Report 08-10
October 2008

An Audit

Wisconsin Mental Health Institutes

Department of Health Services

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Janice Mueller
State Auditor

October 8, 2008

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, 2006, through June 30, 2007. The audits were requested by the Department of Health Services (formerly 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.

In FY 2006-07, each Institute reported an operating loss of $3.7 million, in part because operating expenses increased at a faster pace than operating revenues. Salaries and fringe benefit expenses, which were the largest expenditure category at each Institute, increased by $5.7 million at Mendota and $3.5 million at Winnebago. To help address the Institutes' operating losses, the Department increased daily patient rates by 9.5 percent at each Institute effective on October 15, 2007, and approved increases of 9.5 percent at Mendota and 11 percent at Winnebago to be effective October 12, 2008.

Mendota's overall net assets increased by $1.5 million, while Winnebago's declined by $2.6 million for FY 2006-07. Mendota's increase in net assets is primarily attributable to proceeds from the sale of general purpose revenue–funded bonds, which it received to install equipment to reduce air pollution at the power plant it operates.

We continued to monitor the status of prior-year concerns related to the administration of approximately $476,000 in client funds by the Program of Assertive Community Treatment, an outpatient unit of Mendota. In our Report on Internal Control and Compliance, we report that the Department has taken some steps to improve controls subsequent to our audit period. However, we still noted concerns during FY 2006-07.

We appreciate the courtesy and cooperation extended to us by Department of Health 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 ■

Mendota and Winnebago Mental Health Institutes are licensed and accredited hospitals that provide specialized diagnostic, evaluation, and treatment services for patients with diverse needs, including mentally ill children and adults who have been civilly or voluntarily committed and forensic patients referred to the Institutes through the criminal justice system. They are operated by the Division of Mental Health and Substance Abuse Services in the Department of Health Services (formerly the Department of Health and Family Services).

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' internal control procedures, assessed the fair presentation of the fiscal year (FY) 2006-07 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. They cannot refuse to treat patients who have been denied care in other facilities. GPR is the primary funding source for forensic patients who are being evaluated for competency to stand trial or have been charged with crimes and found either incompetent to stand trial or not guilty by reason of mental defect or disease. Care for patients committed through civil proceedings or by voluntary placement is funded primarily with program revenue and paid for by counties, Medicaid, Medicare, and private payers.

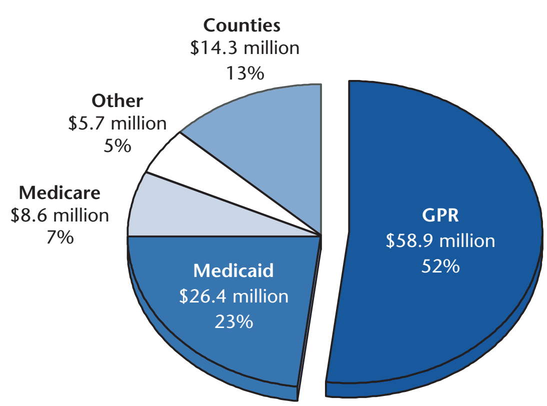
Average daily patient rates as of June 30, 2007, were $675 at Mendota and $659 at Winnebago. These rates, which are intended to cover the full cost of providing care for patients committed through civil proceedings or by voluntary placement, represent an increase of $7 and $19, respectively, over the prior year's rates. The daily patient rate increased by 9.5 percent for each Institute effective October 15, 2007, and rate increases of 9.5 percent at Mendota and 11 percent at Winnebago have been approved and will take effect October 12, 2008.

During FY 2006-07, the Department received $113.9 million in support for patient services.

Figure 1 illustrates the Institutes' funding sources for patient care during FY 2006-07. GPR directly appropriated to the Institutes accounted for 52 percent of the $113.9 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 2006-07



[1] Represents cash receipts totaling $113.9 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 11 in FY 2006-07, primarily because of increased use of a 15-bed forensic unit that opened in January 2006. The average daily population for forensic patients at Mendota is 175, or 62 percent of the total average daily population. In contrast, Winnebago's average daily population decreased by 14, primarily because of the closure of a 20-bed unit on June 30, 2007.

The population was slowly reduced throughout the fiscal year in anticipation of the closure. At Winnebago, forensic patients account for 48 percent of the total average daily population.

Table 1

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Mendota										
Average Daily Population	258	263	269	281	263	261	253	258	273	284
Capacity	300	293	293	299	290	275	275	275	293	293
Percentage Filled	86.0	89.8	91.8	94.0	90.7	94.9	92.0	93.8	93.2	96.9
Winnebago										
Average Daily Population	259	267	274	278	277	272	266	266	253	239
Capacity	330	313	313	299	298	290	290	280	262	262[1]
Percentage Filled	78.5	85.3	87.5	93.0	93.0	93.8	91.7	95.0	96.6	91.2

[1] This reflects capacity throughout the fiscal year. At June 30, 2007, capacity declined to 242 due to the closure of a 20-bed unit.

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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, 2007, as listed in the table of contents. These financial statements are the responsibility of the management of Mendota Mental Health Institute and the Wisconsin Department of Health Services. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of each of Mendota Mental Health Institute's funds as of June 30, 2007, and the respective changes in each fund's financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements of Mendota Mental Health Institute. The supplementary information included as Management's Discussion and Analysis on pages 9 through 13 is presented for purposes of additional analysis and is not a required part of the financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 29, 2008, on our consideration of the Department of Health Service's internal control over financial reporting for Mendota Mental Health Institute; our tests of its compliance with certain provisions of laws, regulations, and contracts; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

LEGISLATIVE AUDIT BUREAU

September 29, 2008 by Carolyn Stittleburg

Carolyn Stittleburg
Audit Director

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

Prepared by the Department of Health Services

This section of Mendota Mental Health Institute's annual financial report presents a discussion and analysis of the Institute's financial performance during the fiscal year ended June 30, 2007. 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 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 7 percent during FY 2006-07. Analysis of Mendota's financial activities focuses on the Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets. Mendota's assets from June 30, 2006, to June 30, 2007, are reviewed in Table A. Its changes in net assets during FY 2006-07 are reviewed in Table B.

Table A

Net Assets

	June 30, 2007	June 30, 2006	Percentage Change
Current Assets	$ 9,069,745	$11,307,750	(20)%
Capital Assets	22,281,578	18,878,969	18
Total Assets	**$31,351,323**	**$30,186,719**	4
Current Liabilities	$ 6,247,069	$ 6,705,515	(7)
Noncurrent Liabilities	1,576,998	1,495,165	5
Total Liabilities	7,824,067	8,200,680	(5)
Net Assets:			
Invested in Capital Assets, Net of Related Debt	21,907,579	18,444,548	19
Restricted	28,947	19,826	46
Unrestricted	1,590,730	3,521,665	(55)
Total Net Assets	23,527,256	21,986,039	7
Total Liabilities and Net Assets	**$31,351,323**	**$30,186,719**	4

As shown in Table A, current assets decreased by 20 percent from June 30, 2006, to June 30, 2007. One reason for this decrease was a large decrease in patient receivables during FY 2006-07. Patient billings did not change much from FY 2005-06 to FY 2006-07. Meanwhile, there was a 9 percent increase in cash collected on current and prior-year patient billings for FY 2006-07. The net patient receivable balance will go down when the amount of cash collected on current and prior-year patient billings increases and patient billings remain the same.

In addition, an analysis of prior-year collections determined that the estimates used to write off uncollectible patient receivables were too low in prior years. The estimate of 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 patient receivables included in the FY 2005-06 financial statements was compared to the actual amounts collected for that year in FY 2006-07, it was determined that not enough had been written off in the prior year. The net patient receivable balance will go down when more patient billings from prior years are written off as uncollectible. The patient receivable balance was decreased by $1,978,891 to account for this change in estimate.

Another reason for the decrease in current assets was that there were no settlements due from Medicaid/Medicare in FY 2006-07. In comparison, in FY 2005-06, $1,571,313 was due to Mendota from Medicaid/Medicare for four prior-year settlements. Mendota submits annual cost reports to the Department of Health 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.

Capital assets, which represent the original cost of an asset less accumulated depreciation, increased by 18 percent from FY 2005-06 to FY 2006-07. This large increase in capital assets was mainly due to a significant increase in construction activity in FY 2006-07. A major construction project is underway to install equipment to reduce air pollution at the power plant. Six other ongoing construction projects are worth noting: a project to improve wheelchair access to bathrooms, a project to replace a video security system at Goodland Hall, two projects to modernize elevators, installation of an industrial grade water softener, and improvements to the steam heat distribution system. The increase in capital assets from construction activity was partially offset by the decrease in capital assets resulting from current-year depreciation expense.

Current liabilities decreased by 7 percent from June 30, 2006, to June 30, 2007. Most of this change is explained by a decrease in the "Due to the State of Wisconsin" liability account from $4,556,035 on June 30, 2006, to $2,507,838 on June 30, 2007. This change is primarily a result of the 40 percent decrease, from $2,342,823 to $1,395,121, in the loan from the State of Wisconsin that covers cash overdrafts in Mendota's appropriations. The cash balance in an appropriation is computed by increasing the beginning cash balance by amounts received as patient receivables and from other sources. Cash paid for expenses such as salaries and supplies is then subtracted from this total. If 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.

This decline in the "Due to the State of Wisconsin" liability account was partially offset by an increase in settlement amounts due to Medicaid/Medicare. Three settlements were due from Mendota to the Medicaid/Medicare providers, resulting in an additional $580,182 of operating expense. However, only one of the three settlements had been paid as of June 30, 2007. The other two, totaling $470,547, were recorded on the FY 2006-07 financial statements as a settlement due to Medicaid/Medicare.

Noncurrent liabilities increased by 5 percent from June 30, 2006, to June 30, 2007. This increase resulted from an increase in the accrual for noncurrent compensated absences. Compensated absences are accrued expenses for vacation, personal holidays, and sabbatical 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 $21,986,039 at June 30, 2006, to $23,527,256 at June 30, 2007. The financial activity that resulted in this increase of $1,541,217 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	2007	2006	Percentage Change
Operating Revenues	$63,655,506	$61,678,043	3%
Operating Expenses	67,391,120	60,503,451	11
Operating Income (Loss)	(3,735,614)	1,174,592	
Nonoperating Income (Loss)	436,858	324,070	35
Income (Loss) before Transfers	(3,298,756)	1,498,662	
Transfers In	6,201,818	2,284,924	171
Transfers Out	(1,361,845)	(1,551,176)	(12)
Change in Net Assets	**$1,541,217**	**$ 2,232,410**	(31)

The change in net assets for FY 2006-07 shows that Mendota generated enough revenue and transfers in to cover expenses. A comparison from FY 2005-06 to FY 2006-07 shows a 3 percent increase in operating revenues and an 11 percent increase in operating expenses, resulting in a decrease in net operating income.

The increase in operating revenues resulted primarily from an increase in revenue from the State of Wisconsin to reimburse the Institute for expenses incurred to provide services to court-ordered patients. A new 15-bed unit for court-ordered patients opened in January 2006.

The increase in operating expenses resulted, in part, from a 10 percent increase in salary and fringe benefits expenses. This increase was due to cost of living increases and the addition of staff for the new 15-bed unit for court-ordered patients.

Another reason for the increase in operating expenses resulted from an 18 percent increase in materials and supplies. Some of this increase resulted from a significant increase in maintenance and repair activity in FY 2006-07. In addition to the major construction projects mentioned previously, there were projects in FY 2006-07 to replace roofs, repair sewers, upgrade electrical wiring, improve roads, and repair the heating plant boiler.

The final reason for the increase in operating expenses resulted from the $580,182 increase in settlements due to Medicaid/Medicare. As mentioned previously, three settlements due to Medicaid/Medicare in FY 2006-07 were recorded as operating expenses. All of the settlements in FY 2005-06 were due from Medicaid/Medicare and were recorded as operating revenues.

Transfers in increased by 171 percent from FY 2005-06 to FY 2006-07. The main reason for the increase was a large increase in capital construction projects, which are funded by transfers in from the State of Wisconsin.

Transfers out decreased by 12 percent from FY 2005-06 to FY 2006-07. The main reason for the decrease was a decrease of transfers to the General Fund. The General Fund issues bonds to finance construction projects at Mendota. Mendota reimburses the General Fund for interest paid on these bonds. During the FY 2005-06 audit, an error was found in the calculation methodology to compute the amount of interest due the General Fund. This resulted in a decrease in reimbursement in FY 2006-07.

Contacting the Institute's Financial Management

This financial report is designed to provide a general overview of Mendota's financial performance for FY 2006-07. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to:

Ken Thyberg, Audit Liaison
Department of Health Services
Room 756, 1 West Wilson Street
P.O. Box 7850
Madison, WI 53707-7850

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Financial Statements of Mendota Mental Health Institute ■

Balance Sheet
June 30, 2007

	Patient Care Fund	Power Plant Fund	Patient Deposit Fund	Canteen Fund	Totals (Memorandum Only)
ASSETS					
Current Assets:					
Cash and cash equivalents (Note 2)	$ 7,505	$ 0	$ 102,038	$ 26,147	$ 135,690
Net accounts receivable (Note 3)	4,896,777	269,162	1,361	448	5,167,748
Due from the State of Wisconsin	2,636,597	0	0	0	2,636,597
Due from the federal government	231,781	0	0	0	231,781
Supplies and merchandise inventories	154,297	123,454	0	2,907	280,658
Prepaid items	604,225	13,046	0	0	617,271
Total Current Assets	8,531,182	405,662	103,399	29,502	9,069,745
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	29,314,691	9,363,683	0	0	38,678,374
Equipment	2,275,578	458,939	0	9,474	2,743,991
Accumulated depreciation	(18,001,513)	(4,047,464)	0	(228)	(22,049,205)
Construction in progress	1,022,657	0	0	0	1,022,657
Total Noncurrent Assets	16,403,166	5,869,166	0	9,246	22,281,578
TOTAL ASSETS	**$ 24,934,348**	**$ 6,274,828**	**$ 103,399**	**$ 38,748**	**$ 31,351,323**
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable (Note 4)	$ 970,042	$ 77,765	$ 0	$ 10,487	$ 1,058,294
Settlement due to Medicaid/Medicare (Note 5)	470,547	0	0	0	470,547
Due to the federal government	52,653	955	0	0	53,608
Due to the State of Wisconsin (Notes 7 and 8)	2,507,838	293,372	0	1,058	2,802,268
Accrued expenses (Note 4)	1,069,071	16,485	0	0	1,085,556
Capital leases (Notes 10 and 11)	46,346	0	0	0	46,346
Compensated absences (Note 10)	598,506	18,589	0	0	617,095
Patient funds held in trust	0	0	103,399	0	103,399
Deferred revenue	0	0	0	9,956	9,956
Total Current Liabilities	5,715,003	407,166	103,399	21,501	6,247,069
Noncurrent Liabilities:					
Capital leases (Notes 10 and 11)	327,653	0	0	0	327,653
Compensated absences (Note 10)	1,211,711	37,634	0	0	1,249,345
Total Noncurrent Liabilities	1,539,364	37,634	0	0	1,576,998
Total Liabilities	**7,254,367**	**444,800**	**103,399**	**21,501**	**7,824,067**
Net Assets:					
Invested in capital assets, net of related debt	16,029,167	5,869,166	0	9,246	21,907,579
Restricted	28,947	0	0	0	28,947
Unrestricted	1,621,867	(39,138)	0	8,001	1,590,730
Total Net Assets	**17,679,981**	**5,830,028**	**0**	**17,247**	**23,527,256**
TOTAL LIABILITIES AND NET ASSETS	**$ 24,934,348**	**$ 6,274,828**	**$ 103,399**	**$ 38,748**	**$ 31,351,323**

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, 2007

	Patient Care Fund	Power Plant Fund	Canteen Fund	Totals (Memorandum Only)
OPERATING REVENUES				
Net Revenue from Patient Care (Notes 1F and 1K)	$ 20,853,270	$ 0	$ 0	$ 20,853,270
Revenue from the State of Wisconsin	38,571,258	0	0	28,571,258
Utility Sales	0	2,769,139	0	2,769,139
Canteen Revenue	0	0	159,800	159,800
Medicaid/Medicare Settlements (Note 5)	1,302,039	0	0	1,302,039
Total Operating Revenues	**60,726,567**	**2,769,139**	**159,800**	**63,655,506**
OPERATING EXPENSES				
Salaries	37,680,111	660,825	10,750	38,351,686
Fringe Benefits	13,856,090	270,147	0	14,126,237
Materials and Supplies	11,374,102	2,014,315	164,493	13,552,910
Depreciation	1,129,467	230,592	228	1,360,287
Total Operating Expenses	**64,039,770**	**3,175,879**	**175,471**	**67,391,120**
OPERATING INCOME (LOSS)	**(3,313,203)**	**(406,740)**	**(15,671)**	**(3,735,614)**
NONOPERATING REVENUES AND EXPENSES				
Gain (Loss) on Sale of Fixed Assets	7,690	0	0	7,690
Canteen Commissions	0	0	4,386	4,386
Operating Grants	150,610	0	0	150,610
Other Nonoperating Revenues	286,460	0	0	286,460
Materials and Supplies	0	0	(484)	(484)
Interest Expense	(11,804)	0	0	(11,804)
Total Nonoperating Income (Loss)	**432,956**	**0**	**3,902**	**436,858**
Income (Loss) before Transfers	(2,880,247)	(403,740)	(11,769)	(3,298,756)
Transfers In for Capital Projects (Note 1J)	2,262,449	3,910,102	0	6,172,551
Other Transfers In	29,267	0	0	29,267
Transfers Out (Note 8)	(1,321,737)	(40,108)	0	(1,361,845)
CHANGE IN NET ASSETS	**(1,910,268)**	**3,463,254**	**(11,769)**	**1,541,217**
NET ASSETS				
Total Net Assets—Beginning of the Year	19,590,249	2,366,774	29,016	21,986,039
Total Net Assets—End of the Year	**$ 17,679,981**	**$ 5,830,028**	**$ 17,247**	**$ 23,527,256**

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, 2007

	Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007
ASSETS				
Cash and Cash Equivalents	$ 101,699	$ 986,500	$ 986,161	$ 102,038
Net Accounts Receivable	0	1,361	0	1,361
Total Assets	**$ 101,699**	**$ 987,861**	**$ 986,161**	**$ 103,399**
LIABILITIES				
Patient Funds Held in Trust	101,699	987,861	986,161	103,399
Total Liabilities	**$ 101,699**	**$ 987,861**	**$ 986,161**	**$ 103,399**

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Year Ended June 30, 2007

	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	$ 61,418,019	$ 2,500,794	$ 165,087	$ 64,083,900
Cash Payments to Suppliers for Goods and Services	(10,087,998)	(1,786,574)	(168,222)	(12,042,794)
Cash Payments to Employees for Services	(50,556,224)	(922,959)	(10,582)	(51,489,765)
Other Sources (Uses) of Cash	424,742	0	0	424,742
Net Cash Provided (Used) by Operating Activities	**1,198,539**	**(208,739)**	**(13,717)**	**976,083**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers Out	(1,188,296)	(40,128)	0	(1,228,424)
Loan from the State of Wisconsin	(812,879)	(134,823)	0	(947,702)
Net Cash Used by Noncapital Financing Activities	**(2,001,175)**	**(174,951)**	**0**	**(2,176,126)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest Payments	(18,889)	0	0	(18,889)
Capital Lease Obligations	(53,337)	0	0	(53,337)
Payments for Purchases of Capital Assets	(1,384,216)	(3,526,412)	(9,474)	(4,920,102)
Transfers In	2,262,449	3,910,102	0	6,172,551
Net Cash Provided (Used) by Capital and Related Financing Activities	**806,007**	**383,690**	**(9,474)**	**1,180,223**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**3,371**	**0**	**(23,191)**	**(19,820)**
Cash and Cash Equivalents—Beginning of the Year	4,134	0	49,338	53,472
Cash and Cash Equivalents—End of the Year	$ 7,505	$ 0	$ 26,147	$ 33,652

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)	$ (3,313,203)	$ (406,740)	$ (15,671)	$ (3,735,614)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operations:				
Depreciation	1,129,467	230,592	228	1,360,287
Miscellaneous nonoperating income (expense)	435,822	0	3,901	439,723
Changes in assets and liabilities:				
Decrease (Increase) in receivables	3,076,104	(268,375)	46	2,807,776
Decrease (Increase) in Due from the State of Wisconsin	(45,487)	(786)	0	(45,487)
Decrease (Increase) in supplies inventories	(8,698)	218,465	(639)	209,128
Decrease (Increase) in prepaid items	(47,213)	(635)	0	(47,848)
Increase (Decrease) in accrued expenses	134,874	4,966	0	139,840
Increase (Decrease) in accounts payable	625,232	(218,747)	694	407,179
Increase (Decrease) in Medicaid/Medicare Payable	470,547	0	0	470,547
Increase (Decrease) in Due to the State of Wisconsin	(1,119,483)	225,389	0	(894,094)
Increase (Decrease) in Due to the federal government	9,032	160	0	9,192
Increase (Decrease) in deferred revenue	0	0	(2,276)	(2,276)
Increase (Decrease) in compensated absences	(148,456)	6,186	0	(142,270)
Total Adjustments	4,511,743	198,001	1,954	4,711,697
Net Cash Provided by Operating Activities	$ 1,198,539	$ (208,739)	$ (13,717)	$ 976,083

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 collectability for receivables from other third parties. The actual results could differ significantly from these estimates.

G. Cash and Cash Equivalents

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

H. Supplies Inventory

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

I. Capital Assets

An asset is defined as a capital asset if it has an acquisition cost equal to or greater than $5,000 and a useful life of two or more years. Capital assets are valued at cost. Land improvements, buildings, and equipment are depreciated on a straight-line basis. Estimated useful lives are based on an industry standard determined by the publication *Estimated Useful Lives of Depreciable Hospital Assets*, 2004 edition, issued by the American Hospital Association, as follows:

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

J. Invested in Capital Assets

The Invested in Capital Assets, Net of Related Debt account reflects the value of the land, buildings, and equipment net of any related debt from capital leases. Most of these assets were financed with general obligation debt. This debt is not an obligation of Mendota 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 for Medicare and Medicaid that provide for payments at amounts that differ from its established rates. Revenue from patient care includes patient charges at realizable amounts, net of Medicare and Medicaid contractual adjustments and uncollectible amounts. A summary of the payment agreements follows.

Medicare—Services are reimbursed under the Tax Equity Fiscal Responsibility Act methodology. The federal Department of Health and Human Services' Center for Medicaid and Medicare Services sets a target rate per discharge for each Institute. During the fiscal year, Mendota 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 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, 2007, the carrying value of these deposits was $125,968, and the bank balance was $139,816.

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 $6,116, 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, 2007, the bank balance was $139,816. Therefore all deposits held in financial institutions are insured. Mendota 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, 2007, include the following:

Patient Receivables	$4,809,448
Other Receivables	356,939
Total Accounts Receivable	$5,166,387

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 2007-08. The remaining 4 percent is expected to be collected in FY 2008-09. The other receivables should all be collected in FY 2007-08.

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

4. ACCOUNTS PAYABLE AND ACCRUED EXPENSE BALANCES

Significant accounts payable balances as of June 30, 2007, include the following:

Vendors	$1,028,123
Salaries and Benefits	30,171
Total Accounts Payable	$1,058,294

Significant accrued expense balances as of June 30, 2007, include the following:

Vendors	$ 337,100
Salaries and Benefits	748,456
Total Accrued Expenses	$1,085,556

5. THIRD-PARTY CONTRACTUAL SETTLEMENTS

Mendota 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, FY 2005-06, and FY 2006-07. United Government

Services has completed audits of all of these cost reports except for FY 2005-06 and FY 2006-07. Final settlements of FY 2000-01, FY 2001-02, and FY 2002-03 were reflected on prior-year financial statements.

United Government Services completed an audit of the FY 2002-03 cost report and concluded that the Medicare program owed Mendota $195,259 for FY 2002-03. This settlement was reflected as operating revenue on the FY 2005-06 financial statements. The Institute submitted an appeal of the final settlement of the audit, and it was reopened. As a result of this appeal, United Government Services concluded that the Institute owed the Medicare program $283,544. This additional final settlement is reflected as an operating expense on the FY 2006-07 financial statements.

United Government Services completed an audit of the FY 2003-04 and FY 2004-05 cost report and concluded that Mendota owed the Medicare program $109,635 for FY 2003-04 and $187,003 for FY 2004-05. These settlements were reflected as an operating expense on the FY 2006-07 financial statements.

Mendota Mental Health Institute has submitted a cost report to the Medicare program for FY 2005-06. United Government Services has not audited this cost report but has computed a tentative settlement. The tentative settlement concluded that the Medicare program owed the Institute $311,300 for FY 2005-06. The tentative settlement was reflected as operating revenue in the FY 2006-07 financial statements.

Mendota Mental Health Institute has submitted Medicaid cost reports to the Department of Health Services for FY 2000-01 and FY 2001-02. The Department of Health Services completed an audit of these reports and concluded that the Medicaid program owed Mendota $96,862 for FY 2000-01 and $893,877 for FY 2001-02. These settlements were reflected as operating revenue on the FY 2006-07 financial statements.

Mendota Mental Health Institute has submitted Medicaid cost reports to the Department of Health Services for FY 2002-03. The Department of Health Services has not yet completed the audit of this report.

The status of cost reports outstanding is as follows:

Year	Medicare	Medicaid
FY 2000-01	Submitted, finalized, appeal settled	Submitted, audited, finalized
FY 2001-02	Submitted, audited, finalized	Submitted, audited, finalized
FY 2002-03	Submitted, audited, finalized	Submitted, not audited
FY 2003-04	Submitted, audited, finalized	Not submitted
FY 2004-05	Submitted, audited, finalized	Not submitted
FY 2005-06	Submitted, not audited	Not submitted
FY 2006-07	Submitted, not audited	Not submitted

6. CAPITAL ASSETS

The change in book value from July 1, 2006, to June 30, 2007, 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	34,195,425	4,774,580	(291,631)	38,678,374
Equipment	2,619,250	262,929	(138,188)	2,743,991
Construction in Progress	1,234,172	4,613,105	(4,824,620)	1,022,657
Total Capital Assets	39,934,608	9,650,614	(5,254,439)	44,330,783
Less Accumulated Depreciation for:				
Land Improvements	(1,333,152)	(77,745)	0	(1,410,897)
Buildings	(18,019,649)	(1,093,941)	291,631	(18,821,959)
Equipment	(1,702,838)	(240,654)	127,143	(1,816,349)
Total Accumulated Depreciation	(21,055,639)	(1,412,340)	418,774	(22,049,205)
Total Capital Assets, Net	$18,878,969	$8,238,274	$(4,835,665)	$22,281,578

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 $1,395,121 as of June 30, 2007, to cover cash overdrafts in its appropriations. This amount is included in the “Due to the State of Wisconsin” liability account on the financial statements.

8. REIMBURSEMENTS AND TRANSFERS TO OTHER FUNDS

A. General Obligation Bonds

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

Mendota Mental Health Institute has received proceeds from 42 outstanding bond issuances. The bonds have maturity dates ranging from April 15, 2008, to April 15, 2027. The principal balance outstanding as of June 30, 2007, attributable to Mendota Mental Health

Institute is $21,813,000. 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, 2007, are allocated as follows:

Principal	$1,461,161
Interest	896,414
Total Paid	$2,357,575

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 $108,184 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 $1,190,945 and funded by GPR to Mendota Mental Health Institute during FY 2006-07. 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 2006-07, Mendota Mental Health Institute owed Medicaid payments related to overhead expense of $95,649 and depreciation of $118,045 to the State of Wisconsin General Fund as reimbursements for administrative services provided and for assets originally purchased by the State. The amount remitted is included in the financial statements as a transfer out and a payable to the State of Wisconsin.

C. Insurance Reimbursements for Forensic Patients

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

The financial statements reflect expected reimbursements as a receivable and as a payable to the State of Wisconsin. For the year ending June 30, 2007, both the receivable from Medicaid, Medicare, and private insurers, less related contractual adjustments, and the related payable to the State of Wisconsin were $67,831.

In addition, Mendota Mental Health Institute collected $322,531 in FY 2006-07 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. For FY 2006-07, state agencies were also required to transfer amounts for debt service payments on the bonds to the General Fund. Mendota Mental Health Institute transferred a total of $916,717 to the State's General Fund in FY 2006-07 for cost savings and debt service payments. This amount is reflected in the financial statements as a transfer out. See Note 13 for further information on the employee retirement plan.

9. REVENUE FROM BUILDING LEASES

Mendota 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 year and may be renewed by mutual agreement.

The leased facilities are in buildings with the following costs:

Buildings at Historical Cost	$567,609
Less: Accumulated Depreciation	(458,411)
Buildings, Net	$109,198

Minimum future lease payments to be received during the year ended June 30, 2008, total $162,647.

10. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due within One Year
Capital Leases	$ 434,421	$ 0	$ (60,422)	$ 373,999	$ 46,346
Compensated Absences	2,008,711	752,359	(894,630)	1,866,440	617,095
Long-term Liabilities	$2,443,132	$752,359	$(955,052)	$2,240,439	$663,441

11. OBLIGATIONS UNDER CAPITAL LEASES

During FY 2006-07, Mendota Mental Health Institute continued to lease a chemistry analyzer and participated in statewide master lease agreements to acquire energy-saving improvements. The term of the lease for the chemistry analyzer is 60 months. The terms of the leases for the energy-saving improvements are 15 years. As of June 30, 2007, the value of the equipment and improvements under lease was $576,600. The accumulated depreciation totaled $239,075, resulting in a net book value of $337,525.

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, 2007:

For the Year Ending:	
June 30, 2008	$ 63,911
June 30, 2009	63,253
June 30, 2010	52,959
June 30, 2011	45,608
June 30, 2012	45,607
2013-2015	182,429
Total Minimum Lease Payments	453,767
Less: Amounts Representing Interest	79,768
Present Value of Minimum Lease Payments	373,999
Less: Current Maturities	46,346
Long-term Portion of Present Value of Minimum Lease Payments	$327,653

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, 2007, are as follows for the year ended:

June 30, 2008	$ 102,402
June 30, 2009	104,272
June 30, 2010	91,296
June 30, 2011	82,163
June 30, 2012	27,068
Thereafter	0
Total Minimum Rental Payments Required	$407,201

The composition of the total rental expense for the year ended June 30, 2007, is as follows:

Minimum Rentals	$101,173
Contingent Rentals	0
Less: Sublease Rentals	0
Rental Expense	$101,173

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 $4,751,360 for FY 2006-07. 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.

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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, 2007, as listed in the table of contents. These financial statements are the responsibility of the management of Winnebago Mental Health Institute and the Wisconsin Department of Health Services. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of each of Winnebago Mental Health Institute's funds as of June 30, 2007, and the respective changes in each fund's financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements of Winnebago Mental Health Institute. The supplementary information included as Management's Discussion and Analysis on pages 37 through 42 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 29, 2008, on our consideration of the Department of Health Service's internal control over financial reporting for Winnebago Mental Health Institute; our tests of its compliance with certain provisions of laws, regulations, and contracts; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

LEGISLATIVE AUDIT BUREAU

September 29, 2008 by Carolyn Stittleburg

Carolyn Stittleburg
Audit Director

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

Prepared by the Department of Health Services

This section of Winnebago Mental Health Institute's annual financial report presents a discussion and analysis of the Institute's financial performance during the fiscal year ended June 30, 2007. 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 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 presents additions to and deductions from patient accounts during the year.

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

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

Noteworthy Financial Activity

Winnebago's total net assets decreased by 18 percent during FY 2006-07. 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 June 30, 2006, to June 30, 2007, are reviewed in Table A, while its changes in net assets for FY 2006-07 are reviewed in Table B.

Table A

Net Assets

	June 30, 2007	June 30, 2006[1]	Percentage Change
Current Assets	$ 9,653,493	$ 12,456,773	(23)%
Capital Assets	13,535,041	13,066,144	4
Total Assets	**$23,188,534**	**$25,522,917**	(9)
Current Liabilities	$ 10,221,230	$ 9,921,382	3
Noncurrent Liabilities	1,272,269	1,303,012	(2)
Total Liabilities	11,493,499	11,224,394	2
Net Assets:			
Invested in Capital Assets, Net of Related Debt	13,162,465	12,648,361	4
Restricted	67,257	75,494	(11)
Unrestricted	(1,534,687)	1,574,668	(197)
Total Net Assets	11,695,035	14,298,523	(18)
Total Liabilities and Net Assets	**$23,188,534**	**$25,522,917**	(9)

[1] FY 2005-06 balances have been restated to reflect prior-period adjustments.

As shown in Table A, current assets decreased by 23 percent from June 30, 2006, to June 30, 2007. Some of this decrease resulted from a decrease in patient receivables. The decrease in patient receivables resulted, in part, from a 5 percent increase in the amount of cash collected on patient receivables during FY 2006-07. During the same year, there was also a modest decrease in patient billings. The net patient receivable balance will go down when there is a decrease in patient billings and an increase in cash collected on current and prior-year patient billings.

In addition, an analysis of prior-year collections determined that the estimates used to write off uncollectible patient receivables were too low in prior years. The 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 patient receivables included in the FY 2005-06 financial statements was compared to the actual amounts collected for that year in FY 2006-07, it was determined that not enough had been written off in the prior year. The net patient receivable balance will go down when patient billings from prior years are written off as uncollectible. The patient receivable balance was decreased by $1,587,036 in the FY 2006-07 financial statements to account for this change in estimates.

Another reason for the decrease in current assets was that there were no settlements due from Medicaid/Medicare in FY 2006-07. In comparison, in FY 2005-06, $487,027 was due to Winnebago from Medicaid/Medicare for one prior-year settlement. Winnebago submits annual cost reports to the Department of Health 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.

Capital assets, which represent the original cost of an asset less accumulated depreciation, increased by 4 percent from June 30, 2006, to June 30, 2007. Most of this increase is the result of an increase in construction activity during FY 2006-07. The increase in capital assets from construction activity was offset by the decrease in capital assets resulting from current-year depreciation expense. The increase was also offset by a decrease in the amount recorded on the financial statements for land. A review of historical records of land purchases determined that $199,673 of the amount originally recorded for land was actually land owned by the Department of Corrections and the Wisconsin Resource Center. In addition, land valued at $8,010 was transferred to the Department of Natural Resources per the State Building Commission. Therefore the historical cost of land reported on the financial statements was reduced from $231,140 to $23,457.

The increase in construction activity included major projects to upgrade the food service cooler/freezers and to install new air conditioning equipment at Sherman Hall. Three other projects are worth noting: a project to replace flooring in Gordon Hall and Sherman Hall, a project to replace doors and locks, and a project to repair masonry at Gordon Hall.

Current liabilities increased by 3 percent from June 30, 2006, to June 30, 2007. Some of this increase resulted from an increase in the amounts recorded as "Settlement due to Medicaid/Medicare." There were settlements totaling $1,232,817 due to Medicaid/Medicare in FY 2006-07, compared to only $63,617 due in FY 2005-06. This increase in settlements was offset by a decrease in the "Due to the State of Wisconsin" liability account. The decrease in this amount resulted mainly from 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 by $643,466, from $4,844,568 as of June 30, 2006 to $4,201,102 as of June 30, 2007.

Another reason for the decrease in the amounts recorded as "Due to the State of Wisconsin" was a decrease in the estimated Medicare reimbursement for court-ordered patients, which is due the State of Wisconsin on June 30. This estimated amount declined from $1,237,877 in FY 2005-06 to $392,752 in FY 2006-07. The State of Wisconsin reimburses Winnebago for expenses for court-ordered patients. 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 the care provided. 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."

Noncurrent liabilities decreased by 2 percent from June 30, 2006, to June 30, 2007. Some of this decrease resulted from a decrease in capital leases. Winnebago did not contract for any new capital leases in FY 2006-07. The liability for capital leases will decrease in a year when payments are made on capital leases contracted for in prior years and there are no new leases.

Net assets on the Balance Sheet are computed by subtracting total liabilities from total assets. Net assets are then further segregated on the Balance Sheet between net assets invested in capital assets net of related debt, net assets restricted by legal requirements from other governments or private donors, and unrestricted net assets. Net assets decreased from $14,298,523 at June 30, 2006, to $11,695,035 at June 30, 2007. The financial activity that resulted in this decrease of $2,603,488 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	2007	2006	Percentage Change
Operating Revenues	$53,589,818	$54,037,888	(1)%
Operating Expenses	57,297,591	52,188,030	10
Operating Income (Loss)	(3,707,773)	1,849,858	
Nonoperating Income	832,016	777,721	7
Income (Loss) before Transfers	(2,875,757)	2,627,579	
Transfers In	1,790,925	487,146	268
Transfers Out	(1,518,656)	(1,626,861)	(7)
Change in Net Assets	($ 2,603,488)	$ 1,487,864	(275)

The change in net assets for FY 2006-07 of ($2,603,488) shows that Winnebago did not generate enough revenue and transfers in to cover expenses. A comparison of FY 2005-06 to FY 2006-07 shows a small decrease in operating revenues and a 10 percent increase in operating expenses, resulting in a decrease in net operating income.

The decrease in operating revenues resulted primarily from a decrease in patient billings, the write-down of prior-year's estimated patient receivables, and a decrease in utility sales. This net decrease in operating revenue was offset by 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 three Medicaid/Medicare settlements with amounts due from Medicaid or Medicare.

The increase in operating expenses resulted primarily from a 9 percent increase in salary and fringe benefit expenses and three Medicaid/Medicare settlements that required Winnebago to pay Medicaid or Medicare. The increase in salaries was due to cost of living increases and the addition of ten new positions to address staffing shortages.

Nonoperating income increased by 7 percent from FY 2005-06 to FY 2006-07. Most of this increase was due to an increase in nonoperating revenue from the State of Wisconsin and a decrease in interest expense.

The transfers in for capital projects increased by 268 percent from FY 2005-06 to FY 2006-07. The increase was due to a large increase in capital construction projects, which are funded by transfers in from the State of Wisconsin.

Transfers out decreased by 7 percent from FY 2005-06 to FY 2006-07. The main reason for the decrease was a decrease of transfers to the General Fund. The General Fund issues bonds to finance construction projects at Winnebago. Winnebago reimburses the General Fund for interest paid on these bonds. During the FY 2005-06 audit, an error was found in the calculation methodology to compute the amount of interest due the General Fund. This resulted in a decrease in reimbursement in FY 2006-07.

Contacting the Institute's Financial Management

This financial report is designed to provide a general overview of Winnebago's financial performance for FY 2006-07. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to:

Ken Thyberg, Audit Liaison
Department of Health Services
Room 756, 1 West Wilson Street
P.O. Box 7850
Madison, WI 53707-7850

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Financial Statements of Winnebago Mental Health Institute ■

Balance Sheet
June 30, 2007

	Patient Care Fund	Power Plant Fund	Patient Deposit Fund	Canteen Fund	Totals (Memorandum Only)
ASSETS					
Current Assets:					
Cash and cash equivalents (Note 2)	$ 11,607	$ 161,807	$ 68,572	$ 27,470	$ 269,456
Net accounts receivable (Note 3)	6,835,858	5,938	0	1,755	6,843,551
Due from the State of Wisconsin	1,364,831	0	0	0	1,364,831
Due from the federal government	6,875	0	0	0	6,875
Supplies and merchandise inventories	482,143	30,625	0	16,730	529,498
Prepaid items	630,357	8,925	0	0	639,282
Total Current Assets	9,331,671	207,295	68,572	45,955	9,653,493
Noncurrent Assets:					
Capital assets (Note 6):					
Land	22,657	800	0	0	23,457
Land improvements	577,314	0	0	0	577,314
Buildings	22,283,032	3,069,359	0	0	25,352,391
Equipment	1,330,029	11,503	0	0	1,341,532
Accumulated depreciation	(12,882,461)	(2,151,023)	0	0	(15,033,484)
Construction in progress	1,273,831	0	0	0	1,273,831
Total Noncurrent Assets	12,604,402	930,639	0	0	13,535,041
TOTAL ASSETS	**$ 21,936,073**	**$ 1,137,934**	**$ 68,572**	**$ 45,955**	**$ 23,188,534**
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable (Note 4)	$ 1,046,182	$ 239	$ 40	$ 1,005	$ 1,047,466
Settlement due to Medicaid/Medicare (Note 5)	1,232,817	0	0	0	1,232,817
Due to the federal government	42,665	780	0	0	43,445
Due to the State of Wisconsin (Notes 7 and 8)	6,363,325	9,451	0	1,482	6,374,258
Accrued expenses (Note 4)	774,845	79,373	0	0	854,218
Capital leases (Notes 10 and 11)	33,036	4,065	0	0	37,101
Compensated absences (Note 10)	555,208	7,808	0	74	563,090
Patient funds held in trust	0	0	68,532	0	68,532
Deferred revenue	0	0	0	303	303
Total Current Liabilities	10,048,078	101,716	68,572	2,864	10,221,230
Noncurrent Liabilities:					
Capital leases (Notes 10 and 11)	298,722	36,753	0	0	335,475
Compensated absences (Note 10)	923,802	12,992	0	0	936,794
Total Noncurrent Liabilities	1,222,524	49,745	0	0	1,272,269
Total Liabilities	**11,270,602**	**151,461**	**68,572**	**2,864**	**11,493,499**
Net Assets:					
Invested in capital assets, net of related debt	12,272,644	889,821	0	0	13,162,465
Restricted	67,257	0	0	0	67,257
Unrestricted	(1,674,430)	96,652	0	43,091	(1,534,687)
Total Net Assets	**10,665,471**	**986,473**	**0**	**43,091**	**11,695,035**
TOTAL LIABILITIES AND NET ASSETS	**$ 21,936,073**	**$ 1,137,934**	**$ 68,572**	**$ 45,955**	**$ 23,188,534**

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, 2007

	Patient Care Fund	Power Plant Fund	Canteen Fund	Totals (Memorandum Only)
OPERATING REVENUES				
Net Revenue from Patient Care (Notes 1F and 1K)	$ 25,066,459	$ 0	$ 0	$ 25,066,459
Revenue from the State of Wisconsin	23,323,995	0	0	23,323,995
Utility Sales	0	1,301,493	0	1,301,493
Canteen Revenues	0	0	162,927	162,927
Medicaid/Medicare Settlements (Note 5)	3,734,944	0	0	3,734,944
Total Operating Revenues	**52,125,398**	**1,301,493**	**162,927**	**53,589,818**
OPERATING EXPENSES				
Salaries	32,065,992	513,059	38,488	32,617,539
Fringe Benefits	12,459,955	199,080	0	12,659,035
Materials and Supplies	10,147,567	893,511	113,049	11,154,127
Depreciation	723,950	142,940	0	866,890
Total Operating Expenses	**55,397,464**	**1,748,590**	**151,537**	**57,297,591**
OPERATING INCOME (LOSS)	**(3,272,066)**	**(447,097)**	**11,390**	**(3,707,773)**
NONOPERATING REVENUES AND EXPENSES				
Revenue from the State of Wisconsin	481,779	0	0	481,779
Gain (Loss) on Sale of Fixed Assets	3,655	0	0	3,655
Canteen Commissions	0	0	3,285	3,285
Operating Grants	165,429	0	0	165,429
Other Nonoperating Revenues	186,289	0	105	186,394
Materials and Supplies	0	0	(397)	(397)
Interest Expense	(7,238)	(891)	0	(8,129)
Total Nonoperating Income (Loss)	**829,914**	**(891)**	**2,993**	**832,016**
Income (Loss) before Transfers	(2,442,152)	(447,988)	14,383	(2,875,757)
Transfers In for Capital Projects (Note 1J)	1,674,031	14,339	0	1,688,370
Other Transfers In	102,555	0	0	102,555
Transfers Out (Note 8)	(1,492,712)	(25,944)	0	(1,518,656)
CHANGE IN NET ASSETS	**(2,158,278)**	**(459,593)**	**14,383**	**(2,603,488)**
NET ASSETS				
Total Net Assets—Beginning of the Year	13,023,422	1,446,066	28,708	14,498,196
Prior-Period Adjustment (Note 14)	(199,673)	0	0	(199,673)
Total Net Assets—End of the Year	**$ 10,665,471**	**$ 986,473**	**$ 43,091**	**$ 11,695,035**

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, 2007

	Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007
ASSETS				
Cash and Cash Equivalents	$ 71,672	$ 1,025,707	$ 1,028,807	$ 68,572
Net Accounts Receivable	1,136	39,483	40,619	0
Total Assets	**$ 72,808**	**$ 1,065,190**	**$ 1,069,426**	**$ 68,572**
LIABILITIES				
Accounts Payable	$ 0	$ 40	$ 0	$ 40
Patient Funds Held in Trust	72,808	229,946	234,222	68,532
Total Liabilities	**$ 72,808**	**$ 229,986**	**$ 234,222**	**$ 68,572**

The accompanying notes are an integral part of this statement.

Statement of Cash Flows
for the Year Ended June 30, 2007

	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	$ 54,121,261	$ 1,467,658	$ 172,656	$ 55,761,575
Cash Payments to Suppliers for Goods and Services	(8,905,680)	(820,821)	(115,936)	(9,842,437)
Cash Payments to Employees for Services	(44,585,778)	(713,178)	(49,255)	(45,348,211)
Other Sources of Cash	841,049	0	0	841,049
Net Cash Provided (Used) by Operating Activities	**1,470,852**	**(66,341)**	**7,465**	**1,411,976**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers Out	(1,304,936)	(26,334)	0	(1,331,270)
Loan from the State of Wisconsin	(643,466)	0	0	(643,466)
Net Cash Used by Noncapital Financing Activities	**(1,948,402)**	**(26,334)**	**0**	**(1,974,736)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest Payments	(15,041)	(1,850)	0	(16,891)
Capital Lease Obligations	(32,451)	(3,993)	0	(36,444)
Payments for Purchases of Capital Assets	(1,184,362)	0	0	(1,184,362)
Transfers In	1,674,031	14,339	0	1,688,370
Other Cash Flows from Capital Financing Activities	3,655	0	0	3,655
Net Cash Provided (Used) by Capital and Related Financing Activities	**445,832**	**8,496**	**0**	**454,328**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(31,718)**	**(84,179)**	**7,465**	**(108,432)**
Cash and Cash Equivalents—Beginning of the Year	43,325	245,986	20,005	309,316
Cash and Cash Equivalents—End of the Year	$ 11,607	$ 161,807	$ 27,470	$ 200,884

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)	$ (3,272,066)	$ (447,097)	$ 11,390	$ (3,707,773)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operations:				
Depreciation	723,950	142,940	0	866,890
Miscellaneous nonoperating income (expense)	833,498	0	2,994	836,492
Changes in assets and liabilities:				
Decrease (Increase) in receivables	2,155,789	218,943	75	2,374,807
Decrease (Increase) in Due from the State of Wisconsin	76,159	0	0	76,159
Decrease (Increase) in supplies inventories	27,926	14,450	3,319	45,695
Decrease (Increase) in prepaid items	(50,776)	358	0	(50,418)
Increase (Decrease) in accrued expenses	95,845	6,328	0	102,173
Increase (Decrease) in Medicaid/Medicare payable	1,232,817	0	0	1,232,817
Increase (Decrease) in accounts payable	77,184	(83)	(10,260)	66,841
Increase (Decrease) in Due to the State of Wisconsin	(182,154)	140	(152)	(182,166)
Increase (Decrease) in Due to the federal government	6,600	76	0	6,676
Increase (Decrease) in compensated absences	(253,920)	(2,396)	74	(256,242)
Increase (Decrease) in deferred revenue	0	0	25	25
Total Adjustments	4,742,918	380,756	(3,925)	5,119,749
Net Cash Provided by Operating Activities	$ 1,470,852	$ (66,341)	$ 7,465	$ 1,411,976

Noncash Investing, Capital, and Financing Activities:

Land valued at $8,010 was transferred to the Department of Natural Resources per the State Building Commission. The historical cost of land recorded on the financial statements was written down by this amount.

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 for Medicare and Medicaid that provide for payments at amounts that differ from its established rates. Revenue from patient care includes patient charges at realizable amounts, net of Medicare and Medicaid contractual adjustments and uncollectible amounts. A summary of the payment agreements follows.

Medicare—Services are reimbursed under the Tax Equity Fiscal Responsibility Act methodology. The federal Department of Health and Human Services' Center for Medicaid and Medicare Services sets a target rate per discharge for each Institute. During the fiscal year, Winnebago 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 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, 2007, the carrying value of these deposits was $101,342, and the bank balance was $112,801.

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 $6,307, 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, 2007, the bank balance was $112,801. 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, 2007, include the following:

Patient Receivables	$6,783,480
Utility Sales Receivables	5,838
Other Receivables	54,233
Total Accounts Receivable	$6,843,551

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 2007-08. The remaining 4 percent is expected to be collected in FY 2008-09. The utility sales and other receivables should all be collected in FY 2007-08.

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

4. ACCOUNTS PAYABLE AND ACCRUED EXPENSE BALANCES

Significant accounts payable balances as of June 30, 2007, include the following:

Vendors	$ 679,588
Salaries and Benefits	367,838
Total Accounts Payable	$1,047,426

Significant accrued expense balances as of June 30, 2007, include the following:

Vendors	$225,304
Salaries and Benefits	628,914
Total Accrued Expenses	$854,218

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, FY 2005-06, and FY 2006-07. United Government Services has completed audits of all of these cost reports except for FY 2006-07. Final settlements of FY 2000-01, FY 2001-02, and FY 2002-03 were reflected on prior-year financial statements.

United Government Services completed an audit of the FY 2003-04 and FY 2004-05 cost report and concluded that Winnebago owed the Medicare program $70,702 for FY 2003-04 and $379,020 for FY 2004-05. These settlements were reflected as an operating expense on the FY 2006-07 financial statements.

United Government Services completed an audit of the FY 2005-06 cost report and computed a tentative and a final settlement. The tentative settlement concluded that the Medicare program owed the Institute $1,284,300 for FY 2005-06. A final settlement computed later in the fiscal year concluded that the Institute owed the Medicare program $783,095. The final settlement has been appealed. The tentative settlement was reflected as operating revenue and the final settlement as operating expense in the FY 2006-07 financial statements.

Winnebago Mental Health Institute has submitted Medicaid cost reports to the Department of Health Services for FY 2000-01 and FY 2001-02. The Department of Health Services completed an audit of these reports and concluded that the Medicaid program owed Winnebago $577,063 for FY 2000-01 and $1,873,581 for FY 2001-02. These settlements were reflected as operating revenue on the FY 2006-07 financial statements.

Winnebago Mental Health Institute has submitted Medicaid cost reports to the Department of Health Services for FY 2002-03. The Department of Health Services has not yet completed the audit of this report.

The status of cost reports outstanding is as follows:

Year	Medicare	Medicaid
FY 2000-01	Submitted, finalized, appeal settled	Submitted, audited, finalized
FY 2001-02	Submitted, audited, finalized	Submitted, audited, finalized
FY 2002-03	Submitted, audited, finalized	Submitted, not audited
FY 2003-04	Submitted, audited, finalized	Not submitted
FY 2004-05	Submitted, audited, finalized	Not submitted
FY 2005-06	Submitted, finalized, appealed	Not submitted
FY 2006-07	Submitted, not audited	Not submitted

6. CAPITAL ASSETS

The change in book value from July 1, 2006, to June 30, 2007, is summarized as follows:

	Beginning Balance (Restated)	Increases	Decreases	Ending Balance
Land	$ 31,467	$ 0	$ (8,010)	$ 23,457
Land Improvements	577,314	0	0	577,314
Buildings	24,895,963	456,428	0	25,352,391
Equipment	1,331,775	36,058	(26,301)	1,341,532
Construction in Progress	422,521	1,346,051	(494,741)	1,273,831
Total Capital Assets	27,259,040	1,838,537	(529,052)	28,568,525
Less Accumulated Depreciation for:				
Land Improvements	(454,498)	(30,905)	0	(485,403)
Buildings	(12,624,083)	(777,702)	0	(13,401,785)
Equipment	(1,114,315)	(58,282)	26,301	(1,146,296)
Total Accumulated Depreciation	(14,192,896)	(866,889)	26,301	(15,033,484)
Total Capital Assets, Net	$13,066,144	$ 971,648	$(502,751)	$13,535,041

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 $4,201,102 as of June 30, 2007, to cover cash overdrafts in its appropriations. This amount is included in the "Due to the State of Wisconsin" liability account on the financial statements.

8. REIMBURSEMENTS AND TRANSFERS TO OTHER FUNDS

A. General Obligation Bonds

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

Winnebago Mental Health Institute has received proceeds from 39 outstanding bond issuances. The bonds have maturity dates ranging from April 15, 2008, to April 15, 2027. The principal balance outstanding as of June 30, 2007, attributable to Winnebago Mental Health Institute is $12,126,779. This debt represents a debt of the State of Wisconsin and is not a debt of Winnebago Mental Health Institute. Accordingly, this debt is not reported in Winnebago Mental Health Institute's financial statements. Debt service payments made by the State of Wisconsin attributable to Winnebago Mental Health Institute for the year ended June 30, 2007, are allocated as follows:

Principal	$1,000,357
Interest	592,049
Total Paid	$1,592,406

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 $182,274 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 $1,016,951 and funded by GPR to Winnebago Mental Health Institute during FY 2006-07. 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 2006-07, Winnebago Mental Health Institute owed Medicaid payments related to overhead expense of $261,990 and depreciation of $163,595 to the State of Wisconsin General Fund as reimbursements for administrative services provided and for assets originally purchased by the State. The amount remitted is included in the financial statements as a transfer out and a payable to the State of Wisconsin.

C. Insurance Reimbursements for Forensic Patients

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

The financial statements reflect expected reimbursements as a receivable and as a payable to the State of Wisconsin. For the year ending June 30, 2007, both the receivable from Medicaid, Medicare, and private insurers, less related contractual adjustments, and the related payable to the State of Wisconsin were $392,752.

In addition, Winnebago Mental Health Institute collected $1,427,737 in FY 2006-07 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. For FY 2006-07, state agencies were also required to transfer amounts for debt service payments on the bonds to the General Fund. Winnebago Mental Health Institute transferred a total of $706,287 to the State's General Fund in FY 2006-07 for cost savings and debt service payments. This amount is reflected in the financial statements as a transfer out. See Note 13 for further information on the employee retirement plan.

E. Transfer of Land

As approved by the State Building Commission, surplus land was transferred to the State of Wisconsin Department of Natural Resources. The land has a historical cost of $8,010. This amount is reflected in the financial statements as a transfer out.

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, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due within One Year
Capital Leases	$ 417,783	$ 0	$ (45,207)	$ 372,576	$ 37,101
Compensated Absences	1,756,125	306,775	(563,016)	1,499,884	563,090
Long-term Liabilities	$2,173,908	$306,775	$(608,223)	$1,872,460	$600,191

11. OBLIGATIONS UNDER CAPITAL LEASES

During FY 2006-07, Winnebago Mental Health Institute participated in statewide master lease agreements for energy-saving improvements. The terms of the leases are 15 years. The value of the improvements under lease as of June 30, 2007, was $583,955. The accumulated depreciation totaled $230,346, resulting in a net book value of $353,609.

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, 2007:

For the Year Ending:	
June 30, 2008	$ 54,127
June 30, 2009	53,261
June 30, 2010	53,261
June 30, 2011	53,261
June 30, 2012	53,261
2013-2015	186,415
Total Minimum Lease Payments	453,586
Less: Amounts Representing Interest	81,010
Present Value of Minimum Lease Payments	372,576
Less: Current Maturities	37,101
Long-term Portion of Present Value of Minimum Lease Payments	$335,475

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, 2007, are as follows for the year ended:

June 30, 2008	$ 24,215
June 30, 2009	24,215
June 30, 2010	4,445
June 30, 2011	0
June 30, 2012	0
Total Minimum Rental Payments Required	$52,875

The composition of the total rental expense for the fiscal year ended June 30, 2007, is as follows:

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

13. EMPLOYEE RETIREMENT PLAN

Permanent, full-time employees of Winnebago 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 $3,710,712 for FY 2006-07. 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 ADJUSTMENT

A review of historical records of land purchases determined that land owned by the Department of Corrections and the Wisconsin Resource Center should not have been included in Winnebago Mental Health Institutes' land records. As a result, beginning net assets and the land account were decreased by $199,673.

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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, 2007, and have issued our reports thereon dated September 29, 2008. The Institutes are operated by the Department of Health Services' Division of Mental Health and Substance Abuse Services. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits, we considered the Department's and the Institutes' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's and the Institutes' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's and the Institutes' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We identified 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. We found one employee had conflicting cash handling responsibilities that allowed control over both receipt and disbursement transactions. Further, we found that receipts were not being issued, a receipt log was not being maintained for moneys collected from clients, and client authorization of disbursements was not being consistently obtained. These concerns were first identified during our FY 2004-05 audit and continued during our current audit period.

Management agrees with our concern and, subsequent to our current audit period, implemented additional procedures to improve internal controls over the receipt and disbursement process for funds held on behalf of clients of the Program of Assertive Community Treatment. During FY 2007-08, management took steps to further separate duties, procedures were implemented to maintain an independent log of receipts, and steps have been taken to maintain adequate documentation for all disbursements. In addition, the Mendota business office manager has implemented periodic reviews of client activity to provide oversight in ensuring that new procedures are being followed.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We consider the significant deficiency described above to be a material weakness.

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 its 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*.

The Department of Health Services' response to the finding identified is described above. We did not audit the Department's response and, accordingly, express no opinion on it.

This independent auditor's report is intended for the information and use of the Department's and the Institutes' management, and the Wisconsin Legislature. This independent auditor's 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 the effectiveness of the Department's and the Institutes' internal control or on compliance, this report is not intended to be used by anyone other than these specified parties.

LEGISLATIVE AUDIT BUREAU

September 29, 2008 by

Carolyn Stittleburg
Audit Director

State of Wisconsin
Department of Health Services
Jim Doyle, Governor
Karen E. Timberlake, Secretary

September 30, 2008

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 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).

As mentioned in this Department's response to the FY06 institute audit, DHS concurs with the issues raised, and has taken steps to improve internal controls in this program area.

Beginning in September 2007 (subsequent to the focus of this audit), Mendota Mental Health Institute (MMHI) implemented the following changes in its administrative processes related to receipt and disbursement of funds held on behalf of PACT clients:

- Receipt and disbursement functions for PACT client funds have been assigned to separate staff, eliminating conflicting cash handling responsibilities.
- An independent log is being maintained related to the receipt of client funds.
- Procedures have been implemented to maintain adequate documentation for all disbursements from client accounts.

While no client funds were lost or mishandled under past processes, DHS is confident that these improved procedures for the handling and recording of PACT client funds will enhance internal controls to levels that will be found prudent in future audits.

Again, thank you for the opportunity to respond to these findings.

Sincerely,

Karen E. Timberlake
Secretary

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