Report 06-11
September 2006

An Audit

Wisconsin Mental Health Institutes

Department of Health and Family Services

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State Auditor - Janice Mueller

Audit Prepared by

Carolyn Stittleburg, Director and Contact Person
Connie Christianson
Tammi Richmond
Michael Rateike

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STATE OF WISCONSIN
Legislative Audit Bureau

22 E. Mifflin St., Ste. 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

Janice Mueller
State Auditor

September 13, 2006

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 Mendota and Winnebago Mental Health Institutes for the period July 1, 2004, through June 30, 2005. The audits were requested by the Department of Health and Family Services to comply with requirements of the Joint Commission on Accreditation of Healthcare Organizations. We were able to express an unqualified opinion on each Institute's financial statements.

Mendota and Winnebago Mental Health Institutes are licensed and accredited hospitals that provide specialized diagnostic, evaluation, and treatment services for mentally ill children and adults. The Institutes also provide services to forensic patients referred to them through the criminal justice system. The Institutes are funded through a mix of general purpose revenue and program revenue.

Each Institute reported a net loss for fiscal year 2004-05. Mendota reported a loss of $2.6 million, and Winnebago reported a loss of $1.7 million. In each case, operating revenues did not increase enough to offset increases in operating expenses, such as salary and fringe benefit costs. The Department increased daily patient rates effective October 1, 2005, and it anticipates another rate increase effective October 1, 2006.

As part of our audit, we reviewed the administration of approximately $405,000 in client funds by the Program of Assertive Community Treatment, an outpatient unit of Mendota. To assist clients in managing their own money, staff receive and disburse funds on their behalf. In accepting client funds, the State is responsible for ensuring proper controls are in place to reduce the risks of error or misappropriation. We identified internal control concerns related to client funds administered by the Program of Assertive Community Treatment, including a lack of separation of duties and inadequate documentation.

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

Respectfully submitted,

Janice Mueller

Janice Mueller
State Auditor

JM/CS/ss

Introduction ■

Through the Department of Health and Family Services' Division of Disability and Elder Services, the State operates 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 mentally ill children and adults who have been civilly or voluntarily committed, 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) 2004-05 financial statements, and reviewed compliance with selected statutory provisions.

Care for forensic patients is funded primarily by GPR.

The Institutes are funded through a mix of general purpose revenue (GPR) and program revenue generated by daily charges for patient care. The costs of providing care to forensic patients—who are individuals being evaluated for competency to stand trial and those charged with crimes who have been found either incompetent to stand trial or not guilty by reason of mental defect or disease—are funded primarily by GPR. The costs of providing care for patients committed through civil proceedings or by voluntary placement are funded primarily through program revenue and are paid by counties, Medicaid, Medicare, and private payers.

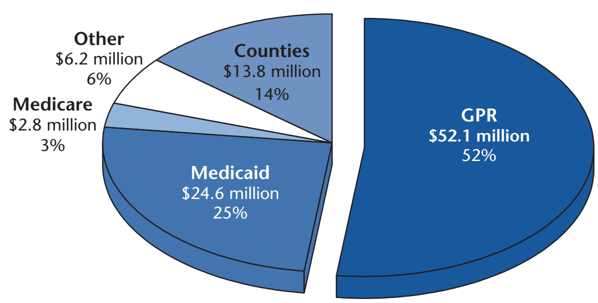
Average daily patient rates as of June 30, 2005, were $649 at Mendota and $603 at Winnebago. These rates are intended to cover the full cost of providing care for patients committed through civil proceedings or by voluntary placement. Winnebago's rate represents an increase of $29 over the prior year's rate, while Mendota's rate remained unchanged.

During FY 2004-05, the Department received $99.4 million in support for patient services.

Figure 1 illustrates the Institutes' funding sources for patient care during FY 2004-05. GPR directly appropriated to the Institutes accounted for 52 percent of the $99.4 million received. Medicaid, which is 40 percent state-funded, represented the largest source of program revenue.

Figure 1

Patient Care Receipts[1]
FY 2004-05



[1] Represents cash receipts totaling $99.4 million.

As shown in Table 1, both Mendota's and Winnebago's average daily population decreased steadily from FY 2000-01 to FY 2003-04. In FY 2004-05, Mendota's average daily population increased slightly, while Winnebago's remained the same.

Table 1

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

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Mendota										
Average Daily Population	244	268	258	263	269	281	263	261	253	258
Capacity	275	300	300	293	293	299	290	275	275	275
Percentage Filled	88.7	89.3	86.0	89.8	91.8	94.0	90.7	94.9	92.0	93.8
Winnebago										
Average Daily Population	242	249	259	267	274	278	277	272	266	266
Capacity	330	330	330	313	313	299	298	290	290	290
Percentage Filled	73.3	75.5	78.5	85.3	87.5	93.0	93.0	93.8	91.7	91.7

Financial Performance

Both Institutes have reported operating losses in recent years.

Over the past five years, the Institutes' financial performance has shown mixed results. With the combination of GPR and program revenue funding, the Institutes are expected to generate sufficient revenues to cover operating expenses. However, as shown in Table 2, Mendota reported an operating loss in both FY 2003-04 and FY 2004-05, and an overall net loss of $2.6 million for FY 2004-05. Winnebago has reported an operating loss since FY 2002-03, and an overall net loss of $1.7 million for FY 2004-05.

Table 2

Net Income (Loss)
For the Year Ended June 30

	2001	2002	2003	2004	2005
Mendota					
Operating Income (Loss)	$ 335,239	$2,192,733	$ 610,158	$(748,847)	$(2,882,512)
Nonoperating Income and Transfers	(696,074)	307,025	801,545	838,801	264,069
Net Income (Loss)	**$(360,835)**	**$2,499,758**	**$ 1,411,703**	**$ 89,954**	**$(2,618,443)**
Winnebago					
Operating Income (Loss)	$ 437,631	$ 738,089	$(3,097,273)	$(115,967)	$ (878,092)
Nonoperating Income and Transfers	(940,594)	285,697	1,324,693	170,075	(821,490)
Net Income (Loss)	**$(502,963)**	**$1,023,786**	**$(1,772,580)**	**$ 54,108**	**$(1,699,582)**

Daily patient rates for both Institutes increased in October 2005.

Increases in operating expenses, such as salary and fringe benefit costs, appear to be driving the losses. The Department monitors the Institutes' financial activity to determine whether the daily patient rate should be adjusted to ensure sufficient revenues. It has increased the daily patient rate by 3 percent for Mendota and 6 percent for Winnebago effective October 1, 2005, and further increases are anticipated for each Institute effective October 1, 2006. It is important that the Department continue to monitor the financial performance of the Institutes.

Program of Assertive Community Treatment

During FY 2004-05, approximately two-thirds of the activity in the Mendota Patient Deposit Fund, consisting of $405,000 in receipts and $386,000 in disbursements, was processed for Program of Assertive Community Treatment (PACT) clients. PACT is an outpatient clinical research unit of Mendota located in downtown Madison. One of its services is assisting clients in managing their money. Client funds are deposited in a checking account at a local bank and are reported in the financial statements of Mendota's Patient Deposit Fund. PACT staff maintain individual client account records.

Procedures for handling client funds at Mendota's outpatient unit are deficient.

In accepting cash and making disbursements on behalf of clients, the State is assuming the fiduciary responsibility for ensuring that proper controls are in place to reduce the risk of errors or misappropriation of assets, and to detect such activities if they do occur. Mendota could be expected to have implemented appropriate controls over PACT client funds. However, we found PACT's receipt and disbursement procedures to be deficient, increasing the risk that unauthorized, erroneous, or fraudulent transactions could be processed without easy detection.

For example, we found that one employee has conflicting cash handling responsibilities that allow total control over both receipt and disbursement transactions. This employee receives and disburses client funds and maintains the records of these transactions with little involvement of other employees. We also noted that written receipts are not issued when funds are received from clients, and clients are not required to provide written authorization before funds are disbursed by check.

Lack of proper oversight contributed to the inadequate control procedures.

Lack of proper oversight by Mendota staff allowed the inadequate control procedures to exist. While we did not identify any inappropriate transactions, we report these deficiencies as a material weakness in internal controls for the Mendota Patient Deposit Fund. A separate written communication to the management of the Department of Health and Family Services includes recommendations that Mendota staff implement adequate internal control procedures over the receipt and disbursement process at PACT and that additional oversight of PACT business functions be provided. The Department agrees with our recommendations and has indicated plans to improve internal controls in this area.

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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, 2005. These financial statements are the responsibility of the management of Mendota Mental Health Institute and the Wisconsin Department of Health and Family Services. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1A, the financial statements referred to in the first paragraph present only 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, 2005, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of each of Mendota Mental Health Institute's funds as of June 30, 2005, and the respective 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.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated August 25, 2006, 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 other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

LEGISLATIVE AUDIT BUREAU

August 25, 2006 by Carolyn Stittleburg

Carolyn Stittleburg
Audit Director

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

Prepared by the Department of Health and Family Services

This section of 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, 2005. This discussion and analysis should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this discussion are the responsibility of the management of Mendota and the Wisconsin Department of Health and Family Services.

Using the Annual Financial Statements

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

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

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

The Statement of Changes in Assets and Liabilities for the Patient Deposit Fund presents additions to and deductions from patient accounts during the year.

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

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

Noteworthy Financial Activity

Mendota's total net assets decreased by 12 percent during FY 2004-05. Analysis of Mendota's financial activities focuses on the Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets. Mendota's assets from FY 2003-04 to FY 2004-05 are reviewed in Table A. Its changes in net assets for the same period are subsequently reviewed in Table B.

Table A

Net Assets

Fiscal Year Ended June 30:	2005	2004	Percentage Change
Current Assets	$ 8,662,702	$11,669,973	-26%
Capital Assets	18,454,245	18,328,251	1
Total Assets	**$27,116,947**	**$29,998,224**	-10
Current Liabilities	$ 6,090,323	$ 6,355,035	-4
Noncurrent Liabilities	1,387,803	1,385,925	0
Total Liabilities	7,478,126	7,740,960	-3
Net Assets:			
Invested in Capital Assets, Net of Related Debt	17,963,497	17,862,675	1
Restricted	9,647	7,637	26
Unrestricted	1,665,677	4,386,952	-62
Total Net Assets	19,638,821	22,257,264	-12
Total Liabilities and Net Assets	**$27,116,947**	**$29,998,224**	-10

As shown in Table A, current assets decreased by 26 percent from FY 2003-04 to FY 2004-05. One reason for this decrease was a large decrease in patient receivables during FY 2004-05. The decrease in receivables resulted, in part, from a 10 percent increase in cash collected on current and prior-year patient billings, coupled with only a modest increase in patient billings for FY 2004-05. The net patient receivable balance will go down when there is only a modest increase in patient billing and a large increase in cash collected on current and prior-year patient billings.

In addition, an analysis of prior-year collections determined that the estimates used to write off uncollectible patient receivables were too low in prior years. The net patient receivable balance will go down when patient billings from prior years are written off as uncollectible. The patient receivable balance was reduced by $725,500 to account for this change in estimate.

Another reason for the decrease in current assets was a decrease in cash. The decrease was caused, in part, by the payment of a FY 2003-04 payable due to the State of Wisconsin. A Medicaid cost report settlement for FY 1998-99 was received during FY 2003-04. An analysis of this settlement determined that $1,866,550 of this settlement amount should be paid to the State of Wisconsin. Since this payment was not made until after June 30, 2004, the amount was recorded in FY 2003-04 as a payable to the State of Wisconsin. The payment of this amount in FY 2004-05 resulted in a large decrease in cash and to the amount recorded as "Due to the State of Wisconsin."

Capital assets, which represent the original cost of an asset less accumulated depreciation, increased by 1 percent from FY 2003-04 to FY 2004-05. Although there is not a significant increase in capital assets, two ongoing construction projects are worth noting: a remodeling project at Stovall Hall, and improvements to the water distribution system. The increase in capital assets from construction activity was offset by the decrease in capital assets resulting from current-year depreciation expense.

Current liabilities decreased by 4 percent from FY 2003-04 to FY 2004-05. Part of this decrease results from a $1,866,550 decrease in payables due to the State of Wisconsin. As mentioned above, a Medicaid cost report settlement received during FY 2003-04 was paid to the State of Wisconsin in FY 2004-05.

Similarly, the decrease in current liabilities was caused, in part, by payment of another FY 2003-04 payable due to the State of Wisconsin. Some patients at Mendota are court-ordered patients. The expense for the care of court-ordered patients is initially reimbursed by the State of Wisconsin. Any subsequent collections from Medicaid, Medicare, or commercial insurance for the care of these patients will be returned to the State of Wisconsin. The amount due the State of Wisconsin for these collections as of June 30, 2004, was $851,090. Since this payment was not made until after June 30, 2004, the amount was recorded in FY 2003-04 as a payable due to the State of Wisconsin. The payment of this amount in FY 2004-05 resulted in a decrease in the amount recorded as "Due to the State of Wisconsin."

These decreases in current liabilities were offset by an increase in the loan from the State of Wisconsin that covers cash overdrafts in Mendota's appropriations. The cash balance in an appropriation is computed by increasing the beginning cash balance by amounts received as patient receivables and as cash received from other sources. Cash paid for expenses such as salaries and supplies is then subtracted from this total. If the sum of cash resources available less cash expenses is negative, the appropriation is in overdraft. A loan from the State of Wisconsin is recorded on the statements, since the State will cover all cash expenses that exceed the cash available.

Net assets on the Balance Sheet are computed by subtracting total liabilities from total assets. Net assets are then further segregated on the Balance Sheet between net assets invested in capital assets net of related debt, net assets restricted by legal requirements from other governments, and unrestricted net assets. Net assets decreased from $22,257,264 in FY 2003-04 to $19,638,821 in FY 2004-05. The financial activity that resulted in this decrease of $2,618,443 can be found by looking at the Statement of Revenues, Expenses, and Changes in Net Assets, which is analyzed in Table B.

Table B

Changes in Net Assets

Fiscal Year Ended June 30:	2005	2004	Percentage Change
Operating Revenue	$54,943,097	$55,157,115	0%
Operating Expenses	57,825,609	55,905,962	3
Net Operating Income (Loss)	(2,882,512)	(748,847)	
Nonoperating Income	300,247	502,066	-40
Net Transfers In (Out)	(36,178)	336,735	-111
Change in Net Assets	**$(2,618,443)**	**$ 89,954**	

The change in net assets for FY 2004-05 shows that Mendota did not generate enough revenue to cover expenses. A comparison from FY 2003-04 to FY 2004-05 shows a small decrease in operating revenues and a modest increase in operating expenses, resulting in a major decrease in net operating income.

The modest increase in operating expenses resulted, in part, from a 4 percent increase in salary expenses. Some of this increase resulted from the settlement of employee contracts during FY 2004-05.

The decrease in net transfers occurred mainly because of transfers to the General Fund. In December 2003, the State of Wisconsin issued bonds to fund its liability for prior-service retirement expenses. State agencies were required to transfer the resulting cost savings to the General Fund. FY 2004-05 was the first full year of these transfers.

Contacting the Institute's Financial Management

This financial report is designed to provide a general overview of Mendota's financial performance for FY 2004-05. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to:

Ken Thyberg, Audit Liaison
Department of Health and Family Services
Room 655, 1 West Wilson Street
P.O. Box 7850
Madison, WI 53707-7850

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Financial Statements of Mendota Mental Health Institute ■

Balance Sheet
June 30, 2005

	Patient Care Fund	Power Plant Fund	Patient Deposit Fund	Canteen Fund	Totals (Memorandum Only)
ASSETS					
Current Assets:					
Cash and cash equivalents (Note 2)	$ 3,607	$ 0	$ 88,298	$ 35,358	$ 127,263
Net accounts receivable (Note 3)	3,941,919	364,355	2,327	492	4,309,093
Due from the State of Wisconsin	3,350,966	0	0	0	3,350,966
Due from federal government	81,618	0	0	0	81,618
Supplies and merchandise inventories	137,316	103,062	0	2,866	243,244
Prepaid items	538,781	11,737	0	0	550,518
Total Current Assets	8,054,207	479,154	90,625	38,716	8,662,702
Noncurrent Assets:					
Capital assets (Note 6):					
Land	301,752	4,380	0	0	306,132
Land improvements	1,490,001	89,628	0	0	1,579,629
Buildings	26,570,078	5,718,693	0	0	32,288,771
Equipment	1,972,424	458,939	0	0	2,431,363
Accumulated depreciation	(15,852,823)	(3,887,335)	0	0	(19,740,158)
Construction in progress	1,424,056	164,452	0	0	1,588,508
Total Noncurrent Assets	15,905,488	2,548,757	0	0	18,454,245
TOTAL ASSETS	$ 23,959,695	$ 3,027,911	$ 90,625	$ 38,716	$ 27,116,947
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable (Note 4)	$ 613,057	$ 0	$ 0	$ 7,326	$ 620,383
Due to the federal government	31,782	658	0	0	32,440
Due to the State of Wisconsin (Notes 7 and 8)	3,225,801	388,132	0	1,198	3,615,131
Accrued expenses (Note 4)	720,852	11,592	0	0	732,444
Capital leases (Notes 10 and 11)	56,327	0	0	0	56,327
Compensated absences (Note 10)	914,553	19,153	0	0	933,706
Patient funds held in trust	0	0	90,625	0	90,625
Deferred revenue	0	0	0	9,267	9,267
Total Current Liabilities	5,562,372	419,535	90,625	17,791	6,090,323
Noncurrent Liabilities:					
Capital leases (Notes 10 and 11)	434,421	0	0	0	434,421
Compensated absences (Note 10)	933,825	19,557	0	0	953,382
Total Noncurrent Liabilities	1,368,246	19,557	0	0	1,387,803
Total Liabilities	**6,930,618**	**439,092**	**90,625**	**17,791**	**7,478,126**
Net Assets:					
Invested in capital assets, net of related debt	15,414,740	2,548,757	0	0	17,963,497
Restricted	9,647	0	0	0	9,647
Unrestricted	1,604,690	40,062	0	20,925	1,665,677
Total Net Assets	**17,029,077**	**2,588,819**	**0**	**20,925**	**19,638,821**
TOTAL LIABILITIES AND NET ASSETS	$ 23,959,695	$ 3,027,911	$ 90,625	$ 38,716	$ 27,116,947

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, 2005

	Patient Care Fund	Power Plant Fund	Canteen Fund	Totals (Memorandum Only)
OPERATING REVENUES				
Net Revenue from Patient Care (Notes 1F and 1K)	$ 19,876,358	$ 0	$ 0	$ 19,876,358
Revenue from the State of Wisconsin	32,453,622	0	0	32,453,622
Utility Sales	0	2,413,482	0	2,413,482
Canteen Revenue	0	0	150,821	150,821
Medicaid/Medicare Settlements (Note 5)	48,814	0	0	48,814
Total Operating Revenues	**52,378,794**	**2,413,482**	**150,821**	**54,943,097**
OPERATING EXPENSES				
Salaries	32,539,149	651,550	11,157	33,201,856
Fringe Benefits	12,131,731	266,829	0	12,398,560
Materials and Supplies	9,401,702	1,469,248	140,956	11,011,906
Depreciation	1,001,135	212,152	0	1,213,287
Total Operating Expenses	**55,073,717**	**2,599,779**	**152,113**	**57,825,609**
OPERATING INCOME (LOSS)	**(2,694,923)**	**(186,297)**	**(1,292)**	**(2,882,512)**
NONOPERATING REVENUES AND EXPENSES				
Revenue from the State of Wisconsin	5,888	0	0	5,888
Gain (Loss) on Sale of Fixed Assets	173	0	0	173
Canteen Commissions	0	0	5,762	5,762
Operating Grants	95,312	0	0	95,312
Other Nonoperating Revenues	221,079	0	0	221,079
Materials and Supplies	0	0	(7,000)	(7,000)
Interest Expense	(20,967)	0	0	(20,967)
Total Nonoperating Income (Loss)	**301,485**	**0**	**(1,238)**	**300,247**
Income (Loss) before Transfers	(2,393,438)	(186,297)	(2,530)	(2,582,265)
Transfers In for Capital Projects (Note 1J)	1,058,199	159,771	0	1,217,970
Transfers Out (Note 8)	(1,216,057)	(38,091)	0	(1,254,148)
CHANGE IN NET ASSETS	**(2,551,296)**	**(64,617)**	**(2,530)**	**(2,618,443)**
NET ASSETS				
Total Net Assets—Beginning of the Year	19,666,227	2,567,582	23,455	22,257,264
Prior-Period Adjustment (Note 14)	(85,854)	85,854	0	0
Total Net Assets—End of the Year	**$ 17,029,077**	**$ 2,588,819**	**$ 20,925**	**$ 19,638,821**

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, 2005

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
ASSETS				
Cash and Cash Equivalents	$ 71,460	$ 600,208	$ 583,370	$ 88,298
Net Accounts Receivable	2,318	2,327	2,318	2,327
Total Assets	**$ 73,778**	**$ 602,535**	**$ 585,688**	**$ 90,625**
LIABILITIES				
Patient Funds Held in Trust	$ 73,778	$ 602,535	$ 585,688	$ 90,625
Total Liabilities	**$ 73,778**	**$ 602,535**	**$ 585,688**	**$ 90,625**

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Year Ended June 30, 2005

	Patient Care Fund	Power Plant Fund	Canteen Fund	Totals (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Receipts for Patient Care, Power Plant, and Canteen Operations	$ 50,041,139	$ 2,309,419	$ 157,863	$ 52,508,421
Cash Payments to Suppliers for Goods and Services	(9,271,303)	(1,457,915)	(152,379)	(10,881,597)
Cash Payments to Employees for Services	(44,327,981)	(918,238)	(11,111)	(45,257,330)
Other Sources (Uses) of Cash	274,338	0	0	274,338
Net Cash Provided (Used) by Operating Activities	**(3,283,807)**	**(66,734)**	**(5,627)**	**(3,356,168)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers Out	(773,482)	(38,276)	0	(811,758)
Loan from the State of Wisconsin	2,222,180	105,010	0	2,327,190
Net Cash Provided (Used) by Noncapital Financing Activities	**1,448,698**	**66,734**	**0**	**1,515,432**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest Payments	(20,966)	0	0	(20,966)
Capital Lease Obligations	(48,828)	0	0	(48,828)
Payments for Purchases of Capital Assets	(47,139)	0	0	(47,139)
Net Cash Provided (Used) by Capital and Related Financing Activities	**(116,933)**	**0**	**0**	**(116,933)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,952,042)**	**0**	**(5,627)**	**(1,957,669)**
Cash and Cash Equivalents—Beginning of the Year	1,955,649	0	40,985	1,996,634
Cash and Cash Equivalents—End of the Year	$ 3,607	$ 0	$ 35,358	$ 38,965

The accompanying notes are an integral part of this statement.

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATIONS	Patient Care Fund	Power Plant Fund	Canteen Fund	Totals (Memorandum Only)
Operating Income (Loss)	$ (2,694,923)	$ (186,297)	$ (1,292)	$ (2,882,512)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operations:				
Depreciation	1,001,135	212,152	0	1,213,287
Miscellaneous nonoperating income (expense)	322,280	0	(1,238)	321,042
Changes in assets and liabilities:				
Decrease (Increase) in receivables	(1,557,002)	(104,063)	120	(1,660,945)
Decrease (Increase) in Due from the State of Wisconsin	(626,471)	0	0	(626,471)
Decrease (Increase) in supplies inventories	87,771	9,702	84	97,557
Decrease (Increase) in prepaid items	(13,932)	(948)	0	(14,880)
Increase (Decrease) in accrued expenses	(40,321)	3,096	0	(37,225)
Increase (Decrease) in accounts payable	226,288	0	(1,530)	224,758
Increase (Decrease) in Due to the State of Wisconsin	(172,523)	163	0	(172,360)
Increase (Decrease) in Due to the federal government	(1,061)	107	0	(954)
Increase (Decrease) in deferred revenue	0	0	(1,771)	(1,771)
Increase (Decrease) in compensated absences	184,952	(646)	0	184,306
Total Adjustments	(588,884)	119,563	(4,335)	(473,656)
Net Cash Provided by Operating Activities	**$ (3,283,807)**	**$ (66,734)**	**$ (5,627)**	**$ (3,356,158)**
Noncash Investing, Capital, and Financing Activities:				
Capital leases (initial year) fair market value	$ 74,000	$ 0	$ 0	$ 74,000
Transfers in for capital projects from the State of Wisconsin	1,058,199	159,771	0	1,217,970

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

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

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

B. Patient Care Fund

The Patient Care Fund includes general operations of Mendota Mental Health Institute related to providing patient services. Receipt of funds, such as grants and gifts, where outside parties have placed 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 as they are needed.

C. Power Plant Fund

The Power Plant Fund accounts for heating services provided to the Mendota Mental Health Institute and the Central Wisconsin Center for the Developmentally Disabled. Revenue is derived from charges for these services.

D. Patient Deposit Fund

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

E. Canteen Fund

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

F. Use of Estimates

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

G. Cash and Cash Equivalents

Cash and cash equivalents include bank accounts, petty cash, and cash in transit.

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 two or more years. Capital assets are valued at cost. Land improvements, buildings, and equipment are depreciated on a straight-line basis. Estimated useful lives are based on an industry standard determined by the publication *Estimated Useful Lives of Depreciable Hospital Assets*, 1998 edition, issued by the American Hospital Association as follows:

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

J. Invested in Capital Assets

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

Additions of capital assets financed by general obligation debt are included in the Statement of Revenues, Expenses, and Changes in Net Assets as a transfer in for capital projects.

K. Net Patient Service Revenue

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

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

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

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

L. Employee Compensated Absences

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

2. DEPOSITS

Mendota Mental Health Institute's cash and cash equivalents include deposits of the Patient Care Fund, the Patient Deposit Fund, and the Canteen Fund in checking and savings accounts held 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 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, 2005, the carrying value of these deposits was $121,812, and the bank balance was $131,017.

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 $5,451, are not included in the carrying value or the bank balance because they are not deposits.

GASB Statement Number 40, *Deposit and Investment Risk Disclosures*, was issued in March 2003. The provisions of this statement are effective for financial statements beginning in FY 2004-05. GASB Statement Number 40 updates the custodial credit risk disclosure requirements of GASB Statement Number 3 and addresses other investment risks, including credit, concentration of credit, interest rate, and foreign currency risks. Mendota Mental Health Institute does not have a deposit policy for custodial credit risk and other investment risks.

For deposits held in financial institutions, custodial credit risk is the risk that in the event of a failure of a depository financial institution, deposits may not be returned. All of the deposits that are held in financial institutions are insured up to $100,000 by the Federal Deposit Insurance Corporation. The State of Wisconsin Public Deposit Guarantee Fund insures up to $400,000 above the amount of federal insurance. As of June 30, 2005, the bank balance was $131,017. Therefore all deposits held in financial institutions are insured.

3. ACCOUNTS RECEIVABLE BALANCES

Significant receivable balances as of June 30, 2005, include the following:

Patient Receivables	$3,869,889
Utility Sales Receivables	362,661
Other Receivables	74,216
Total Accounts Receivable	$4,306,766

The patient receivable balance includes patient charges to Medicare, Medicaid, and private insurance providers. These receivables are net of Medicare and Medicaid contractual adjustments and uncollectible amounts. Approximately 94 percent of patient receivables is expected to be collected in FY 2005-06. The remaining 6 percent is expected to be collected in FY 2006-07. The utility sales and other receivables should all be collected in FY 2005-06.

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 attempt to recover a portion of the outstanding charge from a secondary source. The outstanding charge attributable to patients who are determined to be the responsibility of the State will be reimbursed by GPR. The outstanding charge attributable to patients who are determined to be the responsibility of a county government will be reimbursed by the county government.

4. ACCOUNTS PAYABLE AND ACCRUED EXPENSE BALANCES

Significant accounts payable balances as of June 30, 2005, include the following:

Vendors	$524,059
Salaries and Benefits	96,324
Total Accounts Payable	$620,383

Significant accrued expense balances as of June 30, 2005, include the following:

Vendors	$276,692
Salaries and Benefits	455,752
Total Accrued Expenses	$732,444

5. THIRD-PARTY CONTRACTUAL SETTLEMENTS

Mendota Mental Health Institute has submitted Medicare cost reports to United Government Services for FY 2001-02, FY 2002-03, FY 2003-04, and FY 2004-05. United Government Services has not yet completed an audit of these cost reports but has computed tentative settlements for the first three years. The tentative settlements concluded that the Institute owed the Medicare program $561,502 for FY 2001-02, the Medicare program owed the Institute $18,000 for FY 2002-03, and the Medicare program owed the Institute $154,300 for FY 2003-04. The tentative settlement for FY 2001-02 was reflected as an operating expense and a payable in the FY 2001-02 financial statements. The tentative settlement for FY 2002-03 was reflected as an operating revenue and a receivable in the FY 2002-03 financial statements. The tentative settlement for FY 2003-04 was reflected as an operating revenue and a receivable in the FY 2003-04 financial statements.

Mendota Mental Health Institute has submitted a Medicaid cost report to the Department of Health and Family Services for FY 1998-99, FY 1999-2000, FY 2000-01, and FY 2001-02. The Department of Health and Family Services has completed an audit of the FY 1998-99 report and concluded that the Medicaid program owed Mendota $813,706. This settlement was reflected as an operating revenue and a receivable on the FY 2003-04 financial statements. The Department of Health and Family Services conducted a review of the FY 1998-99 settlement in FY 2004-05 and determined that the Medicaid program owed Mendota an additional $48,814. This settlement was reflected as an operating revenue on the FY 2004-05 financial statements.

The status of cost reports outstanding is as follows:

Year	Medicare	Medicaid
FY 1998-99	Submitted, finalized, appeal settled	Submitted, settled
FY 1999-2000	Submitted, finalized, appeal settled	Submitted, audited
FY 2000-01	Submitted, finalized, appeal settled	Submitted, not audited
FY 2001-02	Submitted, not audited	Submitted, not audited
FY 2002-03	Submitted, not audited	Not submitted
FY 2003-04	Submitted, not audited	Not submitted
FY 2004-05	Submitted, not audited	Not submitted

6. CAPITAL ASSETS

The change in book value from July 1, 2004, to June 30, 2005, is summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Land	$ 306,132	$ 0	$ 0	$ 306,132
Land Improvements	1,579,629	0	0	1,579,629
Buildings	32,158,982	129,789	0	32,288,771
Equipment	2,536,880	103,347	(208,864)	2,431,363
Construction in Progress	480,535	1,217,970	(109,997)	1,588,508
Total Capital Assets	37,062,158	1,451,106	(318,861)	38,194,403
Less Accumulated Depreciation for:				
Land Improvements	(1,173,062)	(80,129)	0	(1,253,191)
Buildings	(16,105,891)	(953,592)	0	(17,059,483)
Equipment	(1,454,954)	(179,567)	207,037	(1,427,484)
Total Accumulated Depreciation	(18,733,907)	(1,213,288)	207,037	(19,740,158)
Total Capital Assets, Net	$18,328,251	$ 237,818	$(111,824)	$18,454,245

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

7. LOAN FROM STATE OF WISCONSIN

The State of Wisconsin General Fund provided Mendota Mental Health Institute a loan of $2,671,149 as of June 30, 2005, to cover cash overdrafts in its appropriations.

8. REIMBURSEMENTS AND TRANSFERS 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 36 outstanding bond issuances. The bonds have maturity dates ranging from April 15, 2006, to April 15, 2025. The principal balance outstanding as of June 30, 2005, attributable to Mendota Mental Health Institute is $17,221,821. 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 attributable to Mendota Mental Health Institute for the year ended June 30, 2005, are allocated as follows:

Principal	$1,306,580
Interest	804,381
Total Paid	$2,110,961

However, Mendota Mental Health Institute reimburses the State of Wisconsin General Fund for a portion of interest expense based on the number of days of care billable to Medicaid. Mendota Mental Health Institute owed $223,670 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 administrative services valued at $1,155,224 and funded by GPR to Mendota Mental Health Institute during FY 2004-05. A portion of the administrative overhead and depreciation on assets purchased by the State is later recovered through Medicaid patient revenue. Mendota Mental Health Institute includes overhead expense and depreciation in the Medicaid cost reports, which are used to determine the final Medicaid settlement for the year. During FY 2004-05, Mendota Mental Health Institute owed Medicaid payments related to overhead expense of $97,541 and depreciation of $121,998 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 and a payable to the State of Wisconsin.

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 from insurance for prior-year services and for current-year services above the costs of providing those services are accounted for as GPR of the General Fund, and not as revenue of Mendota Mental Health Institute.

The statements reflect expected reimbursements as a receivable and as a payable to the State of Wisconsin. For the year ending June 30, 2005, both the receivable from Medicaid, Medicare, and private insurers, less related contractual adjustments, and the related payable to the State of Wisconsin were $169,251.

In addition, Mendota Mental Health Institute collected $917,312 in FY 2004-05 for prior- and current-year services. The Institute has paid $824,471 of this amount to the State of Wisconsin. The remaining $92,841 is reflected on the statements as a payable due to the State of Wisconsin.

D. Retirement Prior-Service Costs

The State of Wisconsin issued bonds in December 2003 and subsequently fully liquidated its liability balance for prior-service retirement expenses as of January 2003. This resulted in cost savings that state agencies are required to lapse to the General Fund. Mendota Mental Health Institute transferred $705,435 to the State's General Fund in FY 2004-05. This amount is reflected in the financial statements as a transfer out. See Note 13 for further information on the employee retirement plan.

9. REVENUE FROM BUILDING LEASES

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	$785,424
Less: Accumulated Depreciation	(581,825)
Buildings, Net	$203,599

Minimum future lease payments to be received during the year ended June 30, 2006, total $115,770.

10. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due within One Year
Capital Leases	$ 465,576	$ 74,000	$ (48,828)	$ 490,748	$ 56,327
Compensated Absences	1,702,782	925,614	(741,308)	1,887,088	933,706
Long-term Liabilities	$2,168,358	$999,614	$(790,136)	$2,377,836	$990,033

11. OBLIGATIONS UNDER CAPITAL LEASES

During FY 2004-05, Mendota Mental Health Institute leased a hematology analyzer and a chemistry analyzer and participated in statewide master lease agreements to acquire energy-saving improvements. The term of the lease for the hematology and chemistry analyzers is 60 months. The terms of the leases for the energy-saving improvements are 6 years. As of June 30, 2005, the value of the equipment and improvements under lease was $637,099. The accumulated depreciation totaled $187,308, resulting in a net book value of $449,791.

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, 2005:

For the Year Ending:	
June 30, 2006	$ 77,146
June 30, 2007	70,981
June 30, 2008	366,339
June 30, 2009	17,645
June 30, 2010	7,352
Total Minimum Lease Payments	539,463
Less: Amounts Representing Interest	48,715
Present Value of Minimum Lease Payments	490,748
Less: Current Maturities	56,327
Long-term Portion of Present Value of Minimum Lease Payments	$434,421

12. OBLIGATIONS UNDER OPERATING LEASES

Mendota Mental Health Institute leases copiers and office space. Future minimum rental payments required under the operating leases as of June 30, 2005, are as follows for the year ended:

June 30, 2006	$ 87,806
June 30, 2007	26,138
June 30, 2008	0
June 30, 2009	0
June 30, 2010	0
Thereafter	0
Total Minimum Payments Required	$113,944

The composition of the total rental expense for the year ended June 30, 2005, is as follows:

Minimum Rentals	$95,994
Contingent Rentals	0
Less: Sublease Rentals	0
Rental Expense	$95,994

13. EMPLOYEE RETIREMENT PLAN

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

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

The most current financial report is also available on the Department of Employee Trust Funds' Web site, *http://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. However, in December 2003 the State issued bonds and subsequently fully liquidated its prior-service liability balance as of January 2003. State agencies are required to make future contributions to fund the bond payments.

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 $4,043,915 for FY 2004-05. The relative position of Mendota Mental Health Institute in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multiple-employer plan.

14. PRIOR-PERIOD ADJUSTMENTS

Beginning net assets were decreased by $85,854 in the Patient Care Fund and increased by $85,854 in the Power Plant Fund. A radio system purchased in FY 2000-01 was capitalized in the Patient Care Fund. It has since been determined that this item should have been capitalized in the Power Plant Fund capital inventory.

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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, 2005. These financial statements are the responsibility of the management of Winnebago Mental Health Institute and the Wisconsin Department of Health and Family Services. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1A, the financial statements referred to in the first paragraph present only 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, 2005, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of each of Winnebago Mental Health Institute's funds as of June 30, 2005, and the respective 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.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated August 25, 2006, 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 other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

LEGISLATIVE AUDIT BUREAU

August 25, 2006 by

Carolyn Stittleburg
Audit Director

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

Prepared by the Department of Health and Family Services

This section of 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, 2005. This discussion and analysis should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this discussion are the responsibility of the management of Winnebago and the Wisconsin Department of Health and Family Services.

Using the Annual Financial Statements

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

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

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

The Statement of Changes in Assets and Liabilities for the Patient Deposit Fund presents additions to and deductions from patient accounts during the year.

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

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

Noteworthy Financial Activity

Winnebago's total net assets decreased by 12 percent during FY 2004-05. Analysis of Winnebago's financial activities focuses on the Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets. Winnebago's net assets from FY 2003-04 to FY 2004-05 are reviewed in Table A. Its changes in net assets for the same period are subsequently reviewed in Table B.

Table A

Net Assets

Fiscal Year Ended June 30:	2005	2004	Percentage Change
Current Assets	$ 10,230,164	$ 9,881,929	4%
Capital Assets	13,757,006	14,395,310	-4
Total Assets	**$23,987,170**	**$24,277,239**	-1
Current Liabilities	$ 9,783,762	$ 8,302,063	18
Noncurrent Liabilities	1,151,894	1,224,080	-6
Total Liabilities	10,935,656	9,526,143	15
Net Assets:			
Invested in Capital Assets, Net of Related Debt	13,303,999	13,908,178	-4
Restricted	63,454	54,096	17
Unrestricted	(315,939)	788,822	-140
Total Net Assets	13,051,514	14,751,096	-12
Total Liabilities and Net Assets	**$23,987,170**	**$24,277,239**	-1

As shown in Table A, current assets increased by 4 percent from FY 2003-04 to FY 2004-05. The increase is mostly the result of an increase in the amounts recorded as "Due from the State of Wisconsin." The State of Wisconsin reimburses Winnebago for expenses incurred to provide services to court-ordered patients. Some of these expenses for payroll and supplies were incurred in FY 2004-05 but were not identified as reimbursable by the State of Wisconsin until after June 30. Therefore the accrued revenue to reimburse these expenses is recorded as "Due from the State of Wisconsin." In FY 2003-04, these expenses had been incurred and reimbursed by the State of Wisconsin by June 30.

The increase in current assets was partially offset by a decrease in patient receivables that was caused, in part, by a 13 percent increase in the amount of cash collected on patient receivables during FY 2004-05. During the same year, there was only a modest increase in patient billings. The net patient receivable balance will go down when there is only a modest increase in patient billings and a large increase in cash collected on current and prior-year patient billings. In addition, an analysis of prior-year collections determined that estimates used to write off uncollectible patient receivables had been too low in prior years. The net patient receivable balance will go down when patient billings from prior years are written off as uncollectible. The patient receivable balance was reduced by $271,800 to account for a change in estimate.

Capital assets, which represent the original cost of an asset less accumulated depreciation, decreased by 4 percent from FY 2003-04 to FY 2004-05. While overall capital assets declined, two ongoing construction projects are worth noting: roof repairs at Gordon Hall, and replacement of a fire alarm system. The increase in capital assets from construction activity was offset by the decrease in capital assets resulting from current-year depreciation expense.

Current liabilities increased by 18 percent from FY 2003-04 to FY 2004-05. Most of this increase results from a large increase in the loan from the State of Wisconsin that covers cash overdrafts in Winnebago's appropriations. The cash balance in an appropriation is computed by increasing the beginning cash balance by amounts received as patient receivables and as cash received from other sources. Cash paid for expenses such as salaries and supplies is then subtracted from this total. If the sum of cash resources available less cash expenses is negative, the appropriation is in overdraft. A loan from the State of Wisconsin is recorded on the statements since the State will cover all cash expenses that exceed the cash available. This increase was partially offset by a decrease in payables due to the State of Wisconsin. A Medicaid cost report settlement received during FY 2003-04 was paid to the State of Wisconsin in FY 2004-05.

Noncurrent liabilities decreased by 6 percent from FY 2003-04 to FY 2004-05. Some of this decrease resulted from a decrease in the accrual for noncurrent compensated absences, which are accrued expenses for vacations, sabbatical leave, and sick leave. The other major reason for the decrease in noncurrent liabilities was a decrease in capital leases. Winnebago did not contract for any new capital leases in FY 2004-05. The liability for capital leases will decrease in a year when payments are made on capital leases contracted for in a prior year and there are no new capital leases.

Net assets on the Balance Sheet are computed by subtracting total liabilities from total assets. Net assets are then further segregated on the Balance Sheet between net assets invested in capital assets net of related debt, net assets restricted by legal requirements from other governments or private donors, and unrestricted net assets. Net assets decreased from $14,751,096 in FY 2003-04 to $13,051,514 in FY 2004-05. The financial activity that resulted in this decrease of $1,699,582 can be found by looking at the Statement of Revenues, Expenses, and Changes in Net Assets, which is analyzed in Table B.

Table B

Changes in Net Assets

Fiscal Year Ended June 30:	2005	2004	Percentage Change
Operating Revenue	$50,016,660	$48,476,755	3%
Operating Expenses	50,894,752	48,592,722	5
Net Operating Income (Loss)	(878,092)	(115,967)	
Nonoperating Income	547,049	409,166	34
Net Transfers In (Out)	(1,368,539)	(239,091)	-472
Change in Net Assets	$ (1,699,582)	$ 54,108	

The change in net assets for FY 2004-05 shows that Winnebago did not generate enough revenue to cover expenses. A comparison of FY 2003-04 to FY 2004-05 shows modest increases in operating expenses outpacing increases in operating revenue, resulting in a major decrease in net operating income.

The modest increase in operating expenses resulted, in part, from a 6 percent increase in salary expenses. Some of this increase resulted from the settlement of employee contracts in FY 2004-05.

A significant change from FY 2003-04 to FY 2004-05 in the Statement of Revenues, Expenses, and Change in Net Assets was a 472 percent change in net transfers in (out). Some of this change was the result of a decrease in transfers in from the State of Wisconsin. These transfers reimburse Winnebago for expenditures on capital construction projects. There was a decrease in construction activity from FY 2003-04 to FY 2004-05.

Another significant change in net transfers in (out) related to transfers to the General Fund. In December 2003, the State of Wisconsin issued bonds to fund its liability for prior-service retirement expenses. State agencies were required to transfer the resulting cost savings to the General Fund. FY 2004-05 was the first full year of these transfers.

Contacting the Institute's Financial Management

This financial report is designed to provide a general overview of Winnebago's financial performance for FY 2004-05. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to:

Ken Thyberg, Audit Liaison
Department of Health and Family Services
Room 655, 1 West Wilson Street
P.O. Box 7850
Madison, WI 53707-7850

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Financial Statements of Winnebago Mental Health Institute ■

Balance Sheet
June 30, 2005

	Patient Care Fund	Power Plant Fund	Patient Deposit Fund	Canteen Fund	Totals (Memorandum Only)
ASSETS					
Current Assets:					
Cash and cash equivalents (Note 2)	$ 67,422	$ 0	$ 64,278	$ 19,221	$ 150,921
Net accounts receivable (Note 3)	6,495,823	211,779	1,291	1,678	6,710,571
Due from the State of Wisconsin	2,122,707	132,898	0	0	2,255,605
Supplies and merchandise inventories	479,526	30,608	0	21,715	531,849
Prepaid items	569,741	9,611	0	1,866	581,218
Total Current Assets	9,735,219	384,896	65,569	44,480	10,230,164
Noncurrent Assets:					
Capital assets (Note 6):					
Land	230,340	800	0	0	231,140
Land improvements	577,314	0	0	0	577,314
Buildings	21,505,159	3,069,359	0	0	24,574,518
Equipment	1,286,237	11,503	0	0	1,297,740
Accumulated depreciation	(11,471,501)	(1,843,940)	0	0	(13,315,441)
Construction in progress	391,735	0	0	0	391,735
Total Noncurrent Assets	12,519,284	1,237,722	0	0	13,757,006
TOTAL ASSETS	**$ 22,254,503**	**$ 1,622,618**	**$ 65,569**	**$ 44,480**	**$ 23,987,170**
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable (Note 4)	$ 874,738	$ 0	$ 0	$ 35,495	$ 910,233
Due to the federal government	27,206	546	0	0	27,752
Due to the State of Wisconsin (Notes 7 and 8)	7,145,687	94,044	0	2,238	7,241,969
Accrued expenses (Note 4)	552,356	67,352	0	0	619,708
Capital leases (Notes 10 and 11)	31,364	3,859	0	0	35,223
Compensated absences (Note 10)	867,508	14,849	0	699	883,056
Patient funds held in trust	0	0	65,569	0	65,569
Deferred revenue	0	0	0	252	252
Total Current Liabilities	9,498,859	180,650	65,569	38,684	9,783,762
Noncurrent Liabilities:					
Capital leases (Notes 10 and 11)	372,013	45,771	0	0	417,784
Compensated absences (Note 10)	721,756	12,354	0	0	734,110
Total Noncurrent Liabilities	1,093,769	58,125	0	0	1,151,894
Total Liabilities	**10,592,628**	**238,775**	**65,569**	**38,684**	**10,935,656**
Net Assets:					
Invested in capital assets, net of related debt	12,115,907	1,188,092	0	0	13,303,999
Restricted	63,454	0	0	0	63,454
Unrestricted	(517,486)	195,751	0	5,796	(315,939)
Total Net Assets	**11,661,875**	**1,383,843**	**0**	**5,796**	**13,051,514**
TOTAL LIABILITIES AND NET ASSETS	**$ 22,254,503**	**$ 1,622,618**	**$ 65,569**	**$ 44,480**	**$ 23,987,170**

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, 2005

	Patient Care Fund	Power Plant Fund	Canteen Fund	Totals (Memorandum Only)
OPERATING REVENUES				
Net Revenue from Patient Care (Notes 1F and 1L)	$ 26,867,581	$ 0	$ 0	$ 26,867,581
Revenue from the State of Wisconsin	21,185,032	0	0	21,185,032
Utility Sales	0	1,717,064	0	1,717,064
Canteen Revenues	0	0	205,669	205,669
Medicaid/Medicare Settlements (Note 5)	41,314	0	0	41,314
Total Operating Revenues	**48,093,927**	**1,717,064**	**205,669**	**50,016,660**
OPERATING EXPENSES				
Salaries	28,409,904	499,573	47,228	28,956,705
Fringe Benefits	11,391,688	210,761	0	11,602,449
Materials and Supplies	8,486,888	839,503	133,111	9,459,502
Depreciation	711,955	164,141	0	876,096
Total Operating Expenses	**49,000,435**	**1,713,978**	**180,339**	**50,894,752**
OPERATING INCOME (LOSS)	**(906,508)**	**3,086**	**25,330**	**(878,092)**
NONOPERATING REVENUES AND EXPENSES				
Revenue from the State of Wisconsin	197,848	0	0	197,848
Gain (Loss) on Sale of Fixed Assets	6,835	0	0	6,835
Canteen Commissions	0	0	2,756	2,756
Operating Grants	168,501	0	0	168,501
Other Nonoperating Revenues	188,203	0	851	189,054
Materials and Supplies	0	0	(321)	(321)
Interest Expense	(15,693)	(1,931)	0	(17,624)
Total Nonoperating Income (Loss)	**545,694**	**(1,931)**	**3,286**	**547,049**
Income (Loss) before Transfers	(360,814)	1,155	28,616	(331,043)
Transfers In for Capital Projects (Note 1K)	166,396	0	0	166,396
Transfers Out (Note 8)	(1,509,744)	(25,191)	0	(1,534,935)
CHANGE IN NET ASSETS	**(1,704,162)**	**(24,036)**	**28,616**	**(1,699,582)**
NET ASSETS				
Total Net Assets—Beginning of the Year	13,366,037	1,407,879	(22,820)	14,751,096
Total Net Assets—End of the Year	**$ 11,661,875**	**$ 1,383,843**	**$ 5,796**	**$ 13,051,514**

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, 2005

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
ASSETS				
Cash and Cash Equivalents	$ 79,196	$ 1,441,378	$ 1,456,296	$ 64,278
Investments	0	63,525	63,525	0
Net Accounts Receivable	1,440	40,744	40,893	1,291
Total Assets	**$ 80,636**	**$ 1,545,647**	**$ 1,560,714**	**$ 65,569**
LIABILITIES				
Patient Funds Held in Trust	$ 80,636	$ 267,830	$ 282,897	$ 65,569
Total Liabilities	**$ 80,636**	**$ 267,830**	**$ 282,897**	**$ 65,569**

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Year Ended June 30, 2005

	Patient Care Fund	Power Plant Fund	Canteen Fund	Totals (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Receipts for Patient Care, Power Plant, and Canteen Operations	$ 45,176,681	$ 1,600,285	$ 217,637	$ 46,994,603
Cash Payments to Suppliers for Goods and Services	(8,370,635)	(781,946)	(141,193)	(9,293,774)
Cash Payments to Employees for Services	(39,369,715)	(706,208)	(73,886)	(40,149,809)
Other Sources (Uses) of Cash	427,435	0	0	427,435
Net Cash Provided (Used) by Operating Activities	**(2,136,234)**	**112,131**	**2,558**	**(2,021,545)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers Out	(1,244,090)	(25,171)	0	(1,269,261)
Loan from the State of Wisconsin	3,521,062	(81,290)	0	3,439,772
Net Cash Provided (Used) by Noncapital Financing Activities	**2,276,972**	**(106,461)**	0	**2,170,511**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest Payments	(15,693)	(1,930)	0	(17,623)
Capital Lease Obligations	(30,387)	(3,740)	0	(34,127)
Payments for Purchases of Capital Assets	(71,397)	0	0	(71,397)
Other Cash Flows from Capital Financing Activities	5,355	0	0	5,355
Net Cash Provided (Used) by Capital and Related Financing Activities	**(112,122)**	**(5,670)**	0	**(117,792)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sale of Investment Securities	0	0	6,197	6,197
Investment and Interest Receipts	0	0	41	41
Net Cash Provided (Used) by Investing Activities	**0**	**0**	**6,238**	**6,238**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**28,616**	0	**8,796**	**37,412**
Cash and Cash Equivalents—Beginning of the Year	38,806	0	10,425	49,231
Cash and Cash Equivalents—End of the Year	$ 67,422	$ 0	$ 19,221	$ 86,643

The accompanying notes are an integral part of this statement.

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATIONS	Patient Care Fund	Power Plant Fund	Canteen Fund	Totals (Memorandum Only)
Operating Income (Loss)	$ (906,508)	$ 3,086	$ 25,330	$ (878,092)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operations:				
Depreciation	711,955	164,141	0	876,096
Miscellaneous nonoperating income (expense)	554,554	0	3,245	557,799
Changes in assets and liabilities:				
Decrease (Increase) in receivables	(3,173,611)	(72,469)	(18)	(3,246,098)
Decrease (Increase) in Due from the State of Wisconsin	(720,989)	0	0	(720,989)
Decrease (Increase) in supplies inventories	(49,520)	(11,331)	226	(60,625)
Decrease (Increase) in prepaid items	943	(75)	0	868
Increase (Decrease) in accrued expenses	(28,512)	25,855	0	(2,657)
Increase (Decrease) in accounts payable	710,955	0	(26,225)	684,730
Increase (Decrease) in Due to the State of Wisconsin	525,624	181	0	525,805
Increase (Decrease) in Due to the federal government	(2,604)	98	0	(2,506)
Increase (Decrease) in compensated absences	241,479	2,645	0	244,124
Total Adjustments	(1,229,726)	109,045	(22,772)	(1,143,453)
Net Cash Provided by Operating Activities	**$ (2,136,234)**	**$ 112,131**	**$ 2,558**	**$ (2,021,545)**
Noncash Investing, Capital, and Financing Activities:				
Transfers in for capital projects from the State of Wisconsin	$ 166,396	$ 0	$ 0	$ 166,396

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

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

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

B. Patient Care Fund

The Patient Care Fund includes general operations of Winnebago Mental Health Institute related to providing patient services. Receipt of funds, such as grants and gifts, where outside parties have placed 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 as they are needed.

C. Power Plant Fund

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

D. Patient Deposit Fund

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

E. Canteen Fund

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

F. Use of Estimates

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

G. Cash and Cash Equivalents

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

Investments include certificates of deposit that have a maturity date of more than 90 days from the date of acquisition. No investments were held as of June 30, 2005.

I. Supplies Inventory

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

J. 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 two or more 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

K. Invested in Capital Assets

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

Additions of capital assets financed by general obligation debt are included in the Statement of Revenues, Expenses, and Changes in Net Assets as a transfer in for capital projects.

L. Net Patient Service Revenue

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

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

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

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

M. 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

Winnebago Mental Health Institute's cash and cash equivalents include deposits of the Patient Care Fund, the Patient Deposit Fund, and the Canteen Fund in checking accounts and non-negotiable certificates of deposit that are held in several financial institutions. The Patient Care Fund includes deposits in a contingent checking fund, which 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, 2005, the carrying value of these deposits was $86,381, and the bank balance was $96,006.

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 $7,864, are not included in the carrying value or bank balance because they are not deposits.

Some of Winnebago Mental Health Institute's cash, except for the deposits and cash discussed in the preceding two paragraphs, is deposited with the State and is invested in the State Investment Fund, which is a short-term investment pool of state and local funds managed by the State of Wisconsin Investment Board. Holdings of the State Investment Fund include certificates of deposit and investments consisting primarily of direct obligations of the federal government and the State, and unsecured notes of qualifying financial and industrial issuers. The State Investment Fund is not registered with the Securities and Exchange Commission.

GASB Statement Number 40, *Deposit and Investment Risk Disclosures*, was issued in March 2003. The provisions of this statement are effective for financial statements beginning in FY 2004-05. GASB Statement Number 40 updates the custodial credit risk disclosure requirements of GASB Statement Number 3 and addresses other investment risks, including credit, concentration of credit, interest rate, and foreign currency risks. Winnebago Mental Health Institute does not have a deposit policy for custodial credit risk and other investment risks.

For deposits and non-negotiable certificates of deposit held in financial institutions, custodial credit risk is the risk that in the event of a failure of a depository financial institution, deposits may not be returned. All of the deposits and non-negotiable certificates of deposit that are held in financial institutions are insured up to $100,000 by the Federal Deposit Insurance Corporation. The State of Wisconsin Public Deposit Guarantee Fund insures up to $400,000 above the amount of federal insurance. As of June 30, 2005, the bank balance was $96,006. Therefore all deposits and non-negotiable certificates of deposit held in financial institutions are insured.

3. ACCOUNTS RECEIVABLE BALANCES

Significant receivable balances as of June 30, 2005, include the following:

Patient Receivables	$6,311,853
Utility Sales Receivables	211,780
Other Receivables	185,648
Total Accounts Receivable	$6,709,281

The patient receivable balance includes patient charges to Medicare, Medicaid, and private insurance providers. These receivables are net of Medicare and Medicaid contractual adjustments and uncollectible amounts. Approximately 94 percent of patient receivables is expected to be collected in FY 2005-06. The remaining 6 percent is expected to be collected in FY 2006-07. The utility sales and other receivables should all be collected in FY 2005-06.

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 attempt to recover a portion of the outstanding charge from a secondary source. The outstanding charge attributable to patients who are determined to be the responsibility of the State will be reimbursed by GPR. The outstanding charge attributable to patients who are determined to be the responsibility of a county government will be reimbursed by the county government.

4. ACCOUNTS PAYABLE AND ACCRUED EXPENSE BALANCES

Significant accounts payable balances as of June 30, 2005, include the following:

Vendors	$ 668,301
Salaries and Benefits	241,932
Total Accounts Payable	$910,233

Significant accrued expense balances as of June 30, 2005, include the following:

Vendors	$221,320
Salaries and Benefits	398,388
Total Accrued Expenses	$619,708

5. THIRD-PARTY CONTRACTUAL SETTLEMENTS

Winnebago Mental Health Institute has submitted Medicare cost reports to United Government Services for FY 2001-02, FY 2002-03, FY 2003-04, and FY 2004-05. United Government Services has not yet completed an audit of these cost reports but has computed tentative settlements for the first three years. The tentative settlements concluded that the Institute owed the Medicare program $112,581 for FY 2001-02, $409,352 for FY 2002-03, and $225,545 for FY 2003-04. The tentative settlement for FY 2001-02 was reflected as an operating expense and a payable in the FY 2001-02 financial statements, and the tentative settlement for FY 2002-03 was reflected as an operating expense and a payable in the FY 2002-03 financial statements. The tentative settlement for FY 2003-04 is reflected as an operating expense in the FY 2004-05 financial statements.

Winnebago Mental Health Institute has submitted Medicaid cost reports to the Department of Health and Family Services for FY 1998-99, FY 1999-2000, FY 2000-01, and FY 2001-02. The Department of Health and Family Services has completed an audit of the FY 1998-99 report and concluded that Winnebago owed the Medicaid program $143,667. This settlement was reflected as an operating expense on the FY 2003-04 financial statements. The Department of Health and Family Services conducted a review of the

FY 1998-99 settlement in FY 2004-05 and determined that the Medicaid program owed Winnebago an additional $41,314. This settlement was reflected as an operating revenue on the FY 2004-05 financial statements.

The status of cost reports outstanding is as follows:

Year	Medicare	Medicaid
FY 1998-99	Submitted, finalized, appeal settled	Submitted, audited, finalized
FY 1999-2000	Submitted, finalized, appeal settled	Submitted, audited
FY 2000-01	Submitted, finalized, appealed	Submitted, not audited
FY 2001-02	Submitted, not audited	Submitted, not audited
FY 2002-03	Submitted, not audited	Not submitted
FY 2003-04	Submitted, not audited	Not submitted
FY 2004-05	Submitted, not audited	Not submitted

6. CAPITAL ASSETS

The change in book value from July 1, 2004, to June 30, 2005, is summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Land	$ 231,140	$ 0	$ 0	$ 231,140
Land Improvements	577,314	0	0	577,314
Buildings	24,156,341	423,582	(5,405)	24,574,518
Equipment	1,268,484	76,801	(47,545)	1,297,740
Construction in Progress	648,921	166,396	(423,582)	391,735
Total Capital Assets	26,882,200	666,779	(476,532)	27,072,447
Less Accumulated Depreciation for:				
Land Improvements	(392,688)	(30,905)	0	(423,593)
Buildings	(11,083,594)	(762,145)	0	(11,845,739)
Equipment	(1,010,608)	(83,046)	47,545	(1,046,109)
Total Accumulated Depreciation	(12,486,890)	(876,096)	47,545	(13,315,441)
Total Capital Assets, Net	$14,395,310	$(209,317)	$(428,987)	$13,757,006

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

7. LOAN FROM STATE OF WISCONSIN

The State of Wisconsin General Fund provided Winnebago Mental Health Institute a loan of $5,127,177 as of June 30, 2005, to cover cash overdrafts in its appropriations.

8. REIMBURSEMENTS AND TRANSFERS 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 34 outstanding bond issuances. The bonds have maturity dates ranging from April 15, 2006, to April 15, 2025. The principal balance outstanding as of June 30, 2005, attributable to Winnebago Mental Health Institute is $11,575,779. 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 attributable to Winnebago Mental Health Institute for the year ended June 30, 2005, are allocated as follows:

Principal	$ 942,334
Interest	570,059
Total Paid	$1,512,393

However, Winnebago Mental Health Institute reimburses the State of Wisconsin General Fund for a portion of interest expense based on the number of days of care billable to Medicaid. Winnebago Mental Health Institute owed $264,211 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 administrative services valued at $1,002,843 and funded by GPR to Winnebago Mental Health Institute during FY 2004-05. A portion of the administrative overhead and depreciation on assets purchased by the State is later recovered through Medicaid patient revenue. Winnebago Mental Health Institute includes overhead expense and depreciation in the Medicaid cost reports, which are used to determine the final Medicaid settlement for the year. During FY 2004-05, Winnebago Mental Health Institute owed Medicaid payments related to overhead expense of $225,118 and depreciation of

$385,289 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 from insurance for prior-year services and for current-year services above the costs of providing those services are accounted for as GPR of the General Fund, and not as revenue of Winnebago Mental Health Institute.

The statements reflect expected reimbursements as a receivable and as a payable to the State of Wisconsin. For the year ending June 30, 2005, both the receivable from Medicaid, Medicare, and private insurers, less related contractual adjustments, and the related payable to the State of Wisconsin were $369,448.

In addition, Winnebago Mental Health Institute collected $1,268,434 in FY 2004-05 for prior- and current-year services. The Institute has paid $936,967 of this amount to the State of Wisconsin. The remaining $331,467 is reflected on the statements as a payable due to the State of Wisconsin.

D. Retirement Prior-Service Costs

The State of Wisconsin issued bonds in December 2003 and subsequently fully liquidated its liability balance for prior-service retirement expenses as of January 2003. This resulted in cost savings that state agencies are required to lapse to the General Fund. Winnebago Mental Health Institute transferred $564,800 to the State's General Fund in FY 2004-05. This amount is reflected in the financial statements as a transfer out. See Note 13 for further information on the employee retirement plan.

9. Revenue from Building Leases

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, 2006, total $1,500.

10. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due within One Year
Capital Leases	$ 487,132	$ 0	$ (34,125)	$ 453,007	$ 35,223
Compensated Absences	1,373,260	846,092	(602,186)	1,617,166	883,056
Long-term Liabilities	$1,860,392	$846,092	$(636,311)	$2,070,173	$ 918,279

11. OBLIGATION UNDER CAPITAL LEASES

During FY 2004-05, Winnebago Mental Health Institute participated in statewide master lease agreements for energy-saving improvements. The terms of the leases are six years. The value of the improvements under lease as of June 30, 2005, was $583,955. The accumulated depreciation totaled $152,486, resulting in a net book value of $431,469.

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, 2005:

For the Year Ending:	
June 30, 2006	$ 51,750
June 30, 2007	51,750
June 30, 2008	388,489
June 30, 2009	0
June 30, 2010	0
Total Minimum Lease Payments	491,989
Less: Amounts Representing Interest	38,982
Present Value of Minimum Lease Payments	453,007
Less: Current Maturities	35,223
Long-term Portion of Present Value of Minimum Lease Payments	$417,784

12. OBLIGATIONS UNDER OPERATING LEASES

Winnebago Mental Health Institute leases copiers and facsimile machines. Future minimum rental payments required under the operating leases as of June 30, 2005, are as follows for the year ended:

June 30, 2006	$ 7,320
June 30, 2007	3,504
June 30, 2008	3,504
June 30, 2009	2,920
June 30, 2010	0
Total Minimum Payments Required	$17,248

The composition of the total rental expense for the fiscal year ended June 30, 2005, is as follows:

Minimum Rentals	$21,019
Contingent Rentals	0
Less: Sublease Rentals	0
Rental Expense	$21,019

13. EMPLOYEE RETIREMENT PLAN

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

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

The most current financial report is also available on the Department of Employee Trust Funds' Web site, *http://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. However, in December 2003 the State issued bonds and subsequently fully liquidated its prior-service liability balance as of January 2003. State agencies are required to make future contributions to fund the bond payments.

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 $3,393,126 for FY 2004-05. The relative position of Winnebago Mental Health Institute in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multiple-employer plan.

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Report on Internal Control and Compliance ▪

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

We have audited the financial statements of the State of Wisconsin Mendota Mental Health Institute and Winnebago Mental Health Institute as of and for the year ended June 30, 2005, and have issued our reports thereon dated August 25, 2006. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits, we considered the Institutes' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide an opinion on the internal control over financial reporting. However, we noted two matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

First, we identified continuing concerns with reports from the Department's institutional billing and collection system, which are used to estimate patient receivables and revenues in the Patient Care Fund. Based on our prior-year recommendation, the Department developed an additional report that includes all changes in primary funding sources for individual patients. This report allowed the Department to identify and make adjustments to the financial statements related to current-year charges for patients with primary funding source changes. However, the report did not take into consideration primary funding source changes related to current-year collections for prior-year charges. Based on a detailed analysis of primary funding source changes, we recommended adjustments to increase Mendota's patient revenue by $122,000 and Winnebago's patient revenue by $102,000 for FY 2004-05. The Department made the recommended adjustments to the financial statements, and it is taking steps to adjust the report from the billing and collections system to appropriately account for collections on prior-year charges. The Department anticipates this revised report will be available for preparation of the FY 2005-06 financial statements.

Second, as described in the report narrative in the section titled "Program of Assertive Community Treatment," we identified internal control concerns over the receipt and disbursement process for funds held on behalf of clients of the Program of Assertive Community Treatment, an outpatient unit of Mendota Mental Health Institute. This activity is accounted for in the Mendota Patient Deposit Fund. The Department's response to those deficiencies is also summarized in that section.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described here, we believe that the reportable condition related to the Program of Assertive Community Treatment is a material weakness for the Patient Deposit Fund at Mendota Mental Health Institute.

COMPLIANCE AND OTHER MATTERS

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

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

LEGISLATIVE AUDIT BUREAU

August 25, 2006 by

Carolyn Stittleburg
Audit Director

State of Wisconsin
Department of Health and Family Services

Jim Doyle, Governor
Helene Nelson, Secretary

August 31, 2006

Janice Mueller, State Auditor
Legislative Audit Bureau
22 E. Mifflin Street, Suite 500
Madison, WI 53703

Dear Ms. Mueller:

We appreciate the work done by your staff in completing the audits of Wisconsin's two Mental Health Institutes, and the opportunity to respond to the concerns raised within the audit report.

The Institutes' financial statements, which the Department prepares on a full accrual basis in accordance with Generally Accepted Accounting Principles (GAAP), disclose a $4.3 million loss for State Fiscal Year 2004-05. However, DHFS is required by the statutes to manage the finances of the Institutes using a modified cash basis of accounting. Using this method, the Institutes lost approximately $1 million during FY05.

Despite this loss, the financial condition of the Institutes remains strong, thanks to an operating reserve that totaled $5.8 million going into FY05, and $4.8 million afterward. DHFS believes that this level of reserve, which equates to between one and two months of operating costs, is sound financial management, and enables the Department to adjust to variations in revenues and expenditures without falling into a deficit, and without charging drastically varying rates to counties year to year.

The Department will continue to perform due diligence in managing the financial well-being of the Institutes, and will set rates for FY07 to maintain the healthy financial condition of Wisconsin's Mental Health Institutes.

Sincerely,

Helene Nelson

Helene Nelson
Secretary