

Financial Statements and
Independent Auditors' Report



**GEORGIA DEPARTMENT OF
COMMUNITY HEALTH**

June 30, 2015



A JOINT VENTURE OF
CERTIFIED PUBLIC ACCOUNTING FIRMS



**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

GEORGIA DEPARTMENT OF COMMUNITY HEALTH

June 30, 2015

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INDEPENDENT AUDITORS' REPORT



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Independent Auditors' Report

The Honorable Clyde L. Reese, III, Esq, Commissioner
State of Georgia's Department of Community Health

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Georgia's Department of Community Health (Department of Community Health) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Department of Community Health's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Department of Community Health, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 8, the Department of Community Health implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27, as well as Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Dates* – an amendment of GASB Statement No. 68, as of July 1, 2014. These standards significantly changed the accounting for the Department of Community Health's net pension liability and related ratios. Our opinions are not modified with respect to this matter.

As discussed in Note 1, the financial statements of the Department of Community Health are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State of Georgia that is attributable to the transactions of the Department of Community Health. They do not purport to, and do not, present fairly the financial position of the State of Georgia as of June 30, 2015, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedules of funding progress and employer contributions (on pages 42 through 43), and budgetary comparison information (on pages 44 through 46), and the schedule of the Department of Community Health's proportionate share of net pension liability and the Department of Community Health's contributions (on pages 47 and 48), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted a management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2015 on our consideration of the Department of Community Health's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, 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* in considering the Department of Community Health's internal control over financial reporting and compliance.

Metcalf Davis

Mauldin & Jenkins

Atlanta, Georgia
November 20, 2015

FINANCIAL STATEMENTS

Department of Community Health

STATEMENT OF NET POSITION

JUNE 30, 2015

	Governmental Activities	Business-type Activities	Total
Assets:			
Current:			
Cash, Cash Equivalents and Investments	\$ 55,977,375	\$ 425,966,293	\$ 481,943,668
Cash, Cash Equivalents and Investments - Restricted	49,290,049	-	49,290,049
Investments	-	389,188,613	389,188,613
Receivables, Net of Allowances for Uncollectibles:			
State Appropriation	96,070,453	-	96,070,453
Intergovernmental - Federal	787,466,573	-	787,466,573
Other	300,784,690	203,373,181	504,157,871
Prepaid Assets	72,318	-	72,318
Total Current Assets	1,289,661,458	1,018,528,087	2,308,189,545
Noncurrent:			
Capital Assets, Net of Accumulated Depreciation	72,514,819	-	72,514,819
Total Noncurrent Assets	72,514,819	-	72,514,819
Total Assets	1,362,176,277	1,018,528,087	2,380,704,364
Deferred Outflows of Resources	15,493,305	1,738,359	17,231,664
	1,377,669,582	1,020,266,446	2,397,936,028
Liabilities:			
Current:			
Cash Overdraft	8,520,473	2,613,604	11,134,077
Accounts Payable and Other Accruals	396,910,109	9,084,308	405,994,417
Salaries Payable	48,884	2,150	51,034
Federal Unearned Revenue	51,683,500	-	51,683,500
Benefits Payable	911,100,000	176,906,017	1,088,006,017
Other Unearned Revenue	8,382,138	186,602,337	194,984,475
Due to Other Funds	-	36,688,309	36,688,309
Current Portion of Compensated Absences Payable	1,744,259	93,694	1,837,953
Total Current Liabilities	1,378,389,363	411,990,419	1,790,379,782
Noncurrent:			
Net Pension Liability	52,929,658	5,932,434	58,862,092
Compensated Absences Payable	2,644,142	159,644	2,803,786
Total Noncurrent Liabilities	55,573,800	6,092,078	61,665,878
Total Liabilities	1,433,963,163	418,082,497	1,852,045,660
Deferred Inflows of Resources	12,944,314	1,452,923	14,397,237
	1,446,907,477	419,535,420	1,866,442,897
Net Position:			
Investment in Capital Assets	72,514,819	-	72,514,819
Restricted	54,106,589	-	54,106,589
Unrestricted	(195,859,303)	600,731,026	404,871,723
Total Net Position	\$ (69,237,895)	\$ 600,731,026	\$ 531,493,131

The accompanying notes are an integral part of this statement.

Department of Community Health

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Functions/Programs:	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Governmental Activities:							
Education	\$ 49,493,640	\$ -	\$ -	\$ -	\$ (49,493,640)	\$ -	\$ (49,493,640)
Health and Welfare	10,622,058,564	130,286,191	7,170,612,560	55,511,207	(3,265,648,606)	-	(3,265,648,606)
Contribution to State General Fund	491,813,046	-	-	-	(491,813,046)	-	(491,813,046)
Total Governmental Activities	<u>11,163,365,250</u>	<u>130,286,191</u>	<u>7,170,612,560</u>	<u>55,511,207</u>	<u>(3,806,955,292)</u>	<u>-</u>	<u>(3,806,955,292)</u>
Business-Type Activities:							
Health and Welfare	<u>2,025,637,809</u>	<u>2,363,917,302</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>338,279,493</u>	<u>338,279,493</u>
Total	<u>\$ 13,189,003,059</u>	<u>\$ 2,494,203,493</u>	<u>\$ 7,170,612,560</u>	<u>\$ 55,511,207</u>	<u>(3,806,955,292)</u>	<u>338,279,493</u>	<u>(3,468,675,799)</u>
General revenues:							
State Appropriation					3,133,028,452	-	3,133,028,452
Revenue Collections:							
Nursing Home Provider Fees					175,413,852	-	175,413,852
Intergovernmental Transfers					389,895,037	-	389,895,037
Hospital Bed Tax					278,958,076	-	278,958,076
Other					28,232,162	-	28,232,162
Interest and Other Investment Income					<u>71,428</u>	<u>1,694,619</u>	<u>1,766,047</u>
Total General Revenues and Transfers					<u>4,005,599,007</u>	<u>1,694,619</u>	<u>4,007,293,626</u>
Change in Net Position					198,643,715	339,974,112	538,617,827
Net Position, Beginning of Year, As Restated					<u>(267,881,610)</u>	<u>260,756,914</u>	<u>(7,124,696)</u>
Net Position, End of Year					<u>\$ (69,237,895)</u>	<u>\$ 600,731,026</u>	<u>\$ 531,493,131</u>

The accompanying notes are an integral part of this statement.

Department of Community Health

FUND BALANCE SHEET –
GOVERNMENTAL FUNDS

JUNE 30, 2015

	<u>General Fund</u>	<u>Non-Major Capital Projects</u>	<u>Total Governmental Funds</u>
Assets:			
Cash and Cash Equivalents	\$ 51,968,942	\$ 172,810	\$ 52,141,752
Cash with Fiscal Agent	3,835,623	-	3,835,623
Cash - Restricted	49,290,049	-	49,290,049
Receivables, Net of Allowances for Uncollectibles:			
State Appropriation	96,070,453	-	96,070,453
Intergovernmental - Federal	772,610,153	14,856,420	787,466,573
Other	299,875,055	909,635	300,784,690
Prepaid Other	<u>72,318</u>	<u>-</u>	<u>72,318</u>
Total Assets	<u>\$ 1,273,722,593</u>	<u>\$ 15,938,865</u>	<u>\$ 1,289,661,458</u>
Liabilities and Fund Balance:			
Liabilities:			
Cash Overdraft	\$ 3,610,411	\$ 4,910,062	\$ 8,520,473
Accounts Payable and Other Accruals	385,628,135	11,281,974	396,910,109
Salaries Payable	48,884	-	48,884
Federal Unearned Revenue	51,683,500	-	51,683,500
Benefits Payable	911,100,000	-	911,100,000
Other Unearned Revenue	<u>8,382,138</u>	<u>-</u>	<u>8,382,138</u>
Total Liabilities	<u>1,360,453,068</u>	<u>16,192,036</u>	<u>1,376,645,104</u>
Fund Balance:			
Restricted	54,106,589	-	54,106,589
Unassigned	<u>(140,837,064)</u>	<u>(253,171)</u>	<u>(141,090,235)</u>
Total Fund Balance	<u>(86,730,475)</u>	<u>(253,171)</u>	<u>(86,983,646)</u>
Total Liabilities and Fund Balance	<u>\$ 1,273,722,593</u>	<u>\$ 15,938,865</u>	

Reconciliation from Governmental Fund Balance to Governmental Activities

Net Position:

Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources; and therefore, are not reported in the funds.

72,514,819

Pension related amounts are not current resources or payable in the current period and are not reported in the funds.

Deferred Outflows of Resources

15,493,305

Net Pension Liability

(52,929,658)

Deferred Inflows of Resources

(12,944,314)

Long-term obligations, including compensated absences and net claims, are not due and payable in the current period; and therefore, are not reported in the governmental fund - general fund.

(4,388,401)

Net Position of Governmental Activities

\$ (69,237,895)

The accompanying notes are an integral part of this statement.

Department of Community Health

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>General Fund</u>	<u>Non-Major Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues:			
Intergovernmental:			
State Appropriation	\$ 3,133,028,452	\$ -	\$ 3,133,028,452
Federal	7,170,612,560	55,511,207	7,226,123,767
Other	<u>997,269,905</u>	<u>5,586,841</u>	<u>1,002,856,746</u>
Total Revenues	<u>11,300,910,917</u>	<u>61,098,048</u>	<u>11,362,008,965</u>
Expenditures:			
Education	49,493,640	-	49,493,640
Health and Welfare	<u>10,622,008,414</u>	<u>64,062,495</u>	<u>10,686,070,909</u>
Total Expenditures	<u>10,671,502,054</u>	<u>64,062,495</u>	<u>10,735,564,549</u>
Excess of Revenues Over (Under) Expenditures	<u>629,408,863</u>	<u>(2,964,447)</u>	<u>626,444,416</u>
Other Financing Sources (Uses)			
Transfers In (Out)	(2,768,754)	2,768,754	-
Contribution to State General Fund	<u>(491,813,046)</u>	<u>-</u>	<u>(491,813,046)</u>
Total Other Financing Sources (Uses)	<u>(494,581,800)</u>	<u>2,768,754</u>	<u>(491,813,046)</u>
Net Change in Fund Balance	134,827,063	(195,693)	134,631,370
Fund Balance, Beginning of Year	<u>(221,557,538)</u>	<u>(57,478)</u>	<u>(221,615,016)</u>
Fund Balance, End of Year	<u>\$ (86,730,475)</u>	<u>\$ (253,171)</u>	<u>\$ (86,983,646)</u>

The accompanying notes are an integral part of this statement.

Department of Community Health

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS TO THE STATEMENT OF
ACTIVITIES – GOVERNMENTAL ACTIVITIES –
CHANGE IN NET POSITION****FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Governmental Funds - Net Change in Fund Balance \$ 134,631,370

Amounts reported for Governmental Activities in the Statement of
Activities are different because:

Governmental funds report capital outlays as expenditures. However,
in the Statement of Activities the cost of those assets is allocated
over their estimated useful lives and reported as depreciation
expense. Due to the nature of the Department of Community Health's
operations, this amount primarily represents the amount by which
depreciation exceeds capital outlays in the current period.

Capital Outlays	\$ 64,113,343	
Depreciation	<u>(18,087)</u>	64,095,256

Governmental funds do not report a liability for long-term pension
net liability. This amount is the net effect of this differences in the
treatment of long-term pension liability and related items. 240,628

Governmental funds do not report a liability for long-term
obligations, net claims or compensated absences. The issuance of
long-term obligations provides current financial resources to
governmental funds. This amount is the net effect of these
differences in the treatment of long-term obligations and related
items.

Change in Compensated Absences	<u>(323,539)</u>
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Statement of Activities - Governmental Activities - Change in Net Position	<u>\$ 198,643,715</u>
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The accompanying notes are an integral part of this statement.

Department of Community Health

STATEMENT OF NET POSITION PROPRIETARY FUND – ENTERPRISE FUND

JUNE 30, 2015

Assets:

Current:

Cash and Cash Equivalents	\$ 425,966,293
Investments	389,188,613
Receivables - Other, Net of Allowance for Uncollectibles	<u>203,373,181</u>
Total current assets	<u>1,018,528,087</u>

Total Assets	<u>1,018,528,087</u>
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Deferred Outflows of Resources	<u>1,738,359</u>
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1,020,266,446

Liabilities:

Current:

Cash Overdraft	2,613,604
Accounts Payable and Other Accruals	9,084,308
Salaries Payable	2,150
Benefits Payable	176,906,017
Due to Other Funds	36,688,309
Unearned Revenue	186,602,337
Current Portion of Compensated Absences Payable	<u>93,694</u>
Total Current Liabilities	<u>411,990,419</u>

Noncurrent:

Compensated Absences Payable	159,644
Net Pension Liability	<u>5,932,434</u>
Total Noncurrent Liabilities	<u>6,092,078</u>

Total Liabilities	<u>418,082,497</u>
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Deferred Inflows of Resources	<u>1,452,923</u>
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419,535,420

Net Position:

Unrestricted	<u>\$ 600,731,026</u>
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The accompanying notes are an integral part of this statement.

Department of Community Health

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION -
PROPRIETARY FUND – ENTERPRISE FUND****FOR THE FISCAL YEAR ENDED JUNE 30, 2015****Operating Revenues:**

Contributions	\$ 2,363,917,302
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Operating Expenses:

Health and Welfare	<u>2,025,637,809</u>
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Operating Income	338,279,493
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Nonoperating Revenues:

Interest and Other Investment Income	<u>1,694,619</u>
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Change in Net Position	339,974,112
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Net position, Beginning of Year, as Restated	<u>260,756,914</u>
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Net position, End of Year	<u><u>\$ 600,731,026</u></u>
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The accompanying notes are an integral part of this statement.

Department of Community Health

STATEMENT OF CASH FLOWS PROPRIETARY FUND – ENTERPRISE FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Cash Flows from Operating Activities:

Cash Received from Required Contributions	\$ 2,265,972,993
Cash Paid to Vendors	(149,729,443)
Cash Paid to Employees	(5,771,496)
Cash Paid for Benefits	<u>(1,882,764,651)</u>

Net Cash Provided by Operating Activities	<u>227,707,403</u>
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Cash Flows from Investing Activities:

Cash Paid for Investments	(389,188,613)
Interest and Other Investment Income	<u>1,694,619</u>

Net Cash Used in Investing Activities	<u>(387,493,994)</u>
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Net Increase in Cash and Cash Equivalents	(159,786,591)
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Cash and Cash Equivalents, Beginning of Year	<u>585,752,884</u>
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Cash and Cash Equivalents, End of Year	<u><u>\$ 425,966,293</u></u>
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Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:

Operating Income	<u>\$ 338,279,493</u>
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Changes in Assets, Liabilities, Deferred Outflows and Inflows:

Increase in Other Receivables	(83,679,062)
Decrease in Accounts Payable and Other Accruals	(12,377,252)
Decrease in Compensated Absences Payable	(36,686)
Decrease in Salaries/Withholdings	(10,131)
Decrease in Due to Other Funds	(4,677,514)
Decrease in Benefits Payable	(176,877)
Decrease in Unearned Revenue	(9,587,733)
Increase in Deferred Outflows of Resources	(1,081,453)
Decrease in Net Pension Liability	(398,305)
Increase in Deferred Inflows of Resources	<u>1,452,923</u>
	<u>(110,572,090)</u>

Net Cash Provided by Operating Activities	<u><u>\$ 227,707,403</u></u>
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The accompanying notes are an integral part of this statement.

Department of Community Health

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

JUNE 30, 2015

	<u>Non-Major State Employee Other Post-Employment Health Benefit Fund</u>	<u>Non-Major School Personnel Other Post-Employment Health Benefit Fund</u>	<u>Total</u>
Assets:			
Cash and Cash Equivalents	\$ 101,434,157	\$ 30,848,260	\$ 132,282,417
Receivables - Other	5,999,401	12,922,006	18,921,407
Due From Other Funds	<u>11,015,887</u>	<u>25,672,422</u>	<u>36,688,309</u>
Total Assets	<u>118,449,445</u>	<u>69,442,688</u>	<u>187,892,133</u>
Liabilities:			
Accounts Payable and Other Accruals	563,108	1,392,212	1,955,320
Benefits Payable	12,510,069	28,725,554	41,235,623
Unearned Revenues	<u>3,942,111</u>	<u>8,476,662</u>	<u>12,418,773</u>
Total liabilities	<u>17,015,288</u>	<u>38,594,428</u>	<u>55,609,716</u>
Net Position:			
Restricted for:			
Other Post Employment Benefits	<u>\$ 101,434,157</u>	<u>\$ 30,848,260</u>	<u>\$ 132,282,417</u>

The accompanying notes are an integral part of this statement.

Department of Community Health

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>Non-Major State Employee Other Post-Employment Health Benefit Fund</u>	<u>Non-Major School Personnel Other Post-Employment Health Benefit Fund</u>	<u>Total</u>
Additions:			
Contributions			
Employer	\$ 267,160,600	\$ 406,598,923	\$ 673,759,523
Plan Members	48,802,677	106,549,261	155,351,938
Total Contributions	<u>315,963,277</u>	<u>513,148,184</u>	<u>829,111,461</u>
Investment Earnings:			
Interest	<u>16,267</u>	<u>4,947</u>	<u>21,214</u>
Total Investment Earnings	<u>16,267</u>	<u>4,947</u>	<u>21,214</u>
Total Additions	<u>315,979,544</u>	<u>513,153,131</u>	<u>829,132,675</u>
Deductions:			
General and Administrative Expenses	8,266,990	17,604,598	25,871,588
Benefits	<u>206,278,397</u>	<u>464,700,273</u>	<u>670,978,670</u>
Total Deductions	<u>214,545,387</u>	<u>482,304,871</u>	<u>696,850,258</u>
Change in Net Position Restricted for:			
Other Postemployment Benefits	101,434,157	30,848,260	132,282,417
Net Position, Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>
Net Position, End of Year	<u>\$ 101,434,157</u>	<u>\$ 30,848,260</u>	<u>\$ 132,282,417</u>

The accompanying notes are an integral part of this statement.

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 1. Summary of Significant Accounting Policies

The accounting policies of the State of Georgia's Department of Community Health (Department of Community Health) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Department of Community Health, an organizational unit of the State of Georgia (the State), is part of the executive branch of the government of the State. The Department of Community Health was created to coordinate health planning and to maximize the State's healthcare purchasing power. The Board of Community Health is composed of nine members appointed by the Governor and is empowered to establish the general policy to be followed by the Department of Community Health.

The Department of Community Health does not have authority to determine the amount of funding it will receive from the State for any given fiscal year. Such authority is vested in the Georgia General Assembly. The Department of Community Health also does not have authority to retain unexpended State appropriations (surplus) for any given fiscal year. Accordingly, the Department of Community Health is included within the State's basic financial statements as a part of the primary government (as defined in Section 2100.114 of the *Codification of Governmental Accounting and Financial Reporting Standards*).

The accompanying basic financial statements include only the financial activities for the Department of Community Health. The latest available financial statements for the State are as of and for the year ended June 30, 2014. The State's Comprehensive Annual Financial Report as of and for the year ended June 30, 2015 has not been issued as of the release of this report. These statements should be read in conjunction with the State's Comprehensive Annual Financial Report, available through the State Accounting Office, 200 Piedmont Avenue, Suite 1604 (West Tower), Atlanta, Georgia 30334.

B. Basis of Presentation - Department-Wide and Fund Financial Statements

The basic financial statements include both department-wide (based on the Department of Community Health as a whole) and fund financial statements.

Department-Wide Financial Statements - Department-wide financial statements categorize primary activities as either governmental or business-type. These statements include the financial activities of the overall government, except for fiduciary activities. The department-wide statements focus on the sustainability of the Department of Community Health as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The department-wide statement of net position presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net position. The department-wide statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not meeting the definition of program revenues are instead reported as general revenues.

Governmental activities, which are normally financed through intergovernmental revenues and other non-exchange revenues, are reported separately from business-type activities, which are financed in whole or in part by fees charged to external parties for goods or services.

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 1. Summary of Significant Accounting Policies (continued)

Fund Financial Statements - Fund financial statements categorize primary activities as either governmental, proprietary, or fiduciary. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds.

Governmental funds are used to account for the Department of Community Health's general activities. Proprietary funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Department of Community Health reports the following major funds:

Governmental Fund - General Fund - The general fund is the primary operating fund and accounts for all financial resources that are not required to be accounted for in another fund.

Proprietary Fund - Enterprise Fund - The Department of Community Health's only proprietary fund type is the enterprise fund. The Department of Community Health's enterprise fund is the State Health Benefit Plan (SHBP). The SHBP is a self-insured program of health benefits for the employees of units of government of the State, units of county government and local education agencies located within the State.

Other non-major funds reported by the Department of Community Health are as follows:

Capital Project - The capital project fund is used to account for the financial resources used for the acquisition of major capital assets.

Fiduciary Funds - Fiduciary funds include those used to report the accumulation of resources for, and payment of other post-employment health benefits (OPEB). The Department of Community Health's fiduciary funds are the Georgia State Employees Post-Employment Health Benefit Fund (the State OPEB Fund) and the Georgia School Personnel Post-Employment Health Benefit Fund (the School OPEB Fund).

C. Basis of Accounting and Measurement Focus

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

Department-Wide, Proprietary Fund and Fiduciary Fund Financial Statements - The department-wide, proprietary fund and fiduciary fund financial statements of the Department of Community Health are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation are included in the statement of net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 1. Summary of Significant Accounting Policies (continued)

Governmental Funds - The Department of Community Health's governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Department of Community Health generally considers revenues to be available if the revenues are collected within six months after fiscal year-end. An exception to this policy is federal grant revenues, which generally are considered to be available if collection is expected within 12 months after year-end.

Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that certain long-term obligations are recognized when due rather than when incurred. Capital purchases are recorded as expenditures and neither capital assets nor long-term liabilities are reflected in the balance sheet. Expenditures related to compensated absences are recorded only when payment is due.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. Operating revenues for the enterprise fund consists primarily of employer and participant contributions to the SHBP. Operating expenses for the enterprise fund includes direct general and administrative expenses related to administering the SHBP. Revenues and expenses not meeting this definition, such as investment earnings, are reported as non-operating.

D. Cash, Cash Equivalents and Investments

The State Depository Board is designated by State law as the oversight board for the State's cash management and investment policies. The Georgia Office of the State Treasurer (OST) acts as the administrative agent of the State Depository Board. The policy of the State is to maximize the protection of State funds on deposit while accruing an advantageous yield on those funds in excess of those required for current operating expenditures (Official Code of Georgia Annotated [OCGA] Section 50-17-51). The State Depository Board may permit any department, board, bureau or other agency to invest funds collected directly by such organization in short-term time deposit agreements. Except for amounts earned on investments of the SHBP, the State OPEB Fund, the School OPEB Fund, and those on restricted funds, the interest income of those short-term time deposit agreements must be remitted to the Director of the OST as revenues of the State.

As a matter of general practice; however, State funds of any department, board, bureau or other agency in excess of current operating needs are required to be deposited with the Director of the OST for the purposes of pooled investment funds. Such cash is managed in pooled investment funds to maximize interest earnings. Authorized pooled investments are limited to the following in accordance with State statutes and policies of the State Depository Board:

- 1) Obligations issued by the State or its agencies or other political subdivisions of the State.
- 2) Obligations issued or guaranteed by the United States government and its subsidiary corporations and instrumentalities or entities sanctioned or authorized by the United States government.
- 3) Prime bankers' acceptances.
- 4) Repurchase agreements.
- 5) Obligations and commercial paper issued by domestic corporations.
- 6) Obligations of industrialized foreign governments.
- 7) Obligations issued, assumed or guaranteed by the International Bank for Reconstruction and Development or the International Financial Corporation.
- 8) Certificates of deposit.

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 1. Summary of Significant Accounting Policies (continued)

Pooled assets and other deposits of the Department of Community Health are categorized in the governmental funds, proprietary fund, and fiduciary fund statements and the statement of net position as follows:

Cash and Cash Equivalents include currency on hand, demand deposits with banks and other financial institutions and funds in transit from other spending units. Cash and cash equivalents also include short-term, highly liquid investments with maturities of three months or less from the date of acquisition and the Department of Community Health's investments in Georgia Fund 1 (the Pool).

Cash with Fiscal Agent is cash held by a third party service provider on behalf of the Department of Community Health and consists primarily of State Children's Health Insurance Program (SCHIP) premiums.

Restricted Cash is cash held in a separate bank account to comply with federal regulations stipulating that the proceeds of federally forfeited cash, property or interest shall not be commingled with other funds of any kind. The majority of these funds are restricted for use solely for the purpose of criminal fraud investigations as described in the Federal Equitable Sharing Agreement entered into by the Department of Community Health and for the purpose of assisting nursing home facilities that have been sanctioned by the Centers for Medicare and Medicaid Services (CMS). Restricted cash also includes amounts held in escrow under the terms of contractual agreements.

Cash Overdraft represents the excess of outstanding checks and other disbursements in excess of bank balance for which various receivables provide the necessary funds on a daily basis.

Investments are defined as those financial instruments with terms in excess of three months from the date of purchase and certain other securities held for the production of revenues.

Georgia Fund 1

The Pool is a combination of local and State government investment pools managed by the OST. The Pool is a stable net asset value investment pool which follows Standard and Poor's (S&P) criteria for AAAs rated money market funds. The Pool's primary objectives are safety of capital, investment income, liquidity and diversification while maintaining principal. Net asset value (NAV) is calculated daily and reported to the rating agency weekly to ensure stability. The Pool distributes earnings (net of management fees) on a monthly basis and values participants' shares sold and redeemed at the Pool's share price, \$1.00 per share. The investment in the Pool is reported at fair market value. Participation in the Pool is voluntary and deposits consist of funds from local governments, operating and trust funds of State agencies, colleges and universities and current operating funds of the State's general fund. Investments in the Pool are directed toward short-term instruments such as United States Treasury obligations, securities issued or guaranteed as to principal and interest by the United States Government or any of its agencies or instrumentalities, bankers' acceptances and repurchase agreements.

The Pool is an AAAs rated fund by S&P. The S&P criteria require the Pool to maintain a weighted average maturity (WAM) of 60 days or less. The WAM for the Pool on June 30, 2015 was 56 days. The Department of Community Health does not have any risk exposure related to investments in derivatives or similar investments in the Pool, as the investment policy of the OST does not provide for investments in derivatives or similar investments through the Pool.

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 1. Summary of Significant Accounting Policies (continued)

Health Insurance Fund Portfolio

Investments of the health insurance fund portfolio are managed by the OST. OST is authorized to invest in securities and other investments as permitted in OCGA Sections 50-5A-7, 50-17-2, 50-17-27 and 50-17-63. Authorized investments are subject to certain restrictions pursuant to OST investment policy and specific guidelines for the individual portfolios managed by OST. The investment in the Portfolio is reported at fair market value. At June 30, 2015, investments of the portfolio consisted of deposit agreements, federal agency securities and repurchase agreements, in accordance with authorized investments as described below:

- 1) Obligations of the United States and its subsidiary corporations and instrumentalities or entities sanctioned or authorized by the United States, and the following investments subject to credit constraints as described below:
- 2) Repurchase agreements – Repurchase agreements and reverse repurchase agreements may be transacted with authorized dealers and banks that are rated investment grade by one or more nationally recognized rating agency, are determined by the State Treasurer to have adequate capital, with maximum exposure per institution determined by the State Treasurer and adjusted as needed due to financial condition of such institutions, the size of the OST investment portfolios, and in accordance with the OST counterparty risk assessment model. Repurchase agreements must be collateralized by obligations of the United States and its subsidiary corporations and instrumentalities or entities sanctioned or authorized by the United States Government or other securities authorized for investments by the State Treasurer in subsection (b) of OCGA 50-17-63, such collateral having a market value ranging from 102 percent to 105 percent of the investment dependent upon the type collateral pledged. Collateral must be held by a third party custodian approved by the State Treasurer and marked to market daily. Exceptions to the requirements for third party custody of collateral may be approved by the State Treasurer for dealer banks if necessary on occasion and reported by the State Treasurer to the State Depository Board. All reverse repurchase agreements shall be approved in advance by the State Treasurer.
- 3) Certificates of deposit (CDs) – The maximum term of CDs shall not exceed five years. OST shall not place funds in CDs at any depository if such placement of funds will result in total State deposits at such depository in excess of 100 percent of the financial institution's total equity capital provided, however, that the State Treasurer may authorize placement of funds in CDs at a depository if such placement of funds will result in total state deposits not to exceed 125 percent of total equity capital on an as needed basis to allow for fluctuations in demand deposit balances. All CDs must be secured by collateral permitted by statute. Pledged securities shall be held by a third party custodian and have market value at least 110 percent of the investment.
- 4) Commercial paper (CP) – CP issued by domestic corporations carrying ratings no lower than P-1 by Moody's Investors Service and A-1 by S&P Corporation, in an amount, including the balance of any negotiated investment deposit agreements described in (5) (d), below, that does not exceed five percent of total portfolio assets for any single issuer.
- 5) Negotiated investment deposit agreements – Deposit agreements with banks that are (a) secured by collateral permitted by statute, held by a third party custodian, marked to market daily, and having a market value equal to, or exceeding 110 percent of the deposits; (b) fully secured by a letter of credit issued by the Federal Home Loan Bank; (c) fully secured by a surety bond issued by a financial institution approved by the State Depository Board; or, (d) subject to funds being available upon demand, with U.S. banks carrying ratings no lower than P-2 by Moody's Investors Service or A-2 by S&P Corporation, are determined by the State Treasurer to have adequate capital, with maximum exposure per institution determined by the State Treasurer and adjusted as needed due to the financial condition of such institutions, the size of the OST investment portfolios, and in accordance with the OST counterparty risk assessment model in an amount, including any CP issued by the respective financial institution held for investment by OST, that does not exceed five percent of portfolio assets for any single institution.

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 1. Summary of Significant Accounting Policies (continued)

- 6) Prime bankers acceptances – Bankers acceptances must carry the highest rating assigned to such investments by a nationally recognized rating agency.
- 7) Obligations issued by the State or its agencies or other political subdivisions of Georgia – Such investments, if meeting statutory investment requirements, may be approved for investment by the State Treasurer with the requirement that they are of high credit quality and are reported to the State Depository Board.
- 8) Obligations of corporations – Obligations of domestic corporations must be rated investment grade or higher by a nationally recognized rating agency.
- 9) Obligations issued by the government of any foreign country – Direct obligations of the government of any foreign country must be rated A or higher by a nationally recognized rating agency.
- 10) International Bank for Reconstruction and Development or International Financial Corporation – Obligations issued, assumed or guaranteed by the International Bank for Reconstruction and Development or the International Financial Corporation must be rated A or higher by a nationally recognized rating agency.
- 11) Such other limitations as determined by the State Treasurer to be necessary for the preservation of principal, liquidity or marketability of any of the portfolios managed of OST.

For additional disclosures related to cash, cash equivalents and investments, see Note 2.

E. Accounts Receivable

The State Appropriation receivable consists of funds appropriated and allotted to the Department of Community Health by the Georgia General Assembly that have not been drawn down from the OST as of June 30, 2015. Management has determined the State Appropriation receivable to be fully collectible at June 30, 2015. Therefore, no provision for uncollectible amounts has been reported for such receivables. Receivables reported as intergovernmental-federal result from expenditures incurred by the Department of Community Health for which all eligibility requirements have been met that are related to federal grants and entitlements. Reimbursement for these expenditures has not been received from the federal government as of June 30, 2015. Management provides a reserve for any balances expected to remain outstanding past the next fiscal year.

The Constitution of the State precludes the Department of Community Health from forgiving certain debts due the State in the absence of statutory exception. Although the Department of Community Health has implemented policies and procedures for continued collection efforts, significant claim refunds due cannot be deleted from the accounting records of the Department of Community Health. A contra-asset valuation account has been established to indicate the portion of claim refunds due and estimated to be uncollectible in excess of the statutory limit, which cannot be legally written off (\$100 for governmental activities; \$400 for business-type activities).

Other receivables in governmental funds consist primarily of amounts due from providers resulting from claim adjustments. An allowance for uncollectible amounts has been provided as established by departmental policy. The receivables reported in proprietary and fiduciary funds consist primarily of contributions receivable. Management has determined contribution receivables to be fully collectible at June 30, 2015; therefore, no provision for uncollectible amounts has been reported for such receivables.

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 1. Summary of Significant Accounting Policies (continued)

F. Capital Assets

Capital assets of governmental funds are recorded as expenditures at the time of purchase and capitalized in the governmental activities column of the government-wide statement of net position. Capital assets, if any, of proprietary funds are capitalized in the fund in which they are utilized. Capital assets are stated at historical costs or, in some instances, estimated historical cost. Estimation methods include using historical sources to determine the cost of similar assets at the time of acquisition and indexing where the historical cost of an asset is estimated by taking the current cost of a similar asset and dividing it by an index figure which adjusts for inflation. Donated capital assets are stated at fair value at the time of donation.

Capital assets have a cost equal to or greater than the capitalization threshold for the particular classification of the asset. Additionally, the asset has an estimated life of greater than one year. Thresholds used by the Department of Community Health include the following:

<u>Asset Classification</u>	<u>Capitalization Threshold</u>	<u>Estimated Lives in Years</u>
Equipment, Furniture and Fixtures	\$ 5,000	Three to Five
Software	1,000,000	Five

G. Compensated Absences/Sick Leave

The Department of Community Health accrues accumulated unpaid vacation and associated employee-related costs when earned (or estimated to be earned) by the employee. For the enterprise fund and the department-wide financial statements, the entire liability is accrued within the current period. The compensated absences are not considered matured and therefore, are not a governmental fund liability. The compensated absences liability represents a reconciling item between the fund level and department-wide presentations for the governmental funds.

Employees earn annual leave ranging from 10 to 14 hours each month depending upon the employee's length of continuous State service with a maximum accumulation of 45 days. Employees are paid for unused accumulated annual leave upon retirement or termination of employment. Compensated absences reported by the Department of Community Health are charged to the health and welfare function for each fund type and activity.

Sick leave does not vest with the employee. Employees earn 10 hours of sick leave each month with a maximum accumulation of 90 days. Unused accumulated sick leave is forfeited upon retirement or termination of employment. However, certain employees who retire with 120 days or more of forfeited annual and sick leave are entitled to additional service credit in the Employees' Retirement System of Georgia (ERS). Funds are provided in the appropriation of State funds each fiscal year to cover the cost of annual leave of terminated employees.

H. Fund Balances and Net Position

In accordance with Governmental Accounting Standards Board (GASB) Statement 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*," the Department of Community Health classifies governmental fund balance as unassigned and restricted. The governmental fund balance is comprised of amounts that are constrained for specific purposes by external grantors or amounts constrained in accordance with the Constitution of the State, Article III, Section IX - Appropriations, Paragraph IV(c) which states, in part, that all appropriated State funds, remaining unexpended and not contractually obligated at the expiration of such General Appropriations Act, shall lapse.

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 1. Summary of Significant Accounting Policies (continued)

The department-wide, proprietary fund and fiduciary fund financial statements utilize a net position presentation. The statement of net position is intended to show net position categorized as investment in capital assets (net of related debt), restricted and unrestricted. When both restricted and unrestricted resources are available for use, the Department of Community Health's policy is to use restricted resources first, then unrestricted resources as needed.

Investment in Capital Assets - Net position which is associated with non-liquid, capital assets are reported less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.

Restricted Net Position - Net position are reported as restricted when constraints are externally imposed by creditors or imposed by law.

Unrestricted Net Position - Net position are reported as unrestricted when they do not meet the definition of "restricted" or "investment in capital assets."

Net position in fiduciary fund types is classified as restricted for the benefit of individuals or other governments.

I. Related Party Transactions

During the normal course of business, the Department of Community Health provides services to and contracts for services from various agencies and departments of the State. As an organizational unit of the State and a substantial component of the primary government's financial statements, the relationship with other parties of the State is so pervasive that disclosure of the relationship alone is sufficient.

J. Interfund Transactions

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near-market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the department-wide columnar presentation. The Department of Community Health has the following types of interfund transactions:

Quasi-external transactions for services rendered by one fund to another are accounted for as revenues by the recipient fund and expenditures or expenses by the disbursing fund.

Transfers are recorded for all other interfund transactions.

Due to Other Funds	Due from Other Funds
	Fiduciary Funds
State Employees' Health Benefit Plan	\$ 36,688,309

K. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 1. Summary of Significant Accounting Policies (continued)

L. Change in Accounting Principle

The Department of Community Health implemented GASB Statement 68, *“Accounting and Financial Reporting for Pensions”* in the year ended June 30, 2015. In accordance with GASB Statement 68, when applicable, items on the statement of net position report assets, deferred outflows of resources, and liabilities, net pension liability and deferred inflows of resources.

M. Pensions

The Department of Community Health participates in various retirement plans administered by the State under two major retirement systems: ERS and Teachers Retirement System (TRS). As applicable to both plans, for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the ERS and the TRS and additions to/deductions from ERS's and TRS's fiduciary net position have been determined on the same basis as they are reported by ERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2. Deposits and Investments

Total cash, cash equivalents and investments at June 30, 2015 for the Department of Community Health's governmental, business-type activities and fiduciary fund are as follows:

Deposits and Investments:

Amounts Included as Deposits in Bank	\$ 46,273,015
Amounts Deposited in Georgia Fund 1	<u>606,109,042</u>
	<u>\$ 652,382,057</u>

As Reported in the Statement of Net Position:

Cash and Cash Equivalents	\$ 481,943,668
Cash and Cash Equivalents - Restricted	49,290,049
Cash Overdraft	<u>(11,134,077)</u>
	520,099,640

As Reported in the Statement of Fiduciary Net Position:

Fiduciary	<u>132,282,417</u>
	<u>\$ 652,382,057</u>

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 2. Deposits and Investments (continued)

A. Deposits

Custodial Credit Risk is the risk that in the event of a bank failure, the Department of Community Health's deposits may not be returned. All of Department of Community Health's bank depository accounts are noninterest-bearing accounts except for the State Health Benefit Plan Employee Health Insurance Account. Noninterest bearing accounts are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) regardless of the account balance and ownership capacity of the funds. Department of Community Health had 100 percent FDIC insurance coverage for noninterest bearing accounts under the Dodd-Frank Wall Street Reform and Consumer Protection Act until December 31, 2012. The sunset of the Dodd-Frank Wall Street Reform and Consumer Protection Act at December 31, 2012 caused Department of Community Health's checking account balances to be re-collateralized at 110 percent. Wells Fargo collateralizes interest bearing accounts (employee health insurance account) on a direct basis with the Bank of New York in a tri-party agreement with the OST at 110 percent after FDIC coverage is deducted.

At year-end, the carrying amounts of the Department of Community Health's deposits totaled \$46,273,015 and the bank balances were \$48,228,628. Of the bank balances, \$1,000,000 was insured, \$43,393,005 was collateralized, \$9,457,550 was in transit between financial institutions and \$3,835,623 was with fiscal agent.

All cash and cash equivalents reported by the Department of Community Health that are maintained in an investment pool by the OST are not subject to risk categorization.

B. Investments

The investment pool is included in cash and cash equivalents in the statement of net position. The carrying amount of the Department of Community Health's investment balances as of June 30, 2015 is summarized below:

Interest Rate Risk is the risk that changes in interest rates which will adversely affect an investment's fair value. The Department of Community Health does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. It relies on the policy of the State to maximize the protection of State funds while accruing an advantageous yield on those funds in excess of those required for current operating expenditures. The State manages interest rate risk by attempting to match investments with expected cash requirements.

Credit Quality Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investment in U.S. Treasury Bills and notes, obligations issued by federal financial institutions and repurchase agreements collateralized by authorized securities. The Department of Community Health has no investment policy that would further limit its investment choices. As stated above, the Department of Community Health relies on the policy of the State as a whole. As of June 30, 2015, S&P rated the Department of Community Health's investment in the Pool as AA+.

Custodial Credit Risk is the risk that in the event of the failure of the counterparty, the Department of Community Health will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The Department of Community Health has no policy on custodial credit risk.

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 2. Deposits and Investments (continued)

Concentration of Credit Risk is the risk of loss attributable to the magnitude of investment in a single issuer. At June 30, 2015, the carrying amount of the Department of Community Health's investment is summarized as follows.

Type of Investment	Fair Value	Weighted Average Maturity (Days)	Average Effective Duration
Investments pooled by OST:			
Georgia Fund 1, AAAf rated	\$ 606,109,042	56	
Investments Managed by OST:			
U.S. Government Agency Obligations	107,744,431		0.29
Repurchase Agreements	227,309,155		0.29
Deposit Agreements	54,135,027		0.29
	<u>389,188,613</u>		
Total Investments	<u>\$ 995,297,655</u>		

Note 3. Accounts Receivable

At June 30, 2015, receivables – other arising from governmental activities are reported as follows:

	Receivables - Other	Allowance Amount	Receivables - Other (Net of Allowances for Uncollectibles)
Interim Payments to Providers and Other Receivables	\$ 31,400,815	\$ (15,619,307)	\$ 15,781,508
Direct Billings for Services Provided	<u>285,071,470</u>	<u>(68,288)</u>	<u>285,003,182</u>
	<u>\$ 316,472,285</u>	<u>\$ (15,687,595)</u>	<u>\$ 300,784,690</u>

At June 30, 2015, the accounts receivable for business-type activities are reported as follows:

	Receivables - Other	Allowance Amount	Receivables - Other (Net of Allowances for Uncollectibles)
Contributions Receivable	\$ 203,373,181	\$ -	\$ 203,373,181
Claims Refunds Due	<u>3,920,814</u>	<u>(3,920,814)</u>	<u>-</u>
	<u>\$ 207,293,995</u>	<u>\$ (3,920,814)</u>	<u>\$ 203,373,181</u>

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 4. Capital Assets

The following is a summary of capital assets presented in the statement of net position in the governmental activities column at June 30, 2015:

	<u>Balance at June 30, 2014</u>	<u>Additions and Adjustments</u>	<u>Deletions and Adjustments</u>	<u>Balance at June 30, 2015</u>
Governmental Activities:				
Depreciable Capital Assets:				
Equipment, Furniture and				
Fixtures	\$ 1,147,856	\$ 50,848	\$ -	\$ 1,198,704
Construction in Progress	<u>8,371,670</u>	<u>64,062,495</u>	<u>-</u>	<u>72,434,165</u>
Total Capital Assets	<u>9,519,526</u>	<u>64,113,343</u>	<u>-</u>	<u>73,632,869</u>
Less Accumulated Depreciation	<u>1,099,963</u>	<u>18,087</u>	<u>-</u>	<u>1,118,050</u>
Depreciable Capital Assets, net	<u>\$ 8,419,563</u>	<u>\$ 64,095,256</u>	<u>\$ -</u>	<u>\$ 72,514,819</u>

All capital outlays and depreciation were charged to the health and welfare function. Construction in progress (capital projects fund) includes initial costs incurred on implementation of a new eligibility system.

Note 5. Operating Leases

The Department of Community Health has entered into certain agreements to lease equipment and buildings, which are classified for accounting purposes as operating leases. These cancelable leases generally contain provisions that, at the expiration date of the original term of the lease, the Department of Community Health has the option of renewing the lease on a year-to-year basis. Total expenditures for the rental of equipment under such leases were \$484,317 for the year ended June 30, 2015. The future minimum commitments for operating leases as of June 30, 2015 are listed below.

<u>Fiscal Year Ending June 30,</u>	
2016	\$ 389,683
2017	257,716
2018	144,344
2019	44,045
2020	22,300
2021-2025	<u>1,500</u>
	<u>\$ 859,588</u>

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 6. Long-Term Obligations

The following is a summary of changes in long-term obligations during the fiscal year:

	<u>Balance at June 30, 2014</u>	<u>Additions and Adjustments</u>	<u>Deletions and Adjustments</u>	<u>Balance at June 30, 2015</u>	<u>Due within One Year</u>
Governmental Activities:					
Compensated Absences	<u>\$ 4,064,862</u>	<u>\$ 2,041,514</u>	<u>\$ 1,717,975</u>	<u>\$ 4,388,401</u>	<u>\$ 1,744,259</u>
Business-Type Activities:					
Compensated Absences	<u>\$ 290,024</u>	<u>\$ 49,668</u>	<u>\$ 86,354</u>	<u>\$ 253,338</u>	<u>\$ 93,694</u>

Note 7. Contributions to the State

Contributions to the State for the fiscal year ended June 30, 2015, consisted of the following:

General Fund	
Office of the State Treasurer	
Return of State Appropriation	\$ 17,490,208
Remittance of Collections	<u>474,322,838</u>
	<u>\$ 491,813,046</u>

Note 8. Fund Balances and Net Position

- A. *Restatement Associated with GASB 68, "Accounting and Financial Reporting for Pensions"* - Government-Wide Net Position (as well as the Proprietary Fund-Enterprise Fund-Statement of Net Position) reflects restatement related to the implementation of GASB Statement No. 68, which was adopted by the Department of Community Health for fiscal year 2015. The provisions of this Statement establish accounting and financial reporting standards for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts. Implementation of this statement resulted in a restatement to beginning net position as listed below. This restatement is based on actuarial estimates:

	<u>Governmental Activities</u>	
	<u>ERS</u>	<u>TRS</u>
		<u>Net Position Total</u>
Net Deficit, Beginning of Year, as previously reported		<u>\$ (217,260,315)</u>
Restatement applicable to retirement plans, ERS and TRS, Plan details described in Note 12		
Deferred Outflows, Contributions for Fiscal 2014	\$ 5,838,596	\$ 24,470
Net Pension Liability as of June 30, 2014	<u>(56,222,333)</u>	<u>(262,028)</u>
Net Restatement	<u>\$ (50,383,737)</u>	<u>(237,558)</u>
Net Deficit, Beginning of Year, as Restated		<u><u>\$ (267,881,610)</u></u>

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 8. Fund Balances and Net Position (continued)

	Business-Type Activities		Net Position
	ERS	TRS	Total
Net Position, Beginning of Year, as previously reported			\$ 266,430,748
Restatement applicable to retirement plans, ERS and TRS, Plan details described in Note 12			
Deferred Outflows, Contributions for Fiscal 2014	\$ 652,166	\$ 4,739	656,905
Net Pension Liability as of June 30, 2014	(6,279,990)	(50,749)	(6,330,739)
Net Restatement	<u>\$ (5,627,824)</u>	<u>\$ (46,010)</u>	<u>(5,673,834)</u>
Net Position, Beginning of Year, as Restated			<u>\$ 260,756,914</u>

- B. Fund Balance of Governmental Funds** - The Department of Community Health's fund balances reported as unassigned and restricted is summarized as follows:

	General Fund	Capital Projects Fund
Restricted:		
Administration	\$ 32,340,614	\$ -
Health Care Access and Improvement	2,512,593	-
Indigent Care Trust Fund	5,276,880	-
Healthcare Facility Regulation	1,665,084	-
PeachCare	11,293,811	-
Georgia Board for Physicians Workforce	390,033	-
Georgia Drugs and Narcotics Agency	246,697	-
State Board of Pharmacy	144,018	-
State Board of Dentistry	115,146	-
Georgia Composite Medical Board	<u>121,713</u>	<u>-</u>
	<u>54,106,589</u>	<u>-</u>
Unassigned:		
Medicaid, Aged Blind and Disabled	(138,312,499)	-
Medicaid, Low Income	(2,524,565)	-
Acquisition of Major Capital Assets	<u>-</u>	<u>(253,171)</u>
	<u>(140,837,064)</u>	<u>(253,171)</u>
Total Fund Balance	<u>\$ (86,730,475)</u>	<u>\$ (253,171)</u>

- C. Deficit Fund Balance** - A deficit unassigned fund balance of \$253,171 exists in the capital project fund. The deficit results from the reversal of budgetary encumbrances for financial statement reporting purposes. Funding from various sources associated with the project cannot be requested unless all eligibility requirements have been met, including the requirement that allowable costs must have actually been incurred.

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 8. Fund Balances and Net Position (continued)

D. Encumbered Commitments - As of June 30, 2015, the Department of Community Health has encumbered amounts for the following programs:

Administration	\$ 84,944,117
Health Care Access and Improvement	9,405,862
Healthcare Facility Regulation	1,182,794
Indigent Care Trust Fund	506,441
Georgia Board for Physicians Workforce	212,900
Georgia Composite Medical Board	68,802
Georgia Drugs and Narcotics Agency	171,320
Georgia Board of Pharmacy	10,783
Georgia Board of Dentistry	11,144
	<hr/>
Total Fund Balance	\$ 96,514,163

Note 9. Risk Management

Public Entity Risk Pool - The Department of Community Health's business-type activities internally administers for the State a program of health benefits for the employees of units of government of the State, units of county government and local education agencies located within the State. This pool is funded by participants covered in the pool, by employers' contributions paid by the various units of government participating in the pool and appropriations by the Georgia General Assembly. The Department of Community Health has contracted with Cigna, BC/BS, Kaiser and UnitedHealthcare to process claims in accordance with the SHBP as established by the Board.

Other Risk Management - The Department of Community Health is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and injuries to employees. The State utilizes self-insurance programs established by individual agreement, statute or administrative action, to provide property insurance covering fire, extended coverage and automobile insurance and to pay losses that might occur from such causes; liability insurance for employees against personal liability for damages arising out of performance of their duties; survivors' benefits for eligible members of the ERS; consolidating processing of unemployment' compensation claims against State agencies and the payment of sums due to the Department of Labor; and workers' compensation insurance coverage for employees of the State and for the receipt of benefits as prescribed by the workers compensation statutes of the State. These self-insurance funds are accounted for as internal service funds of the State where assets are set aside for claim settlements.

The majority of the risk management programs are funded by assessments charged to participating organizations. A limited amount of commercial insurance is purchased by the self-insurance funds applicable to property, employee and automobile liability, fidelity and certain other risks to limit the exposure to catastrophic losses. Otherwise, the risk management programs service all claims against the State for injuries and property damage.

Financial information relative to the self-insurance funds will be presented in the State Comprehensive Annual Financial Report for the year ended June 30, 2015.

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 9. Risk Management (continued)

The Department of Community Health's estimated fiscal year end liability for the health benefits program includes an estimate for claims that have been incurred, but not reported (IBNR), which is computed by both the Department of Community Health and its actuaries. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Estimates of liabilities for incurred, (both reported and unreported) but unpaid claims are actuarially determined based on estimates of the ultimate cost of settling claims, using past experience adjusted for current trends and any other factors that would modify past experience. Because actual claim liabilities depend on such factors as inflation, changes in legal doctrines and damage awards, the process used in computing claim liabilities may not result in an exact amount. Claim liabilities are evaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

The Department of Community Health utilizes third party administrators to process Medicaid, PeachCare and State employee health benefit claims. Agreements between individual administrators and the Department of Community Health are for the processing of specific claim types. If an administrator was unable to continue processing claims for the Department of Community Health under such an agreement, the Department of Community Health's ability to adjudicate such claims in the short-term could be threatened.

A reconciliation of total claim liabilities as of June 30, 2015 and 2014 for governmental activities, business-type activities and fiduciary funds is shown below:

The below liabilities include an actuarial estimate for claims IBNR based on analyses of historical data.

	Governmental Activities		Business-Type Activities		Fiduciary Funds	
	Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Unpaid claims and claim adjustments, July 1	\$ 874,800,000	\$ 906,700,000	\$ 177,082,894	\$ 224,460,664	\$ 38,675,916	\$ 45,487,812
Incurred claims and claim adjustment expenses - provisions for insured events of the current year	10,280,897,065	9,747,021,094	1,882,587,774	1,880,541,259	668,290,622	706,011,421
Payments-claims and claim adjustment expenses attributable to insured events of the current year and of prior years	(10,244,597,065)	(9,778,921,094)	(1,882,764,651)	(1,927,919,029)	(665,730,915)	(712,823,317)
	<u>\$ 911,100,000</u>	<u>\$ 874,800,000</u>	<u>\$ 176,906,017</u>	<u>\$ 177,082,894</u>	<u>\$ 41,235,623</u>	<u>\$ 38,675,916</u>

Note 10. Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code (IRC). The plan, available to employees of the State and county health departments, permits participants to defer a portion of their salary until future years. The Department of Community Health makes no contributions to the plan. Participants choose the option or options in which they wish to participate. Deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are (until paid or made available to the participant or beneficiary) solely the property or rights of the State, subject only to the claims of the State's general creditors. Participants' rights under the plan are equal to those of general creditors of the State in an amount equal to the fair market value of the deferred account of each participant. Financial information relative to the plan will be presented in the State's Comprehensive Annual Financial Report for the year ended June 30, 2015.

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 11. Other Post-Employment Benefits

The Department of Community Health participates in the following State other postemployment benefit (OPEB) plans:

Administered by the Department of Community Health:

Georgia State Employees Post-employment Health Benefit Fund (State OPEB Fund)

Georgia School Employees Post-employment Health Benefit Fund (School OPEB Fund)

Administered by the ERS System:

State Employees' Assurance Department (SEAD)

- For retired and vested inactive (SEAD-OPEB)
- For active employees (SEAD-Active)

Georgia State Employees Post-employment Health Benefit Fund (State OPEB Fund) and School Employees Post-employment Benefit Fund (School OPEB Fund)

The Department of Community Health administers the group health plans established pursuant to OCGA Sections 45-18-2, 20-2-881 and 20-2-2-911, (together, the SHBP.) Post-employment health benefits due under the SHBP are paid through the State OPEB Fund established by OCGA Section 45-18-25 and the School OPEB Fund established by OCGA Section 20-2-875.

A. Summary of Significant Accounting Policies

Basis of Accounting - Post-employment trust fund financial statements are prepared using the accrual basis of accounting. Member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

B. Plan Descriptions and Membership Information

Plan Descriptions - The State OPEB Fund and the School OPEB Fund are each “cost sharing multiple-employer defined benefit post-employment healthcare plans” for OPEB purposes. The State OPEB Fund and the School OPEB Fund are reported as employee benefit trust funds.

State OPEB Fund - The State OPEB Fund provides post-employment health benefits (including benefits to qualified beneficiaries of eligible former employees) due under the group health plan for employees of State organizations and other entities authorized by law to contract with the Department of Community Health for inclusion in the plan (established by OCGA Section 45-18-2). It also pays administrative expenses of the Fund. By law, no other use of the assets of the State OPEB Fund is permitted.

School OPEB Fund - The School OPEB Fund provides post-employment health benefits (including benefits to qualified beneficiaries of eligible former employees) due under the group health plan for public school teachers including librarians and other certified employees of the public schools and regional educational service agencies (established by OCGA Section 20-2-881), post-employment health benefits due under the group health plan for non-certified public school employees (established by OCGA Section 20-2-911), and administrative expenses of the Fund. By law, no other use of assets of the School OPEB Fund is permitted.

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 11. Other Post-employment Benefits (continued)

The Statutes of the State assign the authority to establish and amend the benefit provisions of the group health plans, including benefit provisions related to retirees, to the Board.

Membership Information - Membership consisted of the following at June 30, 2015:

	<u>State OPEB Fund</u>	<u>School OPEB Fund</u>
Retirees and beneficiaries receiving benefits	38,279	84,245
Terminated plan members entitled to but not yet receiving benefits	104	115
Active plan members	<u>55,428</u>	<u>169,622</u>
Total members	<u>93,811</u>	<u>253,982</u>
Number of participating employers	<u>205</u>	<u>244</u>

C. Funding Policy, Funding Progress and Funded Status

The plans are currently funded on a pay-as-you go basis. That is, annual costs of providing benefits will be financed in the same year as claims occur, with no significant assets accumulating as would occur in an advance funding strategy.

Additional contributions were required by the Board in fiscal year 2015 as a reserve for financing future costs associated with the OPEB liabilities. Amounts contributed to the State OPEB Fund and to the School OPEB Fund were \$101.4 million and \$30.8 million, respectively. Such additional contribution amounts are determined annually by the Board in accordance with the State plan for OPEB and are subject to appropriation.

The contribution requirements of plan members and participating employers are established by the Department of Community Health's Board in accordance with current State Appropriation Act and may be amended by the Board. Contributions of plan members or beneficiaries receiving benefits vary based on plan election, dependent coverage, and Medicare eligibility and election. As of January 1, 2012, for members with fewer than five years of service, contributions also vary based on years of service. As of January 1, 2012, on average, members with five years or more of service, pay approximately 25 percent of the cost of the health insurance coverage. In accordance with the Board resolution dated December 8, 2011, for members with fewer than five years of service as of January 1, 2012, the State provides a premium subsidy in retirement that ranges from zero percent for fewer than 10 years of service to 75 percent (but no greater than the subsidy percentage offered to active employees) for 30 or more years of service. The subsidy for eligible dependents ranges from zero to 55 percent (but no greater than the subsidy percentage offered to dependents of active employees minus 20 percent). No subsidy is available to Medicare eligible members not enrolled in a Medicare Advantage Option. The Board of the Department of Community Health sets all member premiums by resolution and in accordance with the law and applicable revenue and expense projections. Any subsidy policy adopted by the Board may be changed at any time by Board resolution and does not constitute a contract or promise of any amount of subsidy.

Participating employers, including but not limited to State organizations and school systems, are statutorily required to contribute in accordance with the employer contribution rate established by the Board. These contribution rates are established to fund all benefits due under the SHBP, including post-employment benefits, based on projected pay-as-you-go financing requirements. Contributions are not based on the actuarially calculated annual required contribution (ARC) which represents a level of funding that if, paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 11. Other Post-employment Benefits (continued)

The combined required contribution rates established by the Board for the active and retiree plans for the fiscal year ended June 30, 2015 were as follows:

Combined Active and State OPEB Fund Contribution Rates as a Percentage of Covered Payroll

For State organizations, including technical colleges, and certain other eligible participating employers:

June 2014	30.781% of covered payroll for July coverage
July 2014 - June 2015	30.454% of covered payroll for August - July coverage

Combined Active and School OPEB Fund Dollar Contribution Rates per Member per Month

Certificated teachers, librarians, regional educational service agencies, and certain other eligible participating employers:

July 2014 - June 2015	\$945.00 for July 2014 - June 2015 coverage
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Library employees:

July 2014 - June 2015	\$843.00 for July 2014 - June 2015 coverage
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Non-certificated school personnel:

July 2014 - June 2015	\$596.20 for July 2014 - June 2015 coverage
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The following table summarizes the Department of Community Health's combined active and retiree contributions to the health insurance plan for the years ended June 30, 2015, 2014 and 2013.

	<u>Required Contribution</u>	<u>Percent Contributed</u>
2015	\$ 13,303,237	100%
2014	\$ 11,758,356	100%
2013	\$ 10,000,810	100%

The funded status of the State OPEB Fund and the School OPEB Fund as of the most recent actuarial valuation date is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a/c)</u>
State OPEB Fund						
June 30, 2014	\$ -	\$ 2,871,842,791	\$ 2,871,842,791	0.0%	\$ 2,293,104,232	125.2%
School OPEB Fund						
June 30, 2014	\$ -	\$ 8,514,320,187	\$ 8,514,320,187	0.0%	\$ 9,429,530,546	90.3%

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 11. Other Post-employment Benefits (continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The impact of the Affordable Care Act (ACA) was addressed in this valuation. While the impact of certain provisions such as the excise tax on high-value health insurance plans beginning in 2018 (if applicable), mandated benefits and participation changes due to the individual mandate should be recognized in the determination of liabilities, overall future plan costs and the resulting liabilities are driven by amounts employers and retirees can afford (i.e., trend). The trend assumption forecasts the anticipated increase to initial per capita costs, taking into account health care cost inflation, increases in benefit utilization, plan changes, government-mandated benefits, and technological advances. Given the uncertainty regarding the ACA's implementation (e.g., the impact of excise tax on high-value health insurance plans, changes in participation resulting for the implementation of state based health insurance exchanges), continued monitoring of the ACA's impact on the Plan's liability will be required. The June 30, 2014 and 2013 valuations also included using payroll location codes and various pension plan data to exclude compensation for pension plan members ineligible for participation in SHBP. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedule of employer contributions presents trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43, *"Financial Reporting for Post-Employment Benefit Plans other Than Pension Plans."* The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price. Additional information as of the latest actuarial valuation follows:

Valuation Date	June 30, 2014
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percentage of Pay, Open
Asset Valuation Method	Market Value of Assets
Remaining Amortization Period	30 years
Actuarial Assumptions:	
Investment Rate of Return*	4.50%
Healthcare Cost Trend Rate*	
Pre-Medicare Eligible	7.50%
Medicare Eligible	5.75%
Ultimate Trend Rate	
Pre-Medicare Eligible	5.00%
Medicare Eligible	5.00%
Year of Ultimate Trend Rate	2019

*Includes an assumption of three percent inflation

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 11. Other Post-employment Benefits (continued)

State Employees' Assurance Department (SEAD)

SEAD-OPEB and SEAD-Active are cost-sharing multiple-employer defined benefit other postemployment plans that were created in fiscal year 2007 by the Georgia General Assembly to provide term life insurance to eligible members of the ERS, Georgia Judicial Retirement System (JRS), and Legislative Retirement System (LRS). SEAD-OPEB provides benefits for retired and vested inactive members, and SEAD-Active provides benefits for active members. Effective July 1, 2009, no newly hired members of any State public retirement system are eligible for term life insurance under SEAD. Pursuant to Title 47 of the OCGA, benefit provisions of the plans were established and can be amended by State statute.

Contributions by plan members are established by the ERS Board of Trustees, up to the maximum allowed by statute (not to exceed 0.5 percent of earnable compensation). The ERS Board of Trustees establishes employer contribution rates, such rates which, when added to members' contributions, shall not exceed one percent of earnable compensation. Contributions for fiscal year 2015 were based on June 30, 2012, actuarial valuations as follows:

	<u>SEAD- OPEB</u>	<u>SEAD- ACTIVE</u>	<u>Total SEAD</u>
Member Rates:			
ERS Old Plan	0.45%	0.05%	0.50%
Less: Offset Paid by Employer	<u>-0.22%</u>	<u>-0.03%</u>	<u>-0.25%</u>
Net ERS Old Plan	0.23%	0.02%	0.25%
ERS New Plan, JRS, and LRS	0.23%	0.02%	0.25%
Employer Rates:	0.00%	0.00%	0.00%

In certain prior years, the ERS Board of Trustees voted and approved that the SEAD-OPEB contribution would be paid from existing assets of the Survivors Benefit Fund (SBF) instead of requiring payment by the employers. The contributions by SBF made on-behalf of Georgia Department of Community Health for fiscal year 2013 were estimated to be \$65,070. There were no required employer contributions for the fiscal years ended June 30, 2015 and 2014.

According to the policy terms covering the lives of members, insurance coverage is provided on a monthly, renewable term basis, and no return premiums or cash value are earned. The net position represents the excess accumulation of investment income and premiums over benefit payments and expenses and is held as a reserve for payment of death benefits under existing policies.

For SEAD-Active the amount of insurance coverage is equal to 18 times monthly earnable compensation frozen at age 60. For members with no creditable service prior to April 1, 1964, the amount decreases from age 60 by a half of one percent per month until age 65 at which point the member will be covered for 70 percent of the age 60 coverage. Life insurance proceeds are paid in lump sum to the beneficiary upon death of the member.

For SEAD-OPEB the amount of insurance for a retiree with creditable service prior to April 1, 1964, is the full amount of insurance under SEAD-Active in effect on the date of retirement. The amount of insurance for a service retiree with no creditable service prior to April 1, 1964, is 70 percent of the amount of insurance under SEAD-Active at age 60 or at termination, if earlier. Life insurance proceeds are paid in lump sum to the beneficiary upon death of the retiree.

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 12. Retirement Systems

The Department of Community Health participates in retirement plans administered by the State under two major retirement systems: Employees' Retirement System of Georgia (the ERS System) and Teachers Retirement System of Georgia (the TRS System). These two systems issue separate publicly available financial reports that include the applicable financial statements and required supplementary information. The reports may be obtained by visiting the following websites: Employees' Retirement System (www.ers.ga.gov) and Teachers Retirement System (www.trsga.com).

Details of the significant retirement plans that the Department of Community Health participates in are described below. More detailed information can be found in the plan agreements and related legislation. Each plan, including benefit and contribution provisions, was established and can be amended by State law.

General Information about the ERS and the TRS

Employees' Retirement System of Georgia

Plan description: ERS is a cost-sharing multiple-employer defined benefit pension plan established by the Georgia General Assembly during the 1949 Legislative Session for the purpose of providing retirement allowances for employees of the State and its political subdivisions. ERS is directed by a Board of Trustees. Title 47 of the O.C.G.A. assigns the authority to establish and amend the benefit provisions to the State Legislature. ERS issues a publicly available financial report that can be obtained at www.ers.ga.gov/formspubs/formspubs.

Benefits provided: The ERS plan supports three benefit tiers: Old Plan, New Plan, and the Georgia State Employees' Pension and Savings Plan (GSEPS). Employees under the old plan membership started prior to July 1, 1982 and are subject to plan provisions in effect prior to July 1, 1982. Members hired on or after July 1, 1982 but prior to January 1, 2009 are new plan members subject to modified plan provisions. Effective January 1, 2009, new state employees and rehired state employees who did not retain membership rights under the Old or New Plans are members of GSEPS. ERS members hired prior to January 1, 2009 also have the option to irrevocably change their membership to GSEPS.

Under the old plan, the new plan, and GSEPS, a member may retire and receive normal retirement benefits after completion of 10 years of creditable service and attainment of age 60 or 30 years of creditable service regardless of age. Additionally, there are some provisions allowing for early retirement after 25 years of creditable service for members under age 60.

Retirement benefits paid to members are based upon the monthly average of the member's highest 24 consecutive calendar months, multiplied by the number of years of creditable service, multiplied by the applicable benefit factor. Annually, postretirement cost-of-living adjustments may also be made to members' benefits, provided the members were hired prior to July 1, 2009. The normal retirement pension is payable monthly for life; however, options are available for distribution of the member's monthly pension, at reduced rates, to a designated beneficiary upon the member's death. Death and disability benefits are also available through ERS.

Contributions: Member contributions under the old plan are four percent of annual compensation, up to \$4,200, plus six percent of annual compensation in excess of \$4,200. Under the old plan, the state pays member contributions in excess of 1.25 percent of annual compensation. Under the old plan, these state contributions are included in the members' accounts for refund purposes and are used in the computation of the members' earnable compensation for the purpose of computing retirement benefits. Member contributions under the new plan and GSEPS are 1.25 percent of annual compensation. The Department of Community Health's contractually required contribution rate, actuarially determined annually, for the year ended June 30, 2015 was 21.96 percent of annual covered payroll for old and new plan members and 18.87 percent for GSEPS members. The Department of Community Health's contributions to ERS totaled \$8,950,063 for the year ended June 30, 2015. Contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 12. Retirement Systems (continued)

Teachers Retirement System of Georgia

Plan description: All teachers as defined in §47-3-60 of the Official Code of Georgia Annotated (O.C.G.A.) and certain other support personnel as defined by §47-3-63 are provided a pension through the TRS. TRS, a cost-sharing multiple-employer defined benefit pension plan, is administered by the TRS Board of Trustees (TRS Board). Title 47 of the O.C.G.A. assigns the authority to establish and amend the benefit provisions to the State Legislature. TRS issues a publicly available financial report that can be obtained at www.trsga.com/publications.

Benefits provided: TRS provides service retirement, disability retirement, and death benefits. Normal retirement benefits are determined as two percent of the average of the employee's two highest paid consecutive years of service, multiplied by the number of years of creditable service up to 40 years. An employee is eligible for normal service retirement after 30 years of creditable service, regardless of age, or after 10 years of service and attainment of age 60. Ten years of service is required for disability and death benefits eligibility. Disability benefits are based on the employee's creditable service and compensation up to the time of disability. Death benefits equal the amount that would be payable to the employee's beneficiary had the employee retired on the date of death. Death benefits are based on the employee's creditable service and compensation up to the date of death.

Contributions: Per Title 47 of the O.C.G.A., contribution requirements of active employees and participating employers, as actuarially determined, are established and may be amended by the TRS Board. Pursuant to O.C.G.A. §47-3-63, the employer contributions for certain full-time public school support personnel are funded on behalf of the employer by the State. Contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees were required to contribute six percent of their annual pay during fiscal year 2015. The Department of Community Health's contractually required contribution rate for the year ended June 30, 2015 was 13.15 percent of annual covered district payroll. The Department of Community Health contributions to TRS were \$36,877 for the year ended June 30, 2015.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Department of Community Health reported a liability for its proportionate share of the net pension liabilities of both ERS and TRS. The amount recognized by the Department as its proportionate share of the net pension liability, the total portion of the net pension liability and related percentage and percentage change information were as follows:

The net pension liability of both ERS and TRS was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2013. An expected total pension liability as of June 30, 2014 was determined using standard roll-forward techniques. The Department of Community Health's proportion of the net pension liability for both plans was based on contributions during the fiscal year ended June 30, 2014.

	<u>ERS</u>	<u>TRS</u>
June 30, 2014		
DCH Proportionate Share of Net Pension Liability	\$ 58,567,475	\$ 294,617
DCH Employer Proportion of Net Pension Liability	1.561542%	0.002332%
Increase (Decrease) from DCH proportionate share measured as of June 30, 2013.	0.273537%	0.000537%
For the year ended June 30, 2015, DCH recognized pension expense as follows:		
Pension Expense	\$ 8,681,961	\$ 37,516

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 12. Retirement Systems (continued)

At June 30, 2015, the Department of Community Health (DCH) reported the following deferred outflows of resources and deferred inflows of resources related to ERS and TRS pensions from the following sources:

	ERS Resources		TRS Resources	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ -	\$ -	\$ -	\$ -
Changes of assumptions	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	14,294,527	-	102,710
Changes in proportion and differences between DCH contributions and proportionate share of contributions	8,168,481	-	76,243	-
DCH contributions subsequent to the measurement date	<u>8,950,063</u>	<u>-</u>	<u>36,877</u>	<u>-</u>
Total	<u>\$ 17,118,544</u>	<u>\$ 14,294,527</u>	<u>\$ 113,120</u>	<u>\$ 102,710</u>

The Department of Community Health contributions subsequent to the measurement date are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30,</u>	<u>ERS</u>	<u>TRS</u>
2016	\$ 1,531,655	\$ (8,350)
2017	(510,456)	(8,350)
2018	(3,573,636)	(8,350)
2019	(3,573,619)	(8,350)
2020	-	6,933

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 12. Retirement Systems (continued)

ERS

Actuarial assumptions: The total pension liability as of June 30, 2014 was determined by an actuarial valuation as of June 30, 2013 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	5.45 – 9.25 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for the periods after service retirement, for dependent beneficiaries, and for deaths in active service, and the RP-2000 Disabled Mortality Table set back 11 years for males for the period after disability retirement.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2004 through June 30, 2009.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Fixed income	30.00%	3.00%
Domestic large equities	39.70%	6.50%
Domestic mid equities	3.70%	10.00%
Domestic small equities	1.60%	13.00%
International developed market equities	18.90%	6.50%
International emerging market equities	<u>6.10%</u>	11.00%
Total	<u>100.00%</u>	

* Rates shown are net of the three percent assumed rate of inflation.

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 12. Retirement Systems (continued)

TRS	
Actuarial assumptions: The total pension liability as of June 30, 2014 was determined by an actuarial valuation as of June 30, 2013 using the following actuarial assumptions, applied to all periods included in the measurement:	
Inflation	3.00 percent
Salary increases	3.75 – 7.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for males or females, set back two years for males and three years for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2004 through June 30, 2009.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Fixed income	30.00%	3.00%
Domestic large equities	39.70%	6.50%
Domestic mid equities	3.70%	10.00%
Domestic small equities	1.60%	13.00%
International developed market equities	18.90%	6.50%
International emerging market equities	<u>6.10%</u>	11.00%
Total	<u>100.00%</u>	

* Rates shown are net of the three percent assumed rate of inflation

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 12. Retirement Systems (continued)

Discount rate: The discount rate used to measure the total pension liability for ERS and TRS was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and State contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members for ERS and TRS. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Department of Community Health's proportionate share of the net pension liability to changes in the discount rate: The following presents the Department of Community Health's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Department of Community Health's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or one-percentage-point higher (8.50 percent) than the current rate:

	ERS		
	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Department of Community Health's proportionate share of the net pension liability	\$ 85,402,996	\$ 58,567,475	\$ 35,724,193
	TRS		
	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Department of Community Health's proportionate share of the net pension liability	\$ 542,940	\$ 294,617	\$ 90,129

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS and TRS financial report which is publically available at www.ers.ga.gov/formspubs/formspubs and www.trsga.com/publications, respectively.

GSEPS 401(k) Defined Contribution Component of ERS

Plan Description: In addition to the ERS defined benefit pension described above, GSEPS members may also participate in the Peach State Reserves 401(k) defined contribution plan and receive an employer matching contribution. The 401(k) plan is administered by the System and was established by the Georgia Employee Benefit Plan Council in accordance with State law and Section 401(k) of the IRC. The GSEPS segment of the 401(k) plan was established by State law effective January 1, 2009. Plan provisions and contribution requirements specific to GSEPS can be amended by State law. Other general 401(k) plan provisions can be amended by the ERS Board as required by changes in Federal tax law or for administrative purposes. The State was not required to make significant contributions to the 401(k) plan prior to GSEPS because most members under other segments of the 401(k) plan either were not State employees or were not eligible to receive an employer match on their contributions.

Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 12. Retirement Systems (continued)

Benefits: The GSEPS plan includes automatic enrollment in the 401(k) plan at a contribution rate of five percent of salary unless the participating member elects otherwise. The member may change such level of participation at any time. In addition, the member may make such additional contributions as he or she desires, subject to limitations imposed by federal law. The State will match 100 percent of the employee's initial one percent contribution and 50 percent of contribution percent's two through five. Therefore, the State will match three percent of salary when an employee contributes at least five percent to the 401(k) plan. Employee contributions greater than five percent of salary do not receive any matching funds.

Employee contributions and earnings thereon are 100 percent vested at all times. The 401(k) plan also allows participants to roll over amounts from other qualified plans to their respective account in the 401(k) plan on approval of the 401(k) plan administrator. Such rollovers are 100 percent vested at the time of transfer. Participant contributions are invested according to the participant's investment election. If the participant does not make an election, investments are automatically defaulted to a Lifecycle fund based on the participant's date of birth.

The participants may receive the value of their vested accounts upon attaining age 59 ½, qualifying financial hardship, or 30 days after retirement or other termination of service (employer contribution balances are only eligible for distribution upon separation from service). Upon the death of a participant, his or her beneficiary shall be entitled to the vested value of his or her accounts. Employees who die while actively employed and eligible for 401(k) employer matching contributions become fully vested in employer contributions upon death. Distributions are made in installments or in a lump sum.

Contributions Required and Contributions Made: For fiscal year 2015, employee GSEPS contributions totaled \$645,347 and the Department of Community Health recognized pension expense of \$324,887. Non-vested contributions that were forfeited by employees may be used to pay administrative expenses of the plan and/or partially fund employer contributions. For fiscal year 2015, no forfeitures were available to reduce pension expense.

Note 13. Contingencies

Amounts received or receivable from grantor agencies as well as certain vendor contract liabilities and claims are subject to audit and review by grantor agencies, principally the federal government or its representatives. This could result in a request for reimbursement by the grantor agency and/or adjustments to claims payable for any expenditures which are disallowed under grant terms. The Department of Community Health believes that such disallowances, if any, will be immaterial to its overall financial position.

The Department of Community Health is involved in various lawsuits arising from the normal course of business. Management intends to vigorously defend the Department of Community Health's position. Further, in the opinion of management and the Department of Community Health's in-house counsel, the ultimate effect of these legal matters will not have a material adverse effect on the Department of Community Health's financial position.

REQUIRED SUPPLEMENTARY INFORMATION

Department of Community Health

REQUIRED SUPPLEMENTARY INFORMATION STATE AND SCHOOL POST-EMPLOYMENT BENEFITS PLANS SCHEDULE OF FUNDING PROGRESS

FOR THE YEAR ENDED JUNE 30, 2015

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll*	UAAL as a Percentage of Covered Payroll (b-a/c)
State OPEB Fund						
June 30, 2014	\$ -	\$ 2,871,842,791	\$ 2,871,842,791	0.0%	\$ 2,293,104,232	125.2%
June 30, 2013	\$ -	\$ 3,587,913,000	\$ 3,587,913,000	0.0%	\$ 2,328,334,488	154.1%
June 30, 2012	\$ -	\$ 3,867,926,833	\$ 3,867,926,833	0.0%	\$ 2,408,000,000	160.6%
School OPEB Fund						
June 30, 2014	\$ -	\$ 8,514,320,187	\$ 8,514,320,187	0.0%	\$ 9,429,530,546	90.3%
June 30, 2013	\$ -	\$ 10,788,794,736	\$ 10,788,794,736	0.0%	\$ 9,445,376,251	114.2%
June 30, 2012	\$ -	\$ 10,869,929,923	\$ 10,869,929,923	0.0%	\$ 9,678,000,000	112.3%

* Salary amount for the School Fund was provided by the Teachers' Retirement System. The salary amount shown is total salaries and is not the state salary amount upon which regular employer contributions to the SHBP are based. Since individual Public School Employee's Retirement Fund (PSERS) salary is not available, assumes annual salary for PSERS members of \$27,000 for 2012.

* Assumptions were changed beginning with the June 30, 2010 valuation to reflect the retirement systems' experience studies. A data audit was performed and data collection procedures and assumptions were changed beginning with the June 30, 2012 valuation.

Department of Community Health

REQUIRED SUPPLEMENTARY INFORMATION
STATE AND SCHOOL POST-EMPLOYMENT BENEFITS PLANS
SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Year Ended June 30	Annual Required Contribution	Actual Employer Contribution	Percentage of ARC Contributed
State OPEB Fund			
2014	\$ 321,455,891	\$ 177,045,380	55.1%
2013	\$ 338,819,221	\$ 181,503,596	53.6%
2012	\$ 317,100,335	\$ 181,898,661	57.4%
School OPEB Fund			
2014	\$ 943,310,062	\$ 408,422,277	43.3%
2013	\$ 982,120,099	\$ 362,527,218	36.9%
2012	\$ 1,054,708,002	\$ 380,858,538	36.1%

Department of Community Health

REQUIRED SUPPLEMENTARY INFORMATION
BUDGET COMPARISON SCHEDULE – BUDGET FUND

FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

	Original Appropriation	Final Budget	Actual	Variance
<u>Funds Available</u>				
State Appropriation				
State General Funds	\$ 2,526,647,599	\$ 2,568,688,267	\$ 2,568,688,267	\$ -
Tobacco Settlement Funds	109,968,257	109,968,257	109,968,257	-
Nursing Home Provider Fees	167,756,401	175,413,852	175,413,852	-
Hospital Provider Payments	264,217,234	278,958,076	278,958,076	-
Federal Funds				
Federal Funds Not Specifically Identified	26,178,153	79,179,362	29,603,258	(49,576,104)
Medical Assistance Program	6,292,500,754	7,204,150,299	6,827,952,910	(376,197,389)
State Children's Insurance Program	330,214,685	368,369,541	313,884,216	(54,485,325)
American Recovery and Reinvestment Act of 2009				
Medical Assistance Program	-	60,127,852	46,208,287	(13,919,565)
Other	3,669,823,351	4,255,728,038	4,238,410,425	(17,317,613)
				-
Total Funds Available	<u>13,387,306,434</u>	<u>15,100,583,544</u>	<u>14,589,087,548</u>	<u>(511,495,996)</u>
<u>Expenditures</u>				
Departmental Administration and Program Sup	354,413,731	531,344,025	480,233,985	51,110,040
Georgia Board of Dentistry	802,970	828,332	733,558	94,774
Georgia Board of Pharmacy	744,573	829,732	721,066	108,666
Health Care Access and Improvement	24,324,541	30,386,772	19,780,885	10,605,887
Healthcare Facility Regulation	15,872,144	22,269,455	17,545,021	4,724,434
Indigent Care Trust Fund	398,662,493	459,920,873	439,528,101	20,392,772
Aged, Blind and Disabled Medicaid	5,198,425,681	5,690,941,879	5,463,941,651	227,000,228
Low-Income Medicaid	3,786,304,624	4,289,032,970	3,962,617,390	326,415,580
PeachCare	400,431,950	362,292,505	306,566,742	55,725,763
State Health Benefit Plan	3,151,661,641	3,656,236,046	2,703,331,970	952,904,076
Georgia Board for Physician Workforce	51,462,050	51,467,044	51,292,895	174,149
Georgia Composite Medical Board	2,289,014	2,920,369	2,650,552	269,817
Georgia Drugs and Narcotics Agency	1,911,022	2,113,542	2,023,648	89,894
Total Expenditures	<u>13,387,306,434</u>	<u>15,100,583,544</u>	<u>13,450,967,464</u>	<u>1,649,616,080</u>
Excess of Funds Available over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,138,120,084</u>	<u>\$ 1,138,120,084</u>

Department of Community Health

REQUIRED SUPPLEMENTARY INFORMATION
BUDGET COMPARISON SCHEDULE – BUDGET FUND
BUDGET-TO-GAAP RECONCILIATION – SOURCES/INFLOWS OF RESOURCES

FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

Sources/Inflows of Resources

Actual amounts (budgetary basis) "Total Funds Available" from the budgetary comparison schedule	\$ 14,589,087,548
Differences - budget to GAAP:	
Revenues of budgeted funds included in the budget fund, but removed from the general fund for financial reporting purposes.	(3,727,942,832)
Revenue collections not included in the budget fund, but included in the general fund for financial reporting purposes.	474,322,838
Budgeted carryover funds from prior year fund balances shown as funds available in budget fund, but removed for financial reporting purposes.	(41,895,843)
Receivables and revenues accrued based on encumbrances reported for goods and services ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year they are received for GAAP reporting; additional miscellaneous basis differences.	(13,284,355)
Fund balance adjustments for prior year revenue are not a budgetary resource, but do affect current year revenues for GAAP reporting purposes.	(12,839,039)
Net revenue accrual for nonbudgetary Medicaid, PeachCare and Women, Infants and Children (WIC) incurred but not reported.	<u>33,462,600</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - general fund	<u>\$ 11,300,910,917</u>

Department of Community Health

REQUIRED SUPPLEMENTARY INFORMATION
BUDGET COMPARISON SCHEDULE – BUDGET FUND
BUDGET-TO-GAAP RECONCILIATION – USES/OUTFLOWS OF
RESOURCES

FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

Uses/Outflows of Resources

Actual amounts (budgetary basis) "Total Expenditures" from the budgetary comparison schedule	\$ 13,450,967,464
Differences - budget to GAAP:	
Expenditures of budgeted funds included in the budget fund, but removed from the general fund for financial reporting purposes.	(2,784,125,442)
Encumbrances for goods and services ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year they are received for GAAP reporting; additional miscellaneous basis differences.	(16,891,954)
Fund balance adjustments for prior year expenditures are not a budgetary resource, but do affect current year expenses for GAAP reporting purposes.	(14,748,014)
Net expenditure accrual for nonbudgetary Medicaid, PeachCare and WIC claims incurred but not reported.	<u>36,300,000</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - general fund	<u><u>\$ 10,671,502,054</u></u>

Department of Community Health

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DEPARTMENT'S PROPORTIONATE SHARE OF
NET PENSION LIABILITY

FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

	2015	
	ERS	TRS
DCH employer proportion of net pension liability	1.561542%	0.002332%
DCH proportionate share of net pension liability	\$ 58,567,475	\$ 294,617
DCH covered-employee payroll	\$ 37,208,825	\$ 237,861
DCH proportionate share of the net pension liability as a percentage of its covered-employee payroll	157.4021%	123.8610%
Plan Fiduciary net position as a percentage of the total pension liability	77.99%	84.03%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Department of Community Health

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF DEPARTMENT'S CONTRIBUTIONS

FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

	2015	
	ERS	TRS
Contractually required contribution	\$ 8,950,063	\$ 36,877
Contributions in relation to the contractually required contribution	<u>8,950,063</u>	<u>36,877</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Department of Community Health's covered-employee payroll	\$ 42,981,215	\$ 278,405
Contributions as a percentage of covered-employee payroll	20.8232%	13.2458%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Department of Community Health

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

NOTE 1. BUDGETARY REPORTING

A. General Fund Budgetary Process

The annual budget of the Department of Community Health is prepared primarily on the modified accrual basis utilizing encumbrance accounting. The legal level of budgetary control is the departmental program expenditure level. Fiscal year 2015 expenditures are controlled per House Bill 744, Section 17. The budget is submitted by the Department of Community Health and approved by the Legislature and the Governor. All un-encumbered annual appropriations lapse at fiscal year-end unless otherwise specified by constitutional or statutory provisions. Supplementary and amended appropriations may be enacted during the next legislative session by the same process used for original appropriations. Encumbrances are used to indicate the intent to purchase goods or services. The basis of budget method is modified accrual plus encumbrances. Liabilities and expenditures are recorded upon issuance of completed purchase orders. Goods or services need not have been received for liabilities and expenditures to be recorded.

B. Budgetary Presentation

The accompanying budgetary comparison schedule for the budget fund presents comparisons of the legally adopted budget with actual data prepared on the budgetary basis of accounting utilized by the Department of Community Health. Because the basis of budget differs from GAAP, budget and actual amounts in the accompanying Budgetary Comparison Schedules - Budget Fund are presented on the basis of budget and are included as required supplementary information. The Budget-to-GAAP reconciliation following the budgetary comparison schedules identifies the necessary adjustments to convert the budget fund to the general fund as required by generally accepted accounting principles.

Department of Community Health

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

NOTE 2. RETIREMENT PLANS AND OPEB REPORTING

A. Actuarial Assumptions Retirement Plans

Changes of assumptions: There were no changes in assumptions or benefits that affect the measurement of the total pension liability since the prior measurement date.

The following actuarial methods and assumptions were used to determine the contractually required contributions for the year ended June 30, 2015 reported in that schedule:

ERS	
Valuation date	June 30, 2012
Actuarial cost method	Entry age
Amortization method	Level dollar, open
Remaining amortization period	30 years
Asset valuation method	Seven-year smoothed market
Inflation rate	3.00%
Salary increases	2.725% - 4.625% for FY 2012-2013 5.45% - 9.25% for FY 2014+
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
TRS	
Valuation date	June 30, 2012
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Asset valuation method	Seven-year smoothed market
Inflation rate	3.00%
Salary increases	3.75% - 7.00%, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

B. Actuarial Assumptions OPEB

Please refer to Note 11 of Notes to the Financial Statements for disclosures related to the Schedule of Funding Progress and the Schedule of Employer Contributions for Other Post-Employment Benefits.