Report 09-10
October 2009

An Audit

Wisconsin Mental Health Institutes

Department of Health Services

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Janice Mueller
State Auditor

October 15, 2009

Senator Kathleen Vinehout and
Representative Peter Barca, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Vinehout and Representative Barca:

We have completed financial audits of Mendota and Winnebago Mental Health Institutes for the period July 1, 2007, through June 30, 2008. The audits were requested by the Department of Health Services (DHS). 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.

The Institutes reported mixed financial results for fiscal year 2007-08. Mendota reported a $0.6 million gain in net assets, primarily as a result of increased settlements from the federal government. Winnebago reported a $2.5 million loss in net assets because it did not generate enough revenue to cover its expenses.

The cash balance in the Institutes' primary program revenue appropriation has been declining over the past five years. To address this decline, DHS approved increases in daily patient rates of 9.5 percent at both Institutes effective October 1, 2009. This follows rate increases of 9.5 percent at Mendota and 11.0 percent at Winnebago that were effective in October 2008.

We appreciate the courtesy and cooperation extended to us by DHS staff during our audit.

Respectfully submitted,

Janice Mueller

Janice Mueller
State Auditor

JM/SH/ss

Introduction ■

Mendota and Winnebago Mental Health Institutes 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. They are operated by the Division of Mental Health and Substance Abuse Services in the Department of Health Services (DHS).

As part of the accreditation process by the Joint Commission, the Department requested an audit of the Institutes' financial statements. As necessary parts of this audit, we reviewed each Institute's internal control procedures, assessed the fair presentation of the fiscal year (FY) 2007-08 financial statements, and reviewed compliance with selected statutory provisions. We did not review management issues such as quality of care or staffing.

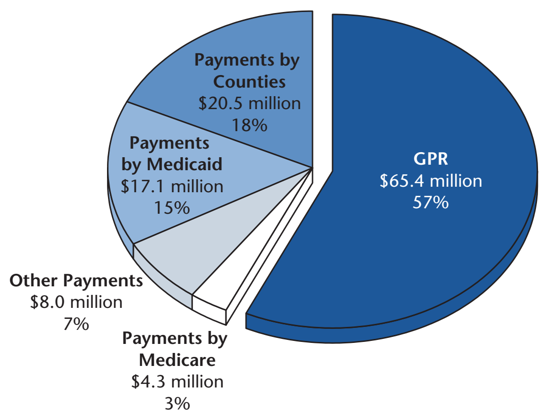
Care for forensic patients is funded primarily with GPR.

The Institutes are funded through a mix of general purpose revenue (GPR) and program revenue generated by daily charges for patient care. For FY 2007-08, they have a combined budget of $124.0 million and 1,385 full-time equivalent (FTE) positions. GPR is the primary funding source for forensic patients who are being evaluated for competency to stand trial or have been charged with crimes and found either incompetent to stand trial or not guilty by reason of mental defect or disease. Care for patients committed through civil proceedings or by voluntary placement is funded primarily with program revenue and paid for by counties, Medicaid, Medicare, and private payers.

Figure 1 illustrates the Institutes' funding sources for patient care. GPR directly appropriated to the Institutes accounted for 57 percent of the $115.3 million received in FY 2007-08. The largest source of program revenue in that year was payments by counties. In prior years, Medicaid was the largest source of program revenue. Medicaid payments declined because of declines in the number of Medicaid-eligible patients at both Institutes, as well as a one-time adjustment to the rate Winnebago was paid for services to Medicaid-eligible patients.

Figure 1

Patient Care Receipts[1]
FY 2007-08



[1]Represents cash receipts totaling $115.3 million.

As shown in Table 1, each Institute's average daily population has fluctuated over the past ten years, but use of both is consistently high. Forensic patients, who are funded with GPR, continue to represent a large portion of the Institutes' capacity. In FY 2007-08, forensic patients made up 61.1 percent of Mendota's and 50.0 percent of Winnebago's average daily population.

Financial Performance

Over the past five years, the Institutes' financial performance has been mixed. Although each is expected to generate sufficient revenue to cover operating expenses, Mendota has reported an operating loss for three of the past five years. Winnebago has reported an operating loss for four of the past five years, as shown in Table 2.

Table 1

Ten-Year Trends in Average Daily Population and Capacity

	FY 1998-99	FY 1999-2000	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08[1]
Mendota										
Average Daily Population	263	269	281	263	261	253	258	273	284	285
Capacity	293	293	299	290	275	275	275	293	293	293
Percentage Filled	89.8	91.8	94.0	90.7	94.9	92.0	93.8	93.0	96.9	97.3
Winnebago										
Average Daily Population	267	274	278	277	272	266	266	253	239	224
Capacity	313	313	299	298	290	290	280	262	262	242
Percentage Filled	85.3	87.5	93.0	93.0	93.8	91.7	95.0	96.6	91.2	92.6

[1] Winnebago's capacity was reduced because of the closure of a 20-bed unit at the beginning of FY 2007-08.

Table 2

Net Income (Loss)

	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
Mendota					
Operating Income (Loss)	$(748,847)	$(2,882,512)	$1,174,592	$(3,735,614)	$941,371
Nonoperating Income and Transfers[1]	838,801	264,069	1,057,818	5,276,831	(369,772)
Net Income (Loss)	**$ 89,954**	**$(2,618,443)**	**$2,232,410**	**$ 1,541,217**	**$571,599**
Winnebago					
Operating Income (Loss)	$(115,967)	$ (878,092)	$1,849,858	$(3,707,773)	$(2,861,168)
Nonoperating Income and Transfers[1]	170,075	(821,490)	(361,994)	1,104,285	357,895
Net Income (Loss)	**$ 54,108**	**$(1,699,582)**	**$1,487,864**	**$(2,603,488)**	**$(2,503,273)**

[1] This includes one-time activity or transactions with the State that do not directly relate to the Institutes' operations, such as transfers in of capital assets.

Another way to evaluate the financial performance is to analyze the status of the Institutes' cash position. For several years during the 1990s their primary program revenue appropriation, which funds civil commitments, had a deficit balance. As a result, DHS was required to report to the Department of Administration and the Legislature on the status of the deficit and a plan for improvement. The appropriation's cash balance was positive beginning in FY 1999-2000, and the reporting requirement subsequently ended.

To manage the Institutes' financial operations, DHS attempts to maintain a one- to two-month working cash balance, or a minimum of $4.2 million. However, this cash balance has declined over the past five years, and for the past two fiscal years the Institutes' cash balance, as supported by outstanding accounts receivable, has fallen below the minimum level. DHS attributes the decline in the Institutes' cash balance to greater increases in salary expenses than in revenue. As noted, Winnebago's payment rate for services to Medicaid-eligible patients was also reduced. Preliminary analysis by DHS indicates an improvement in the Institutes' cash balance at the end of FY 2008-09.

Efforts to improve the Institutes' cash balance have included increases to daily patient rates over the past several years. At the start of federal fiscal year 2008-09, the daily rates shown in Table 3 increased by 9.5 percent at Mendota and 11.0 percent at Winnebago, or $809 and $801, respectively. To address further cost increases and improve the Institutes' cash balance, DHS approved an additional increase of 9.5 percent at each Institute for federal fiscal year 2009-10.

Table 3

Five-Year Trends in Average Daily Patient Rates

	Federal Fiscal Year 2003-04	Federal Fiscal Year 2004-05	Federal Fiscal Year 2005-06	Federal Fiscal Year 2006-07	Federal Fiscal Year 2007-08
Mendota	$649	$649	$668	$675	$739
Winnebago	575	603	640	659	722

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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, 2008, as listed in the table of contents. These financial statements are the responsibility of the management of Mendota Mental Health Institute and the Wisconsin Department of Health 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 and the changes in each fund's financial position and cash flows, where applicable, 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, 2008, 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.

As discussed in Note 1F to the financial statements, revenue from patient care and corresponding receivables are reported net of known and estimated contractual adjustments for Medicaid and Medicare claims. In addition, management makes estimates of collectability for receivables from other third parties. Management believes that the estimated receivable is reasonable and adequately reflects amounts to be collected in future years. However, uncertainties inherent in predicting the amount of collections from Medicaid, Medicare, and other third parties make it likely that amounts collected will ultimately differ from the recorded estimated receivable. These differences cannot currently be quantified.

As discussed in Note 14 to the financial statements, Mendota Mental Health Institute implemented accounting changes and additional note disclosures under Governmental Accounting Standards Board Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement 45 requires Mendota Mental Health Institute, for the first time, to report the costs related to other postemployment benefits, such as the benefit available to retired state employees to purchase health insurance at a subsidized rate.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Mendota Mental Health Institute. The supplementary information included as Management's Discussion and Analysis on pages 9 through 13 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 October 5, 2009, on our consideration of the Department of Health Services' internal control over financial reporting for Mendota Mental Health Institute; our tests of its compliance with certain provisions of laws, regulations, and 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

October 5, 2009 by Sherry Haakenson

Sherry Haakenson
Audit Director

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

Prepared by the Department of Health 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, 2008. 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 management of Mendota and the Wisconsin Department of Health 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 the liabilities is reported as net assets on the Balance Sheet. Over time, increases or decreases in net assets are one indicator of whether Mendota's 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 use of capital assets is reflected as depreciation expense, which amortizes the cost of the assets over their estimated useful lives.

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 increased by 2 percent during FY 2007-08. Analysis of its financial activities focuses on the Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets. Mendota's assets from June 30, 2007, to June 30, 2008, are reviewed in Table A. Its changes in net assets during FY 2007-08 are reviewed in Table B.

Table A

Net Assets

	June 30, 2008	June 30, 2007	Percentage Change
Current Assets	$13,234,447	$ 9,069,745	46%
Capital Assets	21,484,175	22,281,578	(4)
Total Assets	**$34,718,622**	**$31,351,323**	11
Current Liabilities	$ 7,855,893	$ 6,247,069	26
Noncurrent Liabilities	2,763,874	1,576,998	75
Total Liabilities	10,619,767	7,824,067	36
Net Assets:			
Invested in Capital Assets, Net of Related Debt	21,116,680	21,907,579	(4)
Restricted	9,047	28,947	(69)
Unrestricted	2,973,128	1,590,730	87
Total Net Assets	24,098,855	23,527,256	2
Total Liabilities and Net Assets	**$34,718,622**	**$31,351,323**	11

As shown in Table A, current assets increased by 46 percent from June 30, 2007, to June 30, 2008. The increase can be attributed primarily to a $3.8 million increase in settlements, as Mendota received notification of three settlements due from Medicaid/Medicare. There were no settlements due from Medicaid/Medicare in FY 2006-07.

Mendota submits annual cost reports to the Department of Health Services for Medicaid and to National Government Services for Medicare. Patient care for Medicaid and Medicare clients is reimbursed using a preliminary rate that is adjusted to the actual patient care rate after audits of the cost reports are completed. Settlement of the difference between the preliminary and final patient care rates is often received several years after fiscal year-end and is recorded in the year that notification is received.

Another reason for the increase in current assets was a 26 percent increase in the amounts recorded as "Due from the State of Wisconsin." Part of this increase resulted from an increase in revenue due from the State to reimburse salary and fringe benefit expenses for services to court-ordered patients. Some of these salary and fringe benefit expenses were incurred during FY 2007-08 but were not paid until FY 2008-09. These expenses are recorded on the Balance Sheet as accrued expenses. Revenue from the State of Wisconsin was accrued to reimburse these additional accrued salary and fringe benefit expenses and was recorded as "Due from the State of Wisconsin" on the FY 2007-08 financial statements.

Capital assets, which represent the original costs of assets less accumulated depreciation, decreased by 4 percent from June 30, 2007, to June 30, 2008. This decrease was mainly the result of current-year depreciation. The decrease in capital assets resulting from current-year depreciation was partially offset by a modest increase in construction activity in FY 2007-08. Four ongoing FY 2007-08 construction projects are worth noting: a project to modernize elevators, a project to upgrade the electrical system at Goodland Hall, a project to renovate patient areas at Stovall Hall, and improvements to the steam heat distribution system.

Current liabilities increased by 26 percent from June 30, 2007, to June 30, 2008. Most of this change is explained by an increase in the "Due to the State of Wisconsin" liability account from $2,802,268 as of June 30, 2007, to $4,631,018 as of June 30, 2008. This change is primarily a result of the 165 percent increase, from $1,395,121 to $3,695,711, 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 from other sources. Cash paid for expenses such as salaries and supplies is then subtracted from this total. If the beginning cash balance plus cash received is less than cash expenses, the appropriation is in overdraft. A loan from the State of Wisconsin is recorded on the financial statements because the State will cover all cash expenses that exceed the cash available.

The increase in current liabilities was partially offset by a decrease in settlement amounts due to Medicaid/Medicare. There were no settlements due to Medicaid/Medicare in FY 2007-08. In comparison, as of the end of FY 2006-07 Mendota owed Medicaid/Medicare providers $470,547 for two prior-year settlements.

Noncurrent liabilities increased by 75 percent from June 30, 2007, to June 30, 2008. This increase resulted from an increase in the accrual for noncurrent compensated absences, and first-time recognition of a liability related to noncurrent postemployment healthcare benefits. Compensated absences are accrued expenses for vacation, sabbatical leave, and sick leave. Postemployment healthcare benefits are an accrued expense for the unfunded actuarial liability pertaining to healthcare benefits.

Net assets on the Balance Sheet are computed by subtracting total liabilities from total assets. Net assets are then further segregated on the Balance Sheet between net assets invested in capital assets net of related debt, net assets restricted by legal requirements from other governments, and unrestricted net assets. Net assets increased from $23,527,256 as of June 30, 2007, to $24,098,855 as of June 30, 2008. The financial activity that resulted in this increase of $571,599 can be found by looking at the changes in net assets, which are analyzed in Table B.

Table B

Changes in Net Assets

Fiscal Year Ended June 30:	2008	2007	Percentage Change
Operating Revenues	$73,791,187	$63,655,506	16%
Operating Expenses	72,849,816	67,391,120	8
Operating Income (Loss)	941,371	(3,735,614)	
Nonoperating Income	447,419	436,858	2
Income (Loss) before Transfers	1,388,790	(3,298,756)	
Transfers In	805,217	6,201,818	(87)
Transfers Out	(1,622,408)	(1,361,845)	19
Change in Net Assets	$ 571,599	$ 1,541,217	(63)

The change in net assets for FY 2007-08 shows that Mendota generated enough revenue and transfers in to cover expenses and transfers out. A comparison from FY 2006-07 to FY 2007-08 shows a 16 percent increase in operating revenues and an 8 percent increase in operating expenses, resulting in an increase in net operating income.

The increase in operating revenues resulted from an increase in patient billings, the receipt of multiple Medicaid/Medicare settlements due to Mendota, and revenue from the State of Wisconsin to reimburse the Institute for expenses incurred to provide services to court-ordered patients.

The increase in operating expenses resulted from an increase in salary and fringe benefits expenses. There was a 9 percent increase due to cost of living increases and an increase in staffing throughout Mendota. In addition, there was an increase in fringe benefits expense of $1,044,851 pertaining to postemployment healthcare benefits expense for the unfunded actuarial liability related to healthcare benefits.

Transfers in decreased by 87 percent from FY 2006-07 to FY 2007-08. The main reason for the decrease was a large decrease in capital construction projects, which are funded by transfers in from the State of Wisconsin. In FY 2006-07, a major construction project was underway to install equipment to reduce air pollution at the power plant. FY 2007-08 capital construction projects have significantly lower costs.

Transfers out increased by 19 percent from FY 2006-07 to FY 2007-08. The main reason for the increase was an increase of transfers to the General Fund for debt service payments on bonds issued to fund prior-service retirement expenses.

Contacting the Institute's Financial Management

This financial report is designed to provide a general overview of Mendota's financial performance for FY 2007-08. 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 Services
Room 756, 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, 2008

	Patient Care Fund	Power Plant Fund	Patient Deposit Fund	Canteen Fund	Totals (Memorandum Only)
ASSETS					
Current Assets:					
Cash and cash equivalents (Note 2)	$ 2,860	$ 0	$ 104,581	$ 21,292	$ 128,733
Net accounts receivable (Note 3)	4,922,103	0	4,688	5,580	4,932,371
Due from the State of Wisconsin	3,318,219	0	0	0	3,318,219
Due from the federal government	1,640	0	0	0	1,640
Settlement due from Medicaid/Medicare (Note 5)	3,783,509	0	0	0	3,783,509
Supplies and merchandise inventories	173,837	185,431	0	2,534	361,802
Prepaid items	694,882	13,291	0	0	708,173
Total Current Assets	12,897,050	198,722	109,269	29,406	13,234,447
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	30,558,008	9,518,890	0	0	40,076,898
Equipment	2,287,199	458,939	0	9,474	2,755,612
Accumulated depreciation	(19,123,220)	(4,377,714)	0	(1,176)	(23,502,110)
Construction in progress	268,014	0	0	0	268,014
Total Noncurrent Assets	15,781,754	5,694,123	0	8,298	21,484,175
TOTAL ASSETS	$ 28,678,804	$ 5,892,845	$ 109,269	$ 37,704	$ 34,718,622
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable (Note 4)	$ 899,770	$ 30,000	$ 0	$ 4,954	$ 934,724
Due to the federal government	74,646	1,287	0	0	75,933
Due to the State of Wisconsin (Notes 7 and 8)	4,165,565	464,111	0	1,342	4,631,018
Accrued expenses (Note 4)	1,373,552	20,165	0	0	1,393,717
Capital leases (Notes 10 and 11)	56,872	0	0	0	56,872
Compensated absences (Note 10)	623,532	17,484	0	0	641,016
Patient funds held in trust	0	0	109,269	0	109,269
Deferred revenue	0	0	0	13,344	13,344
Total Current Liabilities	7,193,937	533,047	109,269	19,640	7,855,893
Noncurrent Liabilities:					
Capital leases (Notes 10 and 11)	310,623	0	0	0	310,623
Compensated absences (Note 10)	1,369,984	38,416	0	0	1,408,400
Postemployment Benefits (Notes 10 and 14)	1,044,851	0	0	0	1,044,851
Total Noncurrent Liabilities	2,725,458	38,416	0	0	2,763,874
Total Liabilities	**9,919,395**	**571,463**	**109,269**	**19,640**	**10,619,767**
Net Assets:					
Invested in capital assets, net of related debt	15,414,259	5,694,123	0	8,298	21,116,680
Restricted	9,047	0	0	0	9,047
Unrestricted	3,336,103	(372,741)	0	9,766	2,973,128
Total Net Assets	**18,759,409**	**5,321,382**	**0**	**18,064**	**24,098,855**
TOTAL LIABILITIES AND NET ASSETS	**$ 28,678,804**	**$ 5,892,845**	**$ 109,269**	**$ 37,704**	**$ 34,718,622**

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, 2008

	Patient Care Fund	Power Plant Fund	Canteen Fund	Totals (Memorandum Only)
OPERATING REVENUES				
Net Revenue from Patient Care (Notes 1F and 1K)	$ 24,725,929	$ 0	$ 0	$ 24,725,929
Revenue from the State of Wisconsin	42,078,139	0	0	42,078,139
Utility Sales	0	2,437,685	0	2,437,685
Canteen Revenue	0	0	137,262	137,262
Medicaid/Medicare Settlements (Note 5)	4,412,172	0	0	4,412,172
Total Operating Revenues	**71,216,240**	**2,437,685**	**137,262**	**73,791,187**
OPERATING EXPENSES				
Salaries	40,930,817	681,205	12,846	41,624,868
Fringe Benefits	16,110,498	304,056	0	16,414,554
Materials and Supplies	11,472,599	1,687,135	126,528	13,286,262
Depreciation	1,192,934	330,251	947	1,524,132
Total Operating Expenses	**69,706,848**	**3,002,647**	**140,321**	**72,849,816**
OPERATING INCOME (LOSS)	**1,509,392**	**(564,962)**	**(3,059)**	**941,371**
NONOPERATING REVENUES AND EXPENSES				
Gain (Loss) on Sale of Fixed Assets	5,200	0	0	5,200
Canteen Commissions	0	0	4,156	4,156
Operating Grants	104,056	0	0	104,056
Other Nonoperating Revenues	354,079	0	0	354,079
Materials and Supplies	0	0	(280)	(280)
Interest Expense	(19,792)	0	0	(19,792)
Total Nonoperating Income (Loss)	**443,543**	**0**	**3,876**	**447,419**
Income (Loss) before Transfers	1,952,935	(564,962)	817	1,388,790
Transfers In for Capital Projects (Note 1J)	694,200	94,737	0	788,937
Other Transfers In	16,280	0	0	16,280
Transfers Out (Note 8)	(1,583,987)	(38,421)	0	(1,622,408)
CHANGE IN NET ASSETS	**1,079,428**	**(508,646)**	**817**	**571,599**
NET ASSETS				
Total Net Assets—Beginning of the Year	17,679,981	5,830,028	17,247	23,527,256
Total Net Assets—End of the Year	**$ 18,759,409**	**$ 5,321,382**	**$ 18,064**	**$ 24,098,855**

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, 2008

	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008
ASSETS				
Cash and Cash Equivalents	$ 102,038	$ 972,882	$ 970,339	$ 104,581
Net Accounts Receivable	1,361	4,688	1,361	4,688
Total Assets	**$ 103,399**	**$ 977,570**	**$ 971,700**	**$ 109,269**
LIABILITIES				
Patient Funds Held in Trust	103,399	977,569	971,699	109,269
Total Liabilities	**$ 103,399**	**$ 977,569**	**$ 971,699**	**$ 109,269**

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Year Ended June 30, 2008

	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	$ 65,183,598	$ 2,706,816	$ 142,530	$ 68,032,944
Cash Payments to Suppliers for Goods and Services	(11,169,063)	(1,980,184)	(133,636)	(13,282,883)
Cash Payments to Employees for Services	(54,983,711)	(980,024)	(13,749)	(55,977,484)
Other Sources (Uses) of Cash	489,560	0	0	489,560
Net Cash Provided (Used) by Operating Activities	**(479,616)**	**(253,392)**	**(4,855)**	**(737,863)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers Out	(1,463,990)	(39,997)	0	(1,503,987)
Loan from the State of Wisconsin	1,904,070	396,519	0	2,300,589
Net Cash Used by Noncapital Financing Activities	**440,080**	**356,522**	**0**	**796,602**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest Payments	(19,792)	0	0	(19,792)
Capital Lease Obligations	(53,305)	0	0	(53,305)
Payments for Purchases of Capital Assets	(586,212)	(197,867)	0	(784,079)
Transfers In	694,200	94,737	0	788,937
Net Cash Provided (Used) by Capital and Related Financing Activities	**34,891**	**(103,130)**	**0**	**(68,239)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(4,645)**	**0**	**(4,855)**	**(9,500)**
Cash and Cash Equivalents—Beginning of the Year	7,505	0	26,147	33,652
Cash and Cash Equivalents—End of the Year	$ 2,860	$ 0	$ 21,292	$ 24,152

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)	$ 1,509,392	$ (564,962)	$ (3,059)	$ 941,371
Adjustments to Reconcile Operating Income to Net Cash Provided by Operations:				
Depreciation	1,192,934	330,251	948	1,524,133
Miscellaneous nonoperating income (expense)	458,135	0	3,876	462,011
Changes in assets and liabilities:				
Decrease (Increase) in receivables	(487,568)	269,160	(5,132)	(223,540)
Decrease (Increase) in Medicaid/Medicare receivables	(3,783,509)	0	0	(3,783,509)
Decrease (Increase) in Due from the State of Wisconsin	(461,778)	0	0	(461,778)
Decrease (Increase) in supplies inventories	(19,540)	(61,977)	373	(81,144)
Decrease (Increase) in prepaid items	(74,310)	(245)	0	(74,555)
Increase (Decrease) in accrued expenses	315,670	3,681	0	319,351
Increase (Decrease) in accounts payable	(59,585)	(5,105)	(5,533)	(70,223)
Increase (Decrease) in Due to the State of Wisconsin	(319,601)	(224,205)	284	(543,522)
Increase (Decrease) in Due to the federal government	21,993	332	0	22,325
Increase (Decrease) in deferred revenue	0	0	3,388	3,388
Increase (Decrease) in postemployment benefits	1,044,851	0	0	1,044,851
Increase (Decrease) in compensated absences	183,300	(322)	0	182,978
Total Adjustments	(1,989,008)	311,570	(1,796)	(1,679,234)
Net Cash Provided by Operating Activities	$ (479,616)	$ (253,392)	$ (4,855)	$ (737,863)
Noncash Investing, Capital, and Financing Activities:				
Capital leases (initial year) fair market value	$ 52,000	$ 0	$ 0	$ 52,000

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 also operates a power plant and a canteen. Revenues and expenses that are not related to Mendota'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 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 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 related to providing patient services. Funds such as grants and gifts on which outside parties have placed restrictions as to their use are included as restricted net assets. When both restricted and unrestricted net assets are available for use, it is Mendota'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 Mendota and to 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 on behalf of its patients.

E. Canteen Fund

The Canteen Fund reflects the operation of the canteen at Mendota.

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 collectability 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*, 2004 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 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 Revenue from Patient Care

Mendota has agreements with third-party payers for Medicare and Medicaid that provide for payments 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 is reimbursed at an interim rate. A final settlement is determined after submission of the annual cost report by Mendota and audits thereof by the Medicare fiscal intermediary.

Medicaid—Mendota is reimbursed at an interim rate, with final settlement determined after its submission of the annual cost report and audits thereof by the Wisconsin Department of Health 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. Any additional payments required are 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 the expense for compensated absences are based on current rates of pay.

2. DEPOSITS

Mendota'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, 2008, the carrying value of these deposits was $122,163, and the bank balance was $131,287.

A petty cash fund and miscellaneous cash amounts, which are held by Mendota and reported as cash and cash equivalents in the amount of $6,570, 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*, requires certain disclosures related to custodial credit risk. 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. During FY 2007-08, all of the deposits that were held in financial institutions were insured up to $100,000 by the Federal Deposit Insurance Corporation. Subsequent to FY 2007-08, the Federal Deposit Insurance Corporation increased the federal insurance limit to $250,000. A state appropriation for losses on deposits (s. 34.08, Wis. Stats.) insures up to $400,000 over the amount of federal insurance. As of June 30, 2008, the bank balance was $131,287. Therefore all deposits held in financial institutions are insured. Mendota does not have a deposit policy for custodial credit risk and other investment risks.

3. ACCOUNTS RECEIVABLE BALANCES

Significant receivable balances as of June 30, 2008, include the following:

Patient Receivables	$4,899,907
Other Receivables	27,777
Total Accounts Receivable	$4,927,684

The patient receivables 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 96 percent of patient receivables and all of the other receivables are expected to be collected in FY 2008-09. The remaining 4 percent of patient receivables is expected to be collected in FY 2009-10.

Mendota 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 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 general purpose revenue (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, 2008, include the following:

Vendors	$445,168
Salaries and Benefits	489,556
Total Accounts Payable	$934,724

Significant accrued expense balances as of June 30, 2008, include the following:

Vendors	$ 329,587
Salaries and Benefits	1,064,130
Total Accrued Expenses	$1,393,717

5. THIRD-PARTY CONTRACTUAL SETTLEMENTS

Annual cost reports for services provided by Mendota are first submitted to the Medicare fiscal intermediary, National Government Services. Once the Medicare settlement amounts have been finalized and any appeals settled, the cost reports are submitted to the Department of Health Services to determine a final settlement amount for Medicaid. In addition to the Medicare and Medicaid cost report audits, quality-control audits of the programs may be performed. For FY 2007-08, settlement activity of $4.4 million was reflected as operating revenue and $706,000 as operating expense.

The status of cost reports outstanding is as follows:

Year	Medicare	Medicaid
FY 2002-03	Submitted, finalized, appeal settled	Submitted, audited, finalized
FY 2003-04	Submitted, audited, finalized	Submitted, audited, finalized
FY 2004-05	Submitted, audited, finalized	Submitted, not audited
FY 2005-06	Submitted, audited, finalized	Not submitted
FY 2006-07	Submitted, audited, finalized	Not submitted
FY 2007-08	Submitted, not audited	Not submitted

Medicare—The FY 2005-06 and FY 2006-07 cost reports were finalized during the current period and are reflected on the FY 2007-08 financial statements. The determinations resulted in Mendota reimbursing the Medicare program $649,943 for FY 2005-06 and receiving $282,478 for FY 2006-07.

The FY 2002-03 cost report was submitted for a second appeal and was reopened. A final settlement was determined during the current period, which resulted in a receipt of $538,563. This is in addition to a receipt of $195,259 during FY 2005-06 and a reimbursement to the Medicare program of $283,544 made during FY 2006-07.

Medicaid—The FY 2002-03 and FY 2003-04 cost reports were finalized during the current period and are reflected on the FY 2007-08 financial statements. The determinations resulted in Mendota receiving additional reimbursements from Medicaid of $2,529,414 for FY 2002-03 and $1,061,717 for FY 2003-04.

Other—In FY 2007-08, the Department of Health Services completed a quality control audit of the Medicaid program and concluded that Mendota owed the Medicaid program $55,829. This settlement was reflected as an operating expense on the FY 2007-08 financial statements.

6. CAPITAL ASSETS

The change in book value from July 1, 2007, to June 30, 2008, 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	38,678,374	1,409,253	(10,729)	40,076,898
Equipment	2,743,991	72,120	(60,499)	2,755,612
Construction in Progress	1,022,657	649,276	(1,403,919)	268,014
Total Capital Assets	44,330,783	2,130,649	(1,475,147)	44,986,285
Less Accumulated Depreciation for:				
Land Improvements	(1,410,897)	(77,250)	0	(1,488,147)
Buildings	(18,821,959)	(1,238,117)	10,729	(20,049,347)
Equipment	(1,816,349)	(208,766)	60,499	(1,964,616)
Total Accumulated Depreciation	(22,049,205)	(1,524,133)	71,228	(23,502,110)
Total Capital Assets, Net	$22,281,578	$ 606,516	$(1,403,919)	$21,484,175

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

7. LOAN FROM THE STATE OF WISCONSIN

The State of Wisconsin General Fund provided a loan of $3,695,711 as of June 30, 2008, to cover cash overdrafts in Mendota's appropriations. This amount is included in the "Due to the State of Wisconsin" liability account on the financial statements.

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, which holds title to the assets.

Mendota has received proceeds from 42 outstanding bond issuances. The bonds have maturity dates ranging from April 15, 2009, to April 15, 2027. The principal balance outstanding as of June 30, 2008, attributable to Mendota is $20,540,666. This debt represents a debt of the State of Wisconsin and is not a debt of Mendota. Accordingly, this debt is not reported in Mendota's financial statements. Debt service payments made by the State of Wisconsin attributable to Mendota for the year ended June 30, 2008, are allocated as follows:

Principal	$1,479,852
Interest	1,148,978
Total Paid	$2,628,830

However, Mendota 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 owed $109,298 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 $1,282,323 and funded by GPR to Mendota during FY 2007-08. A portion of the administrative overhead and depreciation on assets purchased by the State is later recovered through Medicaid patient revenue. Mendota includes overhead expense and depreciation in the Medicaid cost reports, which are used to determine the final Medicaid settlement for the year. During FY 2007-08, Mendota owed Medicaid payments related to overhead expense of $108,682 and depreciation of $142,066 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 through the criminal justice system. Mendota 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.

The financial statements reflect expected reimbursements as a receivable and as a payable to the State of Wisconsin. For the year ended June 30, 2008, there was no receivable from Medicaid, Medicare, and private insurers or related payable to the State of Wisconsin.

In addition, Mendota collected $192,096 in FY 2007-08 for prior- and current-year services. The full amount collected was remitted 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. For FY 2007-08, state agencies were required to transfer amounts for debt service payments on the bonds to the General Fund. Mendota transferred a total of $1,155,382 to the State's General Fund in FY 2007-08 for debt service payments. 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 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 year and may be renewed by mutual agreement.

The leased facilities are in buildings with the following costs:

Buildings at Historical Cost	$567,609
Less: Accumulated Depreciation	(471,560)
Buildings, Net	$ 96,049

Minimum future lease payments to be received during the year ended June 30, 2009, total $186,805.

10. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due within One Year
Capital Leases	$ 373,999	$ 46,800	$ (53,304)	$ 367,495	$ 56,872
Compensated Absences	1,866,440	800,072	(617,096)	2,049,416	641,016
Postemployment Benefits	0	1,044,851	0	1,044,851	0
Long-term Liabilities	$2,240,439	$1,891,723	$(670,400)	$3,461,762	$697,888

11. OBLIGATIONS UNDER CAPITAL LEASES

During FY 2007-08, Mendota leased a chemistry analyzer and a hematology analyzer and participated in statewide master lease agreements to acquire energy-saving improvements. The terms of the leases for the chemistry and hematology analyzer are 60 months. The terms of the leases for the energy-saving improvements are 15 years. As of June 30, 2008, the value of the equipment and improvements under lease was $628,600. The accumulated depreciation totaled $297,746, resulting in a net book value of $330,854.

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, 2008:

For the Year Ending:	
June 30, 2009	$ 74,276
June 30, 2010	63,983
June 30, 2011	56,631
June 30, 2012	56,631
June 30, 2013	47,443
2014-2016	136,822
Total Minimum Lease Payments	435,786
Less: Amounts Representing Interest	68,291
Present Value of Minimum Lease Payments	367,495
Less: Current Maturities	56,872
Long-term Portion of Present Value of Minimum Lease Payments	$310,623

12. OBLIGATIONS UNDER OPERATING LEASES

Mendota leases copiers and office space. Future minimum rental payments required under the operating leases as of June 30, 2008, are as follows for the year ending:

June 30, 2009	$104,272
June 30, 2010	91,296
June 30, 2011	82,163
June 30, 2012	27,068
Thereafter	0
Total Minimum Rental Payments Required	$304,799

The composition of the total rental expense for the year ended June 30, 2008, is as follows:

Minimum Rentals	$102,402
Contingent Rentals	0
Less: Sublease Rentals	0
Rental Expense	$102,402

13. EMPLOYEE RETIREMENT PLAN

Permanent, full-time employees of Mendota 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
Post Office Box 7931
Madison, Wisconsin 53707-7931

The most current financial report is also available on the Department of Employee Trust Funds' Web site, *www.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, the State issued bonds in December 2003 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's contributions to the plan were $5,151,313 for FY 2007-08. The relative position of Mendota in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multiple-employer plan.

14. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and it is effective for the year ending June 30, 2008. In accordance with the provisions of GASB Statement No. 45, state and local government employers are required to display in financial reports other postemployment benefit expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information. The employees of Mendota are employees of the State of Wisconsin. The financial statements of Mendota include other postemployment benefit expenses in fringe benefits and the related noncurrent liabilities.

A. Health Insurance

The State's health insurance program, a cost-sharing, multiple-employer, defined benefit plan not held in trust, is an employer-sponsored program offering group medical coverage to eligible employees and retirees of the State that was created under ch. 40, Wis. Stats. The Wisconsin Department of Employee Trust Funds and the Group Insurance Board have program administration and oversight responsibilities under s. 15.165(2) and 40.03(6), Wis. Stats.

Under this plan, retired employees of the State contribute the same healthcare premium as active employees, creating an implicit rate subsidy for retirees. This implicit rate subsidy, which is calculated to cover pre–age 65 retirees (since at age 65 retirees are eligible to enroll in Medicare), is treated as an other postemployment benefit (OPEB).

The difference between the State of Wisconsin's annual required contribution of $148.5 million as of January 1, 2007, and its actual contributions of $44.3 million results in a net OPEB obligation of $104.2 million for the State. The portion of this obligation allocated to Mendota for FY 2007-08 was $1.0 million, which reflects the amortization of the actuarial accrued liability for FY 2007-08 plus the current expense for active employees.

The State's Comprehensive Annual Financial Report (CAFR) includes financial statements, additional note disclosures, and required supplementary information for this plan. That report is publicly available at *www.doa.wisconsin.gov* or may be obtained by writing to:

State Controller's Office
Department of Administration
101 East Wilson Street
Madison, Wisconsin 53702

B. Life Insurance and Duty Disability

The State's life insurance program, a cost-sharing, multiple-employer, defined benefit plan held in trust, provides post-employment coverage to all eligible employees. The plan is administered under s. 40.70, Wis. Stats. Beginning at age 65, retirees and terminating members continue to receive basic life insurance coverage at a reduced level, at no cost to themselves. Retirees and terminating members under age 65 must continue to pay the employee premium to maintain coverage. The amount contributed by Mendota to this plan is not readily determinable because this is a statewide, multiple-employer plan.

The State's duty disability program, a cost-sharing, multiple-employer, defined benefit plan held in trust, offers special disability insurance for employees in protective occupations. The plan is administered under s. 40.65, Wis. Stats. Qualified employees receive benefits under this program approximating 80 percent of salary, less certain offsets, based upon the type and level of disability suffered and the implications of the disability on their ability to work. There are no employee contributions associated with this plan. Mendota contributed $162,051 to this program during FY 2007-08.

The Department of Employee Trust Funds issues publicly available financial reports that include financial statements, additional note disclosures, and required supplementary information for these plans. The reports are available at *www.etf.wi.gov* or may be obtained upon request from:

> Department of Employee Trust Funds
> Post Office Box 7931
> Madison, Wisconsin 53707-7931

The State's CAFR also includes additional employer note disclosures for these plans.

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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, 2008, as listed in the table of contents. These financial statements are the responsibility of the management of Winnebago Mental Health Institute and the Wisconsin Department of Health 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 and the changes in its financial position and its cash flows, where applicable, 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, 2008, and the respective changes in each fund's financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1F to the financial statements, revenue from patient care and corresponding receivables are reported net of known and estimated contractual adjustments for Medicaid and Medicare claims. In addition, management makes estimates of collectability for receivables from other third parties. Management believes that the estimated receivable is reasonable and adequately reflects amounts to be collected in future years. However, uncertainties inherent in predicting the amount of collections from Medicaid, Medicare, and other third parties make it likely that amounts collected will ultimately differ from the recorded estimated receivable. These differences cannot currently be quantified.

As discussed in Note 14 to the financial statements, the Winnebago Mental Health Institute implemented accounting changes and additional note disclosures under Governmental Accounting Standards Board Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement 45 requires Winnebago Mental Health Institute, for the first time, to report the costs related to other postemployment benefits, such as the benefit available to retired state employees to purchase health insurance at a subsidized rate.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Winnebago Mental Health Institute. The supplementary information included as Management's Discussion and Analysis on pages 39 through 44 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 October 5, 2009, on our consideration of the Department of Health Services' internal control over financial reporting for Winnebago Mental Health Institute; our tests of its compliance with certain provisions of laws, regulations, and 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

October 5, 2009 by Sherry Haakenson

Sherry Haakenson
Audit Director

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

Prepared by the Department of Health 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, 2008. 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 management of Winnebago and the Wisconsin Department of Health 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 the liabilities is reported as net assets on the Balance Sheet. Over time, increases or decreases in net assets are one indicator of whether Winnebago's 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 use of capital assets is reflected as depreciation expense, which amortizes the cost of the assets over their estimated useful lives.

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. 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 21 percent during FY 2007-08. Analysis of its financial activities focuses on the Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets. Winnebago's net assets from June 30, 2007, to June 30, 2008, are reviewed in Table A, while its changes in net assets for FY 2007-08 are reviewed in Table B.

Table A

Net Assets

	June 30, 2008	June 30, 2007	Percentage Change
Current Assets	$ 13,161,991	$ 9,653,493	36%
Capital Assets	13,600,782	13,535,041	<1
Total Assets	**$26,762,773**	**$23,188,534**	15
Current Liabilities	$ 15,223,609	$10,221,230	49
Noncurrent Liabilities	2,347,402	1,272,269	85
Total Liabilities	17,571,011	11,493,499	53
Net Assets:			
Invested in Capital Assets, Net of Related Debt	13,265,307	13,162,465	1
Restricted	56,376	67,257	(16)
Unrestricted	(4,129,921)	(1,534,687)	169
Total Net Assets	9,191,762	11,695,035	(21)
Total Liabilities and Net Assets	**$26,762,773**	**$23,188,534**	15

As shown in Table A, current assets increased by 36 percent from June 30, 2007, to June 30, 2008. Some of this increase resulted from an increase in patient receivables.

The increase in patient receivables resulted, in part, from a 3 percent increase in daily patient rates and a 6 percent decrease in the amount of 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 estimate of uncollectible patient receivables for the current year is calculated based on the prior year's collection experience. When the estimate for patient receivables included in the FY 2006-07 financial statements was compared to the actual amounts collected for that year in FY 2007-08, it was determined that not enough had been written off in the prior year. Therefore, while the overall patient receivables balance increased on the FY 2007-08 financial statements, a decrease of $631,245 was included to account for this change in estimates.

Another reason for the increase in current assets was a $1.7 million increase in settlements, as Winnebago received notification of three settlements due from Medicaid/Medicare. There were no settlements due from Medicaid/Medicare in FY 2006-07. Winnebago submits annual cost reports to the Department of Health Services for Medicaid and to National Government Services for Medicare. Patient care for Medicaid and Medicare clients is reimbursed using a preliminary rate that is adjusted to the actual patient care rate after audits of the cost reports are completed. Settlement of the difference between the preliminary and final patient care rates is often received several years after fiscal year-end and is recorded in the year that notification is received.

The final reason for the increase in current assets was a 39 percent increase in the amounts recorded as "Due from the State of Wisconsin." Part of this increase resulted from an increase in revenue due from the State to reimburse salary and fringe benefit expenses for services to court-ordered patients. Some of these salary and fringe benefit expenses were incurred during FY 2007-08 but were not paid until FY 2008-09. These expenses are recorded on the Balance Sheet as accrued expenses. Revenue from the State of Wisconsin was accrued to reimburse these additional accrued salary and fringe benefit expenses and was recorded as "Due from the State of Wisconsin" on the FY 2007-08 financial statements.

Capital assets, which represent the original costs of assets less accumulated depreciation, increased by less than 1 percent from FY 2006-07 to FY 2007-08. This increase was mainly due to a modest increase in construction activity. Eight ongoing FY 2007-08 construction projects are worth noting: a project to upgrade the food service coolers/freezers, a project to replace flooring in Gordon Hall and Sherman Hall, four projects to renovate Sherman Hall, and two projects to upgrade the sprinkler system at Sherman Hall. The increase in capital assets resulting from construction was partially offset by a decrease in capital assets resulting from current-year depreciation.

Current liabilities increased by 49 percent from June 30, 2007, to June 30, 2008. Some of this change is explained by an increase in the "Due to the State of Wisconsin" liability account from $6,374,258 as of June 30, 2007, to $12,487,694 as of June 30, 2008. This change is primarily a result of the 142 percent increase, from $4,201,102 to $10,165,728, 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 from other sources. Cash paid for expenses such as salaries and supplies is then subtracted from this total. If the beginning cash balance plus cash received is less than cash expenses, the appropriation is in overdraft. A loan from the State of Wisconsin is recorded on the financial statements because the State will cover all cash expenses that exceed the cash available.

The increase in current liabilities was partially offset by a decrease in settlement amounts due to Medicaid/Medicare. Winnebago owed $388,000 to Medicaid/Medicare providers as of the end of FY 2007-08. In comparison, as of the end of FY 2006-07 it owed $1.2 million to the Medicaid/Medicare providers for three prior-year settlements.

Noncurrent liabilities increased by 85 percent from June 30, 2007, to June 30, 2008. This increase resulted from an increase in the accrual for noncurrent compensated absences, and first-time recognition of a liability related to noncurrent postemployment healthcare benefits. Compensated absences are accrued expenses for vacation, sabbatical leave, and sick leave. Postemployment healthcare benefits are an accrued expense for the unfunded actuarial liability pertaining to healthcare benefits. The increase was partially offset by a decrease in capital leases. Winnebago did not contract for any new capital leases in FY 2007-08.

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 $11,695,035 as of June 30, 2007, to $9,191,762 as of June 30, 2008. The financial activity that resulted in this decrease of $2,503,273 can be found by looking at the changes in net assets, which are analyzed in Table B.

Table B

Changes in Net Assets

Fiscal Year Ended June 30:	2008	2007	Percentage Change
Operating Revenues	$56,768,435	$53,589,818	6%
Operating Expenses	59,629,603	57,297,591	4
Operating Income (Loss)	(2,861,168)	(3,707,773)	
Nonoperating Income	834,718	832,016	<1
Income (Loss) before Transfers	(2,026,450)	(2,875,757)	
Transfers In	1,100,464	1,790,925	(39)
Transfers Out	(1,577,287)	(1,518,656)	4
Change in Net Assets	**($ 2,503,273)**	**($ 2,603,488)**	4

The change in net assets for FY 2007-08 of ($2,503,273) shows that Winnebago did not generate enough revenue and transfers in to cover expenses and transfers out. A comparison of FY 2006-07 to FY 2007-08 shows a 6 percent increase in operating revenues and a 4 percent increase in operating expenses.

The increase in operating revenues resulted primarily from an increase in patient billings and revenue from the State of Wisconsin to reimburse the Winnebago for expenses incurred to provide services to court-ordered patients. This net increase in operating revenue was offset by a decrease, from $3.7 million in FY 2006-07 to $1.9 million in FY 2007-08, in the amount recorded for the receipt of Medicaid/Medicare settlements with amounts due from Medicaid or Medicare.

The increase in operating expenses resulted primarily from an increase in salary and fringe benefit expenses. There was a 5 percent increase in salaries and fringe benefit expenses due to cost of living increases and an increase in staffing throughout Winnebago. In addition, there was an increase in fringe benefits expense of $1,040,553 pertaining to postemployment healthcare benefits expense for the unfunded actuarial liability related to healthcare benefits. This net increase in operating expense was offset by a decrease in the payments made to Medicaid/Medicare. Winnebago received multiple Medicaid/Medicare settlements in FY 2006-07, which required Winnebago to pay Medicaid or Medicare. There was only one similar settlement in FY 2007-08.

Nonoperating income increased by less than 1 percent from FY 2006-07 to FY 2007-08. This small increase resulted from an increase in nonoperating revenue from the State of Wisconsin, offset by a decrease in grant revenue from federal and state government.

Transfers in decreased by 39 percent from FY 2006-07 to FY 2007-08. The main reason for the decrease was a decrease in capital construction projects, which are funded by transfers in from the State of Wisconsin. In FY 2006-07, major construction projects were underway to upgrade the food service cooler/freezers and to install new air conditioning at Sherman Hall. FY 2007-08 capital construction projects have significantly lower costs.

Transfers out increased by 4 percent from FY 2006-07 to FY 2007-08. The main reason for the increase was an increase of transfers to the General Fund for debt service payments on bonds issued to fund prior-service retirement expenses.

Contacting the Institute's Financial Management

This financial report is designed to provide a general overview of Winnebago's financial performance for FY 2007-08. 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 Services
Room 756, 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, 2008

	Patient Care Fund	Power Plant Fund	Patient Deposit Fund	Canteen Fund	Totals (Memorandum Only)
ASSETS					
Current Assets:					
Cash and cash equivalents (Note 2)	$ 10,570	$ 98,986	$ 69,721	$ 27,123	$ 206,400
Net accounts receivable (Note 3)	8,169,785	1,844	36	3,038	8,174,703
Due from the State of Wisconsin	1,895,575	0	0	0	1,895,575
Due from the federal government	6,802	61	0	0	6,863
Settlement due from Medicaid/Medicare (Note 5)	1,701,275	0	0	0	1,701,275
Supplies and merchandise inventories	461,378	16,401	0	17,888	495,667
Prepaid items	669,708	11,800	0	0	681,508
Total Current Assets	12,915,093	129,092	69,757	48,049	13,161,991
Noncurrent Assets:					
Capital assets (Note 6):					
Land	22,657	800	0	0	23,457
Land improvements	653,446	0	0	0	653,446
Buildings	23,168,148	3,069,359	0	0	26,237,507
Equipment	1,263,975	11,503	0	0	1,275,478
Accumulated depreciation	(13,408,099)	(2,288,825)	0	0	(15,696,924)
Construction in progress	1,107,818	0	0	0	1,107,818
Total Noncurrent Assets	12,807,945	792,837	0	0	13,600,782
TOTAL ASSETS	$ 25,723,038	$ 921,929	$ 69,757	$ 48,049	$ 26,762,773
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable (Note 4)	$ 513,881	$ 0	$ 0	$ 925	$ 514,806
Settlement due to Medicaid/Medicare (Note 5)	388,102	0	0	0	388,102
Due to the federal government	57,787	988	0	0	58,775
Due to the State of Wisconsin (Notes 7 and 8)	12,436,175	49,871	0	1,648	12,487,694
Accrued expenses (Note 4)	981,578	88,739	0	0	1,070,317
Capital leases (Notes 10 and 11)	33,810	4,160	0	0	37,970
Compensated absences (Note 10)	588,431	6,366	0	1,077	595,874
Patient funds held in trust	0	0	69,757	0	69,757
Deferred revenue	0	0	0	314	314
Total Current Liabilities	14,999,764	150,124	69,757	3,964	15,223,609
Noncurrent Liabilities:					
Capital leases (Notes 10 and 11)	264,912	32,593	0	0	297,505
Compensated absences (Note 10)	998,540	10,804	0	0	1,009,344
Postemployment benefits (Notes 10 and 14)	1,040,553	0	0	0	1,040,553
Total Noncurrent Liabilities	2,304,005	43,397	0	0	2,347,402
Total Liabilities	**17,303,769**	**193,521**	**69,757**	**3,964**	**17,571,011**
Net Assets:					
Invested in capital assets, net of related debt	12,509,223	756,084	0	0	13,265,307
Restricted	56,376	0	0	0	56,376
Unrestricted	(4,146,330)	(27,676)	0	44,085	(4,129,921)
Total Net Assets	**8,419,269**	**728,408**	**0**	**44,085**	**9,191,762**
TOTAL LIABILITIES AND NET ASSETS	$ 25,723,038	$ 921,929	$ 69,757	$ 48,049	$ 26,762,773

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, 2008

	Patient Care Fund	Power Plant Fund	Canteen Fund	Totals (Memorandum Only)
OPERATING REVENUES				
Net Revenue from Patient Care (Notes 1F and 1K)	$ 26,699,537	$ 0	$ 0	$ 26,699,537
Revenue from the State of Wisconsin	26,393,484	0	0	26,393,484
Utility Sales	0	1,583,607	0	1,583,607
Canteen Revenues	0	0	168,132	168,132
Medicaid/Medicare Settlements (Note 5)	1,923,675	0	0	1,923,675
Total Operating Revenues	**55,016,696**	**1,583,607**	**168,132**	**56,768,435**
OPERATING EXPENSES				
Salaries	33,410,597	523,781	43,481	33,977,859
Fringe Benefits	14,312,989	229,489	0	14,542,478
Materials and Supplies	9,165,850	918,969	125,447	10,210,266
Depreciation	761,198	137,802	0	899,000
Total Operating Expenses	**57,650,634**	**1,810,041**	**168,928**	**59,629,603**
OPERATING INCOME (LOSS)	**(2,633,938)**	**(226,434)**	**(796)**	**(2,861,168)**
NONOPERATING REVENUES AND EXPENSES				
Revenue from the State of Wisconsin	559,411	0	0	559,411
Gain (Loss) on Sale of Fixed Assets	(4,489)	0	0	(4,489)
Canteen Commissions	0	0	2,704	2,704
Operating Grants	130,282	0	0	130,282
Other Nonoperating Revenues	164,751	0	61	164,812
Materials and Supplies	0	0	(975)	(975)
Interest Expense	(15,162)	(1,865)	0	(17,027)
Total Nonoperating Income (Loss)	**834,793**	**(1,865)**	**1,790**	**834,718**
Income (Loss) before Transfers	(1,799,145)	(228,299)	994	(2,026,450)
Transfers In for Capital Projects (Note 1J)	515,566	0	0	515,566
Other Transfers In	584,898	0	0	584,898
Transfers Out for Capital Projects	0	(3,794)	0	(3,794)
Transfers Out (Note 8)	(1,547,521)	(25,972)	0	(1,573,493)
CHANGE IN NET ASSETS	**(2,246,202)**	**(258,065)**	**994**	**(2,503,273)**
NET ASSETS				
Total Net Assets—Beginning of the Year	10,665,471	986,473	43,091	11,695,035
Total Net Assets—End of the Year	**$ 8,419,269**	**$ 728,408**	**$ 44,085**	**$ 9,191,762**

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, 2008

	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008
ASSETS				
Cash and Cash Equivalents	$ 68,572	$ 817,943	$ 816,794	$ 69,721
Net Accounts Receivable	0	38,122	38,086	36
Total Assets	**$ 68,572**	**$ 856,065**	**$ 854,880**	**$ 69,757**
LIABILITIES				
Accounts Payable	$ 40	$ 0	$ 40	$ 0
Patient Funds Held in Trust	68,532	205,917	204,692	69,757
Total Liabilities	**$ 68,572**	**$ 205,917**	**$ 204,732**	**$ 69,757**

The accompanying notes are an integral part of this statement.

Statement of Cash Flows
for the Year Ended June 30, 2008

	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	$ 50,197,058	$ 1,587,639	$ 177,062	$ 51,961,759
Cash Payments to Suppliers for Goods and Services	(9,054,513)	(857,246)	(135,286)	(10,047,045)
Cash Payments to Employees for Services	(46,560,395)	(756,118)	(42,123)	(47,358,636)
Other Sources of Cash	392,514	0	0	392,514
Net Cash Provided (Used) by Operating Activities	**(5,025,336)**	**(25,725)**	**(347)**	**(5,051,408)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers Out	(916,493)	(31,166)	0	(947,659)
Loan from the State of Wisconsin	5,964,625	0	0	5,964,625
Net Cash Used by Noncapital Financing Activities	**5,048,132**	**(31,166)**	**0**	**5,016,966**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest Payments	(15,162)	(1,865)	0	(17,027)
Capital Lease Obligations	(33,035)	(4,065)	0	(37,100)
Payments for Purchases of Capital Assets	(491,202)	0	0	(491,202)
Transfers In	515,566	0	0	515,566
Net Cash Provided (Used) by Capital and Related Financing Activities	**(23,833)**	**(5,930)**	**0**	**(29,763)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,037)**	**(62,821)**	**(347)**	**(64,205)**
Cash and Cash Equivalents—Beginning of the Year	11,607	161,807	27,470	200,884
Cash and Cash Equivalents—End of the Year	$ 10,570	$ 98,986	$ 27,123	$ 136,679

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)	$ (2,633,938)	$ (226,434)	$ (796)	$ (2,861,168)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operations:				
Depreciation	761,198	137,802	0	899,000
Miscellaneous nonoperating income (expense)	854,443	0	1,790	856,233
Changes in assets and liabilities:				
Decrease (Increase) in receivables	(2,919,537)	4,033	(1,283)	(2,916,787)
Decrease (Increase) in Medicaid/Medicare receivables	(1,701,275)	0	0	(1,701,275)
Decrease (Increase) in Due from the State of Wisconsin	(296,100)	0	0	(296,100)
Decrease (Increase) in supplies inventories	20,765	14,224	(1,158)	33,831
Decrease (Increase) in prepaid items	(39,351)	(2,875)	0	(42,226)
Increase (Decrease) in accrued expenses	216,104	9,366	0	225,470
Increase (Decrease) in Medicaid/Medicare payable	388,102	0	0	388,102
Increase (Decrease) in accounts payable	(1,070,272)	(239)	(81)	(1,070,592)
Increase (Decrease) in Due to the State of Wisconsin	230,888	41,821	167	272,876
Increase (Decrease) in Due to the federal government	15,122	207	0	15,329
Increase (Decrease) in compensated absences	107,962	(3,630)	1,002	105,334
Increase (Decrease) in postemployment benefits	1,040,553	0	0	1,040,553
Increase (Decrease) in deferred revenue	0	0	12	12
Total Adjustments	(2,391,398)	200,709	449	(2,190,240)
Net Cash Provided by Operating Activities	$ (5,025,336)	$ (25,725)	$ (347)	$ (5,051,408)

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 also operates a power plant and a canteen. Revenues and expenses that are not related to Winnebago'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 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. Winnebago 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 related to providing patient services. Funds such as grants and gifts on which outside parties have placed restrictions as to their use are included as restricted net assets. When both restricted and unrestricted net assets are available for use, it is Winnebago'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 and to others, including other state agencies and local citizens, at fair market rates. Revenue is derived from charges for these sales and services.

D. Patient Deposit Fund

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

E. Canteen Fund

The Canteen Fund reflects the operation of the canteen at Winnebago.

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 collectability 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. 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*, 2004 edition, issued by the American Hospital Association, as follows:

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

J. Invested in Capital Assets

The "Invested in Capital Assets, Net of Related Debt" account reflects the value of the land, buildings, and equipment net of any related debt from capital leases. Most of these assets were financed with general obligation debt. This debt is not an obligation of Winnebago 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 Revenue from Patient Care

Winnebago has agreements with third-party payers for Medicare and Medicaid that provide for payments 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 is reimbursed at an interim rate. A final settlement is determined after submission of the annual cost report by Winnebago and audits thereof by the Medicare fiscal intermediary.

Medicaid—Winnebago is reimbursed at an interim rate, with final settlement determined after its submission of the annual cost report and audits thereof by the Wisconsin Department of Health 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. Any additional payments required are 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 the expense for compensated absences are based on current rates of pay.

2. DEPOSITS

Winnebago'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, 2008, the carrying value of these deposits was $102,818, and the bank balance was $117,340.

A petty cash fund and miscellaneous cash amounts, which are held by Winnebago and reported as cash and cash equivalents in the amount of $4,596, are not included in the carrying value or the bank balance because they are not deposits.

Some of Winnebago's cash, except for the deposits and cash discussed in the preceding two paragraphs, is deposited with the State of Wisconsin 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*, requires certain disclosures related to custodial credit risk. 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. During FY 2007-08, all of the deposits and non-negotiable certificates of deposit that are held in financial institutions were insured up to $100,000 by the Federal Deposit Insurance Corporation. Subsequent to FY 2007-08, the Federal Deposit Insurance Corporation increased the federal insurance limit to $250,000. A state appropriation for losses on deposits (s. 34.08, Wis. Stats.) insures up to $400,000 over the amount of federal insurance. As of June 30, 2008, the bank balance was $117,340. Therefore all deposits and non-negotiable certificates of deposit held in financial institutions are insured. Winnebago does not have a deposit policy for custodial credit risk and other investment risks.

3. ACCOUNTS RECEIVABLE BALANCES

Significant receivable balances as of June 30, 2008, include the following:

Patient Receivables	$8,067,173
Utility Sales Receivables	1,844
Other Receivables	105,650
Total Accounts Receivable	$8,174,667

The patient receivables 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 96 percent of patient receivables is expected to be collected in FY 2008-09. The remaining 4 percent is expected to be collected in FY 2009-10. The utility sales and other receivables should all be collected in FY 2008-09.

Winnebago 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 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 general purpose revenue (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, 2008, include the following:

Vendors	$ 199,482
Salaries and Benefits	315,324
Total Accounts Payable	$514,806

Significant accrued expense balances as of June 30, 2008, include the following:

Vendors	$ 217,270
Salaries and Benefits	853,047
Total Accrued Expenses	$1,070,317

5. THIRD-PARTY CONTRACTUAL SETTLEMENTS

Annual cost reports for services provided by Winnebago are first submitted to the Medicare fiscal intermediary, National Government Services. Once the Medicare settlement amounts have been finalized and any appeals settled, the cost reports are submitted to the Department of Health Services to determine a final settlement amount for Medicaid. In addition to the Medicare and Medicaid cost report audits, quality-control audits of the programs may be performed. For FY 2007-08, settlement activity of $1.9 million was reflected as operating revenue and $388,000 as operating expense.

The status of cost reports outstanding is as follows:

Year	Medicare	Medicaid
FY 2002-03	Submitted, audited, finalized	Submitted, audited, finalized
FY 2003-04	Submitted, audited, finalized	Submitted, audited, finalized
FY 2004-05	Submitted, audited, finalized	Submitted
FY 2005-06	Submitted, audited, finalized	Not submitted
FY 2006-07	Submitted, audited, finalized	Not submitted
FY 2007-08	Submitted, not audited	Not submitted

Medicare—The FY 2006-07 cost report was finalized during the current period and is reflected on the FY 2007-08 financial statements. The determinations resulted in Winnebago receiving a total of $505,834 for FY 2006-07.

Medicaid—The FY 2002-03 and FY 2003-04 cost reports were finalized during the current period and are reflected on the FY 2007-08 financial statements. The determinations resulted in Winnebago reimbursing the Medicaid program $203,310 for FY 2002-03 and receiving $1,621,151 for FY 2003-04. The net amount of these settlements is reflected as operating revenue on the financial statements.

Other—In FY 2007-08, the Department of Health Services completed a quality control audit of the Medicaid program and concluded that Winnebago owed the Medicaid program $388,120. Winnebago agreed to pay this amount back over five years, with the first payment of $77,620 due in December 2008. The total amount of this settlement was reflected as an operating expense on the FY 2007-08 financial statements.

6. CAPITAL ASSETS

The change in book value from July 1, 2007, to June 30, 2008, is summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Land	$ 23,457	$ 0	$ 0	$ 23,457
Land Improvements	577,314	76,132	0	653,446
Buildings	25,352,391	1,035,616	(150,500)	26,237,507
Equipment	1,341,532	23,496	(89,550)	1,275,478
Construction in Progress	1,273,831	406,174	(572,187)	1,107,818
Total Capital Assets	28,568,525	1,541,418	(812,237)	29,297,706
Less Accumulated Depreciation for:				
Land Improvements	(485,403)	(35,978)	0	(521,381)
Buildings	(13,401,785)	(808,111)	150,500	(14,059,396)
Equipment	(1,146,296)	(54,912)	85,061	(1,116,147)
Total Accumulated Depreciation	(15,033,484)	(899,001)	235,561	(15,696,924)
Total Capital Assets, Net	$13,535,041	$ 642,417	$(576,676)	$13,600,782

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

7. LOAN FROM THE STATE OF WISCONSIN

The State of Wisconsin General Fund provided a loan of $10,165,728 as of June 30, 2008, to cover cash overdrafts in Winnebago's appropriations. This amount is included in the "Due to the State of Wisconsin" liability account on the financial statements.

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, which holds title to the assets.

Winnebago has received proceeds from 39 outstanding bond issuances. The bonds have maturity dates ranging from April 15, 2009, to April 15, 2027. The principal balance outstanding as of June 30, 2008, attributable to Winnebago is $11,323,610. This debt represents a debt of the State of Wisconsin and is not a debt of Winnebago. Accordingly, this debt is not reported in Winnebago's financial statements. Debt service payments made by the State of Wisconsin attributable to Winnebago for the year ended June 30, 2008, are allocated as follows:

Principal	$1,035,958
Interest	614,910
Total Paid	$1,650,868

However, Winnebago 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 owed $149,626 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 $1,047,190 and funded by GPR to Winnebago during FY 2007-08. A portion of the administrative overhead and depreciation on assets purchased by the State is later recovered through Medicaid patient revenue. Winnebago includes overhead expense and depreciation in the Medicaid cost reports, which are used to determine the final Medicaid settlement for the year. During FY 2007-08, Winnebago owed Medicaid payments related to overhead expense of $222,232 and depreciation of $221,544 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 Winnebago through the criminal justice system. Winnebago 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.

The financial statements reflect expected reimbursements as a receivable and as a payable to the State of Wisconsin. For the year ended June 30, 2008, both the receivable from Medicaid, Medicare, and private insurers, less related contractual adjustments, and the related payable to the State of Wisconsin were $421,068.

In addition, Winnebago collected $1,422,135 in FY 2007-08 for prior- and current-year services. The full amount collected was remitted 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. For FY 2007-08, state agencies were required to transfer amounts for debt service payments on the bonds to the General Fund. Winnebago transferred a total of $847,443 to the State's General Fund in FY 2007-08 for debt service payments. 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 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, 2008, total $1,500.

10. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due within One Year
Capital Leases	$ 372,576	$ 0	$ (37,101)	$ 335,475	$ 37,970
Compensated Absences	1,499,884	668,424	(563,090)	1,605,218	595,874
Postemployment Benefits	0	1,040,553	0	1,040,553	0
Long-term Liabilities	$1,872,460	$1,708,977	$(600,191)	$2,981,246	$ 633,844

11. OBLIGATIONS UNDER CAPITAL LEASES

During FY 2007-08, Winnebago participated in statewide master lease agreements for energy-saving improvements. The terms of the leases are 15 years. The value of the improvements under lease as of June 30, 2008, was $583,955. The accumulated depreciation totaled $269,276, resulting in a net book value of $314,679.

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, 2008:

For the Year Ending:	
June 30, 2009	$ 53,261
June 30, 2010	53,261
June 30, 2011	53,261
June 30, 2012	53,261
June 30, 2013	53,261
2014-2016	133,154
Total Minimum Lease Payments	399,459
Less: Amounts Representing Interest	63,984
Present Value of Minimum Lease Payments	335,475
Less: Current Maturities	37,970
Long-term Portion of Present Value of Minimum Lease Payments	$297,505

12. OBLIGATIONS UNDER OPERATING LEASES

Winnebago leases copiers and facsimile machines. Future minimum rental payments required under the operating leases as of June 30, 2008, are as follows for the year ending:

June 30, 2009	$ 24,215
June 30, 2010	4,445
Thereafter	0
Total Minimum Rental Payments Required	$28,660

The composition of the total rental expense for the fiscal year ended June 30, 2008, is as follows:

Minimum Rentals	$24,215
Contingent Rentals	0
Less: Sublease Rentals	0
Rental Expense	$24,215

13. EMPLOYEE RETIREMENT PLAN

Permanent, full-time employees of Winnebago 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
Post Office Box 7931
Madison, Wisconsin 53707-7931

The most current financial report is also available on the Department of Employee Trust Funds' Web site, *www.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, the State issued bonds in December 2003 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's contributions to the plan were $3,776,593 for FY 2007-08. The relative position of Winnebago in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multiple-employer plan.

14. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and it is effective for the year ending June 30, 2008. In accordance with the provisions of GASB Statement No. 45, state and local government employers are required to display in financial reports other postemployment benefit expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information. The employees of Winnebago are employees of the State of Wisconsin. The financial statements of Winnebago include other postemployment benefit expenses in fringe benefits and the related noncurrent liabilities.

A. Health Insurance

The State's health insurance program, a cost-sharing, multiple-employer, defined benefit plan not held in trust, is an employer-sponsored program offering group medical coverage to eligible employees and retirees of the State that was created under ch. 40, Wis. Stats. The Wisconsin Department of Employee Trust Funds and the Group Insurance Board have program administration and oversight responsibilities under s. 15.165(2) and 40.03(6), Wis. Stats.

Under this plan, retired employees of the State contribute the same healthcare premium as active employees, creating an implicit rate subsidy for retirees. This implicit rate subsidy, which is calculated to cover pre–age 65 retirees (since at age 65 retirees are eligible to enroll in Medicare), is treated as an other postemployment benefit (OPEB).

The difference between the State of Wisconsin's annual required contribution of $148.5 million as of January 1, 2007, and its actual contributions of $44.3 million results in a net OPEB obligation of $104.2 million for the State. The portion of this obligation allocated to Winnebago for FY 2007-08 was $1.0 million, which reflects the amortization of the actuarial accrued liability for FY 2007-08 plus the current expense for active employees.

The State's Comprehensive Annual Financial Report (CAFR) includes financial statements, additional note disclosures, and required supplementary information for this plan. That report is publicly available at *www.doa.wisconsin.gov* or may be obtained by writing to:

State Controller's Office
Department of Administration
101 East Wilson Street
Madison, Wisconsin 53702

B. Life Insurance

The State's life insurance program, a cost-sharing, multiple-employer, defined benefit plan held in trust, provides post-employment coverage to all eligible employees. The plan is administered under s. 40.70, Wis. Stats. Beginning at age 65, retirees and terminating members continue to receive basic life insurance coverage at a reduced level, at no cost to themselves. Retirees and terminating members under age 65 must continue to pay the employee premium to maintain coverage. The amount contributed by Winnebago to this plan is not readily determinable because this is a statewide, multiple-employer plan.

The Department of Employee Trust Funds issues publicly available financial reports that include financial statements, additional note disclosures, and required supplementary information for this plan. The report is available at *www.etf.wi.gov* or may be obtained upon request from:

> Department of Employee Trust Funds
> Post Office Box 7931
> Madison, Wisconsin 53707-7931

The State's CAFR also includes additional employer note disclosures for the 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, 2008, and have issued our report thereon dated October 5, 2009. The Institutes are operated by the Department of Health Services' Division of Mental Health and Substance Abuse Services. 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 Department's and the Institutes' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's and the Institutes' internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's and the Institutes' internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Institutes' financial statements will not be prevented or will not be detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

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, 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 management, the Wisconsin Legislature, and others within the organization. This report is a matter of public record and its distribution is not limited. However, because we do not express an opinion on the effectiveness of the Department's and the Institutes' internal control or on compliance, this report is not intended to be used by anyone other than these specified parties.

LEGISLATIVE AUDIT BUREAU

October 5, 2009 by Sherry Haakenson

Sherry Haakenson
Audit Director