</u>
Total capital assets	<u>32,575,507</u>	<u>4,311,656</u>	<u>(2,345,661)</u>	<u>34,541,502</u>
Less accumulated depreciation for:				
Land improvements	(945,359)	(73,456)	0	(1,018,815)
Buildings	(13,571,902)	(783,493)	0	(14,355,395)
Equipment	<u>(1,010,062)</u>	<u>(152,188)</u>	<u>89,105</u>	<u>(1,073,145)</u>
Total accumulated depreciation	<u>(15,527,323)</u>	<u>(1,009,137)</u>	<u>89,105</u>	<u>(16,447,355)</u>
Total capital assets, net	<u>\$17,048,184</u>	<u>\$3,302,519</u>	<u>\$(2,256,556)</u>	<u>\$18,094,147</u>

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

6. LOAN FROM STATE OF WISCONSIN

The State of Wisconsin General Fund provided the Power Plant Fund a loan of \$198,896 as of June 30, 2002, to cover cash overdrafts in its appropriation.

7. 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 34 outstanding bond issuances. The bonds have maturity dates ranging from April 15, 2004, to April 15, 2022. The principal balance outstanding as of June 30, 2002, attributable to Mendota Mental Health Institute is \$17,666,946. 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, 2002, are allocated as follows:

Principal	\$1,340,221
Interest	<u>911,710</u>
Total paid	<u>\$2,251,931</u>

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 Medical Assistance. Mendota Mental Health Institute owed \$302,352 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 \$1,240,017 of administrative services, funded by GPR, to Mendota Mental Health Institute during FY 2001-02. A portion of the administrative overhead and depreciation on assets purchased by the State is later recovered through Medical Assistance patient revenue. Mendota Mental Health Institute includes overhead expense and depreciation in the Medical Assistance cost reports, which are used to determine the final Medical Assistance settlement for the year. During FY 2001-02, Mendota Mental Health Institute owed Medical Assistance payments related to overhead expense of \$190,057 and depreciation of \$52,071 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 a 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, 2002,

both the receivable from Medical Assistance, Medicare, and private insurers less related contractual adjustments, and the related payable to the State of Wisconsin, were \$1,041,087.

In addition, Mendota Mental Health Institute collected \$1,216,340 in FY 2001-02 for prior-year services and for current-year services above the costs of providing these services. The statements reflect this amount as a payable due to the State of Wisconsin.

D. Transfer to Southern Wisconsin Center

A transfer to the Southern Wisconsin Center for the Developmentally Disabled was made in the amount of \$1.0 million. This transfer was a reimbursement of a FY 1993-94 transfer from the Center to Mendota Mental Health Institute to cover cash deficits.

8. INVESTMENTS 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	\$482,556
Less: accumulated depreciation	<u>(346,609)</u>
Buildings, net	<u>\$135,947</u>

Minimum future lease payments to be received during the year ended June 30, 2003, total \$107,736.

9. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2002, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due within One Year
Capital leases	\$ 287,175	\$402,515	\$ (57,495)	\$ 632,195	\$ 83,455
Compensated absences	<u>1,177,164</u>	<u>535,596</u>	<u>(571,700)</u>	<u>1,141,060</u>	<u>554,167</u>
Long-term liabilities	<u>\$1,464,339</u>	<u>\$938,111</u>	<u>\$(629,195)</u>	<u>\$1,773,255</u>	<u>\$637,622</u>

10. OBLIGATIONS UNDER CAPITAL LEASES

During FY 2001-02, Mendota Mental Health Institute leased a chemistry analyzer and a hematology analyzer and participated in statewide master lease agreements to acquire energy-saving improvements. The terms of the leases for the chemistry analyzer and hematology analyzer are 60 months. The terms of the leases for the energy-saving improvements are 15 years. As of June 30, 2002, the value of the equipment and improvements under lease was \$743,099. The accumulated depreciation totaled \$161,816, resulting in a net book value of \$581,283.

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, 2002:

For the year ending:	
June 30, 2003	\$128,028
June 30, 2004	105,845
June 30, 2005	59,847
June 30, 2006	59,847
June 30, 2007	53,682
2008-2012	345,315
2013-2017	<u>14,145</u>
Total minimum lease payments	766,709
Less: amounts representing interest	<u>134,514</u>
Present value of minimum lease payments	632,195
Less: current maturities	<u>83,455</u>
Long-term portion of present value of minimum lease payments	<u>\$548,740</u>

11. 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, 2002, are as follows for the year ended:

June 30, 2003	\$ 63,006
June 30, 2004	58,394
June 30, 2005	59,049
June 30, 2006	60,819
June 30, 2007	20,471
Thereafter	<u>0</u>
Total minimum payments required	<u>\$261,739</u>

The composition of the total rental expense for the year ended June 30, 2002, is as follows:

Minimum rentals	\$73,257
Contingent rentals	0
Less: sublease rentals	<u>0</u>
Rental expense	<u>\$73,257</u>

12. 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, *etf.wi.gov*.

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 employee’s portion of required contributions. Mendota Mental Health Institute’s contributions to the plan were \$4,077,684 for FY 2001-02. The relative position of Mendota Mental Health Institute in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multi-employer plan.

13. CHANGE IN ACCOUNTING PRINCIPLE

Mendota Mental Health Institute implemented a new financial reporting model, as required by the provisions of GASB Statement Number 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, as of June 30, 2002. This statement’s requirements represent a significant change in the financial model used by state governments, including statement formats and changes in fund types.

Some of the major changes in financial presentation included reclassifying revenues not related to Mendota Mental Health Institute’s primary purpose from operating to nonoperating, netting contributed capital and retained earnings and then reclassifying the total to net assets, and adding management’s discussion and analysis of Mendota Mental Health Institute’s financial operations.

14. PRIOR-PERIOD ADJUSTMENTS

The beginning net assets balance was adjusted for corrections totaling \$3,082,077 related to 1) a reclassification of a prior-year construction project from a capital project to a repair project in the amount of \$34,737; 2) a reclassification of a construction project from the patient care fund to the power plant fund in the amount of \$53,342; 3) a reclassification of a Medicare cost report settlement from a reduction of accounts receivable to operating revenue in the amount of \$827,500; and 4) a correction of an understatement of accounts receivable in the amount of \$2,289,313. Due to implementation of a new billing system and billing delays that followed, the write-offs taken for uncollectible client accounts receivable in the prior year were overstated. An analysis of the current year’s accounts receivable balance revealed that accounts receivable and patient revenue balances were understated in the prior year.

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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, 2002. 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 of America. 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, 2002, 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.

As discussed in Note 14, the Winnebago Mental Health Institute's beginning net assets balance was restated by \$2,720,219, primarily due to a correction related to an understatement of the accounts receivable balance totaling \$2,564,786. Due to implementation of a new billing system and billing delays that followed, the write-offs taken for uncollectible accounts receivable in the prior year were overstated.


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, 2002, 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.

As discussed in Note 13, Winnebago Mental Health Institute implemented a new financial reporting model for fiscal year 2001-02, as required by the provisions of Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Winnebago Mental Health Institute. Management's Discussion and Analysis on pages 37 through 41 has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we will also issue a report dated August 21, 2003, 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.

August 21, 2003

LEGISLATIVE AUDIT BUREAU
by 
Diann Allsen
Audit Director

Management's Discussion and Analysis— Winnebago Mental Health Institute ■

Prepared by 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, 2002. 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 the management of Winnebago Mental Health Institute and the Wisconsin Department of Health and Family Services.

USING THE ANNUAL FINANCIAL STATEMENTS

Winnebago Mental Health Institute prepares its financial statements in accordance with Governmental Accounting Standards Board (GASB) statements. For the fiscal year ended June 30, 2002, Winnebago implemented GASB Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Government*. As a result, the format of the current year's financial statements differs from the format used in prior financial statements.

In this discussion and analysis, we will review the reasons for the changes in financial activity between FY 2000-01 and FY 2001-02. Therefore, for the comparisons presented in Table A and Table B (pages 39 and 41), we have reformatted the FY 2000-01 financial statements to conform to the current year's presentation.

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 Mental Health Institute's net assets increased by 7 percent during FY 2001-02. Our analysis of Winnebago Mental Health Institute's financial activities first focuses on the balance sheet. We will review the percentage changes in net assets from FY 2000-01 to FY 2001-02 (Table A). We will then look at the statement of revenues, expenses, and changes in net assets by reviewing the percentage changes in changes in net assets from FY 2000-01 to FY 2001-02 (Table B).

Current assets decreased by 27 percent from FY 2000-01 to FY 2001-02. One reason for the large decrease in current assets was due to a large decrease in accounts receivable. This decrease was the result of increased patient billing efforts and the elimination of a billing backlog.

Table A
Net Assets

Fiscal Year Ended June 30:	2002	2001	Percentage Change
Current Assets	\$ 9,296,352	\$12,666,697	-27%
Capital Assets	15,055,831	15,774,401	-5
Total Assets	<u>24,352,183</u>	<u>28,441,098</u>	-14
Current Liabilities	6,736,961	11,793,393	-43
Noncurrent Liabilities	1,110,386	1,166,655	-5
Total Liabilities	<u>7,847,347</u>	<u>12,960,048</u>	-39
Net Assets:			
Invested in capital assets, net of related debt	14,505,155	15,154,418	-4
Restricted	27,210	29,003	-6
Unrestricted	1,972,471	297,629	563
Total Net Assets	<u>16,504,836</u>	<u>15,481,050</u>	7
Total Liabilities and Net Assets	<u>\$24,352,183</u>	<u>\$28,441,098</u>	-14

The decrease in patient accounts receivable did not result in a corresponding increase in cash on the balance sheet because the cash generated was used to reduce a loan to the State of Wisconsin. Winnebago Mental Health Institute had a large negative cash balance in state accounts for a number of years. This negative cash balance was recorded on the prior year's balance sheet as a loan due to the State of Wisconsin. Winnebago Mental Health Institute has taken steps to address this financial problem during the last seven years. These steps included increasing billing rates, limiting cost increases, and maximizing federal funding by improving billing and settlement procedures. As a result of these efforts, along with increased patient billing efforts and the elimination of a billing backlog, the loan due to the State of Wisconsin has been significantly reduced.

Capital assets, which represent the original cost of an asset less accumulated depreciation, decreased by 5 percent from FY 2000-01 to FY 2001-02. 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 to improve the power plant air emissions.

Current liabilities decreased by 43 percent from FY 2000-01 to FY 2001-02. The major reason for this decrease was a large decrease in payables due to the State of Wisconsin. As mentioned, Winnebago Mental Health Institute had a large negative cash balance in state accounts for a number of years. The negative cash balance has been recorded as a loan due to the State of Wisconsin on prior years' balance sheets. The loan has been reduced by a substantial amount in FY 2001-02.

The decrease in current liabilities would have been more significant except that there was also an increase in the payable related to final and tentative settlements of Medicare cost reports audits. This settlement activity is detailed in Note 3 of the notes to the financial statements.

The net assets line on the balance sheet is 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 \$15,481,050 in FY 2000-01 to \$16,504,836 in FY 2001-02. The financial activity that resulted in this increase of \$1,023,786, 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.

The change in net assets for FY 2001-02 of \$1,023,786 shows that Winnebago Mental Health Institute continues to generate enough revenue to cover expenses and reduce the prior years' negative cash balances. A comparison of FY 2000-01 to FY 2001-02 shows no major changes in operating financial activities: operating expenses increased by 5 percent, and operating revenues increased by 4 percent.

Table B
Changes in Net Assets

Fiscal Year Ended June 30:	2002	2001	Percentage Change
Operating Revenue	\$46,873,528	\$45,042,256	4%
Operating Expenses	46,135,439	43,757,445	5
Net Operating Income (Loss)	738,089	1,284,811	-43
Nonoperating Income (Loss)	2,113,356	2,052,966	3
Net Transfers In (Out)	(1,827,659)	(941,282)	-94
Change in Net Assets	<u>\$1,023,786</u>	<u>\$2,396,495</u>	-57

The most significant change from FY 2000-01 to FY 2001-02 in the statement of revenues, expenses, and changes in net assets was a 94 percent change in net transfers in (out). Most of this change was the result of a \$1.0 million transfer out 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.

CONTACTING THE INSTITUTE'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of Winnebago Mental Health Institute's financial performance for FY 2001-02. 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, 2002

	Patient Care Fund	Power Plant Fund	Patient Deposit Fund	Canteen Fund	Totals (Memorandum Only)
ASSETS					
Current Assets:					
Cash and cash equivalents (Note 2)	\$ 17,225	\$ 0	\$ 22,796	\$ 26,969	\$ 66,990
Investments (Note 2)	0	0	41,622	9,600	51,222
Net accounts receivable (Note 4)	6,327,066	189,930	5	1,509	6,518,510
Due from State of Wisconsin	1,334,680	0	0	0	1,334,680
Settlement due from Medicaid/Medicare (Note 3)	289,261	0	0	0	289,261
Supplies and merchandise inventories	511,449	8,670	0	27,717	547,836
Prepaid items	481,869	5,984	0	0	487,853
Total Current Assets	<u>8,961,550</u>	<u>204,584</u>	<u>64,423</u>	<u>65,795</u>	<u>9,296,352</u>
Noncurrent Assets					
Capital Assets (Note 5):					
Land	230,340	800	0	0	231,140
Land improvements	530,248	0	0	0	530,248
Buildings	20,766,265	3,093,209	0	0	23,859,474
Equipment	1,173,004	6,098	0	0	1,179,102
Accumulated depreciation	(9,367,668)	(1,376,465)	0	0	(10,744,133)
Total Noncurrent Assets	<u>13,332,189</u>	<u>1,723,642</u>	<u>0</u>	<u>0</u>	<u>15,055,831</u>
TOTAL ASSETS	<u>\$ 22,293,739</u>	<u>\$ 1,928,226</u>	<u>\$ 64,423</u>	<u>\$ 65,795</u>	<u>\$ 24,352,183</u>
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable	\$ 2,594,949	\$ 20,716	\$ 0	\$ 41,354	\$ 2,657,019
Settlement due to Medicaid/Medicare (Note 3)	749,494	0	0	0	749,494
Due to federal government	5,002	0	0	0	5,002
Due to State of Wisconsin (Notes 6 & 7)	2,280,683	150,429	0	2,339	2,433,451
Accrued expenses	269,097	12,051	0	0	281,148
Capital leases (Notes 9 & 10)	27,050	3,328	0	0	30,378
Compensated absences (Note 9)	504,508	10,578	0	808	515,894
Patient funds held in trust	0	0	64,423	0	64,423
Deferred revenue	0	0	0	152	152
Total Current Liabilities	<u>6,430,783</u>	<u>197,102</u>	<u>64,423</u>	<u>44,653</u>	<u>6,736,961</u>
Noncurrent Liabilities:					
Capital leases (Notes 9 & 10)	463,296	57,002	0	0	520,298
Compensated absences (Note 9)	577,969	12,119	0	0	590,088
Total Noncurrent Liabilities	<u>1,041,265</u>	<u>69,121</u>	<u>0</u>	<u>0</u>	<u>1,110,386</u>
Total Liabilities	<u>7,472,048</u>	<u>266,223</u>	<u>64,423</u>	<u>44,653</u>	<u>7,847,347</u>
Net Assets:					
Invested in capital assets, net of related debt	12,841,843	1,663,312	0	0	14,505,155
Restricted	27,210	0	0	0	27,210
Unrestricted	1,952,638	(1,309)	0	21,142	1,972,471
Total Net Assets	<u>14,821,691</u>	<u>1,662,003</u>	<u>0</u>	<u>21,142</u>	<u>16,504,836</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 22,293,739</u>	<u>\$ 1,928,226</u>	<u>\$ 64,423</u>	<u>\$ 65,795</u>	<u>\$ 24,352,183</u>

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, 2002

	Patient Care Fund	Power Plant Fund	Canteen Fund	Totals (Memorandum Only)
OPERATING REVENUES				
Net Revenue from Patient Care (Notes 1F & 1K)	\$ 26,804,487	\$ 0	\$ 0	\$ 26,804,487
Revenue from State of Wisconsin	18,302,486	0	0	18,302,486
Utility Sales	0	1,253,554	0	1,253,554
Canteen Revenues	0	0	223,740	223,740
Medicaid/Medicare Settlements	289,261	0	0	289,261
Total Operating Revenues	45,396,234	1,253,554	223,740	46,873,528
OPERATING EXPENSES				
Salaries	26,060,769	440,336	113,061	26,614,166
Fringe Benefits	9,885,364	162,484	0	10,047,848
Materials and Supplies	7,808,192	589,796	156,696	8,554,684
Depreciation	760,220	157,900	621	918,741
Total Operating Expenses	44,514,545	1,350,516	270,378	46,135,439
OPERATING INCOME (LOSS)	881,689	(96,962)	(46,638)	738,089
NONOPERATING REVENUES AND EXPENSES				
Revenue from State of Wisconsin	1,797,549	0	0	1,797,549
Gain (Loss) on Sale of Fixed Assets	8,869	0	214	9,083
Canteen Commissions	0	0	8,091	8,091
Operating Grants	144,459	0	0	144,459
Other Nonoperating Revenues	175,220	0	481	175,701
Materials and Supplies	0	0	(1,724)	(1,724)
Interest Expense	(17,487)	(2,316)	0	(19,803)
Total Nonoperating Income (Loss)	2,108,610	(2,316)	7,062	2,113,356
Income (Loss) before Transfers	2,990,299	(99,278)	(39,576)	2,851,445
Transfers In for Capital Projects	12,000	80,029	0	92,029
Transfers Out (Note 7)	1,907,577	12,111	0	1,919,688
CHANGE IN NET ASSETS	1,094,722	(31,360)	(39,576)	1,023,786
NET ASSETS				
Total Net Assets—Beginning of the Year	10,925,983	1,774,130	60,718	12,760,831
Prior-period Adjustments (Note 14)	2,800,986	(80,767)	0	2,720,219
Total Net Assets—End of the Year	\$ 14,821,691	\$ 1,662,003	\$ 21,142	\$ 16,504,836

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, 2002**

	Balance <u>June 30, 2001</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2002</u>
ASSETS				
Cash and Cash Equivalents	\$ 11,460	\$ 1,352,592	\$ 1,341,256	\$ 22,796
Investments	47,379	9,311	15,068	41,622
Net Accounts Receivable	<u>2,932</u>	<u>39,699</u>	<u>42,626</u>	<u>5</u>
Total Assets	<u>\$ 61,771</u>	<u>\$ 1,401,602</u>	<u>\$ 1,398,950</u>	<u>\$ 64,423</u>
LIABILITIES				
Patient Funds Held in Trust	<u>\$ 61,771</u>	<u>\$ 316,191</u>	<u>\$ 313,539</u>	<u>\$ 64,423</u>
Total Liabilities	<u>\$ 61,771</u>	<u>\$ 316,191</u>	<u>\$ 313,539</u>	<u>\$ 64,423</u>

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Year Ended June 30, 2002

	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	\$ 47,763,693	\$ 1,249,247	\$ 232,985	\$ 49,245,925
Cash Payments to Suppliers for Goods and Services	(5,952,071)	(570,338)	(158,657)	(6,681,066)
Cash Payments to Employees for Services	(35,910,494)	(600,262)	(71,536)	(36,582,292)
Other Sources (Uses) of Cash	2,134,773	0	0	2,134,773
Net Cash Provided (Used) by Operating Activities	8,035,901	78,647	2,792	8,117,340
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers Out	(1,073,247)	(13,760)	0	(1,087,007)
Loan from State of Wisconsin	(6,751,203)	(59,524)	0	(6,810,727)
Net Cash Provided (Used) by Noncapital Financing Activities	(7,824,450)	(73,284)	0	(7,897,734)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Payments to Vendors	(196,693)	(5,363)	0	(202,056)
Other Cash Flows from Capital Financing Activities	(17,077)	0	2,000	(15,077)
Net Cash Provided (Used) by Capital and Related Financing Activities	(213,770)	(5,363)	2,000	(217,133)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of Investment Securities	0	0	(333)	(333)
Investment and Interest Receipts	0	0	333	333
Net Cash Provided (Used) by Investing Activities	0	0	0	0
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,319)	0	4,792	2,473
Cash and Cash Equivalents, Beginning of Year	19,544	0	22,177	41,721
Cash and Cash Equivalents, End of Year	\$ 17,225	\$ 0	\$ 26,969	\$ 44,194

The accompanying notes are an integral part of this statement.

	Patient Care Fund	Power Plant Fund	Canteen Fund	Totals (Memorandum Only)
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATIONS				
Operating Income	\$ 881,689	\$ (96,962)	\$ (46,638)	\$ 738,089
Adjustments to Reconcile Operating Income to Net Cash Provided by Operations:				
Depreciation	760,220	157,901	621	918,742
Miscellaneous nonoperating income (expense)	2,117,229	0	6,637	2,123,866
Changes in assets and liabilities:				
Decrease (Increase) in receivables	2,709,711	(11,986)	525	2,698,250
Decrease (Increase) in Medicaid/Medicare receivables	(289,261)	0	0	(289,261)
Decrease (Increase) in Due from State of Wisconsin	(18,565)	0	384	(18,181)
Decrease (Increase) in supplies inventories	4,647	16,573	(30)	21,190
Decrease (Increase) in prepaid items	(66,964)	(754)	0	(67,718)
Increase (Decrease) in accrued expenses	121,021	(774)	330	120,577
Increase (Decrease) in Medicaid/Medicare payable	749,494	0	0	749,494
Increase (Decrease) in accounts payable	917,841	14,514	40,986	973,341
Increase (Decrease) in Due to State of Wisconsin	143,837	135	0	143,972
Increase (Decrease) in Due to federal government	5,002	0	0	5,002
Increase (Decrease) in deferred revenue	0	0	(23)	(23)
Total Adjustments	7,154,212	175,609	49,430	7,379,251
Net Cash Provided by Operating Activities	\$ 8,035,901	\$ 78,647	\$ 2,792	\$ 8,117,340
Noncash Investing, Capital, and Financing Activities:				
Capital Leases (Initial Year)				
Fair market value	\$ 41,439	\$ 5,099	\$ 0	\$ 46,538
Current year cash receipts (payments)	(1,518)	(187)	0	(1,705)
Capital Leases—Reduction from Refinancing	(2,376)	(292)	0	(2,668)
Capital Leases—Reduction of Prior-Year Lease	(88,943)	0	0	(88,943)
Transfers In for Capital Projects from State of Wisconsin	12,000	80,029	0	92,029

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. 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 for 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 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 Medical Assistance 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 7A 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 Medical Assistance 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’ Centers for Medicare and Medicaid 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.

Medical Assistance—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 Medical Assistance Plan.

Settlement amounts with Medicare and Medical Assistance 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 an 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, 2002, the carrying value of these deposits was \$109,346, and the bank balance was \$115,795.

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 \$8,866, are not included in carrying amounts nor bank deposits in this note because they are not deposits.

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, 2002, all cash and investment balances fall under risk category 1, which means that balances are insured or supported by collateral.

3. THIRD-PARTY SETTLEMENTS

United Government Services conducted an audit of the FY 1998-99 Medicare cost report and concluded that Winnebago Mental Health Institute owed \$48,421 to Medicare as a final settlement for services provided during FY 1998-99. The final settlement is reflected as an additional operating expense. 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 \$289,261. This additional final settlement is reflected as an operating revenue and a receivable.

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 is reflected as an additional operating expense and a payable. 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 2000-01 and FY 2001-02. United Government Services has not completed an audit of the cost report but has computed a tentative settlement. The tentative settlement concluded that Winnebago Mental Health Institute owed the Medicare program \$403,900 for FY 2000-01, and \$112,581 for FY 2001-02. These tentative settlements are reflected as an operating expense and a payable.

The status of cost reports outstanding is as follows:

<u>Year</u>	<u>Medicare</u>	<u>Medical Assistance</u>
FY 1998-99	Submitted, finalized	Submitted, not audited
FY 1999-2000	Submitted, finalized, appealed	Not submitted
FY 2000-01	Submitted, not audited	Not submitted
FY 2001-02	Submitted, not audited	Not submitted

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. CAPITAL ASSETS

The change in book value from July 1, 2001, to June 30, 2002, is summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$ 231,140	\$ 0	\$ 0	\$ 231,140
Land improvements	511,746	18,502	0	530,248
Buildings	23,799,625	184,462	(124,613)	23,859,474
Equipment	1,200,366	90,786	(112,050)	1,179,102
Construction in progress	<u>500</u>	<u>92,029</u>	<u>(92,529)</u>	<u>0</u>
Total capital assets	<u>25,743,377</u>	<u>385,779</u>	<u>(329,192)</u>	<u>25,799,964</u>
Less accumulated depreciation for:				
Land improvements	(304,365)	(27,142)	0	(331,507)
Buildings	(8,873,446)	(751,164)	35,670	(9,588,940)
Equipment	<u>(791,166)</u>	<u>(140,436)</u>	<u>107,916</u>	<u>(823,686)</u>
Total accumulated depreciation	<u>(9,968,977)</u>	<u>(918,742)</u>	<u>143,586</u>	<u>(10,744,133)</u>
Total capital assets, net	<u>\$ 15,774,400</u>	<u>\$(532,963)</u>	<u>\$(185,606)</u>	<u>\$ 15,055,831</u>

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

6. LOAN FROM STATE OF WISCONSIN

The State of Wisconsin General Fund provided Winnebago Mental Health Institute a loan of \$246,415 as of June 30, 2002, to cover cash overdrafts in its appropriations.

7. 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 31 outstanding bond issuances. The bonds have maturity dates ranging from April 15, 2003, to April 15, 2022. The principal balance outstanding as of June 30, 2002, attributable to Winnebago Mental Health Institute is \$12,448,351. 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, 2002, are allocated as follows:

Principal	\$ 888,996
Interest	<u>691,938</u>
Total paid	<u>\$1,580,934</u>

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 Medical Assistance. Winnebago Mental Health Institute owed \$323,822 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 \$1,241,578 of administrative services, funded by GPR, to Winnebago Mental Health Institute during FY 2001-02. A portion of the administrative overhead and depreciation on assets purchased by the State is later recovered through Medical Assistance patient revenue. Winnebago Mental Health Institute includes overhead expense and depreciation in the Medical Assistance cost reports, which are used to determine the final Medical Assistance settlement for the year. During FY 2001-02, Winnebago Mental Health Institute owed Medical Assistance payments related to overhead expense of \$350,584 and depreciation of \$165,113 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 a 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, 2002, both the receivable from Medical Assistance, Medicare, and private insurers less related contractual adjustments, and the related payable to the State of Wisconsin, were \$819,455.

In addition, Winnebago Mental Health Institute collected \$274,405 in FY 2001-02 for prior-year services and for current-year services above the costs of providing these services. The statements reflect this amount as a payable due to the State of Wisconsin.

D. Transfer to Southern Wisconsin Center

A transfer to the Southern Wisconsin Center for the Developmentally Disabled was made in the amount of \$1.0 million. This transfer was a reimbursement of a FY 1993-94 transfer from the Center to Winnebago Mental Health Institute to cover cash deficits.

8. 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, 2003, total \$1,350.

9. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2002, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due within One Year
Capital leases	\$ 619,983	\$ 46,537	\$(115,844)	\$ 550,676	\$ 30,378
Compensated absences	<u>1,075,012</u>	<u>531,998</u>	<u>(501,028)</u>	<u>1,105,982</u>	<u>515,894</u>
Long-term liabilities	<u>\$1,694,995</u>	<u>\$578,535</u>	<u>\$(616,872)</u>	<u>\$1,656,658</u>	<u>\$ 546,272</u>

10. OBLIGATIONS UNDER CAPITAL LEASES

During FY 2001-02, 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, 2002, was \$583,955. The accumulated depreciation totaled \$35,705, resulting in a net book value of \$548,250.

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, 2002:

For the year ending:	
June 30, 2003	\$ 51,750
June 30, 2004	51,750
June 30, 2005	51,750
June 30, 2006	51,750
June 30, 2007	51,750
2008-2012	<u>388,488</u>
Total minimum lease payments	647,238
Less: amounts representing interest	<u>96,562</u>
Present value of minimum lease payments	550,676
Less: current maturities	<u>30,378</u>
Long-term portion of present value of minimum lease payments	<u>\$520,298</u>

11. 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, 2002, are as follows for the year ended:

June 30, 2003	\$23,604
June 30, 2004	18,644
June 30, 2005	<u>5,032</u>
Total minimum payments required	<u>\$47,280</u>

The composition of the total rental expense for the fiscal year ended June 30, 2002, is as follows:

Minimum rentals	\$27,170
Contingent rentals	0
Less: sublease rentals	<u>0</u>
Rental expense	<u>\$27,170</u>

12. 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, *etf.wi.gov*.

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 employee's portion of required contributions. Winnebago Mental Health Institute's contributions to the plan were \$3,409,854 for FY 2001-02. The relative position of Winnebago Mental Health Institute in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multi-employer plan.

13. CHANGE IN ACCOUNTING PRINCIPLE

Winnebago Mental Health Institute implemented a new financial reporting model, as required by the provisions of GASB Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of June 30, 2002. This statement's requirements represent a significant change in the financial model used by state governments, including statement formats and changes in fund types.

Some of the major changes in financial presentation included reclassifying revenues not related to Winnebago Mental Health Institute's primary purpose from operating to nonoperating, netting contributed capital and retained earnings and then reclassifying the total to net assets, and adding management's discussion and analysis of Winnebago Mental Health Institute's financial operations.

14. PRIOR-PERIOD ADJUSTMENTS

The beginning net assets balance was adjusted for corrections totaling \$2,720,219 related to 1) a reclassification of a prior-year construction project from a capital project to a repair project in the amount of \$23,900; 2) a correction related to an understatement of accumulated depreciation in the amount of \$80,767; 3) a reclassification of a Medicare cost report settlement from a reduction of accounts receivable to operating revenue in the amount of \$260,100; and 4) a correction of an understatement of accounts receivable in the amount of \$2,564,786. Due to implementation of a new billing system and billing delays that followed, the write-offs taken for uncollectible client accounts receivables in the prior year were overstated. An analysis of the current year's account receivable balance revealed that accounts receivable and patient revenue balances were understated in the prior year.

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