Report 07-14
September 2007

An Audit

Wisconsin Mental Health Institutes

Department of Health and Family Services

LEGISLATIVE AUDIT BUREAU

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Janice Mueller
State Auditor

September 27, 2007

Senator Jim Sullivan and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Sullivan and Representative Jeskewitz:

We have completed financial audits of Mendota and Winnebago Mental Health Institutes for the period July 1, 2005, through June 30, 2006. The audits were requested by the Department of Health and Family Services to comply with requirements of the Joint Commission on Accreditation of Healthcare Organizations. We were able to express an unqualified opinion on each Institute's financial statements.

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

Each Institute reported a financial gain for fiscal year 2005-06. Mendota reported a gain of $1.2 million, and Winnebago reported a gain of $1.8 million. In each case, operating revenues increased enough to offset increases in operating expenses, such as salary and fringe benefit costs. Further, each Institute reported a positive accounting balance, which is reflected in its financial statements as unrestricted net assets.

As part of our audit, we followed up on internal control concerns reported in our prior year's audit related to administration of approximately $395,000 in client funds by the Program of Assertive Community Treatment, an outpatient unit of Mendota. To assist clients in managing their own money, staff receive and disburse funds on their behalf. In accepting client funds, the State is responsible for ensuring proper controls are in place to reduce the risks of error or misappropriation. While some improvements were made, internal control concerns remain related to client funds administered by the Program of Assertive Community Treatment, including a lack of separation of duties and limited oversight of operations.

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

Respectfully submitted,

Janice Mueller

Janice Mueller
State Auditor

JM/CS/ss

Introduction ▪

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

The Department annually requests an audit of the Institutes' financial statements to comply with requirements of the Joint Commission on Accreditation of Healthcare Organizations. As necessary parts of this audit, we reviewed the Institutes' control procedures, assessed the fair presentation of the fiscal year (FY) 2005-06 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 by GPR.

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

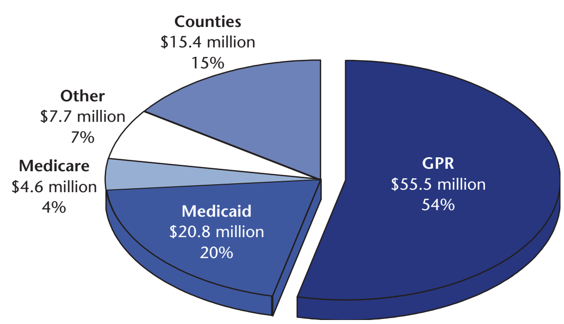
Average daily patient rates as of June 30, 2006, were $668 at Mendota and $640 at Winnebago. These rates, which are intended to cover the full cost of providing care for patients committed through civil proceedings or by voluntary placement, represent an increase of $19 and $37, respectively, over the prior year's rates.

During FY 2005-06, the Department received $104.0 million in support for patient services.

Figure 1 illustrates the Institutes' funding sources for patient care during FY 2005-06. GPR directly appropriated to the Institutes accounted for 54 percent of the $104.0 million received. Medicaid, which is funded with GPR and federal revenue, represented the largest source of program revenue.

Figure 1

Patient Care Receipts[1]
FY 2005-06



[1] Represents cash receipts totaling $104.0 million.

As shown in Table 1, both Mendota's and Winnebago's average daily population has fluctuated over the past ten years. Mendota's average daily population increased by 15 in FY 2005-06, largely because of the addition of a 15-bed minimum security forensic unit. In contrast, Winnebago's average daily population decreased by 13, primarily because an 18-bed forensic unit closed.

Table 1

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

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Mendota										
Average Daily Population	268	258	263	269	281	263	261	253	258	273
Capacity	300	300	293	293	299	290	275	275	275	293
Percentage Filled	89.3	86.0	89.8	91.8	94.0	90.7	94.9	92.0	93.8	93.0
Winnebago										
Average Daily Population	249	259	267	274	278	277	272	266	266	253
Capacity	330	330	313	313	299	298	290	290	280	262
Percentage Filled	75.5	78.5	85.3	87.5	93.0	93.0	93.8	91.7	95.0	96.6

Financial Performance

Both Institutes reported operating gains for FY 2005-06.

Over the past five years, the Institutes' financial performance has shown mixed results. They are expected to generate sufficient revenue to cover operating expenses. As shown in Table 2, after reporting operating losses in both FY 2003-04 and FY 2004-05, Mendota reported an operating gain of $1.2 million and an overall net gain of $2.2 million in FY 2005-06. Winnebago, which had reported operating losses from FY 2002-03 through FY 2004-05, reported an operating gain of $1.8 million and an overall net gain of $1.5 million in FY 2005-06.

Table 2

Net Income (Loss)
For the Fiscal Year Ending June 30

	2002	2003[1]	2004	2005[1]	2006
Mendota					
Operating Income (Loss)	$ 2,192,733	$ 241,577	$(748,847)	$(3,072,405)	$1,174,592
Nonoperating Income and Transfers	307,025	801,545	838,801	688,217	1,057,818
Net Income (Loss)	**$2,499,758**	**$1,043,122**	**$ 89,954**	**$(2,384,188)**	**$2,232,410**
Winnebago					
Operating Income (Loss)	$ 738,089	$(3,132,302)	$(115,967)	$(1,494,093)	$1,849,858
Nonoperating Income and Transfers	285,697	1,324,693	170,075	(49,107)	(361,994)
Net Income (Loss)	**$1,023,786**	**$(1,807,609)**	**$ 54,108**	**$(1,543,200)**	**$1,487,864**

[1] FY 2002-03 and FY 2004-05 balances have been restated to reflect prior-period adjustments.

Increases in operating revenues are driving the gains reported in FY 2005-06. Operating revenues increased by 12 percent at Mendota and 8 percent at Winnebago. In addition to an increase in revenue that resulted from the higher daily patient rates, the receipt of several Medicaid and Medicare settlements contributed to net income. The Institutes are reimbursed for the cost to care for Medicaid and Medicare patients at an interim rate, with final settlement determined at a later date. The final settlement amounts are difficult to estimate and are often revised; therefore, they are not reflected in the financial statements until finalized. During FY 2005-06, several settlements were finalized, resulting in $1.6 million in additional revenue at Mendota and $1.0 million at Winnebago.

Daily patient rates for both Institutes increased in October 2006.

The Department continues to monitor the Institutes' financial activity to determine whether the daily patient rate should be adjusted to ensure sufficient revenue. Subsequent to our audit period, it increased the daily patient rate by 1 percent for Mendota and 3 percent for Winnebago effective October 1, 2006. Further increases are anticipated for each Institute effective October 1, 2007.

Program of Assertive Community Treatment

During FY 2005-06, approximately two-thirds of the activity in the Mendota Patient Deposit Fund, consisting of $394,800 in receipts and $389,900 in disbursements, was processed for Program of Assertive Community Treatment (PACT) clients. PACT is an outpatient clinical research unit of Mendota located in downtown Madison. One of its services is assisting clients in managing their money. Client funds are deposited in a checking account at a local bank and are reported in the financial statements of Mendota's Patient Deposit Fund. PACT staff maintain individual client account records.

In accepting cash and making disbursements on behalf of clients, the State is assuming the fiduciary responsibility for ensuring that proper internal controls are in place to reduce the risk of errors or misappropriation of assets, and to detect such activities if they do occur. During our prior audit, we identified serious internal control concerns with PACT receipt and disbursement procedures, increasing the risk that unauthorized, erroneous, or fraudulent transactions could be processed without easy detection. In its response to our prior-year recommendation, the Department of Health and Family Services indicated that it would implement improved internal controls by August 2006. Further, the Department indicated that the Mendota business office manager would assist in the implementation of the improved controls and conduct additional oversight of PACT to ensure the new procedures were being followed.

Procedures for handling client funds at Mendota's outpatient unit continue to be deficient.

During our current audit, we found some steps have been taken to improve controls. For example, checks are now restrictively endorsed upon receipt, and PACT staff appear to be more diligent in obtaining client authorization for disbursements. However, we continue to have concerns in this area. For example, we found that one employee continues to have conflicting cash handling responsibilities that allow total control over both receipt and disbursement transactions. This employee receives and disburses client funds and maintains the records of these transactions with little involvement of other employees. In addition, the Department of Health and Family Services did not implement new procedures to issue written receipts when funds are received from clients, unless requested by the client, and it does not maintain a log of the receipts.

Lack of proper oversight has contributed to the inadequate control procedures.

Failure to take appropriate corrective action allowed the inadequate control procedures to continue to exist, and turnover in the Mendota business office manager position contributed to delays in implementing corrective action. A new business office manager was hired in February 2007.

While our testing did not identify any inappropriate transactions, we report these deficiencies as a material weakness in internal controls for the Mendota Patient Deposit Fund. A separate written communication to the management of the Department of Health and Family Services includes detailed information on our concerns and suggests that priority be given to implementing improved controls by October 31, 2007.

☑ Recommendation

We again recommend Mendota Mental Health Institute revise procedures over receipt and disbursement processing for the Patient Deposit Fund activity of the Program of Assertive Community Treatment. In addition, we recommend Mendota Mental Health Institute direct the business office manager to take all necessary steps to ensure that appropriate internal control procedures are established for the program.

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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, 2006, 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 and Family Services. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1A, the financial statements referred to in the first paragraph present only Mendota Mental Health Institute and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2006, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of each of Mendota Mental Health Institute's funds as of June 30, 2006, and the respective changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 18, 2007, on our consideration of the Department of Health and Family Services' internal control over financial reporting for Mendota Mental Health Institute and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

LEGISLATIVE AUDIT BUREAU

Carolyn Stittleburg

September 18, 2007 by

Carolyn Stittleburg
Audit Director

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

Prepared by the Department of Health and Family Services

This section of Mendota Mental Health Institute's annual financial report presents a discussion and analysis of the Institute's financial performance during the fiscal year ended June 30, 2006. This discussion and analysis should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this discussion are the responsibility of the management of Mendota and the Wisconsin Department of Health and Family Services.

Using the Annual Financial Statements

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

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

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year on an accrual basis. Activities on this statement are reported as either operating or nonoperating. The 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 11 percent during FY 2005-06. Analysis of Mendota's financial activities focuses on the Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets. Mendota's net assets from FY 2004-05 to FY 2005-06 are reviewed in Table A. Its changes in net assets for the same period are subsequently reviewed in Table B.

Table A

Net Assets

Fiscal Year Ended June 30	2006	2005[1]	Percentage Change
Current Assets	$ 11,307,750	$8,662,702	31%
Capital Assets	18,878,969	18,411,412	3
Total Assets	**$30,186,719**	**$27,074,114**	11
Current Liabilities	$ 6,705,515	$ 5,932,682	13
Noncurrent Liabilities	1,495,165	1,387,803	8
Total Liabilities	8,200,680	7,320,485	12
Net Assets:			
Invested in Capital Assets, Net of Related Debt	18,444,548	17,920,664	3
Restricted	19,826	9,647	106
Unrestricted	3,521,665	1,823,318	93
Total Net Assets	21,986,039	19,753,629	11
Total Liabilities and Net Assets	**$30,186,719**	**$27,074,114**	11

[1] FY 2004-05 balances have been restated to reflect prior-period adjustments.

As shown in Table A, current assets increased by 31 percent from FY 2004-05 to FY 2005-06. One reason for this increase was a large increase in patient receivables during FY 2005-06. The increase in receivables resulted, in part, from a modest increase in cash collected on current and prior-year patient billings, coupled with an 11 percent increase in patient billings for FY 2005-06. Patient billings increased in FY 2005-06 as the result of an increase in the daily patient rate, an increase in capacity, and higher utilization of the original capacity. The net patient receivables balance will go up when there is a large increase in patient billings but only a modest increase in cash collected on current and prior-year patient billings.

In addition, an analysis of prior-year collections determined that the estimates used to write off uncollectible patient receivables were too high in prior years. The estimate of the current year's patient receivables that will not be collected is calculated based on the prior year's collection experience. When the estimate for the FY 2004-05 financial statements was compared to the actual amounts collected on FY 2004-05 patient receivables in FY 2005-06, it was determined that too much had been written off in the prior year. The net patient receivable balance will go up when fewer patient billings from prior years are written off as uncollectible. The patient receivables balance was increased by $302,848 to account for this change in estimate.

Another reason for the increase in current assets was a large increase in settlements of prior-year audits of Medicaid and Medicare cost reports. Mendota submits annual cost reports to the Department of Health and Family Services for Medicaid and to United 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. FY 2005-06 was a unique year in that Mendota received notification of four Medicaid or Medicare settlements, resulting in an additional $1,571,313 in revenue. However, only one of the four settlements had been received as of June 30, 2006. The other three, totaling $1,004,313, are recorded on the financial statements as settlement due from Medicaid/Medicare.

Capital assets, which represent the original cost of an asset less accumulated depreciation, increased by 3 percent from FY 2004-05 to FY 2005-06. Although this is not a significant increase in capital assets, five ongoing construction projects are worth noting: a remodeling project at Stovall Hall, a project to modernize elevators, a project to improve wheelchair access to bathrooms, installation of equipment to reduce air pollution from the heating plant, and improvements to the water distribution system. The increase in capital assets from construction activity was offset by the decrease in capital assets resulting from current-year depreciation expense.

Current liabilities increased by 13 percent from FY 2004-05 to FY 2005-06. Most of this change is explained by two increases to the "Due to the State of Wisconsin" liability account. First, the State of Wisconsin reimburses Mendota for expenses incurred to provide services to court-ordered patients. After June 30, 2006, some of these expenses that had been recorded as court-ordered patient expenses were determined to be expenses for patients covered by Medicaid, Medicare, or private insurance. Since these expenses will be reimbursed by Medicaid, Medicare, or private insurance, their original reimbursement by the State of Wisconsin needed to be repaid. The repayment to the State of Wisconsin was completed after June 30, 2006, and is therefore reported as a payable in the FY 2005-06 financial statements.

Second, there was a 12 percent increase, from $2,093,574 to $2,342,823, in the loan from the State of Wisconsin that covers cash overdrafts in Mendota's appropriations. The cash balance in an appropriation is computed by increasing the beginning cash balance by amounts received as patient receivables and as cash received from other sources. Cash paid for expenses such as salaries and supplies is then subtracted from this total. If cash expenses exceed the cash resources available, the appropriation is in overdraft. A loan from the State of Wisconsin is recorded on the statements, since the State will cover all cash expenses that exceed the cash available.

Noncurrent liabilities increased by 8 percent from FY 2004-05 to FY 2005-06. This increase resulted from an increase in the accrual for noncurrent compensated absences. Compensated absences are accrued expenses for vacations, sabbatical leave, and sick leave.

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 $19,753,629 in FY 2004-05 to $21,986,039 in FY 2005-06. The financial activity that resulted in this increase of $2,232,410 can be found by looking at the changes in net assets, which is analyzed in Table B.

Table B

Changes in Net Assets

Fiscal Year Ended June 30	2006	2005[1]	Percentage Change
Operating Revenues	$61,678,043	$54,943,097	12%
Operating Expenses	60,503,451	58,015,502	4
Operating Income (Loss)	1,174,592	(3,072,405)	
Nonoperating Income(Loss)	324,070	300,247	8
Income(Loss) before Transfers	1,498,662	(2,772,158)	
Transfers In	2,284,924	1,642,118	39
Transfers Out	(1,551,176)	(1,254,148)	24
Change in Net Assets	**$2,232,410**	**$ (2,384,188)**	

[1] FY 2004-05 balances have been restated to reflect prior-period adjustments.

The change in net assets for FY 2005-06 shows that Mendota generated enough revenue to cover expenses. A comparison from FY 2004-05 to FY 2005-06 shows a 12 percent increase in operating revenues and a modest increase in operating expenses, resulting in an increase in net operating income.

The increase in operating revenues resulted primarily from an increase in patient billings, an increase in revenue from the State of Wisconsin to reimburse the Institute for expenses incurred to provide services to court-ordered patients, and the receipt of four Medicaid or Medicare settlements. The modest increase in operating expenses resulted, in part, from a 5 percent increase in salary expenses.

Transfers in increased by 39 percent from FY 2004-05 to FY 2005-06. The main reason for the increase was a $1,046,700 transfer in from the State of Wisconsin. As mentioned previously, the State of Wisconsin reimburses Mendota for expenses incurred to provide services to court-ordered patients. These expenses exceeded the amount budgeted for this care in FY 2005-06. Therefore, the State of Wisconsin paid for $1,046,700 of the amount over budget. This increase in transfers in was offset by a 25 percent decrease in transfers in from the State of Wisconsin for ongoing capital construction projects.

Transfers out increased by 24 percent from FY 2004-05 to FY 2005-06. The main reason for the increase was an increase of transfers out to the General Fund. In December 2003, the State of Wisconsin issued bonds to fund its liability for prior-service retirement expenses. State agencies are required to transfer the resulting cost savings to the General Fund. In FY 2005-06 these transfers were $967,760, a 38 percent increase over the prior year.

Contacting the Institute's Financial Management

This financial report is designed to provide a general overview of Mendota's financial performance for FY 2005-06. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to:

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

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Financial Statements of Mendota Mental Health Institute ■

Balance Sheet
June 30, 2006

	Patient Care Fund	Power Plant Fund	Patient Deposit Fund	Canteen Fund	Totals (Memorandum Only)
ASSETS					
Current Assets:					
Cash and cash equivalents (Note 2)	$ 4,134	$ 0	$ 101,699	$ 49,338	$ 155,171
Net accounts receivable (Note 3)	6,418,200	0	0	493	6,418,693
Due from the State of Wisconsin	2,585,226	786	0	0	2,586,012
Due from the federal government	84,352	0	0	0	84,352
Settlement due from Medicaid/Medicare (Note 5)	1,004,313	0	0	0	1,004,313
Supplies and merchandise inventories	145,599	341,919	0	2,268	489,786
Prepaid items	557,012	12,411	0	0	569,423
Total Current Assets	10,798,836	355,116	101,699	52,099	11,307,750
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	28,290,696	5,904,729	0	0	34,195,425
Equipment	2,160,311	458,939	0	0	2,619,250
Accumulated depreciation	(16,955,835)	(4,099,804)	0	0	(21,055,639)
Construction in progress	1,091,358	142,814	0	0	1,234,172
Total Noncurrent Assets	16,378,283	2,500,686	0	0	18,878,969
TOTAL ASSETS	$ 27,177,119	$ 2,855,802	$ 101,699	$ 52,099	$ 30,186,719
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable (Note 4)	$ 587,635	$ 223,851	$ 0	$ 9,777	$ 821,263
Due to the federal government	43,621	795	0	0	44,416
Due to the State of Wisconsin (Notes 7 and 8)	3,626,961	202,826	0	1,074	3,830,861
Accrued expenses (Note 4)	935,558	11,519	0	0	947,077
Capital leases (Notes 10 and 11)	53,337	0	0	0	53,337
Compensated absences (Note 10)	872,345	22,285	0	0	894,630
Patient funds held in trust	0	0	101,699	0	101,699
Deferred revenue	0	0	0	12,232	12,232
Total Current Liabilities	6,119,457	461,276	101,699	23,083	6,705,515
Noncurrent Liabilities:					
Capital leases (Notes 10 and 11)	381,084	0	0	0	381,084
Compensated absences (Note 10)	1,086,329	27,752	0	0	1,114,081
Total Noncurrent Liabilities	1,467,413	27,752	0	0	1,495,165
Total Liabilities	**7,586,870**	**489,028**	**101,699**	**23,083**	**8,200,680**
Net Assets:					
Invested in capital assets, net of related debt	15,943,862	2,500,686	0	0	18,444,548
Restricted	19,826	0	0	0	19,826
Unrestricted	3,626,561	(133,912)	0	29,016	3,521,665
Total Net Assets	**19,590,249**	**2,366,774**	**0**	**29,016**	**21,986,039**
TOTAL LIABILITIES AND NET ASSETS	$ 27,177,119	$ 2,855,802	$ 101,699	$ 52,099	$ 30,186,719

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, 2006

	Patient Care Fund	Power Plant Fund	Canteen Fund	Totals (Memorandum Only)
OPERATING REVENUES				
Net Revenue from Patient Care (Notes 1F and 1K)	$ 22,915,073	$ 0	$ 0	$ 22,915,073
Revenue from the State of Wisconsin	34,741,948	0	0	34,741,948
Utility Sales	0	2,292,334	0	2,292,334
Canteen Revenue	0	0	157,375	157,375
Medicaid/Medicare Settlements (Note 5)	1,571,313	0	0	1,571,313
Total Operating Revenues	**59,228,334**	**2,292,334**	**157,375**	**61,678,043**
OPERATING EXPENSES				
Salaries	34,231,091	668,867	11,864	34,911,822
Fringe Benefits	12,646,880	261,267	0	12,908,147
Materials and Supplies	9,827,674	1,495,714	142,218	11,465,606
Depreciation	1,005,407	212,469	0	1,217,876
Total Operating Expenses	**57,711,052**	**2,638,317**	**154,082**	**60,503,451**
OPERATING INCOME (LOSS)	**1,517,282**	**(345,983)**	**3,293**	**1,174,592**
NONOPERATING REVENUES AND EXPENSES				
Gain (Loss) on Sale of Fixed Assets	(7,390)	0	0	(7,390)
Canteen Commissions	0	0	4,884	4,884
Operating Grants	90,536	0	0	90,536
Other Nonoperating Revenues	256,945	0	0	256,945
Materials and Supplies	0	0	(86)	(86)
Interest Expense	(20,819)	0	0	(20,819)
Total Nonoperating Income (Loss)	**319,272**	**0**	**4,798**	**324,070**
Income (Loss) before Transfers	1,836,554	(345,983)	8,091	1,498,662
Transfers In for Capital Projects (Note 1J)	1,032,748	203,998	0	1,236,746
Other Transfers In (Note 8)	1,047,393	785	0	1,048,178
Transfers Out (Note 8)	(1,510,501)	(40,675)	0	(1,551,176)
CHANGE IN NET ASSETS	**2,406,194**	**(181,875)**	**8,091**	**2,232,410**
NET ASSETS				
Total Net Assets—Beginning of the Year	17,029,077	2,588,819	20,925	19,638,821
Prior-Period Adjustment (Note 14)	154,978	(40,170)	0	114,808
Total Net Assets—End of the Year	**$ 19,590,249**	**$ 2,366,774**	**$ 29,016**	**$ 21,986,039**

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, 2006

	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
ASSETS				
Cash and Cash Equivalents	$ 88,298	$ 614,158	$ 600,757	$ 101,699
Net Accounts Receivable	2,327	0	2,327	0
Total Assets	**$ 90,625**	**$ 614,158**	**$ 603,084**	**$ 101,699**
LIABILITIES				
Patient Funds Held in Trust	90,625	614,158	603,084	101,699
Total Liabilities	**$ 90,625**	**$ 614,158**	**$ 603,084**	**$ 101,699**

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Year Ended June 30, 2006

	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	$ 57,229,881	$ 2,655,904	$ 167,945	$ 60,053,730
Cash Payments to Suppliers for Goods and Services	(9,715,898)	(1,522,637)	(141,638)	(11,380,173)
Cash Payments to Employees for Services	(47,683,176)	(916,696)	(12,327)	(48,612,199)
Other Sources (Uses) of Cash	449,329	0	0	449,329
Net Cash Provided (Used) by Operating Activities	**280,136**	**216,571**	**13,980**	**510,687**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers Out	(175,954)	(39,909)	0	(215,863)
Loan from the State of Wisconsin	431,311	(185,531)	0	245,780
Net Cash Provided (Used) by Noncapital Financing Activities	**255,357**	**(225,440)**	**0**	**29,917**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest Payments	(20,819)	0	0	(20,819)
Capital Lease Obligations	(56,327)	0	0	(56,327)
Payments for Purchases of Capital Assets	(1,409,112)	(195,130)	0	(1,604,242)
Other Cash Flows from Capital and Related Financing Activities	951,292	203,999	0	1,155,291
Net Cash Provided (Used) by Capital and Related Financing Activities	**(534,966)**	**8,869**	**0**	**(526,097)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**527**	**0**	**13,980**	**14,507**
Cash and Cash Equivalents—Beginning of the Year	3,607	0	35,358	38,965
Cash and Cash Equivalents—End of the Year	$ 4,134	$ 0	$ 49,338	$ 53,472

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)	$ 1,517,282	$ (345,983)	$ 3,293	$ 1,174,592
Adjustments to Reconcile Operating Income to Net Cash Provided by Operations:				
Depreciation	1,005,407	212,469	0	1,217,876
Miscellaneous nonoperating income (expense)	340,576	0	4,798	345,374
Changes in assets and liabilities:				
Decrease (Increase) in receivables	(3,774,286)	364,355	(1)	(3,409,932)
Decrease (Increase) in Medicaid/Medicare receivables	(1,004,313)	0	0	(1,004,313)
Decrease (Increase) in Due from the State of Wisconsin	766,256	(786)	0	765,470
Decrease (Increase) in supplies inventories	(8,283)	(238,856)	598	(246,541)
Decrease (Increase) in prepaid items	(18,230)	(675)	0	(18,905)
Increase (Decrease) in accrued expenses	214,706	(74)	0	214,632
Increase (Decrease) in accounts payable	156,420	214,414	2,452	373,286
Increase (Decrease) in Due to the State of Wisconsin	962,467	244	(124)	962,587
Increase (Decrease) in Due to the federal government	11,838	137	0	11,975
Increase (Decrease) in deferred revenue	0	0	2,964	2,964
Increase (Decrease) in compensated absences	110,296	11,326	0	121,622
Total Adjustments	(1,237,146)	562,554	10,687	(663,905)
Net Cash Provided by Operating Activities	$ 280,136	$ 216,571	$ 13,980	$ 510,687
Noncash Investing, Capital, and Financing Activities:				
Transfers In from State of Wisconsin General Fund	1,046,700	0	0	1,046,700

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements of Mendota Mental Health Institute ■

1. SUMMARY OF ACCOUNTING POLICIES

A. Fund Accounting and Basis of Presentation

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

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

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

B. Patient Care Fund

The Patient Care Fund includes general operations of Mendota Mental Health Institute related to providing patient services. 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 Mental Health Institute's policy to use restricted net assets first, then unrestricted assets as they are needed.

C. Power Plant Fund

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

D. Patient Deposit Fund

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

E. Canteen Fund

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

F. Use of Estimates

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

G. Cash and Cash Equivalents

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

H. Supplies Inventory

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

I. Capital Assets

An asset is defined as a capital asset if it has an acquisition cost equal to or greater than $5,000 and a useful life of two or more years. Capital assets are valued at cost. Land improvements, buildings, and equipment are depreciated on a straight-line basis. Estimated useful lives are based on an industry standard determined by the publication *Estimated Useful Lives of Depreciable Hospital Assets*, 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 Mental Health Institute and therefore is not reported in the financial statements. See Note 8A for additional information on general obligation debt.

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

K. Net Revenue from Patient Care

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

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

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

2. DEPOSITS

Mendota Mental Health Institute's cash and cash equivalents include deposits of the Patient Care Fund, the Patient Deposit Fund, and the Canteen Fund in checking and savings accounts held in several financial institutions. The Patient Care Fund includes deposits in a contingent checking account, which is used to meet the immediate operating needs of the Institute. The Patient Deposit Fund includes deposits held on behalf of patients, and the Canteen Fund includes cash received from operations. As of June 30, 2006, the carrying value of these deposits was $150,220, and the bank balance was $150,560.

A petty cash fund and miscellaneous cash amounts, which are held by Mendota Mental Health Institute and reported as cash and cash equivalents in the amount of $4,951, 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. All of the deposits that are held in financial institutions are insured up to $100,000 by the Federal Deposit Insurance Corporation. 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, 2006, the bank balance was $150,560. Therefore all deposits held in financial institutions are insured. Mendota Mental Health Institute does not have a deposit policy for custodial credit risk.

3. ACCOUNTS RECEIVABLE BALANCES

Significant receivable balances as of June 30, 2006, include the following:

Patient Receivables	$6,324,726
Other Receivables	93,967
Total Accounts Receivable	$6,418,693

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 2006-07. The remaining 4 percent is expected to be collected in FY 2007-08. The other receivables should all be collected in FY 2006-07.

Mendota Mental Health Institute grants credit without collateral to its patients, most of whom are state residents and are insured under third-party payer agreements. If payment is not received from third-party payers, Mendota Mental Health Institute can attempt to recover a portion of the outstanding charge from a secondary source. The outstanding charge attributable to patients who are determined to be the responsibility of the State will be reimbursed by general purpose revenue. 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, 2006, include the following:

Vendors	$820,130
Salaries and Benefits	1,133
Total Accounts Payable	$821,263

Significant accrued expense balances as of June 30, 2006, include the following:

Vendors	$324,503
Salaries and Benefits	622,574
Total Accrued Expenses	$947,077

5. THIRD-PARTY CONTRACTUAL SETTLEMENTS

Mendota Mental Health Institute has submitted Medicare cost reports to United Government Services for FY 2001-02, FY 2002-03, FY 2003-04, FY 2004-05, and FY 2005-06. United Government Services has completed an audit of the FY 2001-02 and FY 2002-03 cost reports and concluded that the Medicare program owed Mendota $596,634 for FY 2001-02 and $195,259 for FY 2002-03. These settlements were reflected as operating revenues on the FY 2005-06 financial statements.

United Government Services has not yet completed an audit of the FY 2003-04, FY 2004-05, and FY 2005-06 cost reports but has computed tentative settlements for the first two of these fiscal years. The tentative settlements concluded that the Medicare program owes Mendota $154,300 for FY 2003-04 and $567,000 for FY 2004-05. The tentative settlement for FY 2003-04 was reflected as operating revenue and a receivable in the FY 2004-05 financial statements, and the tentative settlement for FY 2004-05 was reflected as operating revenue and a receivable in the FY 2005-06 financial statements.

Mendota Mental Health Institute has submitted Medicaid cost reports to the Department of Health and Family Services for FY 1999-2000, FY 2000-01, and FY 2001-02. The Department of Health and Family Services has completed an audit of the FY 1999-2000 report and concluded that the Medicaid program owed Mendota $212,420. This settlement was reflected as operating revenue on the FY 2005-06 financial statements.

The status of cost reports outstanding is as follows:

Year	Medicare	Medicaid
FY 1999-2000	Submitted, finalized, appeal settled	Submitted, finalized
FY 2000-01	Submitted, finalized, appeal settled	Submitted, not audited
FY 2001-02	Submitted, audited, finalized	Submitted, not audited
FY 2002-03	Submitted, audited, finalized	Not submitted
FY 2003-04	Submitted, not audited	Not submitted
FY 2004-05	Submitted, not audited	Not submitted
FY 2005-06	Submitted, not audited	Not submitted

6. CAPITAL ASSETS

The change in book value from July 1, 2005, to June 30, 2006, is summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Land	$ 306,132	$ 0	$ 0	$ 306,132
Land Improvements	1,579,629	0	0	1,579,629
Buildings	32,288,771	1,910,344	(3,690)	34,195,425
Equipment	2,431,363	250,526	(62,639)	2,619,250
Construction in Progress	1,545,675	1,590,480	(1,901,983)	1,234,172
Total Capital Assets	38,151,570	3,751,350	(1,968,312)	39,934,608
Less Accumulated Depreciation for:				
Land Improvements	(1,253,191)	(79,961)	0	(1,333,152)
Buildings	(17,059,483)	(960,873)	707	(18,019,649)
Equipment	(1,427,484)	(327,087)	51,733	(1,702,838)
Total Accumulated Depreciation	(19,740,158)	(1,367,921)	52,440	(21,055,639)
Total Capital Assets, Net	$18,411,412	$2,383,429	$(1,915,872)	$18,878,969

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

7. LOAN FROM STATE OF WISCONSIN

The State of Wisconsin General Fund provided Mendota Mental Health Institute a loan of $2,342,823 as of June 30, 2006, to cover cash overdrafts in its appropriations. This amount is reflected in the "Due to the State of Wisconsin" liability account on the financial statements.

8. REIMBURSEMENTS AND TRANSFERS

A. General Obligation Bonds

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

Mendota Mental Health Institute has received proceeds from 40 outstanding bond issuances. The bonds have maturity dates ranging from April 15, 2007, to April 15, 2026. The principal balance outstanding as of June 30, 2006, attributable to Mendota Mental Health Institute is

$19,655,755. This debt represents a debt of the State of Wisconsin and is not a debt of Mendota Mental Health Institute. Accordingly, this debt is not reported in Mendota Mental Health Institute's financial statements. Debt service payments made by the State of Wisconsin attributable to Mendota Mental Health Institute for the year ended June 30, 2006, are allocated as follows:

Principal	$1,519,948
Interest	973,489
Total Paid	$2,493,437

However, Mendota Mental Health Institute reimburses the State of Wisconsin General Fund for a portion of interest expense based on the number of days of care billable to Medicaid. Mendota Mental Health Institute owed $287,260 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 $1,124,769 and funded by GPR to Mendota Mental Health Institute during FY 2005-06. A portion of the administrative overhead and depreciation on assets purchased by the State is later recovered through Medicaid patient revenue. Mendota Mental Health Institute includes overhead expense and depreciation in the Medicaid cost reports, which are used to determine the final Medicaid settlement for the year. During FY 2005-06, Mendota Mental Health Institute owed Medicaid payments related to overhead expense of $102,405 and depreciation of $86,325 to the State of Wisconsin General Fund as reimbursements for administrative services provided and for assets originally purchased by the State. The amount remitted is included in the financial statements as a transfer out and a payable to the State of Wisconsin.

C. Insurance Reimbursements for Forensic Patients

Throughout the year, forensic patients are committed to Mendota Mental Health Institute through the criminal justice system. Mendota Mental Health Institute receives general purpose revenue 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 general purpose revenue of the General Fund, and not as revenue of Mendota Mental Health Institute.

The financial statements reflect expected reimbursements as a receivable and as a payable to the State of Wisconsin. For the year ending June 30, 2006, both the receivable from Medicaid, Medicare, and private insurers, less related contractual adjustments, and the related payable to the State of Wisconsin were $279,287.

In addition, Mendota Mental Health Institute collected $308,001 in FY 2005-06 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. Doing so resulted in cost savings that state agencies are required to lapse to the General Fund. Mendota Mental Health Institute transferred $967,760 to the State's General Fund in FY 2005-06. This amount is reflected in the financial statements as a transfer out. See Note 13 for further information on the employee retirement plan.

E. Transfer In from State of Wisconsin

Mendota Mental Health Institute receives general purpose revenue from the State of Wisconsin to cover the costs associated with care of forensic patients. These costs exceeded the amount budgeted for this care in FY 2005-06. Therefore, the State of Wisconsin provided an additional $1,046,700. This amount is reflected in the financial statements as a transfer in.

9. REVENUE FROM BUILDING LEASES

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

The leased facilities are in buildings with the following costs:

Buildings at Historical Cost	$454,228
Less: Accumulated Depreciation	(344,652)
Buildings, Net	$109,576

Minimum future lease payments to be received during the year ended June 30, 2007, total $113,631.

10. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due within One Year
Capital Leases	$ 490,748	$ 0	$ (56,327)	$ 434,421	$ 53,337
Compensated Absences	1,887,088	1,055,328	(933,705)	2,008,711	894,630
Long-term Liabilities	$2,377,836	$1,055,328	$(990,032)	$2,443,132	$947,967

11. OBLIGATIONS UNDER CAPITAL LEASES

During FY 2005-06, Mendota Mental Health Institute leased a hematology analyzer and a chemistry analyzer and participated in statewide master lease agreements to acquire energy-saving improvements. The term of the lease for the hematology and chemistry analyzers is 60 months. The terms of the leases for the energy-saving improvements are 6 years. As of June 30, 2006, the value of the equipment and improvements under lease was $637,099. The accumulated depreciation totaled $247,715, resulting in a net book value of $389,384.

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, 2006:

For the Year Ending:	
June 30, 2007	$ 70,982
June 30, 2008	366,339
June 30, 2009	17,645
June 30, 2010	7,351
June 30, 2011	0
Total Minimum Lease Payments	462,317
Less: Amounts Representing Interest	27,896
Present Value of Minimum Lease Payments	434,421
Less: Current Maturities	53,337
Long-term Portion of Present Value of Minimum Lease Payments	$381,084

12. OBLIGATIONS UNDER OPERATING LEASES

Mendota Mental Health Institute leases copiers and office space. Future minimum rental payments required under the operating leases as of June 30, 2006, are as follows for the year ended:

June 30, 2007	$ 40,032
June 30, 2008	33,894
June 30, 2009	13,894
June 30, 2010	0
June 30, 2011	0
Thereafter	0
Total Minimum Rental Payments Required	$87,820

The composition of the total rental expense for the year ended June 30, 2006, is as follows:

Minimum Rentals	$98,582
Contingent Rentals	0
Less: Sublease Rentals	0
Rental Expense	$98,582

13. EMPLOYEE RETIREMENT PLAN

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

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

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

Generally, the State's policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal and prior-service costs of the retirement system. Prior-service costs are amortized over 40 years, beginning January 2, 1990. However, in December 2003 the State issued bonds and subsequently fully liquidated its prior-service liability balance as of January 2003. State agencies are required to make future contributions to fund the bond payments.

The retirement plan requires employee contributions equal to specified percentages of qualified earnings based on the employee's classification, plus employer contributions at a rate determined annually. The State funds the employee's portion of required contributions. Mendota Mental Health Institute's contributions to the plan were $4,245,295 for FY 2005-06. The relative position of Mendota Mental Health Institute in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multiple-employer plan.

14. PRIOR-PERIOD ADJUSTMENTS

Most of the funding for construction projects to build new capitalized buildings and to repair existing buildings is paid by the State of Wisconsin Department of Administration. In prior years, only the costs of construction projects to build new capitalized buildings were recorded on the financial statements. Expenses for noncapital construction projects to repair existing buildings were not recorded on the financial statements. A decision was made in FY 2005-06 to record all construction activity on the financial statements. Therefore, beginning net assets were increased by $197,811 in the Patient Care Fund and decreased by $40,170 in the Power Plant Fund to reflect the prior-year noncapitalized construction activity.

In addition, beginning net assets were decreased by $42,833 in the Patient Care Fund. The cost of a construction project to modernize elevators was capitalized on the financial statements in prior years. It has since been determined that 38.8830 percent of the prior-year costs were to modernize elevators at the Central Center for the Developmentally Disabled, which is not a part of the Mendota Mental Health Institute.

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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, 2006, 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 and Family Services. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1A, the financial statements referred to in the first paragraph present only Winnebago Mental Health Institute and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2006, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of each of Winnebago Mental Health Institute's funds as of June 30, 2006, and the respective changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements of Winnebago Mental Health Institute. The supplementary information included as Management's Discussion and Analysis on pages 39 through 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 September 18, 2007, on our consideration of the Department of Health and Family Services' internal control over financial reporting for Winnebago Mental Health Institute and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

LEGISLATIVE AUDIT BUREAU

September 18, 2007 by

Carolyn Stittleburg
Audit Director

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

Prepared by the Department of Health and Family Services

This section of Winnebago Mental Health Institute's annual financial report presents a discussion and analysis of the Institute's financial performance during the fiscal year ended June 30, 2006. This discussion and analysis should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this discussion are the responsibility of the management of Winnebago and the Wisconsin Department of Health and Family Services.

Using the Annual Financial Statements

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

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

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year on an accrual basis. Activities on this statement are reported as either operating or nonoperating. The 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 present 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 increased by 11 percent during FY 2005-06. Analysis of Winnebago's financial activities focuses on the Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets. Winnebago's net assets from FY 2004-05 to FY 2005-06 are reviewed in Table A, while its changes in net assets for the same period are subsequently reviewed in Table B.

Table A

Net Assets

Fiscal Year Ended June 30	2006	2005[1]	Percentage Change
Current Assets	$ 12,456,773	$ 10,230,164	22%
Capital Assets	13,265,817	13,661,600	(3)
Total Assets	**$25,722,590**	**$23,891,764**	8
Current Liabilities	$ 9,921,382	$ 9,729,538	2
Noncurrent Liabilities	1,303,012	1,151,894	13
Total Liabilities	11,224,394	10,881,432	3
Net Assets:			
Invested in Capital Assets, Net of Related Debt	12,848,034	13,208,593	(3)
Restricted	75,494	63,454	19
Unrestricted	1,574,668	(261,715)	702
Total Net Assets	14,498,196	13,010,332	11
Total Liabilities and Net Assets	**$25,722,590**	**$23,891,764**	8

[1] FY 2004-05 balances have been restated to reflect prior-period adjustments.

As shown in Table A, current assets increased by 22 percent from FY 2004-05 to FY 2005-06. Some of this net increase resulted from an increase in patient receivables, which was partially offset by a decrease in the amounts recorded as "Due from the State of Wisconsin." The increase in patient receivables resulted, in part, from a 7 percent decrease in the amount of cash collected on patient receivables during FY 2005-06. During the same year, there was also a modest increase in patient billings because of an increase in the daily patient rates. The net patient receivable balance will go up when there is a large increase in patient billings but only a modest increase in cash collected on current and prior-year patient billings.

In addition, an analysis of prior-year collections determined that the estimates used to write off uncollectible patient receivables were too high in prior years. The estimate of the current year's patient receivables that will not be collected is calculated based on the prior year's collection experience. When the estimate for the FY 2004-05 financial statements was compared to the actual amounts collected on FY 2004-05 patient receivables in FY 2005-06, it was determined that too much had been written off in the prior year. The net patient receivables balance will go up when patient billings from prior years that were written off as uncollectible are reestablished as receivables. The patient receivables balance was increased by $295,822 on the FY 2005-06 financial statements to account for this change in estimates.

The decrease in the amounts recorded as "Due from the State of Wisconsin" resulted mostly from the timing of when expenses were identified as reimbursable by the State of Wisconsin for the prior fiscal year. The State of Wisconsin reimburses Winnebago for expenses incurred to provide services to court-ordered patients. In FY 2004-05, some of these expenses for payroll and supplies were incurred during the fiscal year but were not identified as reimbursable by the State of Wisconsin until after June 30. Therefore the accrued revenue to reimburse these expenses was recorded as "Due from the State of Wisconsin" on the FY 2004-05 financial statements. In FY 2005-06, these same expenses had been incurred and reimbursed by the State of Wisconsin by June 30.

Also in FY 2005-06, some of the reimbursed expenses incurred and reimbursed by June 30 were later determined to not be reimbursable court-ordered expenses. Therefore the revenue earned on these expenses was paid back to the State of Wisconsin in July and is recorded as a payable due to the State of Wisconsin.

Another reason for the increase in current assets was an increase in settlements of prior-year audits of Medicaid and Medicare cost reports. Winnebago submits annual cost reports to the Department of Health and Family Services for Medicaid and to United 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. FY 2005-06 was a unique year in that Winnebago received notification of five Medicaid or Medicare settlements, resulting in $983,499 in revenue and $63,617 due to the Medicaid program for Winnebago. For one of the five settlements of which it was notified, Winnebago had not received the check as of June 30, 2006. That settlement concluded that the Medicare program owed the Institute $487,027. That amount is recorded on the financial statements as a settlement due from Medicaid/Medicare.

Capital assets, which represent the original cost of an asset less accumulated depreciation, decreased by 3 percent from FY 2004-05 to FY 2005-06. Most of this decrease is the result of current-year depreciation expense. The largest ongoing construction project relates to window replacements.

Current liabilities increased by 2 percent from FY 2004-05 to FY 2005-06. Some of this increase resulted from an increase in the amounts recorded as "Due to the State of Wisconsin." The increase in this amount was partially due to an increase in revenue earned on court-ordered patients, which was payable back to the State. The State of Wisconsin reimburses Winnebago for expenses incurred to provide services to court-ordered patients. Therefore the revenue earned on these expenses was paid back to the State of Wisconsin in July and is recorded as a payable due to the State of Wisconsin.

Another reason for the increase in the amounts recorded as "Due to the State of Wisconsin" was an increase in the estimated Medicare reimbursement for court-ordered patients, which is due the State of Wisconsin on June 30. As mentioned in the previous paragraph, the expenses for court-ordered patients are reimbursed by the State of Wisconsin. In some cases, court-ordered patients also qualify for Medicare reimbursement. Any amount collected from Medicare is paid back to the State of Wisconsin, since the State has already reimbursed Winnebago for their care. An estimate of the Medicare reimbursement for court-ordered patients is computed at year-end and is recorded in the financial statements as "Due to the State of Wisconsin."

Increases in current liabilities were offset by a decrease in accounts payable and a decrease in the loan from the State of Wisconsin that covers cash overdrafts in Winnebago's appropriations. The decrease in accounts payable resulted, in part, from a 22 percent decrease in the amount of expenses paid after June 30. An expense incurred before June 30 but not paid until after June 30 is recorded as accounts payable on the financial statements.

Another offset to the increase in current liabilities is the decline in the loan from the State of Wisconsin. The cash balance in an appropriation is computed by increasing the beginning cash balance by amounts received as patient receivables and as cash received from other sources. Cash paid for expenses such as salaries and supplies is then subtracted from this total. If cash expenses exceed cash resources, the appropriation is in overdraft. A loan from the State of Wisconsin is recorded on the statements, since the State will cover all cash expenses that exceed the cash available. This loan decreased in FY 2005-06 by $282,609 for Winnebago.

Noncurrent liabilities increased by 13 percent from FY 2004-05 to FY 2005-06. This increase resulted from an increase in the accrual for noncurrent compensated absences. Compensated absences are accrued expenses for vacations, sabbatical leave, and sick leave.

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 increased from $13,010,332 in FY 2004-05 to $14,498,196 in FY 2005-06. The financial activity that resulted in this increase of $1,487,864 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	2006	2005[1]	Percentage Change
Operating Revenues	$54,037,888	$50,016,660	8%
Operating Expenses	52,188,030	51,510,753	1
Operating Income (Loss)	1,849,858	(1,494,093)	
Nonoperating Income	777,721	547,049	42
Income(Loss) before Transfers	2,627,579	(947,044)	
Transfers In	487,146	938,779	(48)
Transfers Out	(1,626,861)	(1,534,935)	6
Change in Net Assets	**$ 1,487,864**	**$ (1,543,200)**	

[1] FY 2004-05 balances have been restated to reflect prior-period adjustments.

The change in net assets for FY 2005-06 of $1,487,864 shows that Winnebago generated enough revenue to cover expenses. A comparison of FY 2004-05 to FY 2005-06 shows an 8 percent increase in operating revenues and a modest increase in operating expenses, resulting in an increase in net operating income.

The increase in operating revenues resulted primarily from an increase in patient billings, an increase in revenue from the State of Wisconsin to reimburse Winnebago for expenses incurred to provide services to court-ordered patients, and the receipt of four Medicaid /Medicare settlements. The modest increase in operating expenses resulted, in part, from a 3 percent increase in salary expenses.

Transfers in for capital projects decreased by 48 percent from FY 2004-05 to FY 2005-06. 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.

Transfers out increased by 6 percent from FY 2004-05 to FY 2005-06. The main reason for the increase was an increase in transfers out to the General Fund. In December 2003, the State of Wisconsin issued bonds to fund its liability for prior-service retirement expenses. State agencies were required to transfer the resulting cost savings to the General Fund. In FY 2005-06, these transfers totaled $732,034, a 30 percent increase over the prior year.

Contacting the Institute's Financial Management

This financial report is designed to provide a general overview of Winnebago's financial performance for FY 2005-06. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to:

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Financial Statements of Winnebago Mental Health Institute ■

Balance Sheet
June 30, 2006

	Patient Care Fund	Power Plant Fund	Patient Deposit Fund	Canteen Fund	Totals (Memorandum Only)
ASSETS					
Current Assets:					
Cash and cash equivalents (Note 2)	$ 43,325	$ 245,986	$ 71,672	$ 20,005	$ 380,988
Net accounts receivable (Note 3)	8,839,622	224,828	1,136	1,830	9,067,416
Due from the State of Wisconsin	1,341,028	0	0	0	1,341,028
Due from the federal government	16,204	53	0	0	16,257
Settlement due from Medicaid/Medicare (Note 5)	487,027	0	0	0	487,027
Supplies and merchandise inventories	510,069	45,076	0	20,049	575,194
Prepaid items	579,580	9,283	0	0	588,863
Total Current Assets	11,816,855	525,226	72,808	41,884	12,456,773
Noncurrent Assets:					
Capital assets (Note 6):					
Land	230,340	800	0	0	231,140
Land improvements	577,314	0	0	0	577,314
Buildings	21,826,604	3,069,359	0	0	24,895,963
Equipment	1,320,272	11,503	0	0	1,331,775
Accumulated depreciation	(12,184,813)	(2,008,083)	0	0	(14,192,896)
Construction in progress	422,521	0	0	0	422,521
Total Noncurrent Assets	12,192,238	1,073,579	0	0	13,265,817
TOTAL ASSETS	$ 24,009,093	$ 1,598,805	$ 72,808	$ 41,884	$ 25,722,590
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable (Note 4)	$ 737,968	$ 322	$ 0	$ 11,265	$ 749,555
Settlement due to Medicaid/Medicare (Note 5)	63,617	0	0	0	63,617
Due to the federal government	36,064	704	0	0	36,768
Due to the State of Wisconsin (Notes 7 and 8)	7,364,082	9,701	0	1,633	7,375,416
Accrued expenses (Note 4)	678,999	73,045	0	0	752,044
Capital leases (Notes 10 and 11)	32,451	3,993	0	0	36,444
Compensated absences (Note 10)	823,430	11,022	0	0	834,452
Patient funds held in trust	0	0	72,808	0	72,808
Deferred revenue	0	0	0	278	278
Total Current Liabilities	9,736,611	98,787	72,808	13,176	9,921,382
Noncurrent Liabilities:					
Capital leases (Notes 10 and 11)	339,561	41,778	0	0	381,339
Compensated absences (Note 10)	909,499	12,174	0	0	921,673
Total Noncurrent Liabilities	1,249,060	53,952	0	0	1,303,012
Total Liabilities	**10,985,671**	**152,739**	**72,808**	**13,176**	**11,224,394**
Net Assets:					
Invested in capital assets, net of related debt	11,820,226	1,027,808	0	0	12,848,034
Restricted	75,494	0	0	0	75,494
Unrestricted	1,127,702	418,258	0	28,708	1,574,668
Total Net Assets	**13,023,422**	**1,446,066**	**0**	**28,708**	**14,498,196**
TOTAL LIABILITIES AND NET ASSETS	$ 24,009,093	$ 1,598,805	$ 72,808	$ 41,884	$ 25,722,590

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, 2006

	Patient Care Fund	Power Plant Fund	Canteen Fund	Totals (Memorandum Only)
OPERATING REVENUES				
Net Revenue from Patient Care (Notes 1F and 1K)	$ 28,444,794	$ 0	$ 0	$ 28,444,794
Revenue from the State of Wisconsin	22,671,606	0	0	22,671,606
Utility Sales	0	1,757,821	0	1,757,821
Canteen Revenues	0	0	180,168	180,168
Medicaid/Medicare Settlements (Note 5)	983,499	0	0	983,499
Total Operating Revenues	**52,099,899**	**1,757,821**	**180,168**	**54,037,888**
OPERATING EXPENSES				
Salaries	29,379,405	513,852	46,195	29,939,452
Fringe Benefits	11,625,806	209,027	0	11,834,833
Materials and Supplies	8,610,428	809,432	116,431	9,536,291
Depreciation	713,312	164,142	0	877,454
Total Operating Expenses	**50,328,951**	**1,696,453**	**162,626**	**52,188,030**
OPERATING INCOME (LOSS)	**1,770,948**	**61,368**	**17,542**	**1,849,858**
NONOPERATING REVENUES AND EXPENSES				
Revenue from the State of Wisconsin	438,799	0	0	438,799
Canteen Commissions	0	0	2,911	2,911
Operating Grants	162,342	0	0	162,342
Other Nonoperating Revenues	187,737	0	2,769	190,506
Materials and Supplies	0	0	(310)	(310)
Interest Expense	(14,716)	(1,811)	0	(16,527)
Total Nonoperating Income (Loss)	**774,162**	**(1,811)**	**5,370**	**777,721**
Income (Loss) before Transfers	2,545,110	59,557	22,912	2,627,579
Transfers In for Capital Projects (Note 1J)	454,229	32,917	0	487,146
Transfers Out (Note 8)	(1,596,610)	(30,251)	0	(1,626,861)
CHANGE IN NET ASSETS	**1,402,729**	**62,223**	**22,912**	**1,487,864**
NET ASSETS				
Total Net Assets—Beginning of the Year	11,661,875	1,383,843	5,796	13,051,514
Prior-Period Adjustment (Note 14)	(41,182)	0	0	(41,182)
Total Net Assets—End of the Year	**$ 13,023,422**	**$ 1,446,066**	**$ 28,708**	**$ 14,498,196**

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, 2006

	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
ASSETS				
Cash and Cash Equivalents	$ 64,278	$ 1,064,882	$ 1,057,488	$ 71,672
Net Accounts Receivable	1,291	37,205	37,360	1,136
Total Assets	**$ 65,569**	**$ 1,102,087**	**$ 1,094,848**	**$ 72,808**
LIABILITIES				
Patient Funds Held in Trust	65,569	246,356	239,117	72,808
Total Liabilities	**$ 65,569**	**$ 246,356**	**$ 239,117**	**$ 72,808**

The accompanying notes are an integral part of this statement.

Statement of Cash Flows
for the Year Ended June 30, 2006

	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	$ 50,196,611	$ 1,930,396	$ 191,423	$ 52,318,430
Cash Payments to Suppliers for Goods and Services	(8,833,674)	(873,208)	(123,866)	(9,830,748)
Cash Payments to Employees for Services	(40,659,748)	(723,589)	(68,773)	(41,452,110)
Other Sources of Cash	740,363	0	2,000	742,363
Net Cash Provided (Used) by Operating Activities	**1,443,552**	**333,599**	**784**	**1,777,935**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers Out	(1,314,446)	(29,537)	0	(1,343,983)
Loan from the State of Wisconsin	(94,168)	(85,324)	0	(179,492)
Net Cash Provided (Used) by Noncapital Financing Activities	**(1,408,614)**	**(114,861)**	0	**(1,523,475)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest Payments	(14,716)	(1,811)	0	(16,527)
Capital Lease Obligations	(31,364)	(3,858)	0	(35,222)
Payments for Purchases of Capital Assets	(380,168)	0	0	(380,168)
Other Cash Flows from Capital Financing Activities	367,213	32,917	0	400,130
Net Cash Provided (Used) by Capital and Related Financing Activities	**(59,035)**	**27,248**	**0**	**(31,787)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(24,097)**	**245,986**	**784**	**222,673**
Cash and Cash Equivalents—Beginning of the Year	67,422	0	19,221	86,643
Cash and Cash Equivalents—End of the Year	$ 43,325	$ 245,986	$ 20,005	$ 309,316

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)	$ 1,770,948	$ 61,368	$ 17,542	$ 1,849,858
Adjustments to Reconcile Operating Income to Net Cash Provided by Operations:				
Depreciation	713,311	164,142	0	877,453
Miscellaneous nonoperating income (expense)	788,878	0	5,370	794,248
Changes in assets and liabilities:				
Decrease (Increase) in receivables	(3,091,966)	119,795	(152)	(2,972,323)
Decrease (Increase) in Medicaid/Medicare receivables	(487,027)	0	0	(487,027)
Decrease (Increase) in Due from the State of Wisconsin	784,242	0	0	784,242
Decrease (Increase) in supplies inventories	(30,543)	(14,468)	1,666	(43,345)
Decrease (Increase) in prepaid items	(9,840)	329	0	(9,511)
Increase (Decrease) in accrued expenses	126,644	5,693	0	132,337
Increase (Decrease) in Medicaid/Medicare payable	63,617	0	0	63,617
Increase (Decrease) in accounts payable	(63,778)	322	(23,037)	(86,493)
Increase (Decrease) in Due to the State of Wisconsin	726,543	267	(605)	726,205
Increase (Decrease) in Due to the federal government	8,858	158	0	9,016
Increase (Decrease) in compensated absences	143,665	(4,007)	0	139,658
Total Adjustments	(327,396)	272,231	(16,758)	(71,923)
Net Cash Provided by Operating Activities	$ 1,443,552	$ 333,599	$ 784	$ 1,777,935

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements of Winnebago Mental Health Institute ■

1. Summary of Accounting Policies

A. Fund Accounting and Basis of Presentation

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

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

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

B. Patient Care Fund

The Patient Care Fund includes general operations of Winnebago Mental Health Institute related to providing patient services. 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 Mental Health Institute's policy to use restricted net assets first, then unrestricted assets as they are needed.

C. Power Plant Fund

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

D. Patient Deposit Fund

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

E. Canteen Fund

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

F. Use of Estimates

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

G. Cash and Cash Equivalents

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

H. 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 Mental Health Institute and therefore is not reported in the financial statements. See Note 8A for additional information on general obligation debt.

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

K. Net Revenue from Patient Care

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

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

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

2. DEPOSITS

Winnebago Mental Health Institute's cash and cash equivalents include deposits of the Patient Care Fund, the Patient Deposit Fund, and the Canteen Fund in checking accounts and non-negotiable certificates of deposit that are held in several financial institutions. The Patient Care Fund includes deposits in a contingent checking fund, which is used to meet the immediate operating needs of the Institute. The Patient Deposit Fund includes deposits held on behalf of patients, and the Canteen Fund includes cash received from operations. As of June 30, 2006, the carrying value of these deposits was $96,377, and the bank balance was $114,639.

A petty cash fund and miscellaneous cash amounts, which are held by Winnebago Mental Health Institute and reported as cash and cash equivalents in the amount of $6,418, are not included in the carrying value or the bank balance because they are not deposits.

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

GASB Statement Number 40, *Deposit and Investment Risk Disclosures*, 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. All of the deposits and non-negotiable certificates of deposit that are held in financial institutions are insured up to $100,000 by the Federal Deposit Insurance Corporation. 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, 2006, the bank balance was $114,639. Therefore all deposits and non-negotiable certificates of deposit held in financial institutions are insured. Winnebago Mental Health Institute 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, 2006, include the following:

Patient Receivables	$8,815,564
Utility Sales Receivables	224,828
Other Receivables	25,888
Total Accounts Receivable	$9,066,280

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 2006-07. The remaining 4 percent is expected to be collected in FY 2007-08. The utility sales and other receivables should all be collected in FY 2006-07.

Winnebago Mental Health Institute grants credit without collateral to its patients, most of whom are state residents and are insured under third-party payer agreements. If payment is not received from third-party payers, Winnebago Mental Health Institute can attempt to recover a portion of the outstanding charge from a secondary source. The outstanding charge attributable to patients who are determined to be the responsibility of the State will be reimbursed by general purpose revenue. 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, 2006, include the following:

Vendors	$ 537,154
Salaries and Benefits	212,401
Total Accounts Payable	$749,555

Significant accrued expense balances as of June 30, 2006, include the following:

Vendors	$216,772
Salaries and Benefits	535,272
Total Accrued Expenses	$752,044

5. Third-Party Contractual Settlements

Winnebago Mental Health Institute has submitted Medicare cost reports to United Government Services for FY 2000-01, FY 2001-02, FY 2002-03, FY 2003-04, FY 2004-05, and FY 2005-06. United Government Services completed an audit of the FY 2000-01 cost report and concluded that the Medicare program owed Winnebago $51,224. This settlement was reflected as operating revenue on the FY 2002-03 financial statements. Winnebago submitted an appeal of the final settlement of the audit, and it was reopened. As a result of this appeal, United Government Services concluded that the Medicare program owed Winnebago an additional $335,788. This additional final settlement is reflected as operating revenue on the FY 2005-06 financial statements.

United Government Services completed an audit of the FY 2001-02 and FY 2002-03 cost reports and concluded that the Medicare program owed Winnebago $34,184 for FY 2001-02 and $487,027 for FY 2002-03. These settlements were reflected as operating revenues on the FY 2005-06 financial statements.

United Government Services has not yet completed an audit of the FY 2003-04, FY 2004-05, and FY 2005-06 cost reports but has computed tentative settlements for the first two of these fiscal years. The tentative settlements concluded that the Institute owed the Medicare program $225,545 for FY 2003-04, and the Medicare program owed Winnebago $126,500 for FY 2004-05. The tentative settlement for FY 2003-04 was reflected as an operating expense in the FY 2004-05 financial statements, and the tentative settlement for FY 2004-05 was reflected as operating revenue in the FY 2005-06 financial statements.

Winnebago Mental Health Institute has submitted Medicaid cost reports to the Department of Health and Family Services for FY 1999-2000, FY 2000-01, and FY 2001-02. The Department of Health and Family Services completed an audit of the FY 1999-2000 report and concluded that Winnebago owed the Medicaid program $63,617. This settlement was reflected as an operating expense on the FY 2005-06 financial statements.

The status of cost reports outstanding is as follows:

Year	Medicare	Medicaid
FY 1999-2000	Submitted, finalized, appeal settled	Submitted, audited, finalized
FY 2000-01	Submitted, finalized, appeal settled	Submitted, not audited
FY 2001-02	Submitted, audited, finalized	Submitted, not audited
FY 2002-03	Submitted, audited, finalized	Not submitted
FY 2003-04	Submitted, not audited	Not submitted
FY 2004-05	Submitted, not audited	Not submitted
FY 2005-06	Submitted, not audited	Not submitted

6. CAPITAL ASSETS

The change in book value from July 1, 2005, to June 30, 2006, is summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Land	$ 231,140	$ 0	$ 0	$ 231,140
Land Improvements	577,314	0	0	577,314
Buildings	24,479,112	416,851	0	24,895,963
Equipment	1,297,740	34,035	0	1,331,775
Construction in Progress	391,735	447,638	(416,852)	422,521
Total Capital Assets	26,977,041	898,524	(416,852)	27,458,713
Less Accumulated Depreciation for:				
Land Improvements	(423,593)	(30,905)	0	(454,498)
Buildings	(11,845,739)	(778,344)	0	(12,624,083)
Equipment	(1,046,109)	(68,206)	0	(1,114,315)
Total Accumulated Depreciation	(13,315,441)	(877,455)	0	(14,192,896)
Total Capital Assets, Net	$13,661,600	$ 21,069	$(416,852)	$13,265,817

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

7. LOAN FROM STATE OF WISCONSIN

The State of Wisconsin General Fund provided Winnebago Mental Health Institute a loan of $4,844,568 as of June 30, 2006, to cover cash overdrafts in its appropriations. This amount is reflected 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 Mental Health Institute. Winnebago Mental Health Institute holds title to the assets.

Winnebago Mental Health Institute has received proceeds from 38 outstanding bond issuances. The bonds have maturity dates ranging from April 15, 2007, to April 15, 2026. The principal balance outstanding as of June 30, 2006, attributable to Winnebago Mental Health Institute is $13,139,847. This debt represents a debt of the State of Wisconsin and is not a debt of Winnebago Mental Health Institute. Accordingly, this debt is not reported in Winnebago Mental Health Institute's financial statements. Debt service payments made by the State of Wisconsin attributable to Winnebago Mental Health Institute for the year ended June 30, 2006, are allocated as follows:

Principal	$1,201,526
Interest	607,792
Total Paid	$1,809,318

However, Winnebago Mental Health Institute reimburses the State of Wisconsin General Fund for a portion of interest expense based on the number of days of care billable to Medicaid. Winnebago Mental Health Institute owed $278,050 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 $981,772 and funded by general purpose revenue to Winnebago Mental Health Institute during FY 2005-06. A portion of the administrative overhead and depreciation on assets purchased by the State is later recovered through Medicaid patient revenue. Winnebago Mental Health Institute includes overhead expense and depreciation in the Medicaid cost reports, which are used to determine the final Medicaid settlement for the year. During FY 2005-06, Winnebago Mental Health

Institute owed Medicaid payments related to overhead expense of $203,982 and depreciation of $305,973 to the State of Wisconsin General Fund as reimbursements for administrative services provided and for assets originally purchased by the State. The amount remitted is included in the financial statements as a transfer out.

C. Insurance Reimbursements for Forensic Patients

Throughout the year, forensic patients are committed to Winnebago Mental Health Institute through the criminal justice system. Winnebago Mental Health Institute receives general purpose revenue 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 general purpose revenue of the General Fund, and not as revenue of Winnebago Mental Health Institute.

The financial statements reflect expected reimbursements as a receivable and as a payable to the State of Wisconsin. For the year ending June 30, 2006, both the receivable from Medicaid, Medicare, and private insurers, less related contractual adjustments, and the related payable to the State of Wisconsin were $1,237,877.

In addition, Winnebago Mental Health Institute collected $1,170,594 in FY 2005-06 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. Doing so resulted in cost savings that state agencies are required to lapse to the General Fund. Winnebago Mental Health Institute transferred $732,034 to the State's General Fund in FY 2005-06. This amount is reflected in the financial statements as a transfer out. See Note 13 for further information on the employee retirement plan.

9. REVENUE FROM BUILDING LEASES

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

The portion of the building being leased has an original cost of $21,855 and has been fully depreciated. Minimum future lease payments to be received during the year ended June 30, 2007, total $1,500.

10. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due within One Year
Capital Leases	$ 453,007	$ 0	$ (35,224)	$ 417,783	$ 36,444
Compensated Absences	1,617,166	1,022,015	(883,056)	1,756,125	834,452
Long-term Liabilities	$2,070,173	$1,022,015	$(918,280)	$2,173,908	$870,896

11. OBLIGATION UNDER CAPITAL LEASES

During FY 2005-06, Winnebago Mental Health Institute participated in statewide master lease agreements for energy-saving improvements. The terms of the leases are six years. The value of the improvements under lease as of June 30, 2006, was $583,955. The accumulated depreciation totaled $191,416, resulting in a net book value of $392,539.

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, 2006:

For the Year Ending:	
June 30, 2007	$ 51,750
June 30, 2008	388,489
June 30, 2009	0
June 30, 2010	0
June 30, 2011	0
Total Minimum Lease Payments	440,239
Less: Amounts Representing Interest	22,456
Present Value of Minimum Lease Payments	417,783
Less: Current Maturities	36,444
Long-term Portion of Present Value of Minimum Lease Payments	$381,339

12. OBLIGATIONS UNDER OPERATING LEASES

Winnebago Mental Health Institute leases copiers and facsimile machines. Future minimum rental payments required under the operating leases as of June 30, 2006, are as follows for the year ended:

June 30, 2007	$ 27,719
June 30, 2008	27,719
June 30, 2009	27,135
June 30, 2010	4,445
June 30, 2011	0
Total Minimum Rental Payments Required	$87,018

The composition of the total rental expense for the fiscal year ended June 30, 2006, is as follows:

Minimum Rentals	$23,152
Contingent Rentals	0
Less: Sublease Rentals	0
Rental Expense	$23,152

13. EMPLOYEE RETIREMENT PLAN

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

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

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

Generally, the State's policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal and prior-service costs of the retirement system. Prior-service costs are amortized over 40 years, beginning January 2, 1990. However, in December 2003 the State issued bonds and subsequently fully liquidated its prior-service liability balance as of January 2003. State agencies are required to make future contributions to fund the bond payments.

The retirement plan requires employee contributions equal to specified percentages of qualified earnings based on the employee's classification, plus employer contributions at a rate determined annually. The State funds the employee's portion of required contributions. Winnebago Mental Health Institute's contributions to the plan were $3,383,786 for FY 2005-06. The relative position of Winnebago Mental Health Institute in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multiple-employer plan.

14. PRIOR-PERIOD ADJUSTMENTS

Most of the funding for construction projects to build new capitalized buildings and to repair existing buildings is paid by the State of Wisconsin Department of Administration. In prior years, only the cost of construction projects to build new capitalized buildings were recorded on the financial statements. Expenses for noncapital construction projects to repair existing buildings were not recorded on the financial statements. A decision was made in FY 2005-06 to record all construction activity on the financial statements. Therefore, beginning net assets were increased by $54,224 in the Patient Care Fund to reflect the prior-year noncapitalized construction activity.

In addition, beginning net assets were decreased by $95,406 in the Patient Care Fund. Three construction projects were classified as capital construction projects and were capitalized in prior years. It has since been determined that these construction projects should have been classified as repair projects, which would not be capitalized.

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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, 2006, and have issued our reports thereon dated September 18, 2007. The Institutes are operated by the Department of Health and Family 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

As described in the report narrative in the section titled "Program of Assertive Community Treatment," we identified continuing concerns with internal controls over the receipt and disbursement process for funds held on behalf of clients of the Program of Assertive Community Treatment, an outpatient unit of Mendota Mental Health Institute. This activity is accounted for in the Mendota Patient Deposit Fund.

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

COMPLIANCE AND OTHER MATTERS

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

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

LEGISLATIVE AUDIT BUREAU

September 18, 2007 by Carolyn Stittleburg

Carolyn Stittleburg
Audit Director

State of Wisconsin
Department of Health and Family Services

Jim Doyle, Governor
Kevin R. Hayden, Secretary

September 19, 2007

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

Dear Ms. Mueller:

Thank you for the work done by you and your staff in completing the annual audits of the Mendota and Winnebago Mental Health Institutes. We also appreciate the opportunity to respond to concerns raised in the audit report regarding the receipt and disbursement processing of Patient Deposit Funds of the Program of Assertive Community Treatment (PACT). Mendota Mental Health Institute is addressing those concerns.

Mendota Mental Health Institute (MMHI) is implementing a system where receipting and deposit functions are separated, eliminating conflicting cash handling responsibilities. MMHI will continue to prepare monthly bank reconciliations.

A receipt log is prepared in an Access database by staff at the PACT front desk. Receipts are printed for any funds brought into the office. The MMHI Business Manager will provide PACT staff with training and procedures on the process.

Checks are processed by the financial specialist and reviewed and signed by the PACT Psychologist Supervisor. In the absence of Psychologist Supervisor, the checks will be reviewed and signed by the MMHI Business Manager or other designee.

PACT will continue to improve upon the disbursement process by giving staff additional training on signature requirements, which encompasses clients signing either a disbursement slip or an invoice. It should be noted, the clients who deposit funds at PACT are a very vulnerable and unstable population. In some cases, the clients refuse to sign documents – including monthly bills and miscellaneous expenditures paid on their behalf by PACT. When a client signature cannot be obtained, Case Managers will note "client unwilling to sign" and sign the disbursement slip or invoice on the client's behalf. PACT will also review charts and designate more payment processes to payees. This will lessen the amount of funds PACT is responsible for and reduce the number of disbursements handled.

PACT has implemented these procedures as of September, 2007. The MMHI Business Manager is assisting in the implementation and verifying monthly PACT client fund recordkeeping procedures to make sure that the procedures are being followed.

We will continue our efforts to successfully maintain the healthy financial condition of Wisconsin's Mental Health Institutes.

Sincerely,

Kevin R. Hayden
Secretary

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Protecting and promoting the health and safety of the people of Wisconsin