Report 05-13
September 2005

An Audit

Wisconsin Mental Health Institutes

Department of Health and Family Services

LEGISLATIVE AUDIT BUREAU

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State Auditor - Janice Mueller

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CONTENTS

Letter of Transmittal 1

Introduction 3

Audit Opinion 7

Independent Auditor's Report on the Financial Statements of Mendota Mental Health Institute

Management's Discussion and Analysis—Mendota Mental Health Institute 9

Financial Statements of Mendota Mental Health Institute

Balance Sheet as of June 30, 2004 17

Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended June 30, 2004 18

Statement of Changes in Assets and Liabilities: Patient Deposit Fund for the Year Ended June 30, 2004 19

Statement of Cash Flows for the Year Ended June 30, 2004 20

Notes to the Financial Statements of Mendota Mental Health Institute 23

Audit Opinion 35

Independent Auditor's Report on the Financial Statements of Winnebago Mental Health Institute

Management's Discussion and Analysis—Winnebago Mental Health Institute 37

Financial Statements of Winnebago Mental Health Institute

Balance Sheet as of June 30, 2004 45

Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended June 30, 2004 46

Statement of Changes in Assets and Liabilities: Patient Deposit Fund for the Year Ended June 30, 2004 47

Statement of Cash Flows for the Year Ended June 30, 2004 48

Notes to the Financial Statements of Winnebago Mental Health Institute 51

Report on Internal Control and Compliance 63

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

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Janice Mueller
State Auditor

September 21, 2005

Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

We have completed financial audits of Mendota and Winnebago Mental Health Institutes for the period July 1, 2003, through June 30, 2004. The audits were requested by the Department of Health and Family Services to comply with requirements of the Joint Commission on Accreditation of Healthcare Organizations. We were able to express an unqualified opinion on each Institute's financial statements.

Mendota and Winnebago Mental Health Institutes are licensed and accredited hospitals that provide specialized diagnostic, evaluation, and treatment services for mentally ill children and adults. The Institutes also provide services to forensic patients referred to them through the criminal justice system. The Institutes are funded through a mix of general purpose revenue and program revenue. Each has experienced a decline in average daily population from fiscal year (FY) 2001-02 through FY 2003-04.

Each Institute reported a small financial gain for FY 2003-04. Mendota reported a gain of almost $90,000 in net assets, and Winnebago reported a gain of more than $54,000. Further, each Institute reported a positive accounting balance, which is reflected in its financial statements as unrestricted net assets.

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

Respectfully submitted,

Janice Mueller

Janice Mueller
State Auditor

JM/DA/ss

Introduction ■

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

The Department annually requests an audit of the Institutes' financial statements to comply with requirements of the Joint Commission on Accreditation of Healthcare Organizations. As necessary parts of this audit, we reviewed the Institutes' control procedures, assessed the fair presentation of the fiscal year (FY) 2003-04 financial statements, and reviewed compliance with selected statutory provisions.

Care for forensic patients is funded primarily by GPR.

The Institutes are funded through a mix of general purpose revenue (GPR) and program revenue. Forensic patients include individuals being evaluated for competency to stand trial, as well as individuals charged with crimes who have been found either incompetent to stand trial or not guilty of the crimes by reason of mental defect or disease. Forensic patient charges are funded primarily by GPR. The costs of providing care for patients committed through civil proceedings or by voluntary placement are funded primarily through program revenue generated by daily charges for patient care. These charges are paid by counties, the Medicaid program (through which the State funds approximately 40 percent and the federal government funds the remaining 60 percent), Medicare, and private payers.

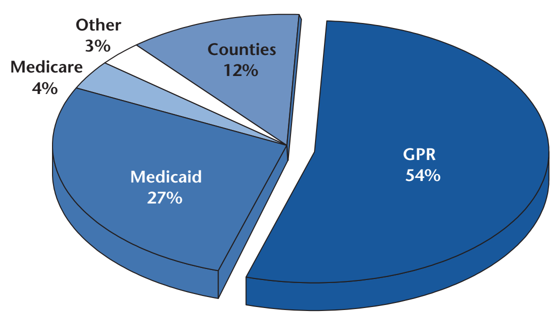
Average daily patient rates as of June 30, 2004, were $649 at Mendota and $575 at Winnebago. These rates, which are intended to cover the full cost of providing patient care services for patients committed through civil proceedings or by voluntary placement, represent an increase of $30 and $27, respectively, over the prior year's rates.

During FY 2003-04, the Department received $100.4 million in support for patient services.

Figure 1 illustrates the Institutes' funding sources for patient care during FY 2003-04. GPR directly appropriated to the Institutes accounted for 54 percent of the $100.4 million received. The Medicaid program, which, as noted, is partially funded by the State, represented the largest source of program revenue.

Figure 1

Patient Care Receipts[1]
FY 2003-04



[1] Represents cash receipts totaling $100.4 million.

The Institutes' average daily populations have decreased since FY 2000-01.

As shown in Table 1, the average daily population of both Mendota and Winnebago steadily increased between FY 1997-98 and FY 2000-01. However, the average daily population for each Institute has steadily decreased since FY 2000-01.

Table 1

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

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Mendota										
Average Daily Population	241	244	268	258	263	269	281	263	261	253
Capacity	295	275	300	300	293	293	299	290	275	275
Percentage Filled	81.7	88.7	89.3	86.0	89.8	91.8	94.0	90.7	94.9	92.0
Winnebago										
Average Daily Population	252	242	249	259	267	274	278	277	272	266
Capacity	330	330	330	330	313	313	299	298	290	290
Percentage Filled	76.4	73.3	75.5	78.5	85.3	87.5	93.0	93.0	93.8	91.7

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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, 2004. These financial statements are the responsibility of the management of Mendota Mental Health Institute and the Wisconsin Department of Health and Family Services. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1A, the financial statements referred to in the first paragraph present only Mendota Mental Health Institute and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2004, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of each of Mendota Mental Health Institute's funds as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements of Mendota Mental Health Institute. The supplementary information included as Management's Discussion and Analysis on pages 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 August 29, 2005, on our consideration of the Department of Health and Family Services' internal control over financial reporting for Mendota Mental Health Institute and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

LEGISLATIVE AUDIT BUREAU

August 29, 2005 by

Diann Allsen
Audit Director

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

Prepared by the Department of Health and Family Services

This section of 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, 2004. This discussion and analysis should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this discussion are the responsibility of the management of Mendota and the Wisconsin Department of Health and Family Services.

Using the Annual Financial Statements

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

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

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

The Statement of 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 less than 1 percent during FY 2003-04. Analysis of Mendota's financial activities focuses on the Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets. Mendota's assets from FY 2002-03 to FY 2003-04 are reviewed in Table A, while its changes in net assets for the same period are reviewed in Table B.

Table A

Net Assets

Fiscal Year Ended June 30:	2004	2003[1]	Percentage Change
Current Assets	$11,669,973	$ 9,038,279	29%
Capital Assets	18,328,251	18,412,623	0
Total Assets	**$29,998,224**	**$27,450,902**	9
Current Liabilities	$ 6,355,035	$ 4,021,348	58
Noncurrent Liabilities	1,385,925	1,262,244	10
Total Liabilities	**7,740,960**	**5,283,592**	47
Net Assets:			
Invested in Capital Assets, Net of Related Debt	17,862,675	17,866,590	0
Restricted	7,637	57,799	-87
Unrestricted	4,386,952	4,242,921	3
Total Net Assets	**22,257,264**	**22,167,310**	0
Total Liabilities and Net Assets	**$29,998,224**	**$27,450,902**	9

[1] The financial statements for the fiscal year ended June 30, 2003 were restated for errors identified in the estimated accounts receivable.

As shown in Table A, current assets increased by 29 percent from FY 2002-03 to FY 2003-04. One reason for the net increase in current assets was a large increase in patient receivables. The increase was due, in part, to an increase in the amounts billed for patient care and a decrease in the amount of cash collected on patient receivables during FY 2003-04 due to billing delays. The billing delays were caused by the increased workload needed to obtain insurance information and prior authorizations.

In addition, an analysis of prior-year collections determined that the estimates used to write off uncollectible patient receivables were too high in prior years. The patient receivable balance was increased on the FY 2003-04 financial statements to account for this change in estimates.

The increase in patient receivables would have been higher except for an increase in the amounts billed for court-ordered patients. Mendota had a higher percentage of court-ordered patients in FY 2003-04 than during FY 2002-03. The amounts billed for the care of these patients are not included in patient receivables because these costs are reimbursed in full by the State of Wisconsin General Fund. Therefore, an increase in the percentage of court-ordered patients at Mendota resulted in a decrease in patient receivables.

Another reason for the increase in current assets was an increase in the amounts recorded as "Due from the State of Wisconsin." The State of Wisconsin reimburses Mendota for expenses incurred to provide services for court-ordered patients. Some of these expenses for payroll and computer support services were incurred in FY 2003-04 but were not identified as reimbursable by the State of Wisconsin until after June 30. Therefore the accrued revenue to reimburse these expenses is recorded as "Due from the State of Wisconsin."

Capital assets, which represent the original cost of an asset less accumulated depreciation, decreased by less than 1 percent from FY 2002-03 to FY 2003-04. Although there is not a significant increase in capital assets, two ongoing construction projects are worth noting. One construction project is an upgrade of the security system at Goodland Hall. The other construction project is a replacement of a fire alarm system. This increase in capital assets from construction activity was offset by the decrease in capital assets due to current-year depreciation expense.

Current liabilities increased by 58 percent from FY 2002-03 to FY 2003-04. A large portion of this increase is due to a $1,866,550 increase in payables due to the State of Wisconsin. A Medicaid cost report settlement for FY 1998-99 was received during FY 2003-04. An analysis of this settlement determined that $1,866,550 of this settlement amount should be paid to the State of Wisconsin. Since this payment was not made until after June 30, the payment was recorded as a payable due to the State of Wisconsin.

Noncurrent liabilities increased by 10 percent from FY 2002-03 to FY 2003-04. Some of this increase was due to an increase in the accrual for noncurrent compensated absences. Compensated absences are accrued expenses for vacations, sabbatical leave, and sick leave.

Net assets on the Balance Sheet are computed by subtracting total liabilities from total assets. Net assets are then further segregated on the Balance Sheet between net assets invested in capital assets net of related debt, net assets restricted by legal requirements from other governments, and unrestricted net assets. Net assets increased from $22,167,310 in FY 2002-03 to $22,257,264 in FY 2003-04. The financial activity that resulted in this increase of $89,954, or less than 1 percent, can be found by looking at the Statement of Revenues, Expenses, and Changes in Net Assets, which is analyzed in Table B.

Table B

Changes in Net Assets

Fiscal Year Ended June 30:	2004	2003[1]	Percentage Change
Operating Revenue	$55,157,115	$52,874,914	4%
Operating Expenses	55,905,962	52,633,337	6
Net Operating Income	**(748,847)**	**241,577**	-410
Nonoperating Income	502,066	440,028	14
Net Transfers In (Out)	336,735	361,517	-7
Change in Net Assets	**$ 89,954**	**$ 1,043,122**	-91

[1] The financial statements for the fiscal year ended June 30, 2003 were restated for errors identified in the estimated accounts receivable.

The change in net assets for FY 2003-04 of $89,954 shows that Mendota generated enough revenue to cover expenses. A comparison of FY 2002-03 to FY 2003-04 shows a small increase in operating revenues and a modest increase in operating expenses, resulting in a major decrease in net operating income. One of the reasons for the modest increase in operating expenses was a large increase in health insurance expenses for employees.

Contacting the Institute's Financial Management

This financial report is designed to provide a general overview of Mendota's financial performance for FY 2003-04. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to:

David R. Corbett, Acting Audit Liaison
Department of Health and Family Services
Room 655, 1 W. Wilson
P.O. Box 7850
Madison, WI 53707-7850

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Financial Statements of Mendota Mental Health Institute ■

Balance Sheet
June 30, 2004

	Patient Care Fund	Power Plant Fund	Patient Deposit Fund	Canteen Fund	Totals (Memorandum Only)
ASSETS					
Current Assets:					
Cash and cash equivalents (Note 2)	$ 1,955,649	$ 0	$ 71,460	$ 40,985	$ 2,068,094
Net accounts receivable (Notes 3 and 4)	5,563,644	260,293	2,318	612	5,826,867
Due from the State of Wisconsin	2,744,272	0	0	0	2,744,272
Settlement due from Medicaid/Medicare (Note 5)	154,300	0	0	0	154,300
Supplies and merchandise inventories	225,087	112,764	0	2,950	340,801
Prepaid items	524,850	10,789	0	0	535,639
Total Current Assets	11,167,802	383,846	73,778	44,547	11,669,973
Noncurrent Assets:					
Capital assets (Note 6):					
Land	301,752	4,380	0	0	306,132
Land improvements	1,490,001	89,628	0	0	1,579,629
Buildings	26,443,477	5,715,505	0	0	32,158,982
Equipment	2,227,238	309,642	0	0	2,536,880
Accumulated depreciation	(15,122,168)	(3,611,739)	0	0	(18,733,907)
Construction in progress	472,666	7,869	0	0	480,535
Total Noncurrent Assets	15,812,966	2,515,285	0	0	18,328,251
TOTAL ASSETS	**$ 26,980,768**	**$ 2,899,131**	**$ 73,778**	**$ 44,547**	**$ 29,998,224**
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable (Note 3)	$ 385,646	$ 0	$ 0	$ 9,066	$ 394,712
Settlement due to Medicaid/Medicare (Note 5)	69,200	0	0	0	69,200
Due to the federal government	32,844	552	0	0	33,396
Due to the State of Wisconsin (Notes 7 and 8)	3,936,677	283,144	0	988	4,220,809
Accrued expenses (Note 3)	761,173	8,496	0	0	769,669
Capital leases (Notes 10 and 11)	41,125	0	0	0	41,125
Compensated absences (Note 10)	724,174	17,134	0	0	741,308
Patient funds held in trust	0	0	73,778	0	73,778
Deferred revenue	0	0	0	11,038	11,038
Total Current Liabilities	5,950,839	309,326	73,778	21,092	6,355,035
Noncurrent Liabilities:					
Capital leases (Notes 10 and 11)	424,451	0	0	0	424,451
Compensated absences (Note 10)	939,251	22,223	0	0	961,474
Total Noncurrent Liabilities	1,363,702	22,223	0	0	1,385,925
Total Liabilities	**7,314,541**	**331,549**	**73,778**	**21,092**	**7,740,960**
Net Assets:					
Invested in capital assets, net of related debt	15,347,390	2,515,285	0	0	17,862,675
Restricted	7,637	0	0	0	7,637
Unrestricted	4,311,200	52,297	0	23,455	4,386,952
Total Net Assets	**19,666,227**	**2,567,582**	**0**	**23,455**	**22,257,264**
TOTAL LIABILITIES AND NET ASSETS	**$ 26,980,768**	**$ 2,899,131**	**$ 73,778**	**$ 44,547**	**$ 29,998,224**

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, 2004

	Patient Care Fund	Power Plant Fund	Canteen Fund	Totals (Memorandum Only)
OPERATING REVENUES				
Net Revenue from Patient Care (Notes 1F and 1K)	$ 20,365,577	$ 0	$ 0	$ 20,365,577
Revenue from the State of Wisconsin	31,324,839	0	0	31,324,839
Utility Sales	0	1,990,878	0	1,990,878
Canteen Revenue	0	0	141,856	141,856
Medicaid/Medicare Settlements (Note 5)	1,333,965	0	0	1,333,965
Total Operating Revenues	**53,024,381**	**1,990,878**	**141,856**	**55,157,115**
OPERATING EXPENSES				
Salaries	31,318,700	663,344	15,279	31,997,323
Fringe Benefits	12,016,621	274,487	0	12,291,108
Materials and Supplies	9,323,012	962,496	135,709	10,421,217
Depreciation	991,277	205,037	0	1,196,314
Total Operating Expenses	**53,649,610**	**2,105,364**	**150,988**	**55,905,962**
OPERATING INCOME (LOSS)	**(625,229)**	**(114,486)**	**(9,132)**	**(748,847)**
NONOPERATING REVENUES AND EXPENSES				
Revenue from the State of Wisconsin	100	0	0	100
Canteen Commissions	0	0	6,158	6,158
Operating Grants	286,478	0	0	286,478
Other Nonoperating Revenues	235,807	0	0	235,807
Materials and Supplies	0	0	(1,433)	(1,433)
Interest Expense	(25,044)	0	0	(25,044)
Total Nonoperating Income (Loss)	**497,341**	**0**	**4,725**	**502,066**
Income (Loss) before Transfers	(127,888)	(114,486)	(4,407)	(246,781)
Transfers In for Capital Projects	881,158	47,518	0	928,676
Transfers Out (Note 8)	(565,513)	(26,428)	0	(591,941)
CHANGE IN NET ASSETS	**187,757**	**(93,396)**	**(4,407)**	**89,954**
NET ASSETS				
Total Net Assets—Beginning of the Year	19,545,836	2,962,193	27,862	22,535,891
Prior-period Adjustment (Note 14)	(67,366)	(301,215)	0	(368,581)
Total Net Assets—End of the Year	**$ 19,666,227**	**$ 2,567,582**	**$ 23,455**	**$ 22,257,264**

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, 2004

	Balance June 30, 2003	Additions	Deductions	Balance June 30, 2004
ASSETS				
Cash and Cash Equivalents	$ 46,675	$ 586,182	$ 561,397	$ 71,460
Net Accounts Receivable	2,124	2,318	2,124	2,318
Total Assets	**$ 48,799**	**$ 588,500**	**$ 563,521**	**$ 73,778**
LIABILITIES				
Patient Funds Held in Trust	$ 48,799	$ 588,500	$ 563,521	$ 73,778
Total Liabilities	**$ 48,799**	**$ 588,500**	**$ 563,521**	**$ 73,778**

The accompanying notes are an integral part of this statement.

Statement of Cash Flows
for the Year Ended June 30, 2004

	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	$52,033,714	$2,008,780	$ 149,767	$54,192,261
Cash Payments to Suppliers for Goods and Services	(8,928,431)	(1,013,322)	(135,114)	(10,076,867)
Cash Payments to Employees for Services	(42,958,019)	(936,724)	(14,125)	(43,908,868)
Other Sources (Uses) of Cash	480,501	0	0	480,501
Net Cash Provided (Used) by Operating Activities	**627,765**	**58,734**	**528**	**687,027**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers Out	(82,142)	(25,818)	0	(107,960)
Loan from the State of Wisconsin	74,572	(18,506)	0	56,066
Net Cash Provided (Used) by Noncapital Financing Activities	**(7,570)**	**(44,324)**	**0**	**(51,894)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest Payments	(25,044)	0	0	(25,044)
Capital Lease Obligations	(80,457)	0	0	(80,457)
Payments for Purchases of Capital Assets	(178,310)	(14,410)	0	(192,720)
Net Cash Provided (Used) by Capital and Related Financing Activities	**(283,811)**	**(14,410)**	**0**	**(298,221)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**336,384**	**0**	**528**	**336,912**
Cash and Cash Equivalents—Beginning of the Year	1,619,265	0	40,457	1,659,722
Cash and Cash Equivalents—End of the Year	$ 1,955,649	$ 0	$ 40,985	$ 1,996,634

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)	$ (625,229)	$ (114,486)	$ (9,132)	$ (748,847)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operations:				
Depreciation	991,277	205,037	0	1,196,314
Miscellaneous nonoperating income (expense)	522,385	0	4,725	527,110
Changes in assets and liabilities:				
Decrease (Increase) in receivables	(2,409,002)	17,901	(50)	(2,391,151)
Decrease (Increase) in Medicaid/Medicare receivables	(154,300)	0	0	(154,300)
Decrease (Increase) in Due from the State of Wisconsin	(874,300)	0	0	(874,300)
Decrease (Increase) in supplies inventories	14,460	(30,493)	108	(15,925)
Decrease (Increase) in prepaid items	(55,997)	(1,090)	0	(57,087)
Increase (Decrease) in accrued expenses	289,435	(17,090)	0	272,345
Increase (Decrease) in Medicaid/Medicare Payable	69,200	0	0	69,200
Increase (Decrease) in accounts payable	(135,806)	100	3,177	(132,529)
Increase (Decrease) in Due to the State of Wisconsin	2,682,075	323	0	2,682,398
Increase (Decrease) in Due to the federal government	20,487	247	0	20,734
Increase (Decrease) in deferred revenue	0	0	1,700	1,700
Increase (Decrease) in compensated absences	293,080	(1,715)	0	291,365
Total Adjustments	1,252,994	173,220	9,660	1,435,874
Net Cash Provided by Operating Activities	$ 627,765	$ 58,734	$ 528	$ 687,027
Noncash Investing, Capital, and Financing Activities:				
Transfers In for Capital Projects from the State of Wisconsin	$ 881,158	$ 47,518	$ 0	$ 928,676

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements of Mendota Mental Health Institute ■

1. SUMMARY OF ACCOUNTING POLICIES

A. Fund Accounting and Basis of Presentation

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

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

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

B. Patient Care Fund

The Patient Care Fund includes general operations of Mendota Mental Health Institute related to providing patient services. Receipt of funds, such as grants and gifts, where outside parties have placed user restrictions on their use are included as restricted net assets. When both restricted and unrestricted net assets are available for use, it is Mendota Mental Health Institute's policy to use restricted net assets first, then unrestricted assets as they are needed.

C. Power Plant Fund

The Power Plant Fund accounts for heat, electricity, water, and sewer services provided to Mendota Mental Health Institute and others. Revenue is derived from charges for these sales and services.

D. Patient Deposit Fund

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

E. Canteen Fund

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

F. Use of Estimates

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

G. Cash and Cash Equivalents

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

H. Supplies Inventory

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

I. Capital Assets

An asset is defined as a capital asset if it has an acquisition cost equal to or greater than $5,000 and a useful life of more than two years. Capital assets are valued at cost. Land improvements, buildings, and equipment are depreciated on a straight-line basis. Estimated useful lives are based on an industry standard determined by the publication *Estimated Useful Lives of Depreciable Hospital Assets*, 1998 edition, issued by the American Hospital Association as follows:

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

J. Invested in Capital Assets

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

K. Net Patient Service Revenue

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

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

Medicaid—Mendota Mental Health Institute is reimbursed at an interim rate with final settlement determined after submission of the annual cost report by Mendota Mental Health Institute and audits thereof by the Wisconsin Department of Health and Family Services.

The interim rate is based on the prior year's rate and is adjusted annually for changes in inflation, where such adjustments are made in accordance with the State's Medicaid plan.

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

L. Employee Compensated Absences

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

2. DEPOSITS

Mendota Mental Health Institute deposited cash of the Patient Care Fund, Patient Deposit Fund, and the Canteen Fund in several financial institutions. The Patient Care Fund includes deposits in a contingent checking account, which is used to meet the immediate operating needs of Mendota Mental Health Institute. The Patient Deposit Fund includes deposits held on behalf of patients, and the Canteen Fund includes cash received from operations. As of June 30, 2004, the carrying value of these deposits was $111,119, and the bank balance was $123,754.

A petty cash fund and miscellaneous cash amounts, which are held by Mendota Mental Health Institute and reported as cash and cash equivalents in the amount of $5,395, are not included in the carrying amount nor bank deposits in this note because they are not deposits.

Most of Mendota Mental Health Institute's cash, except for the deposits and cash discussed in the preceding two paragraphs, is deposited to the State and is invested in the State Investment Fund, which is a short-term pool of state and local funds managed by the State of Wisconsin Investment Board. The State Investment Fund is not registered with the Securities and Exchange Commission as an investment company. Investments of the State Investment Fund consist of direct obligations of the United States and Canada, securities guaranteed by the United States, securities of federally chartered corporations, unsecured notes of financial and industrial issuers, certificates of deposits issued by banks in the United States and solvent financial institutions in the state of Wisconsin, and bankers acceptances. The State of Wisconsin Investment Board's Trustees may approve other prudent investments.

GASB Statement Number 3 requires deposits with financial institutions to be categorized to indicate the level of risk assumed by Mendota Mental Health Institute. At June 30, 2004, all cash deposit balances fall under risk category 1, which means that cash is insured or supported by collateral. As a pooled investment fund, shares in the State Investment Fund are not required to be categorized.

3. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE BALANCES

Significant receivable balances as of June 30, 2004, include the following:

Patient Receivables	$5,331,975
Utility Sales Receivables	258,598
Other Receivables	236,294
Total Accounts Receivable	$5,826,867

The patient receivable balance includes patient charges to Medicare, Medicaid, and private insurance providers. These receivables are net of Medicare and Medicaid contractual adjustments and uncollectible amounts. Approximately 94 percent of the patient receivables is expected to be collected in FY 2004-05. The remaining 6 percent is expected to be collected in FY 2005-06. The utility sales and other receivables should all be collected in FY 2004-05.

Significant accounts payable balances as of June 30, 2004, include the following:

Vendors	$ 393,559
Salaries and Benefits	1,153
Total Accounts Payable	$ 394,712

Significant accrued expense balances as of June 30, 2004, include the following:

Vendors	$ 309,320
Salaries and Benefits	460,349
Total Accrued Expenses	$ 769,669

4. CONCENTRATION OF CREDIT RISK

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

5. THIRD-PARTY CONTRACTUAL SETTLEMENTS

United Government Services conducted an audit of the FY 2000-01 Medicare cost report and concluded that the Medicare program owed Mendota Mental Health Institute $433,876 as a final settlement for services provided during FY 2000-01. The final settlement was reflected as operating revenue and a receivable in the FY 2002-03 financial statements. Mendota Mental Health Institute submitted an appeal of the final settlement of the audit, and it was reopened. As a result of this appeal, United Government Services concluded that the Medicare program owed Mendota Mental Health Institute an additional $148,659. This additional final settlement is reflected as an operating revenue on the FY 2003-04 financial statements.

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

Mendota Mental Health Institute has submitted a Medicaid cost report to the Department of Health and Family Services for FY 1998-99, FY 1999-2000, and FY 2000-01. The Department of Health and Family Services has completed an audit of the FY 1998-99 report and concluded that the Medicaid program owed Mendota $813,706. This settlement is reflected as an operating revenue and a receivable on the FY 2003-04 financial statements.

During FY 2003-04, Mendota Mental Health Institute received notification from United Government Services of two lump-sum rate adjustments due the Institute totaling $217,300. These lump-sum rate adjustments are reflected as an operating revenue and a receivable on the FY 2003-04 financial statements.

The status of cost reports outstanding is as follows:

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

6. CAPITAL ASSETS

The change in book value from July 1, 2003, to June 30, 2004, is summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Land	$ 306,132	$ 0	$ 0	$ 306,132
Land Improvements	1,565,219	14,410	0	1,579,629
Buildings	30,829,517	1,336,014	(6,550)	32,158,982
Equipment	2,486,417	55,767	(5,304)	2,536,880
Construction in Progress	774,784	928,676	(1,222,924)	480,535
Total Capital Assets	35,962,069	2,334,867	(1,234,778)	37,062,158
Less Accumulated Depreciation for:				
Land Improvements	(1,092,997)	(80,065)	0	(1,173,062)
Buildings	(15,193,367)	(919,074)	6,550	(16,105,891)
Equipment	(1,263,082)	(197,176)	5,304	(1,454,954)
Total Accumulated Depreciation	(17,549,446)	(1,196,315	11,854	(18,733,907)
Total Capital Assets, Net	$18,412,623	$1,138,552	$(1,222,924)	$18,328,251

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 $343,959 as of June 30, 2004, to cover cash overdrafts in its appropriations.

8. REIMBURSEMENTS TO OTHER FUNDS

A. General Obligation Bonds

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

Mendota Mental Health Institute has received proceeds from 37 outstanding bond issuances. The bonds have maturity dates ranging from April 15, 2006, to April 15, 2024. The principal balance outstanding as of June 30, 2004, attributable to Mendota Mental Health

Institute is $18,305,824. 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, 2004, are allocated as follows:

Principal	$ 403,137
Interest	865,453
Total Paid	$1,268,590

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 $219,450 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 $1,267,627 and funded by GPR to Mendota Mental Health Institute during FY 2003-04. 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 2003-04, Mendota Mental Health Institute owed Medicaid payments related to overhead expense of $156,263 and depreciation of $108,634 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 for prior-year services and for current-year services above the costs of providing those services are accounted for as GPR of the General Fund, and not as revenue of Mendota Mental Health Institute.

The statements reflect expected reimbursements as a receivable and as a payable to the State of Wisconsin. For the year ending June 30, 2004, both the receivable from Medicaid, Medicare, and private insurers, less related contractual adjustments, and the related payable to the State of Wisconsin were $376,589.

In addition, Mendota Mental Health Institute collected $1,184,432 in FY 2003-04 for prior- and current-year services. The Institute has paid $333,342 of this amount to the State of Wisconsin. The remaining $851,090 is reflected on the statements as a payable due to the State of Wisconsin.

D. FY 1998-99 Medicaid Settlement Due to State of Wisconsin

A Medicaid cost report settlement for FY 1998-99 was received during FY 2003-04. An analysis of this settlement determined that $1,866,550 should be paid to the State of Wisconsin General Fund. Since this payment was not made until after June 30, the payment was recorded as a payable due to the State of Wisconsin.

9. INVESTMENT AS A LESSOR

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

The leased facilities are in buildings with the following costs:

Buildings at Historical Cost	$453,897
Less: Accumulated Depreciation	(315,550)
Buildings, Net	$138,347

Minimum future lease payments to be received during the year ended June 30, 2005, total $122,461.

10. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due within One Year
Capital Leases	$ 546,033	$ 0	$ (80,457)	$ 465,576	$ 41,125
Compensated Absences	1,411,418	906,115	(614,751)	1,702,782	741,308
Long-term Liabilities	$1,957,451	$906,115	$(695,208)	$2,168,358	$782,433

11. Obligations Under Capital Leases

During FY 2003-04, Mendota Mental Health Institute leased a hematology analyzer and participated in statewide master lease agreements to acquire energy-saving improvements. The term of the lease for the hematology analyzer is 60 months. The terms of the leases for the energy-saving improvements are 6 years. As of June 30, 2004, the value of the equipment and improvements under lease was $563,099. The accumulated depreciation totaled $133,152, resulting in a net book value of $429,947.

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, 2004:

For the Year Ending:	
June 30, 2005	$ 59,502
June 30, 2006	59,502
June 30, 2007	53,337
June 30, 2008	348,694
June 30, 2009	0
Total Minimum Lease Payments	521,035
Less: Amounts Representing Interest	55,459
Present Value of Minimum Lease Payments	465,576
Less: Current Maturities	41,125
Long-term Portion of Present Value of Minimum Lease Payments	$424,451

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, 2004, are as follows for the year ended:

June 30, 2005	$ 95,154
June 30, 2006	87,596
June 30, 2007	26,138
June 30, 2008	0
June 30, 2009	0
Thereafter	0
Total Minimum Payments Required	$208,888

The composition of the total rental expense for the year ended June 30, 2004, is as follows:

Minimum Rentals	$ 93,473
Contingent Rentals	0
Less: Sublease Rentals	0
Rental Expense	$ 93,473

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. The liquidation of the State's prior service liability resulted in credits being granted to state agencies for amounts already paid in 2003. In addition, state agencies are required to make future contributions to fund the bond payments. Mendota Mental Health Institute's contribution to fund bond payments was $294,886 for FY 2003-04.

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 $4,229,659 for FY 2003-04. The relative position of Mendota Mental Health Institute in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multiple-employer plan.

14. PRIOR-PERIOD ADJUSTMENTS

Beginning net assets were increased by $301,215 in the Patient Care Fund, and decreased by $301,215 in the Power Plant Fund. A construction project to add an absorption chiller was completed in FY 2002-03, and the chiller was capitalized at $602,430 on the Power Plant Fund capital inventory. It has since been determined that 50 percent of this item should have been capitalized on the Patient Care Fund capital inventory.

The beginning net assets balance of the Patient Care Fund was decreased by $368,581 for correction of an error in estimating the patient accounts receivable. An analysis of the current year's accounts receivable balance revealed that accounts receivable and patient revenue balances were overstated in the prior year.

■ ■ ■ ■

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, 2004. These financial statements are the responsibility of the management of Winnebago Mental Health Institute and the Wisconsin Department of Health and Family Services. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1A, the financial statements referred to in the first paragraph present only the Winnebago Mental Health Institute and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2004, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of each of the Winnebago Mental Health Institute's funds as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, Winnebago Mental Health Institute implemented a new methodology to account for services shared with Wisconsin Resource Center for fiscal year 2003-04.

Our audit was conducted for the purpose of forming opinions on the financial statements of the Winnebago Mental Health Institute. The supplementary information included as Management's Discussion and Analysis on pages 37 through 41 is presented for purposes of additional analysis and is not a required part of the financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 29, 2005, on our consideration of the Department of Health and Family Services' internal control over financial reporting for Winnebago Mental Health Institute and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

LEGISLATIVE AUDIT BUREAU

August 29, 2005 by Diann Allsen

Diann Allsen
Audit Director

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

Prepared by the Department of Health and Family Services

This section of Winnebago Mental Health Institute's annual financial report presents a discussion and analysis of the Institute's financial performance during the fiscal year ended June 30, 2004. This discussion and analysis should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this discussion are the responsibility of the management of Winnebago and the Wisconsin Department of Health and Family Services.

Using the Annual Financial Statements

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

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

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

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

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

Noteworthy Financial Activity

Winnebago's total net assets increased by less than 1 percent during FY 2003-04. Analysis of Winnebago's financial activities focuses on the Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets. Winnebago's net assets from FY 2002-03 to FY 2003-04 are reviewed in Table A, while its changes in net assets for the same period are reviewed in Table B.

Table A

Net Assets

Fiscal Year Ended June 30:	2004	2003[1]	Percentage Change
Current Assets	$ 9,881,929	$ 7,547,019	31%
Capital Assets	14,395,310	14,364,169	0
Total Assets	**$24,277,239**	**$21,911,188**	11
Current Liabilities	$ 8,302,063	$ 5,997,300	38
Noncurrent Liabilities	1,224,080	1,216,900	1
Total Liabilities	**9,526,143**	**7,214,200**	32
Net Assets:			
Invested in Capital Assets, Net of Related Debt	13,908,178	13,843,872	0
Restricted	54,096	50,995	6
Unrestricted	788,822	802,121	-2
Total Net Assets	**14,751,096**	**14,696,988**	0
Total Liabilities and Net Assets	**$24,277,239**	**$21,911,188**	11

[1] The financial statements for the fiscal year ended June 30, 2003 were restated for errors identified in the estimated accounts receivable.

As shown in Table A, current assets increased by 31 percent from FY 2002-03 to FY 2003-04. One reason for the increase in current assets was a large increase in patient receivables. The increase was due, in part, to an increase in the amount billed for patient care and a decrease in the amount of cash collected on patient receivables during FY 2003-04 due to billing delays. The billing delays were caused by the increased workload needed to obtain insurance information and prior authorizations.

In addition, an analysis of FY 2002-03 Medicaid collections determined that the estimate used to write off uncollectible Medicaid charges was too high in FY 2002-03. The patient receivable balance was increased on the FY 2003-04 financial statements to account for this change in estimate.

Another reason for the increase in current assets was an increase in the amounts recorded as "Due from the State of Wisconsin." The State of Wisconsin reimburses Winnebago for expenses incurred to provide services for court-ordered patients. Some of these expenses for payroll and computer support services were incurred in FY 2003-04 but were not identified as reimbursable by the State of Wisconsin until after June 30. Therefore the accrued revenue to reimburse these expenses is recorded as "Due from the State of Wisconsin."

Capital assets, which represent the original cost of an asset less accumulated depreciation, increased by less than 1 percent from FY 2002-03 to FY 2003-04. Although there is not a significant increase in capital assets, three ongoing construction projects are worth noting. Two construction projects are for remodeling expenses at Gordon Hall and other buildings. The other construction project is a replacement of a fire alarm system. This increase in capital assets from construction activity was offset by the decrease in capital assets due to current-year depreciation expense.

Current liabilities increased by 38 percent from FY 2002-03 to FY 2003-04. Most of this increase is due to a $2,325,379 increase in payables due to the State of Wisconsin. A Medicaid cost report settlement for FY 1998-99 was received during FY 2003-04. An analysis of this settlement determined that $2,325,379 of this settlement amount should be paid to the State of Wisconsin. Since this payment was not made until after June 30, the payment was recorded as a payable due to the State of Wisconsin.

Noncurrent liabilities increased by 1 percent from FY 2002-03 to FY 2003-04. Some of this increase was due to an increase in the accrual for noncurrent compensated absences. Compensated absences are accrued expenses for vacations, sabbatical leave, and sick leave.

Net assets on the Balance Sheet are computed by subtracting total liabilities from total assets. Net assets are then further segregated on the Balance Sheet between net assets invested in capital assets net of related debt, net assets restricted by legal requirements from other governments or private donors, and unrestricted net assets. Net assets increased from $14,696,988 in FY 2002-03 to $14,751,096 in

FY 2003-04. The financial activity that resulted in this increase of $54,108, or less than 1 percent, can be found by looking at the Statement of Revenues, Expenses, and Changes in Net Assets, which is analyzed in Table B.

Table B

Changes in Net Assets

Fiscal Year Ended June 30:	2004	2003[1]	Percentage Change
Operating Revenue	$48,476,755	$45,346,762	7%
Operating Expenses	48,592,722	48,479,064	0
Net Operating Income (Loss)	**(115,967)**	**(3,132,302)**	96
Nonoperating Income	409,166	2,211,237	-81
Net Transfers In (Out)	(239,091)	(886,544)	-73
Change in Net Assets	**$ 54,108**	**$ (1,807,609)**	103

[1] The financial statements for the fiscal year ended June 30, 2003 were restated for errors identified in the estimated accounts receivable.

The change in net assets for FY 2003-04 of $54,108 shows that Winnebago generated enough revenue to cover expenses. A comparison of FY 2003-04 to FY 2002-03 shows a small increase in operating expenses and a modest increase in operating income, resulting in a major increase in net operating income. The main reason for the increase in operating income was due to an increase in patient revenues that was the result of a change in estimate of the prior-year's patient receivable.

Operating expenses increased, in part, due to a large increase in employee health insurance expenses, but this increase was offset by a decrease in operating expenses due to a change in the accounting treatment of shared services. Winnebago provides some shared services to Wisconsin Resource Center. During FY 2002-03, these expenses were recorded on Winnebago's books and then billed to Wisconsin Resource Center. Winnebago then recorded the payment from Wisconsin Resource Center as a nonoperating revenue.

In FY 2003-04, a decision was made to directly charge these expenses to Wisconsin Resource Center. These shared expenses and the corresponding nonoperating revenue were not included on the FY 2003-04 statements. Therefore the small increase in operating expenses is the net of a 4 percent increase in Winnebago operating expenses and a 3 percent decrease for the removal of shared services expenses from the statements. The 81 percent decrease in nonoperating revenue is the net of a 5 percent decrease in Winnebago nonoperating revenues and a 76 percent decrease for the removal of shared service revenue from the statements.

Another significant change from FY 2002-03 to FY 2003-04 in the Statement of Revenues, Expenses, and Change in Net Assets was a 73 percent change in net transfers in (out). Most of this change was the result of an increase in transfers in from the State of Wisconsin. These transfers reimburse Winnebago for the expenditures on four capital construction projects.

Contacting the Institute's Financial Management

This financial report is designed to provide a general overview of Winnebago's financial performance for FY 2003-04. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to:

David R. Corbett, Acting Audit Liaison
Department of Health and Family Services
Room 655, 1 W. Wilson
P.O. Box 7850
Madison, WI 53707-7850

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Financial Statements of Winnebago Mental Health Institute ■

Balance Sheet
June 30, 2004

	Patient Care Fund	Power Plant Fund	Patient Deposit Fund	Canteen Fund	Totals (Memorandum Only)
ASSETS					
Current Assets:					
Cash and cash equivalents (Note 2)	$ 38,806	$ 0	$ 10,227	$ 10,425	$ 59,458
Investments (Note 2)	0	0	68,969	6,197	75,166
Net accounts receivable (Notes 3 and 4)	7,016,366	272,208	1,440	1,660	7,291,674
Due from the State of Wisconsin	1,402,186	0	0	0	1,402,186
Supplies and merchandise inventories	430,006	19,277	0	21,940	471,223
Prepaid items	570,684	9,537	0	2,001	582,222
Total Current Assets	9,458,048	301,022	80,636	42,223	9,881,929
Noncurrent Assets:					
Capital assets (Note 6):					
Land	230,340	800	0	0	231,140
Land improvements	577,314	0	0	0	577,314
Buildings	21,081,577	3,074,764	0	0	24,156,341
Equipment	1,262,386	6,098	0	0	1,268,484
Accumulated depreciation	(10,807,091)	(1,679,799)	0	0	(12,486,890)
Construction in progress	648,921	0	0	0	648,921
Total Noncurrent Assets	12,993,447	1,401,863	0	0	14,395,310
TOTAL ASSETS	**$ 22,451,495**	**$ 1,702,885**	**$ 80,636**	**$ 42,223**	**$ 24,277,239**
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable (Note 3)	$ 624,238	$ 0	$ 0	$ 61,532	$ 685,770
Settlement due to Medicaid/Medicare (Note 5)	38,800	0	0	0	38,800
Due to the federal government	29,810	449	0	0	30,259
Due to the State of Wisconsin (Notes 7 and 8)	6,030,193	175,133	0	2,330	6,207,656
Accrued expenses (Note 3)	580,869	41,497	0	0	622,366
Capital leases (Notes 10 and 11)	30,387	3,739	0	0	34,126
Compensated absences (Note 10)	590,509	10,760	0	917	602,186
Patient funds held in trust	0	0	80,636	0	80,636
Deferred revenue	0	0	0	264	264
Total Current Liabilities	7,924,806	231,578	80,636	65,043	8,302,063
Noncurrent Liabilities:					
Capital leases (Notes 10 and 11)	403,376	49,630	0	0	453,006
Compensated absences (Note 10)	757,276	13,798	0	0	771,074
Total Noncurrent Liabilities	1,160,652	63,428	0	0	1,224,080
Total Liabilities	**9,085,458**	**295,006**	**80,636**	**65,043**	**9,526,143**
Net Assets:					
Invested in capital assets, net of related debt	12,559,684	1,348,494	0	0	13,908,178
Restricted	54,096	0	0	0	54,096
Unrestricted	752,257	59,385	0	(22,820)	788,822
Total Net Assets	**13,366,037**	**1,407,879**	**0**	**(22,820)**	**14,751,096**
TOTAL LIABILITIES AND NET ASSETS	**$ 22,451,495**	**$ 1,702,885**	**$ 80,636**	**$ 42,223**	**$ 24,277,239**

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, 2004

	Patient Care Fund	Power Plant Fund	Canteen Fund	Totals (Memorandum Only)
OPERATING REVENUES				
Net Revenue from Patient Care (Notes 1F and 1K)	$ 26,065,938	$ 0	$ 0	$ 26,065,938
Revenue from the State of Wisconsin	20,359,038	0	0	20,359,038
Utility Sales	0	1,564,146	0	1,564,146
Canteen Revenues	0	0	215,533	215,533
Medicaid/Medicare Settlements (Note 5)	272,100	0	0	272,100
Total Operating Revenues	**46,697,076**	**1,564,146**	**215,533**	**48,476,755**
OPERATING EXPENSES				
Salaries	26,728,176	495,239	74,785	27,298,200
Fringe Benefits	11,338,258	204,225	0	11,542,483
Materials and Supplies	7,970,222	751,679	141,808	8,863,709
Depreciation	724,728	163,602	0	888,330
Total Operating Expenses	**46,761,384**	**1,614,745**	**216,593**	**48,592,722**
OPERATING INCOME (LOSS)	**(64,308)**	**(50,599)**	**(1,060)**	**(115,967)**
NONOPERATING REVENUES AND EXPENSES				
Revenue from the State of Wisconsin	110,983	0	0	110,983
Gain (Loss) on Sale of Fixed Assets	(2,868)	0	0	(2,868)
Canteen Commissions	0	0	6,212	6,212
Operating Grants	167,710	0	0	167,710
Other Nonoperating Revenues	145,391	0	610	146,001
Materials and Supplies	0	0	(288)	(288)
Interest Expense	(16,548)	(2,036)	0	(18,584)
Total Nonoperating Income (Loss)	**404,668**	**(2,036)**	**6,534**	**409,166**
Income (Loss) before Transfers	340,360	(52,635)	5,474	293,199
Transfers In for Capital Projects	818,442	5,405	0	823,847
Transfers Out (Note 8)	(1,047,134)	(15,804)	0	(1,062,938)
CHANGE IN NET ASSETS	**111,668**	**(63,034)**	**5,474**	**54,108**
NET ASSETS				
Total Net Assets—Beginning of the Year	13,289,398	1,470,913	(28,294)	14,732,017
Prior-period Adjustment (Note 15)	(35,029)	0	0	(35,029)
Total Net Assets—End of the Year	**$ 13,366,037**	**$ 1,407,879**	**$ (22,820)**	**$ 14,751,096**

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, 2004

	Balance June 30, 2003	Additions	Deductions	Balance June 30, 2004
ASSETS				
Cash and Cash Equivalents	$ 15,837	$ 1,190,675	$ 1,196,285	$ 10,227
Investments	53,726	77,361	62,118	68,969
Net Accounts Receivable	2,764	39,220	40,544	1,440
Total Assets	**$ 72,327**	**$ 1,307,256**	**$ 1,298,947**	**$ 80,636**
LIABILITIES				
Patient Funds Held in Trust	$ 72,327	$ 311,518	$ 303,209	$ 80,636
Total Liabilities	**$ 72,327**	**$ 311,518**	**$ 303,209**	**$ 80,636**

The accompanying notes are an integral part of this statement.

Statement of Cash Flows
for the Year Ended June 30, 2004

	Patient Care Fund	Power Plant Fund	Canteen Fund	Totals (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Receipts for Patient Care, Power Plant, and Canteen Operations	$45,580,302	$ 1,571,001	$ 231,216	$47,382,519
Cash Payments to Suppliers for Goods and Services	(7,449,119)	(700,209)	(148,346)	(8,297,674)
Cash Payments to Employees for Services	(37,889,620)	(697,958)	(84,889)	(38,672,467)
Other Sources (Uses) of Cash	532,490	0	0	532,490
Net Cash Provided (Used) by Operating Activities	**774,053**	**172,834**	**(2,019)**	**944,868**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers Out	(78,350)	(15,737)	0	(94,087)
Loan from the State of Wisconsin	(512,503)	(151,427)	0	(663,930)
Net Cash Provided (Used) by Noncapital Financing Activities	**(590,853)**	**(167,164)**	**0**	**(758,017)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest Payments	(16,548)	(2,036)	0	(18,584)
Capital Lease Obligations	(29,532)	(3,634)	0	(33,166)
Payments for Purchases of Capital Assets	(130,165)	0	0	(130,165)
Net Cash Provided (Used) by Capital and Related Financing Activities	**(176,245)**	**(5,670)**	**0**	**(181,915)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sale of Investment Securities	0	0	3,511	3,511
Investment and Interest Receipts	0	0	125	125
Net Cash Provided (Used) by Investing Activities	**0**	**0**	**3,636**	**3,636**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**6,955**	**0**	**1,617**	**8,572**
Cash and Cash Equivalents—Beginning of the Year	31,851	0	8,808	40,659
Cash and Cash Equivalents—End of the Year	$ 38,806	$ 0	$ 10,425	$ 49,231

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)	$ (64,308)	$ (50,599)	$ (1,060)	$ (115,967)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operations:				
Depreciation	724,728	163,602	0	888,330
Miscellaneous nonoperating income (expense)	424,085	0	6,459	430,544
Changes in assets and liabilities:				
Decrease (Increase) in receivables	(3,238,943)	30,558	8	(3,208,377)
Decrease (Increase) in Due from the State of Wisconsin	(602,122)	0	0	(602,122)
Decrease (Increase) in supplies inventories	56,552	2,210	2,668	61,430
Decrease (Increase) in prepaid items	(31,837)	(1,725)	(236)	(33,798)
Increase (Decrease) in accrued expenses	219,346	28,221	0	247,567
Increase (Decrease) in Medicaid/Medicare payable	38,800	0	0	38,800
Increase (Decrease) in accounts payable	45,093	0	(10,106)	34,987
Increase (Decrease) in Due to the State of Wisconsin	3,138,630	215	44	3,138,889
Increase (Decrease) in Due to the federal government	19,067	203	0	19,270
Increase (Decrease) in deferred revenue	0	0	8	8
Increase (Decrease) in compensated absences	44,962	149	196	45,307
Total Adjustments	838,361	223,433	(959)	1,060,835
Net Cash Provided by Operating Activities	**$ 774,053**	**$ 172,834**	**$ (2,019)**	**$ 944,868**
Noncash Investing, Capital, and Financing Activities:				
Transfers In for Capital Projects from the State of Wisconsin	$ 818,442	$ 5,405	$ 0	$ 823,847

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements of Winnebago Mental Health Institute ■

1. Summary of Accounting Policies

A. Fund Accounting and Basis of Presentation

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

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

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

B. Patient Care Fund

The Patient Care Fund includes general operations of Winnebago Mental Health Institute related to providing patient services. Receipt of funds, such as grants and gifts, where outside parties have placed user restrictions on their use are included as restricted net assets. When both restricted and unrestricted net assets are available for use, it is Winnebago Mental Health Institute's policy to use restricted net assets first, then unrestricted assets as they are needed.

C. Power Plant Fund

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

D. Patient Deposit Fund

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

E. Canteen Fund

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

F. Use of Estimates

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

G. Cash and Cash Equivalents

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

H. Supplies Inventory

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

I. Capital Assets

An asset is defined as a capital asset if it has an acquisition cost equal to or greater than $5,000 and a useful life of more than two years. Capital assets are valued at cost. Land improvements, buildings, and equipment are depreciated on a straight-line basis. Estimated useful lives are based on an industry standard determined by the publication *Estimated Useful Lives of Depreciable Hospital Assets*, 1998 edition, issued by the American Hospital Association as follows:

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

J. Invested in Capital Assets

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

K. Net Patient Service Revenue

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

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

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

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

L. Employee Compensated Absences

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

2. DEPOSITS AND INVESTMENTS

Winnebago Mental Health Institute's cash and cash equivalents and investments include deposits of the contingent fund, Patient Care Fund, Patient Deposit Fund, and Canteen Fund in checking accounts and non-negotiable certificates of deposit that are held in several financial institutions. The contingent fund is used to meet the immediate operating needs of the Institute. The Patient Deposit Fund includes deposits held on behalf of patients, and the Canteen Fund includes cash received from operations. As of June 30, 2004, the carrying value of these deposits was $101,453, and the bank balance was $140,308.

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 $5,869, are not included in carrying amounts nor bank deposits in this note 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 to the State and is invested in the State Investment Fund, which is a short-term pool of state and local funds managed by the State of Wisconsin Investment Board. The State Investment Fund is not registered with the Securities and Exchange Commission as an investment company. Investments of the State Investment Fund consist of direct obligations of the United States and Canada, securities guaranteed by the United States, securities of federally chartered corporations, unsecured notes of financial and industrial issuers, certificates of deposits issued by banks in the United States and solvent financial institutions in the state of Wisconsin, and bankers acceptances. The State of Wisconsin Investment Board's Trustees may approve other prudent investments.

GASB Statement Number 3 requires deposits with financial institutions to be categorized to indicate the level of risk assumed by Winnebago Mental Health Institute. At June 30, 2004, all cash and investment balances fall under risk category 1, which means that balances are insured or supported by collateral.

3. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE BALANCES

Significant receivable balances as of June 30, 2004, include the following:

Patient Receivables	$6,975,458
Utility Sales Receivables	224,109
Other Receivables	92,107
Total Accounts Receivable	$7,291,674

The patient receivable balance includes patient charges to Medicare, Medicaid, and private insurance providers. These receivables are net of Medicare and Medicaid contractual adjustments and uncollectible amounts. Approximately 94 percent of the patient receivables is expected to be collected in FY 2004-05. The remaining 6 percent is expected to be collected in FY 2005-06. The utility sales and other receivables should all be collected in FY 2004-05.

Significant accounts payable balances as of June 30, 2004, include the following:

Vendors	$ 617,814
Salaries and Benefits	67,956
Total Accounts Payable	$ 685,770

Significant accrued expense balances as of June 30, 2004, include the following:

Vendors	$ 202,734
Salaries and Benefits	419,632
Total Accrued Expenses	$ 622,366

4. CONCENTRATION OF CREDIT RISK

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

5. THIRD-PARTY CONTRACTUAL SETTLEMENTS

United Government Services conducted an audit of the FY 1999-2000 Medicare cost report and concluded that Winnebago Mental Health Institute owed $233,013 to Medicare as a final settlement for services provided during FY 1999-2000. The final settlement was reflected as an operating expense and a payable on the FY 2001-02 financial statements. Winnebago Mental Health Institute submitted an appeal of the final settlement of the audit, and it was reopened. As a result of this appeal, United Government Services concluded that the Medicare program owed Winnebago Mental Health Institute an additional $274,927. This additional final settlement was reflected as operating revenue and a receivable on the FY 2002-03 financial statements.

United Government Services conducted an audit of the FY 2000-01 Medicare cost report and concluded that the Medicare program owed Winnebago Mental Health Institute $51,224 as a final settlement for services provided during FY 2000-01. The final settlement was reflected as operating revenue and a receivable on the FY 2002-03 financial statements. Winnebago Mental Health Institute has submitted an appeal of the final settlement of the audit.

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

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

During FY 2003-04, Winnebago Mental Health Institute received notification from United Government Services of two lump-sum rate adjustments due the Institute totaling $272,100. These lump-sum rate adjustments are reflected as an operating revenue and a receivable on the FY 2003-04 financial statements.

Also during FY 2003-04, Winnebago Mental Health Institute received notification from United Government Services of a lump-sum rate adjustment due to United Government Services totaling $38,800. This lump-sum rate adjustment is reflected as an operating expense and a payable on the FY 2003-04 financial statements.

The status of cost reports outstanding is as follows:

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

6. CAPITAL ASSETS

The change in book value from July 1, 2003, to June 30, 2004, is summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Land	$ 231,140	$ 0	$ 0	$ 231,140
Land Improvements	577,314	0	0	577,314
Buildings	23,924,428	255,763	(23,850)	24,156,341
Equipment	1,224,344	57,179	(13,039)	1,268,484
Construction in Progress	39,525	823,847	(214,451)	648,921
Total Capital Assets	25,996,751	1,136,789	(251,340)	26,882,200
Less Accumulated Depreciation for:				
Land Improvements	(361,783)	(30,905)	0	(392,688)
Buildings	(10,341,846)	(765,598)	23,850	(11,083,594)
Equipment	(928,953)	(91,826)	10,171	(1,010,608)
Total Accumulated Depreciation	(11,632,582)	(888,329)	34,021	(12,486,890)
Total Capital Assets, Net	$ 14,364,169	$ 248,460	$(217,319)	$14,395,310

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

7. LOAN FROM STATE OF WISCONSIN

The State of Wisconsin General Fund provided Winnebago Mental Health Institute a loan of $1,687,406 as of June 30, 2004, to cover cash overdrafts in its appropriations.

8. REIMBURSEMENTS TO OTHER FUNDS

A. General Obligation Bonds

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

Winnebago Mental Health Institute has received proceeds from 33 outstanding bond issuances. The bonds have maturity dates ranging from April 15, 2006, to April 15, 2024. The principal balance outstanding as of June 30, 2004, attributable to Winnebago Mental Health Institute is $12,529,891. 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, 2004, are allocated as follows:

Principal	$242,428
Interest	609,130
Total Paid	$851,558

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 $281,626 to the General Fund as reimbursement of interest expense, which is included in the financial statements as a transfer out.

B. Overhead and Depreciation

The State of Wisconsin provided administrative services valued at $1,087,188 and funded by GPR to Winnebago Mental Health Institute during FY 2003-04. 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 2003-04, Winnebago Mental Health Institute owed Medicaid payments related to overhead expense of $422,889 and depreciation of $263,508 to the State of Wisconsin General Fund as reimbursements for administrative services provided and for assets originally purchased by the State. The amount remitted is included in the financial statements as a transfer out.

C. Insurance Reimbursements for Forensic Patients

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

The statements reflect expected reimbursements as a receivable and as a payable to the State of Wisconsin. For the year ending June 30, 2004, both the receivable from Medicaid, Medicare, and private insurers, less related contractual adjustments, and the related payable to the State of Wisconsin, were $345,224.

In addition, Winnebago Mental Health Institute collected $863,245 in FY 2003-04 for prior- and current-year services. The Institute has paid $359,336 of this amount to the State of Wisconsin. The remaining $503,909 is reflected on the statements as a payable due to the State of Wisconsin.

D. FY 1998-99 Medicaid Settlement Due to State of Wisconsin

A Medicaid cost report settlement for FY 1998-99 was received during FY 2003-04. An analysis of this settlement determined that $2,325,379 should be paid to the State of Wisconsin General Fund. Since this payment was not made until after June 30, the payment was recorded as a payable due to the State of Wisconsin.

9. INVESTMENT AS A LESSOR

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

The portion of the building being leased has an original cost of $21,855 and has been fully depreciated. Minimum future lease payments to be received during the year ended June 30, 2005, total $1,500.

10. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2003 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due within One Year
Capital Leases	$ 520,297	$ 0	$ (33,165)	$ 487,132	$ 34,126
Compensated Absences	1,327,952	643,492	(598,184)	1,373,260	602,186
Long-term Liabilities	$1,848,249	$643,492	$(631,349)	$1,860,392	$ 636,312

11. OBLIGATION UNDER CAPITAL LEASES

During FY 2003-04, Winnebago Mental Health Institute participated in statewide master lease agreements for energy-saving improvements. The terms of the leases are six years. The value of the improvements under lease as of June 30, 2004, was $583,955. The accumulated depreciation totaled $113,555, resulting in a net book value of $470,400.

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, 2004:

For the Year Ending:	
June 30, 2005	$ 51,750
June 30, 2006	51,750
June 30, 2007	51,749
June 30, 2008	388,489
June 30, 2009	0
Total Minimum Lease Payments	543,738
Less: Amounts Representing Interest	56,606
Present Value of Minimum Lease Payments	487,132
Less: Current Maturities	34,126
Long-term Portion of Present Value of Minimum Lease Payments	$453,006

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, 2004, are as follows for the year ended:

June 30, 2005	$14,832
June 30, 2006	3,504
June 30, 2007	3,504
June 30, 2008	3,504
June 30, 2009	2,920
Total Minimum Payments Required	$28,264

The composition of the total rental expense for the fiscal year ended June 30, 2004, is as follows:

Minimum Rentals	$27,627
Contingent Rentals	0
Less: Sublease Rentals	0
Rental Expense	$27,627

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. The liquidation of the State's prior service liability resulted in credits being granted to state agencies for amounts already paid in 2003. In addition, state agencies are required to make future contributions to fund the bond payments. Winnebago Mental Health Institute's contribution to fund bond payments was $246,401 for FY 2003-04.

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 $3,547,221 for FY 2003-04. 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. Change in Accounting Methodology for Shared Services

Winnebago Mental Health Institute is located next to Wisconsin Resource Center, which is a specialized, secure mental health facility. Winnebago Mental Health Institute provides some shared services to Wisconsin Resource Center, such as accounting and grounds maintenance. In prior years, these expenses were recorded as expenses on Winnebago's fiscal system and then billed to Wisconsin Resource Center. The payment from Wisconsin Resource Center for these shared services was then recorded on Winnebago's fiscal system as nonoperating revenue.

In FY 2003-04, the Department decided these services should be charged directly to Wisconsin Resource Center. Therefore, the FY 2003-04 and future financial statements will not include amounts for shared services expenses, which had consisted primarily of salary and fringe benefit expenses, and the corresponding nonoperating revenue, which had been reported as nonperating revenue from the State of Wisconsin.

15. Prior-Period Adjustment

The beginning net assets balance of the Patient Care Fund was decreased by $35,029 for a correction of an error in estimating the patient accounts receivable. An analysis of the current year's accounts receivable balance revealed that accounts receivable and patient revenue balances were overstated in the prior year.

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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, 2004, and have issued our reports thereon dated August 29, 2005. 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 audit, we considered the Institutes' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter pertaining to reports and related procedures used to estimate patient revenues and receivable balances that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Reports generated from the Department's institutional billing and collections system show the current primary funding sources for individual patients. However, the reports do not report changes in funding sources that may occur over time for patients. As a result, the Department is unable to readily identify and make adjustments for funding source changes that affect the financial statements. Based on a detailed analysis of funding source changes, we recommended adjustments to reduce Mendota's patient revenue by $746,491 and Winnebago's patient revenue by $154,585 for FY 2003-04. In addition, we recommended prior-period adjustments to reduce Mendota's beginning net assets by $368,581 and Winnebago's beginning net assets by $35,029. The Department made the recommended adjustments to the financial statements and is taking steps to create reports from the billing and collections system that will allow it to readily identify changes in funding sources for the Institutes' patients. It anticipates the reports will be available for preparation of the Institutes' financial statements for FY 2004-05.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described in the preceding paragraph is 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 their compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

LEGISLATIVE AUDIT BUREAU

August 29, 2005 by Diann Allsen

Diann Allsen
Audit Director