

Financial Statements and  
Independent Auditors' Report



**GEORGIA DEPARTMENT OF  
COMMUNITY HEALTH**

June 30, 2011



*Certified Public Accountants*

A JOINT VENTURE OF  
CERTIFIED PUBLIC ACCOUNTING FIRMS

**MAULDIN  
& JENKINS**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

**GEORGIA DEPARTMENT OF COMMUNITY HEALTH**

**June 30, 2011**

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**INDEPENDENT AUDITORS' REPORT**



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## Independent Auditors' Report

The Honorable David A. Cook, Commissioner  
State of Georgia's Department of Community Health

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** (hereinafter referred to as the "Department of Community Health") as of and for the year ended June 30, 2011, which collectively comprise the Department of Community Health's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department of Community Health's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Department of Community Health are intended to present the financial position, and the changes in financial position and cash flows, where applicable, 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, 2011, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to 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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2011, on our consideration of the Department of Community Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of funding progress and employer contributions and budgetary comparison information 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.

The Department of Community Health has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

We have applied certain limited procedures to the required supplementary information with respect to the schedules of funding progress and employer contributions, and budgetary comparison information (on pages 36 through 42) 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.

*Metcalf Davis*

*Muhammad E. Tesler*

Atlanta, Georgia  
November 21, 2011

## **FINANCIAL STATEMENTS**



# Department of Community Health

STATEMENT OF NET ASSETS

JUNE 30, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets:</b>			
<b>Current:</b>			
Cash, Cash Equivalents and Investments	\$ 15,199,620	\$ 50,595,478	\$ 65,795,098
Cash, Cash Equivalents and Investments - Restricted	24,791,730	-	24,791,730
Receivables, Net of Allowances for Uncollectibles:			
State Appropriation	16,131,703	-	16,131,703
Intergovernmental - Federal	633,150,259	-	633,150,259
Other	<u>222,701,903</u>	<u>49,802,982</u>	<u>272,504,885</u>
Total Current Assets	<u>\$ 911,975,215</u>	<u>\$ 100,398,460</u>	<u>\$ 1,012,373,675</u>
<b>Noncurrent:</b>			
Capital Assets, Net of Accumulated Depreciation	<u>\$ 28,261,110</u>	<u>\$ -</u>	<u>\$ 28,261,110</u>
Total Assets	<u>\$ 940,236,325</u>	<u>\$ 100,398,460</u>	<u>\$ 1,040,634,785</u>
<b>Liabilities:</b>			
<b>Current:</b>			
Cash Overdraft	\$ 89,697,716	\$ 9,688,053	\$ 99,385,769
Accounts Payable and Other Accruals	287,520,252	1,763,880	289,284,132
Salaries Payable	66,796	5,427	72,223
Federal Deferred Revenue	9,030,232	-	9,030,232
Benefits Payable	709,525,144	200,136,036	909,661,180
Due to Other Funds	-	12,656,512	12,656,512
Other Deferred Revenue	10,279,800	59,197,491	69,477,291
Current Portion of Compensated Absences Payable	<u>3,575,332</u>	<u>129,985</u>	<u>3,705,317</u>
Total Current Liabilities	<u>\$ 1,109,695,272</u>	<u>\$ 283,577,384</u>	<u>\$ 1,393,272,656</u>
<b>Noncurrent:</b>			
Compensated Absences Payable	<u>\$ 4,320,575</u>	<u>\$ 181,922</u>	<u>\$ 4,502,497</u>
Total Liabilities	<u>\$ 1,114,015,847</u>	<u>\$ 283,759,306</u>	<u>\$ 1,397,775,153</u>
<b>Net Assets:</b>			
Invested in Capital Assets	\$ 28,261,110	\$ -	\$ 28,261,110
Restricted	78,078,038	-	78,078,038
Unrestricted	<u>(280,118,670)</u>	<u>(183,360,846)</u>	<u>(463,479,516)</u>
Total Net Assets	<u>\$ (173,779,522)</u>	<u>\$ (183,360,846)</u>	<u>\$ (357,140,368)</u>

The accompanying notes are an integral part of this statement.

# Department of Community Health

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2011

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants	Governmental Activities	Business-Type Activities	Total
<b>Functions/Programs:</b>						
Governmental Activities:						
Education	\$ 53,627,043	\$ -	\$ 72,580	\$ (53,554,463)	\$ -	\$ (53,554,463)
Health and Welfare	9,425,769,587	131,681,812	6,483,500,800	(2,810,586,975)	-	(2,810,586,975)
Contribution to State General Fund	<u>406,562,946</u>	<u>-</u>	<u>-</u>	<u>(406,562,946)</u>	<u>-</u>	<u>(406,562,946)</u>
Total Governmental Activities	\$ 9,885,959,576	\$ 131,681,812	\$ 6,483,573,380	\$ (3,270,704,384)	\$ -	\$ (3,270,704,384)
Business-Type Activities:						
Health and Welfare	<u>2,224,280,102</u>	<u>2,274,781,419</u>	<u>-</u>	<u>-</u>	<u>50,501,317</u>	<u>50,501,317</u>
Total	\$ <u>12,110,239,678</u>	\$ <u>2,406,463,231</u>	\$ <u>6,483,573,380</u>	\$ <u>(3,270,704,384)</u>	\$ <u>50,501,317</u>	\$ <u>(3,220,203,067)</u>
General Revenues:						
State Appropriation				\$ 2,233,227,696	\$ -	\$ 2,233,227,696
Revenue Collections:						
Care Management Organization Fees				297,095	-	297,095
Nursing Home Provider Fees				128,760,035	-	128,760,035
Interest and Other Investment Income				54,705	195,036	249,741
Intergovernmental Transfers				313,635,050	-	313,635,050
Hospital Bed Tax				215,070,536	-	215,070,536
Other				<u>172,135,062</u>	<u>-</u>	<u>172,135,062</u>
Total General Revenues and Transfers				\$ 3,063,180,179	\$ 195,036	\$ 3,063,375,215
Change in Net Assets				\$ (207,524,205)	\$ 50,696,353	\$ (156,827,852)
Net Assets, July 1				<u>33,744,683</u>	<u>(234,057,199)</u>	<u>(200,312,516)</u>
Net Assets, June 30				\$ <u>(173,779,522)</u>	\$ <u>(183,360,846)</u>	\$ <u>(357,140,368)</u>

The accompanying notes are an integral part of this statement.

# Department of Community Health

FUND BALANCE SHEET  
GOVERNMENTAL FUND – GENERAL FUND

JUNE 30, 2011

**Assets:**

Cash, Cash Equivalents and Investments	\$	10,401,620
Cash with Fiscal Agent		4,798,000
Cash, Cash Equivalents and Investments - Restricted		24,791,730
Receivables, Net of Allowances for Uncollectibles:		
State Appropriation		16,131,703
Intergovernmental - Federal		633,150,259
Other		222,701,903

Total Assets \$ 911,975,215

**Liabilities and Fund Balance:**

Liabilities:

Cash Overdraft	\$	89,697,716
Accounts Payable and Other Accruals		287,520,252
Salaries Payable		66,796
Federal Deferred Revenue		9,030,232
Benefits Payable		709,525,144
Other Deferred Revenue		10,279,800

Total Liabilities \$ 1,106,119,940

Fund Balance:

Restricted		78,078,038
Unassigned		<u>(72,222,763)</u>

Total Fund Balance \$ (194,144,725)

**Reconciliation from Governmental Fund Balance to Governmental Activities**

**Net Assets:**

Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and therefore are not reported in the funds.		28,261,110
Long-term obligations, including compensated absences are not due and payable in the current period and therefore are not reported in the governmental fund - general fund.		<u>(7,895,907)</u>

Net Assets of Governmental Activities \$ (173,779,522)

The accompanying notes are an integral part of this statement.

# Department of Community Health

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

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2011

<b>Revenues:</b>	
Intergovernmental:	
State Appropriation	\$ 2,233,227,696
Federal	6,483,573,380
Other	<u>961,634,295</u>
Total Revenues	\$ <u>9,678,435,371</u>
<b>Expenditures:</b>	
Education	\$ 53,627,043
Health and Welfare	<u>9,422,856,853</u>
Total Expenditures	\$ <u>9,476,483,896</u>
Excess of Revenues Over Expenditures	\$ 201,951,475
<b>Other Financing Uses:</b>	
Contribution to State General Fund	<u>(406,562,946)</u>
Net Change in Fund Balance	\$ (204,611,471)
Fund Balance, July 1	<u>10,466,746</u>
Fund Balance, June 30	\$ <u><u>(194,144,725)</u></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 FUND – GENERAL FUND – TO THE  
STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES –  
CHANGE IN NET ASSETS

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2011

Governmental Fund - General Fund - Net Change in Fund Balance \$ (204,611,471)

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

Capital Outlays	\$ 573,530	
Depreciation	(3,024,695)	
Retirements, net	<u>(172,199)</u>	
		\$ (2,623,364)

Governmental funds do not report a liability for long-term obligations  
or compensated absences. The issuance of long-term obligations  
provides current financial resources to governmental funds while the  
repayment of the principal consumes the current financial resources of  
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 \$ (289,370)

Statement of Activities - Governmental Activities - Change in Net Assets \$ (207,524,205)

The accompanying notes are an integral part of this statement.

# Department of Community Health

STATEMENT OF NET ASSETS  
PROPRIETARY FUND – ENTERPRISE FUND

JUNE 30, 2011

## Assets:

### Current:

Cash, Cash Equivalents and Investments	\$ 50,595,478
Receivables - Other, Net of Allowance for Uncollectibles	<u>49,802,982</u>
Total Assets	<u>\$ 100,398,460</u>

## Liabilities:

### Current:

Cash Overdraft	\$ 9,688,053
Accounts Payable and Other Accruals	1,763,880
Salaries Payable	5,427
Benefits Payable	200,136,036
Deferred Revenue	59,197,491
Due to Other Funds	12,656,512
Current Portion of Compensated Absences Payable	<u>129,985</u>
Total Current Liabilities	<u>\$ 283,577,384</u>

### Noncurrent:

Compensated Absences Payable	<u>\$ 181,922</u>
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Total Liabilities	<u>\$ 283,759,306</u>
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## Net Assets:

Unrestricted	<u>\$ (183,360,846)</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 ASSETS –  
PROPRIETARY FUND – ENTERPRISE FUND

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2011

<b>Operating Revenues:</b>	
Contributions	\$ 2,271,015,387
American Recovery and Reinvestment Act: Cobra Premium Subsidy	<u>3,766,032</u>
Total Operating Revenues	<u>\$ 2,274,781,419</u>
<b>Operating Expenses:</b>	
Health and Welfare	<u>\$ 2,224,280,102</u>
Operating Income	\$ 50,501,317
<b>Nonoperating Revenues:</b>	
Interest and Other Investment Income	<u>195,036</u>
Change in Net Assets	\$ 50,696,353
Net Assets, July 1	<u>(234,057,199)</u>
Net Assets, June 30	<u>\$ (183,360,846)</u>

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, 2011

## Cash Flows from Operating Activities:

Cash Received from Required Contributions	\$ 2,245,847,201
Cash Paid to Vendors	(106,039,504)
Cash Paid to Employees	(4,722,614)
Cash Paid for Benefits	<u>(2,123,800,282)</u>

Net Cash Provided by Operating Activities \$ 11,284,801

## Cash Flows from Investing Activity:

Interest and Other Investment Income	<u>\$ 195,036</u>
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Net Cash Provided by Investing Activity \$ 195,036

Net Increase in Cash and Cash Equivalents \$ 11,479,837

Cash and Cash Equivalents, July 1 39,115,641

Cash and Cash Equivalents, June 30 \$ 50,595,478

## Adjustments to Reconcile Operating Income to

### Net Cash Provided by Operating Activities:

Operating Income	<u>\$ 50,501,317</u>
------------------	----------------------

### Changes in Assets and Liabilities:

Increase in Other Receivables	\$ (8,660,706)
Increase in Accounts Payable and Other Accruals	5,001,664
Increase in Compensated Absences Payable	29,079
Increase in Salaries/Withholdings	4,994
Decrease in Benefits Payable	(15,318,036)
Decrease in Due to Other Funds	(9,888,780)
Decrease in Deferred Revenue	<u>(10,384,731)</u>

Total Adjustments \$ (39,216,516)

Net Cash Provided by Operating Activities \$ 11,284,801

The accompanying notes are an integral part of this statement.



# Department of Community Health

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS

JUNE 30, 2011

	<b>State Employees Postemployment Health Benefit Fund</b>	<b>School Personnel Postemployment Health Benefit Fund</b>	<b>Total</b>
<b>Assets:</b>			
Cash, Cash Equivalents and Investments	\$ 12,787,683	\$ 14,076,353	\$ 26,864,036
Receivables - Other, Net of Allowance for Uncollectibles	4,748,261	9,100,521	13,848,782
Due from Other Funds	805,168	11,851,344	12,656,512
Total Assets	<u>\$ 18,341,112</u>	<u>\$ 35,028,218</u>	<u>\$ 53,369,330</u>
<b>Liabilities:</b>			
Accounts Payable and Other Accruals	\$ 80,806	\$ 151,582	\$ 232,388
Benefits Payable	15,132,167	28,454,286	43,586,453
Deferred Revenue	3,128,139	6,422,350	9,550,489
Total Liabilities	<u>\$ 18,341,112</u>	<u>\$ 35,028,218</u>	<u>\$ 53,369,330</u>
<b>Net Assets:</b>			
Held in Trust for:			
Other Post-employment Benefits	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

# Department of Community Health

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2011

	<u>State Employees Postemployment Health Benefit Fund</u>	<u>School Personnel Postemployment Health Benefit Fund</u>	<u>Total</u>
<b>Additions:</b>			
Contributions			
Employer	\$ 168,384,048	\$ 339,220,960	\$ 507,605,008
Plan Members	<u>33,954,545</u>	<u>70,645,572</u>	<u>104,600,117</u>
Total Contributions	<u>\$ 202,338,593</u>	<u>\$ 409,866,532</u>	<u>\$ 612,205,125</u>
Investment Earnings			
Interest	<u>\$ 2,303</u>	<u>\$ 1,720</u>	<u>\$ 4,023</u>
Total Additions	<u>\$ 202,340,896</u>	<u>\$ 409,868,252</u>	<u>\$ 612,209,148</u>
<b>Deductions:</b>			
General and Administrative Expenses	\$ 6,208,482	\$ 11,683,163	\$ 17,891,645
Benefits	<u>196,317,786</u>	<u>398,244,544</u>	<u>594,562,330</u>
Total Deductions	<u>\$ 202,526,268</u>	<u>\$ 409,927,707</u>	<u>\$ 612,453,975</u>
Change in Net Assets Held in Trust for:			
Other Post-employment Benefits	\$ (185,372)	\$ (59,455)	\$ (244,827)
Net Assets, July 1	<u>185,372</u>	<u>59,455</u>	<u>244,827</u>
Net Assets, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

## Note 1. Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying basic financial statements follows.

### A. Reporting Entity

The State of Georgia's Department of Community Health (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 General Assembly of Georgia. 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, 2010. The State's Comprehensive Annual Financial Report as of and for the year ended June 30, 2011 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. Basic Financial Statements

The basic financial statements include both department-wide (based on the Department of Community Health as a whole) and fund financial statements. The department-wide financial statements (within the basic 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. In the department-wide statement of net assets, both the governmental and business-type activities are reflected, on a full accrual, economic resource basis, which incorporates long-term assets as well as long-term obligations. The department-wide statement of activities reflects the net revenues and expenses by function/program and is offset by general revenues (intergovernmental revenues, interest income, etc.). 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 program. Revenues that are not classified as program revenues are presented as general revenues.

The department-wide focus is 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 fund statements categorize primary activities as either governmental, proprietary, or fiduciary. A fund is a separate accounting entity with a self-balancing set of accounts. The emphasis of the fund financial statements is on the Department of Community Health's funds in either the governmental, proprietary, or fiduciary categories. Separate fund financial statements for each fund category – governmental, proprietary and fiduciary – are presented.

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

## Note 1. Summary of Significant Accounting Policies (continued)

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities, (b) demonstrate the source and use of liquid resources and (c) demonstrate how the Department of Community Health's actual experience conforms to the budget fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the department-wide statements' governmental activities column, a reconciliation is presented on the page following the statement of revenues, expenditures and changes in fund balance – governmental fund – general fund, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental activities column of the department-wide presentation. A reconciliation which explains the differences between the total fund balance on the governmental fund balance sheet and the net assets of governmental activities is also presented.

Enterprise 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's fiduciary funds account for the cost of retiree postemployment health insurance benefits. All assets of the funds are used solely for the payment of fund obligations.

All governmental and business-type activities, enterprise funds and fiduciary funds of the Department of Community Health follow the Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins, unless those pronouncements conflict with Governmental Accounting Standards Board (GASB) pronouncements.

The major funds reported by the Department of Community Health are as follows:

**Governmental Funds** - Governmental funds are used to account for the Department of Community Health's general activities. The general fund is the Department of Community Health's primary operating fund and the only governmental fund. It accounts for all financial resources of the Department of Community Health except for those accounted for in the enterprise fund and fiduciary funds.

**Proprietary Funds** - Proprietary funds are used to account for activities similar to those found in the private sector, where cost recovery and the determination of net income is necessary or useful for sound financial administration. 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 funds reported by the Department of Community Health are as follows:

**Fiduciary Funds** - Fiduciary funds include those used to report the accumulation of resources for, and payment of postemployment health benefits. 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").

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

## Note 1. Summary of Significant Accounting Policies (continued)

### C. Measurement Focus

**Governmental Funds** - The Department of Community Health's governmental fund is presented using the flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other uses) in net current assets. As noted previously, the Department of Community Health's only governmental fund is the general fund.

**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 on the statement of net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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

### D. Basis of Accounting

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.

The department-wide, proprietary fund and fiduciary fund financial statements are presented on an accrual basis of accounting. The governmental fund financial statements are presented on a modified accrual basis.

**Accrual** - Revenues are recognized when earned and expenses are recognized when incurred.

**Modified Accrual** - 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 30 days 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. Principal revenue sources, which are susceptible to accrual, include federal grants and shared revenues (which include State appropriations). Deferred revenue reported represents revenue that is unearned and/or unavailable.

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, such as long-term obligations, are reflected on the balance sheet.

## Note 1. Summary of Significant Accounting Policies (continued)

### E. 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, State Employees Post-employment Benefit Fund, School Personnel Post-employment Benefit 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.

Pooled assets and other deposits of the Department of Community Health are categorized on the governmental fund, proprietary fund, and fiduciary fund statements and the statement of net assets 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.

***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.

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

## Note 1. Summary of Significant Accounting Policies (continued)

*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.

*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 revenue. Investments also consist of shares of Georgia Fund I. These investments are recorded at fair value, based on market value.

### Georgia Fund 1

Georgia Fund 1 (the Pool) is a combination of local and State government investment pools. The Pool is a stable net asset value investment pool which follows Standard and Poor's criteria for AAAM rated money market funds. The Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, but does operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. 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. Pooled cash and cash equivalents and investments are reported at cost. The Pool does not issue any legally binding guarantees to support the value of the shares. 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 U. S. Treasury obligations, securities issued or guaranteed as to principal and interest by the U. S. government or any of its agencies or instrumentalities, bankers' acceptances and repurchase agreements.

Georgia Fund 1 is a AAAM rated fund by Standard & Poor's (S&P). The S&P criteria require Georgia Fund 1 to maintain a weighted average maturity (WAM) of 60 days or less. The WAM for the Pool on June 30, 2011 was 59 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.

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

### F. Accounts Receivable

The State Appropriation receivable consists of funds appropriated and allotted to the Department of Community Health by the General Assembly of Georgia that have not been drawn down from the OST as of June 30, 2011. Management has determined the State Appropriation receivable to be fully collectible at June 30, 2011. 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, 2011. Management provides a reserve for any balances expected to remain outstanding past the next fiscal year. As a result, management has reserved approximately \$90 million that it may not collect as of June 30, 2012.

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

## Note 1. Summary of Significant Accounting Policies (continued)

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 (\$100.00 for governmental activities; \$400.00 for business-type activities).

The receivables reported in the fiduciary funds consist of contributions receivable. Management has determined contribution receivables to be fully collectible at June 30, 2011. Therefore, no provision for uncollectible amounts has been reported for such receivables.

### G. Capital Assets

Capital assets are real or personal property that have a value equal to or greater than the capitalization threshold for the particular classification of the asset and have 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>
Buildings and building improvements	\$100,000	5 to 60
Equipment, furniture and fixtures	5,000	3 to 20

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 Assets. Capital assets 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 market value at the time of donation.

### H. 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 fund.

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. Funds are provided in the appropriation of State funds each fiscal year to cover the cost of annual leave of terminated employees.



# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

## Note 1. Summary of Significant Accounting Policies (continued)

### I. Fund Balances and Net Assets

In accordance with 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.

The department-wide, proprietary fund and fiduciary fund financial statements utilize a net asset presentation. The statement of net assets is intended to show net assets 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.

**Invested in Capital Assets (Net of Related Debt)** – Net assets which are 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 Assets** – Net assets are reported as restricted when constraints are externally imposed by creditors or imposed by law.

**Unrestricted Net Assets** – Net assets are reported as unrestricted when they do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund balance in fiduciary fund types is classified as held in trust for the benefit of individuals or other governments.

### J. 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.

### K. 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.

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

## Note 1. Summary of Significant Accounting Policies (continued)

Balances due to/from other funds at June 30, 2011, totaled \$12,656,512. Amounts due from the SHBP to the State Employees Postemployment Health Benefit Fund (State OPEB Fund) were \$805,168 and amounts due from the SHBP to the School Personnel Postemployment Health Benefit Fund (School OPEB Fund) were \$11,851,344.

### L. 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.

## Note 2. Deposits and Investments

Total cash, cash equivalents and investments at June 30, 2011 for the Department of Community Health's governmental, business-type activities and fiduciary fund are as follows:

### Deposits and Investments:

Amounts Included as Deposits (Overdraft) in Bank	\$ (57,322,113)
Amounts Included as Deposits in OST	24,791,730
Amounts Deposited in Georgia Fund 1	<u>50,595,478</u>
	<u>\$ 18,065,095</u>

### As Reported in the Statement of Net Assets:

Cash, Cash Equivalents and Investments	\$ 65,795,098
Cash, Cash Equivalents and Investments - Restricted	24,791,730
Cash Overdraft	<u>(99,385,769)</u>
	\$ (8,798,941)

### As Reported in the Statement of Fiduciary Net Assets:

Cash, Cash Equivalents and Investments	<u>26,864,036</u>
	<u>\$ 18,065,095</u>

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

## 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 Women, Infants, and Children (WIC) Federal Funds Account and the State Health Benefit Plan Employee Health Insurance Account. Noninterest bearing accounts are fully insured by the Federal Deposit Insurance Corporation (FDIC) regardless of the account balance and ownership capacity of the funds. Department of Community Health has 100 percent FDIC insurance coverage for noninterest bearing accounts under the Dodd-Frank Wall Street Reform and Consumer Protection Act. Department of Community Health also has up to \$250,000 FDIC insurance for the WIC. 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 Georgia Office of State Treasury at 110 percent after FDIC coverage is deducted. At year-end, the carrying amounts of the Department of Community Health's deposits totaled \$42,077,168 and the bank balances were \$35,581,706. Of the bank balances, \$18,736,130 was collateralized and \$16,845,576 was insured.

### B. Investments

The carrying amount of the Department of Community Health's investment balances as of June 30, 2011 is summarized on the following page. All cash, cash equivalents and investments reported by the Department of Community Health are maintained in an investment pool by the OST and are not subject to risk categorization. The Georgia Fund 1 investment pool is included in "cash, cash equivalents and investments" on the statement of net assets.

**Interest Rate Risk** is the risk that changes in interest rates may 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, 2011, Standard and Poor's rated the Department of Community Health's investment in the Georgia Fund 1 as AAAM.

**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, 2011

## 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, 2011, the carrying amount of the Department of Community Health's investment is summarized as follows.

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Investments pooled by OST:		
Georgia Fund 1	\$ 50,595,478	59

## Note 3. Accounts Receivable

At June 30, 2011, receivables – other arising from governmental activities are reported as follows:

	<u>Receivables - Other</u>	<u>Allowance Amount</u>	<u>Receivables - Other (Net of Allowances for Uncollectibles)</u>
Interim Payments to Providers and Other Receivables	\$ 108,268,956	\$ (54,082,370)	\$ 54,186,586
Direct Billings for Services Provided	<u>168,515,317</u>	<u>-</u>	<u>168,515,317</u>
	<u>\$ 276,784,273</u>	<u>\$ (54,082,370)</u>	<u>\$ 222,701,903</u>

At June 30, 2011, the accounts receivable for business-type activities are reported as follows:

	<u>Receivables - Other</u>	<u>Allowance Amount</u>	<u>Receivables - Other (Net of Allowances for Uncollectibles)</u>
Contributions Receivable	\$ 49,802,982	\$ -	\$ 49,802,982
Claims Refunds Due	<u>3,925,651</u>	<u>(3,925,651)</u>	<u>-</u>
	<u>\$ 53,728,633</u>	<u>\$ (3,925,651)</u>	<u>\$ 49,802,982</u>

At June 30, 2011, the allowance for uncollectible interim payments to providers and claim refunds due to the governmental fund was determined to be \$54,082,370. The allowance for uncollectible claim refunds due to the enterprise fund was determined to be \$3,925,651.

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

## Note 4. Capital Assets

The following is a summary of equipment presented in the statement of net assets in the governmental activities column at June 30, 2011:

	<u>Balance at June 30, 2010</u>	<u>Additions and Adjustments</u>	<u>Deletions and Adjustments</u>	<u>Balance at June 30, 2011</u>
Governmental Activities:				
Depreciable Capital Assets:				
Equipment, Furniture and Fixtures	\$ 17,780,258	\$ 573,530	\$ 1,056,713	\$ 17,297,075
Buildings	<u>38,881,693</u>	<u>-</u>	<u>75,396</u>	<u>38,806,297</u>
Total Depreciable Capital Assets	<u>56,661,951</u>	<u>573,530</u>	<u>1,132,109</u>	<u>56,103,372</u>
Less Accumulated Depreciation	<u>25,777,477</u>	<u>3,024,695</u>	<u>959,910</u>	<u>27,842,262</u>
Depreciable Capital Assets, net	<u>\$ 30,884,474</u>	<u>\$ (2,451,165)</u>	<u>\$ 172,199</u>	<u>\$ 28,261,110</u>

All capital outlays and depreciation were charged to the health and welfare function.

## Note 5. Operating Leases

The Department of Community Health has entered into certain agreements to lease equipment, 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 \$213,774 for the year ended June 30, 2011. The future minimum commitments for operating leases as of June 30, 2011 are listed below.

<u>Fiscal Year Ending June 30,</u>	
2012	\$ 263,340
2013	217,654
2014	172,762
2015	<u>66,246</u>
	<u>\$ 720,002</u>

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

## Note 6. Long-Term Obligations

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

	<u>Balance Beginning of Year</u>	<u>Additions and Adjustments</u>	<u>Deletions and Adjustments</u>	<u>Balance at June 30, 2011</u>	<u>Due within One Year</u>
Governmental Activities:					
Compensated Absences	<u>\$ 7,606,537</u>	<u>\$ 3,566,260</u>	<u>\$ 3,276,890</u>	<u>\$ 7,895,907</u>	<u>\$ 3,575,332</u>
Business-Type Activities:					
Compensated Absences	<u>\$ 282,828</u>	<u>\$ 185,562</u>	<u>\$ 156,483</u>	<u>\$ 311,907</u>	<u>\$ 129,985</u>

## Note 7. Contributions to the State

Contributions to the State for the fiscal year ended June 30, 2011, consisted of the following:

General Fund	
Office of the State Treasurer	
Return of Appropriation	\$ 43,300,065
Remittance of Collections	<u>363,262,881</u>
	<u>\$ 406,562,946</u>

## Note 8. Fund Balances and Net Assets

*Governmental Activities* – At June 30, 2011, funds reported in governmental activities had an unrestricted net asset (deficit) of approximately \$174 million.

*Governmental Fund Balance* – At June 30, 2011, the general fund had fund balance (deficit) of approximately \$194 million which included certain amounts that were restricted or unassigned.

*Business-Type Activities* – At June 30, 2011, the State Health Benefit Plan had an unrestricted net asset (deficit) of approximately \$183 million.

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

## Note 8. Fund Balances and Net Assets (continued)

**Governmental Fund Balance** – The Department of Community Health’s fund balances reported as unassigned and restricted as summarized as follows.

Unassigned:	
Emergency Preparedness	\$ (451,233)
Medicaid, Low Income	(15,073,066)
Medicaid, Aged Blind and Disabled	<u>(256,698,464)</u>
	<u>(272,222,763)</u>
Restricted:	
Administration	\$ 44,008,854
Other	14,237,192
Indigent Care Trust Fund	9,420,213
Health Care Access and Improvement	7,303,508
Adolescent and Adult Health Promotion	2,283,158
Immunization	<u>825,113</u>
	<u>78,078,038</u>
Total Fund Balance	<u>\$ (194,144,725)</u>

**Encumbered Commitments** – As of June 30, 2011, the Department of Community Health has encumbered amounts for the following programs:

Administration	\$ 64,431,036
Health Care Access and Improvement	2,034,371
Indigent Care Trust Fund	1,892,577
Immunization	2,212,349
Infant and Child Essential Health	5,727,931
Infant and Child Health Promotion	13,737,312
Infectious Disease Control	10,606,426
Adolescent and Adult Health Promotion	3,785,848
Trauma Commission	3,411,301
Emergency Preparedness	5,837,872
Epidemiology	1,494,618
Other	<u>882,369</u>
Total Fund Balance	<u>\$ 116,054,010</u>

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

## 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 General Assembly of Georgia. The Department of Community Health has contracted with Cigna and United Health Care to process claims in accordance with the SHBP as established by the Board of Community Health.

**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 Employees' Retirement System; 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, 2011.

The Department of Community Health's estimated fiscal year end liability includes an estimate for claims that have been incurred, but not reported, 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.



# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

## Note 9. Risk Management (continued)

A reconciliation of total claim liabilities for fiscal years ended June 30, 2011 and 2010 for governmental activities, business-type activities and fiduciary funds is shown below:

	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, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Unpaid claims and claim adjustments, July 1	\$ 752,903,961	\$ 696,124,897	\$ 215,454,072	\$ 212,157,934	\$ 25,299,093	\$ 54,823,553
Incurred claims and claim adjustment expenses - provisions for insured events of the current year	8,625,372,386	8,496,552,303	2,108,482,246	2,181,811,625	594,562,331	588,421,336
Payments-claims and claim adjustment expenses attributable to insured events of the current year and of prior years	<u>(8,668,751,203)</u>	<u>(8,439,773,239)</u>	<u>(2,123,800,282)</u>	<u>(2,178,515,486)</u>	<u>(576,274,971)</u>	<u>(617,945,796)</u>
	<u>\$ 709,525,144</u>	<u>\$ 752,903,961</u>	<u>\$ 200,136,036</u>	<u>\$ 215,454,072</u>	<u>\$ 43,586,453</u>	<u>\$ 25,299,093</u>

The above liabilities include an actuarial estimate for claims incurred, but not reported based on analyses of historical data.

## Note 10. Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. 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, 2011.

## Note 11. Other Post-employment Benefits

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 "State Health Benefit Plan.") Post-employment health benefits due under the State Health Benefit Plan are paid through the Georgia State Employees Post-employment Health Benefit Fund established by OCGA Section 45-18-25 and the Georgia School Personnel Post-employment Health Benefit Fund established by OCGA Section 20-2-875.

The GASB issued two pronouncements that impacted the State's accounting and financial reporting for postemployment benefits such as retiree healthcare benefits, commonly known as Other Post-Employment Benefits (OPEB): GASB Statement 43 and GASB Statement 45 (collectively the "GASB Statements").

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

## Note 11. Other Post-employment Benefits (continued)

In 2005, the General Assembly of Georgia, in response to the GASB Statements, provided by law for a trust fund for retiree health benefits for the SHBP, in which employer contributions for current and future retiree health costs may be accumulated and invested when available and which has facilitated the separate financial reporting of Other Postemployment Benefits (OPEB). The trust fund was known as the Georgia Retiree Health Benefit Fund (GRHBF).

In 2009, the General Assembly of Georgia revisited the GRHBF and enacted legislation that, effective August 31, 2009, separated the GRHBF into two new funds: the State OPEB Fund and the School OPEB Fund. The purpose of this change was to assure employers responsible for planning and funding future retiree health costs that their contributions will be dedicated to their respective retiree populations. Funds in the GRHBF were segregated by contributions and related earnings attributed to state employees or school personnel (public school teachers and public school employees) and then transferred to the State OPEB Fund or the School OPEB Fund, respectively, as described below. The statute that created the GRHBF was repealed effective September 1, 2010.

### 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 postemployment 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 pays postemployment 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 pays postemployment health benefits (including benefits for 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), postemployment 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. 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.

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

## Note 11. Other Post-employment Benefits (continued)

**Membership Information** – Membership consisted of the following at June 30, 2011:

	<u>State OPEB Fund</u>	<u>School OPEB Fund</u>
Retirees and beneficiaries receiving benefits	31,975	67,465
Terminated plan members entitled to but not yet receiving benefits	180	226
Active plan members	<u>61,915</u>	<u>178,964</u>
Total members	<u>94,070</u>	<u>246,655</u>
Number of participating employers	<u>219</u>	<u>251</u>

### C. Funding Policy, Funding Progress and Funded Status

The plan is 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.

The contribution requirements of plan members and participating employers are established by the Department of Community Health's Board in accordance with current appropriation 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. On average, plan members pay approximately 25 percent of the cost of health insurance coverage.

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 postemployment 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, 2011

## Note 11. Other Post-employment Benefits (continued)

The combined rates for the active and retiree plans for the fiscal year ended June 30, 2011 were as follows:

### SHBP Contributions Rates for Employers Participating in the State OPEB Fund

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

July 2010 - April 2011	25.586 percent of covered payroll for August - May Coverage
May 2011 - June 2011	22.667 percent of covered payroll for June - July Coverage

### SHBP Contribution Rates for Employers Participating in the School OPEB Fund

**For certificated teachers, librarians, regional educational service agencies, and certain other eligible participating employers:**

July 2010 - April 2011	21.955 percent of covered payroll for August - May Coverage
May 2011 - June 2011	1.429 percent of covered payroll for June - July Coverage

**For non-certificated school personnel:**

July 2010 - December 2010	\$162.72 per member per month
January 2011 - May 2011	\$218.20 per member per month
June 2011	\$246.20 per member per month

The Department of Education was appropriated an additional \$25,081,633 for non-certificated personnel health insurance payments.

The following table summarizes the Department of Community Health's contribution for the health insurance plan for the years ended June 30, 2011, 2010 and 2009.

	<u>Required Contribution</u>	<u>Percent Contributed</u>
2011	\$ 19,902,830	100%
2010	\$ 16,415,119	100%
2009	\$ 3,471,230	100%

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

## Note 11. Other Post-employment Benefits (continued)

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
<b>State OPEB Fund</b>						
6/30/2010	\$ 186,000	\$ 4,478,594,086	\$ 4,478,408,086	0.0%	\$ 2,626,081,000	170.5%
<b>School OPEB Fund</b>						
6/30/2010	\$ 58,000	\$ 11,250,400,224	\$ 11,250,342,224	0.0%	\$ 11,446,504,000	98.3%

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 valuations as of June 30, 2010 reflect revised assumptions based on an experience investigation for the five year period ending June 30, 2009. 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. 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, 2010
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	9.00%
Medicare Eligible	8.50%
Ultimate Trend Rate	
Pre-Medicare Eligible	5.00%
Medicare Eligible	5.00%
Year of Ultimate Trend Rate	2018

\*Includes an assumption of 3.00 percent inflation

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

## Note 12. Retirement Systems

The Department of Community Health participates in various retirement plans administered by the State under two major retirement systems: Employees' Retirement System of Georgia (ERS System) and Teachers Retirement System of Georgia (TRS). These two systems issue separate publicly available financial reports that include the applicable financial statements and required supplementary information. The reports may be obtained from the respective system offices. 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.

### *Employees' Retirement System of Georgia*

The ERS System is comprised of individual retirement systems and plans covering substantially all employees of the State except for teachers and other employees covered by the TRS. One of the ERS System plans, the Employees' Retirement System of Georgia (ERS), is a cost-sharing multiple-employer defined benefit pension plan that was established by the General Assembly of Georgia 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 and has the powers and privileges of a corporation. ERS acts pursuant to statutory direction and guidelines, which may be amended prospectively for new hires but for existing members and beneficiaries may be amended in some aspects only subject to potential application of certain constitutional restraints against impairment of contract.

On November 20, 1997, the Board of Trustees created the Supplemental Retirement Benefit Plan (SRBP-ERS) of ERS. SRBP-ERS was established as a qualified governmental excess benefit plan in accordance with Section 415 of the Internal Revenue Code (IRC) as a portion of ERS. The purpose of the SRBP-ERS is to provide retirement benefits to employees covered by ERS whose benefits are otherwise limited by IRC Section 415. Beginning January 1, 1998, all members and retired former members in ERS are eligible to participate in the SRBP-ERS whenever their benefits under ERS exceed the limitation on benefits imposed by IRC Section 415.

The benefit structure of ERS is established by the Board of Trustees under statutory guidelines. Unless the employee elects otherwise, an employee who currently maintains membership with ERS based upon State employment that started prior to July 1, 1982, is an "old plan" member subject to the 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 the modified plan provisions. Effective January 1, 2009, newly hired State employees, as well as rehired State employees who did not maintain eligibility for the "old" or "new" plan, are members of the Georgia State Employees' Pension and Savings Plan (GSEPS). ERS members hired prior to January 1, 2009 also have the option to change their membership to the GSEPS plan.

Under the old plan, 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 a formula adopted by the Board of Trustees for such purpose. The formula considers the monthly average of the member's highest 24 consecutive calendar months of salary, the number of years of creditable service, and the member's age at retirement. Post-retirement cost-of-living adjustments may 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.

# Department of Community Health

## Note 12. Retirement Systems (continued)

Member contributions are set by law. 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 Department of Community Health pays member contributions in excess of 1.25 percent of annual compensation. Under the old plan, these Department of Community Health contributions are included in the members' accounts for refund purposes and are used in the computation of 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 is required to contribute at a specified percentage of active member payroll established by the Board of Trustees determined annually in accordance with actuarial valuation and minimum funding standards as provided by law. These Department of Community Health contributions are not at any time refundable to the member or his/her beneficiary. Employer contributions required for fiscal year 2011 based on the June 30, 2008 actuarial valuation for the old and new plans and was set by the Board of Trustees on September 18, 2008 for GSEPS as follows:

Old Plan	10.41%
New Plan	10.41%
GSEPS	6.54%

### *Teachers Retirement System of Georgia*

The TRS is a cost-sharing multiple-employer defined benefit plan created in 1943 by an act of the General Assembly of Georgia to provide retirement benefits for qualifying employees in educational service. A Board of Trustees comprised of active and retired members and ex-officio State employees is ultimately responsible for the administration of TRS.

On October 25, 1996, the Board of Trustees created the Supplemental Retirement Benefit Plan of the Georgia Teachers Retirement System (SRBP-TRS). SRBP-TRS was established as a qualified governmental excess benefit plan in accordance with Section 415 of the IRC as a portion of TRS. The purpose of SRBP-TRS is to provide retirement benefits to employees covered by TRS whose benefits are otherwise limited by IRC Section 415. Beginning July 1, 1997, all members and retired former members in TRS are eligible to participate in the SRBP-TRS whenever their benefits under TRS exceed the IRC Section 415 imposed limitation on benefits.

TRS provides service retirement, disability retirement, and survivor's benefits. The benefit structure of TRS is defined and may be amended by State statute. A member 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. A member is eligible for early retirement after 25 years of creditable service.

Normal retirement (pension) benefits paid to members are equal to two percent of the average of the member's two highest paid consecutive years of service, multiplied by the number of years of creditable service up to 40 years. Early retirement benefits are reduced by the lesser of one-twelfth of seven percent for each month the member is below age 60 or by seven percent for each year or fraction thereof by which the member has less than 30 years of service. It is also assumed that certain cost-of-living adjustments, based on the Consumer Price Index, will be made in future years. Retirement benefits are payable monthly for life. A member may elect to receive a partial lump-sum distribution in addition to a reduced monthly retirement benefit. Death, disability and spousal benefits are also available.

TRS is funded by member and employer contributions as adopted and amended by the Board of Trustees. Members become fully vested after 10 years of service. If a member terminates with less than 10 years of service, no vesting of employer contributions occurs, but the member's contributions may be refunded with interest. Member contributions are limited by State law to not less than five percent or more than six percent of a member's earnable compensation. Member contributions as adopted by the Board of Trustees for the fiscal year ended June 30, 2011 were 5.53 percent of annual salary. The member contribution rate increased to 5.53 percent effective July 1, 2010. Employer contributions required for fiscal year 2011 were 10.28 percent of annual salary as required by the June 30, 2008 actuarial valuation.

# Department of Community Health

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

## Note 12. Retirement Systems (continued)

The following table summarizes the Department of Community Health's contributions by defined benefit plan for the fiscal years ended June 30, 2011, 2010, and 2009:

	ERS		TRS	
	<u>Required Contribution</u>	<u>Percent Contributed</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
2011	\$ 7,600,450	100%	\$ 10,483	100%
2010	\$ 7,976,372	100%	\$ 10,871	100%
2009	\$ 2,693,496	100%	\$ 8,234	100%

### *Georgia Defined Contribution Plan*

Certain employees of the Department of Community Health participate in the Georgia Defined Contribution Plan (GDGP), a single-employer defined contribution plan established by the General Assembly of Georgia for the purpose of providing retirement allowances for State employees who are not member of a public retirement or pension system. GDGP is administered by the ERS Board of Trustees. ERS issues a publicly available financial report that includes the financial statements and disclosures applicable to GDGP.

## Note 13. Contingencies

Amounts received or receivable from grantor agencies are subject to audit and review by grantor agencies, principally the federal government. This could result in a request for reimbursement by the grantor agency 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.

Litigation, claims and assessments filed against the Department of Community Health, if any, are generally considered to be actions against the State. Accordingly, significant litigation, claims and assessments pending against the State are expected to be disclosed in the State Comprehensive Annual Financial Report for the year ended June 30, 2011.

## Note 14. Subsequent Event

Effective July 1, 2011, the Division of Public Health became a stand-alone agency, under House Bill 214, and will no longer exist as a division within the Georgia Department of Community Health. House Bill 214 also created a new state agency, the Georgia Department of Public Health. All of the functions and program areas associated with public health transferred to the new agency as of July 1, 2011 as did the following assets, liabilities, fund balance, and net assets.

Division of Public Health fund balances and net assets as of June 30, 2011 consist of the following:

Current assets	\$ 78,362,432
Current liabilities	<u>(65,119,987)</u>
Fund balance of governmental funds	13,242,445
Long-term assets, capital assets	28,213,533
Long-term liabilities, compensated absences	<u>(4,731,890)</u>
Net assets of governmental activities	<u>\$ 36,724,088</u>

On an accrual basis, revenues and expenses reported in the statement of activities – governmental activities for the fiscal year ended June 30, 2011 that resulted from the activities of the division of public health within the Department of Community Health, were \$704,087,490 and \$708,193,934, respectively.



**REQUIRED SUPPLEMENTARY INFORMATION**

# Department of Community Health

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2011

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll*	UAAAL as a Percentage of Covered Payroll (b-a/c)
<b>State OPEB Fund</b>						
6/30/2010	\$ 186,000	\$ 4,478,594,086	\$ 4,478,408,086	0.0%	\$ 2,626,081,000	170.5%
6/30/2009	\$ 136,932,084	\$ 4,520,953,493	\$ 4,384,021,409	3.0%	\$ 2,730,018,000	160.6%
6/30/2008	\$ 141,362,050	\$ 4,672,798,768	\$ 4,531,436,718	3.0%	\$ 2,864,040,000	158.2%
<b>School OPEB Fund</b>						
6/30/2010**	\$ 58,000	\$11,250,400,224	\$11,250,342,224	0.0%	\$11,446,504,000	98.3%
6/30/2009	\$ 33,806,176	\$11,900,505,254	\$11,866,699,078	0.3%	\$11,628,960,000	102.0%
6/30/2008	\$ 34,899,858	\$11,952,049,937	\$11,917,150,079	0.3%	\$11,172,154,000	106.7%

\* 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 \$25,244 for 2010, \$24,332 for 2009, and \$24,332 for 2008.

\*\* Assumptions were changed due to experience study.

Disclosure of assumptions is included in the notes to the financial statements.

# Department of Community Health

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2011

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Actual Employer Contribution</u>	<u>Percentage of ARC Contributed</u>
<b>State OPEB Fund</b>			
2010	\$ 347,772,066	\$ 22,209,006	6.4%
2009	\$ 387,790,092	\$ 170,789,710	44.0%
2008	\$ 367,508,478	\$ 274,771,419	74.8%
<b>School OPEB Fund</b>			
2010	\$ 1,080,041,803	\$ 308,539,258	28.6%
2009	\$ 1,290,050,224	\$ 303,348,168	23.5%
2008	\$ 894,861,072	\$ 275,518,572	30.8%

# Department of Community Health

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGET COMPARISON SCHEDULE – BUDGET FUND

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2011

	Original Appropriation	Final Budget	Actual	Variance Positive (Negative)
State Appropriation				
State General Funds	\$ 1,598,718,072	\$ 1,776,569,204	\$ 1,776,569,204	\$ -
Tobacco Funds	112,361,397	110,549,251	110,549,251	-
Care Management Organization Funds	-	297,276	297,276	-
Hospital Provider Payments	229,007,409	215,079,822	215,079,822	-
Brain and Spinal Injury Trust Funds	1,960,848	1,960,848	1,963,641	2,793
Nursing Home Provider Fees	131,321,939	128,771,295	128,771,295	-
State Funds - Prior Year Carry-Over				
State General Funds - Prior Year	-	80,329,304	80,329,305	1
Tobacco Funds - Prior Year	-	194,247	194,247	-
Brain and Spinal Injury Trust Funds - Prior Year	-	887,731	883,368	(4,363)
Federal Funds				
Federal Funds Not Specifically Identified	441,254,221	511,645,573	463,852,239	(47,793,334)
Medical Assistance Program	5,158,464,505	5,679,001,164	5,427,383,719	(251,617,445)
State Children's Insurance Program	232,690,669	246,137,454	230,879,599	(15,257,855)
Maternal and Child Health Services Block Grant	20,919,118	25,051,965	22,711,716	(2,340,249)
Preventive Health and Health Services Block Grant	2,855,733	3,360,738	2,522,846	(837,892)
Preventive Treatment Substance Abuse	-	50,000	76,400	26,400
Temporary Assistance for Needy Families	-	13,930,360	13,532,506	(397,854)
American Recovery and Reinvestment Act of 2009				
Federal Funds Not Specifically Identified	-	25,558,287	18,333,768	(7,224,519)
Medical Assistance Program	748,909,573	615,849,681	569,484,112	(46,365,569)
Other Funds	3,435,783,443	3,386,440,649	3,341,331,396	(45,109,253)
<b>Total Funds Available</b>	<b>\$ 12,114,246,927</b>	<b>\$ 12,821,664,849</b>	<b>\$ 12,404,745,710</b>	<b>\$ (416,919,139)</b>
Administration	\$ 378,423,025	\$ 359,342,872	\$ 349,435,698	\$ 9,907,174
Aged, Blind, and Disabled Medicaid	4,293,160,373	4,711,373,603	4,457,628,373	253,745,230
Health Care Access and Improvement	6,933,175	11,805,817	7,428,570	4,377,247
Indigent Care Trust Fund	407,526,188	460,605,556	450,369,236	10,236,320
Low-Income Medicaid	3,141,100,336	3,242,636,573	3,101,484,481	141,152,092
PeachCare	275,968,358	294,142,083	277,859,299	16,282,784
State Health Benefit Plan	2,888,378,968	2,931,101,536	2,841,718,972	89,382,564
Healthcare Facility Regulation	15,512,738	15,280,169	13,244,737	2,035,432
Adolescent and Adult Health Promotion	43,071,038	44,775,141	42,747,579	2,027,562
Adult Essential Health Treatment Services	9,539,010	10,013,140	9,058,637	954,503
Emergency Preparedness/Trauma	46,121,266	62,000,286	46,476,574	15,523,712
Epidemiology	8,578,624	10,494,771	8,142,286	2,352,485
Immunization	19,391,125	12,789,578	10,784,046	2,005,532
Infant and Child Essential Health	56,158,151	68,038,939	57,250,020	10,788,919
Infant and Child Health Promotion	295,324,111	320,437,902	309,769,706	10,668,196
Infectious Disease Control	87,810,685	104,213,503	93,683,849	10,529,654
Brain and Spinal Injury Trust Fund	1,960,848	2,848,579	2,223,890	624,689
Inspections and Environmental Hazard Control	5,268,709	5,663,548	5,006,173	657,375
Public Health Formula Grants to Counties	62,673,116	82,413,825	82,199,218	214,607
Vital Records	4,191,247	4,161,275	4,029,142	132,133
Composite Board of Medical Examiners	1,907,596	2,466,184	2,269,937	196,247
Georgia Board for Physician Workforce				
Administration	613,360	604,328	598,623	5,705
Graduate Medical Education	8,479,244	8,142,301	8,015,897	126,404
Mercer School of Medicine	21,615,287	20,750,676	20,750,676	-
Morehouse School of Medicine	8,122,357	21,226,230	21,226,230	-
Undergraduate Medical Education	3,042,286	2,565,504	2,516,398	49,106
State Medical Education Board	1,134,706	1,227,470	1,129,542	97,928
Georgia Trauma Care Network Commission	22,241,000	10,543,460	10,386,191	157,269
<b>Total Expenditures</b>	<b>\$ 12,114,246,927</b>	<b>\$ 12,821,664,849</b>	<b>\$ 12,237,433,980</b>	<b>\$ 584,230,869</b>
Excess of Funds Available Compared to Expenditures			\$ 167,311,730	\$ 167,311,730

# Department of Community Health

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGET COMPARISON SCHEDULE – BUDGET FUND

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2011

	<u>Original Appropriation</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Beginning Fund Balance - July 1			\$ 180,910,674	
Other Changes in Fund Balance				
Returned to Office of Treasury and Fiscal Services				
Years Ended June 30, 2010			(43,300,065)	
Adjustments				
Adjustments Related to Prior Budget Years			(3,270,333)	
Fund Balance Carried Forward for Benefits			<u>(137,610,610)</u>	
Ending Fund Balance - June 30, 2011			<u>\$ 164,041,396</u>	
Analysis of Fund Balance				
Reserved				
Medicaid and PeachCare Benefits			\$ 82,482,071	
Indigent Care Trust Fund			7,595,021	
Other Reserves				
SHBP			39,445,501	
Fraud			411,441	
Brain & Spinal			602,998	
School Services (ACE)			5,515,924	
Nursing Home Sanctions			14,624,669	
Other			2,739,211	
Restricted			<u>10,624,560</u>	
			<u>\$ 164,041,396</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, 2011

	<u>Governmental Fund - General Fund</u>
<b>Sources/Inflows of Resources</b>	
Actual amounts (budgetary basis) "Total Funds Available" from the budgetary comparison schedule	\$ 12,404,745,710
Differences - budget to GAAP:	
Revenues of budgeted funds included in the budget fund, but removed from the general fund for financial reporting purposes.	(2,873,571,122)
Revenue collections not included in the budget fund, but included in the general fund for financial reporting purposes.	362,680,388
Budgeted carry-over funds from prior year fund balances shown as funds available in budget fund, but removed for financial reporting purposes.	(137,610,610)
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.	(114,452,909)
Fund balance adjustments for prior year revenue are not a budgetary resource, but do affect current year revenues for GAAP reporting purposes.	(44,819,980)
Net revenue accrual for nonbudgetary Medicaid, PeachCare and WIC claims incurred but not reported.	(67,110,602)
In-kind contributions recorded for GAAP but not included in budgetary revenue.	<u>148,574,496</u>
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund	<u>\$ 9,678,435,371</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, 2011

	<u>Governmental Fund - General Fund</u>
<b>Uses/Outflows of Resources</b>	
Actual amounts (budgetary basis) "Total Expenditures" from the budgetary comparison schedule	\$ 12,237,433,980
Differences - budget to GAAP:	
Expenditures of budgeted funds included in the budget fund, but removed from the general fund for financial reporting purposes.	(2,851,554,345)
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.	7,924,485
Fund balance adjustments for prior year revenue are not a budgetary resource, but do affect current year expenses for GAAP reporting purposes.	(41,174,295)
Net expenditure accrual for nonbudgetary Medicaid, PeachCare and WIC claims incurred but not reported.	(24,720,425)
Expenditures of in-kind contributions.	<u>148,574,496</u>
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund	<u>\$ 9,476,483,896</u>

# Department of Community Health

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2011

## 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 2011 expenditures are controlled per House Bill 948, 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 governmental fund as required by generally accepted accounting principles.