

**MOBILE COUNTY BOARD OF HEALTH**

**(EIN 1636001641A1)**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2012**

MOBILE COUNTY BOARD OF HEALTH

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September 30, 2012

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**INDEPENDENT AUDITOR'S REPORT**

December 21, 2012

Bernard H. Eichold, M.D., Health Officer  
Mobile County Board of Health  
Mobile, Alabama

I have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the fiduciary fund of Mobile County Board of Health (the Board) as of and for the year ended September 30, 2012 which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Mobile County Board of Health's management. My responsibility is to express an opinion on these financial statements based upon my audit.

I conducted my audit in accordance with auditing standards which are generally accepted in the United States 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the aggregate remaining fund information, and the fiduciary fund of the Board as of September 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles which are generally accepted in the United States.

In accordance with *Government Auditing Standards*, I have also issued a report dated December 21, 2012 on my consideration of the Board's internal control over financial reporting and my test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of

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Chartered Bank Auditor  
Certified Internal Auditor  
Certified Management Accountant  
Member American Institute of Certified Public Accountants

that report is to describe the scope of my 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 my audit.

The Board has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Board's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*S.W. Chiepalich*  
Certified Public Accountant

STATEMENT OF NET ASSETS  
**SEPTEMBER 30, 2012**  
 (With Comparative Totals for 2011)

<b>ASSETS</b>	<u>2012</u>	<u>2011</u>
Cash	\$14,328,243	\$15,030,439
Investments (certificates of deposit)	6,240,000	4,880,000
Accounts receivable	1,955,618	1,941,777
Inventory	323,052	342,255
Prepaid expense	67,495	20,193
Capital assets		
Land	927,572	819,753
Buildings & improvements	16,785,173	15,108,013
Improvements other than buildings	279,909	279,909
Equipment & furniture	5,876,512	5,409,642
Construction in progress	8,983	635,104
Accumulated depreciation	<u>(12,161,350)</u>	<u>(11,293,458)</u>
Net capital assets	<u>11,716,799</u>	<u>10,958,963</u>
<b>TOTAL ASSETS</b>	<b>34,631,207</b>	<b>33,173,627</b>
<b>LIABILITIES</b>		
Accounts payable	480,015	519,227
Accrued payroll	407,566	322,768
Payroll taxes payable	45,189	68,942
Fringe benefits payable	318,852	343,871
Deferred revenue	229,650	19,503
Compensated absences	<u>1,276,032</u>	<u>1,320,729</u>
Total liabilities	<u>2,757,304</u>	<u>2,595,040</u>
<b>NET ASSETS</b>		
Invested in capital assets	11,716,799	10,958,963
Unrestricted	<u>20,157,104</u>	<u>19,619,624</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$31,873,903</u></b>	<b><u>\$30,578,587</u></b>

See independent auditor's report and the notes to the financial statements.

**MOBILE COUNTY BOARD OF HEALTH**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2012  
(With Comparative Totals for 2011)**

	<u>2012</u>	<u>2011</u>
<b>PUBLIC HEALTH EXPENSES</b>		
Personnel costs	\$22,437,901	\$22,299,903
Depreciation	1,059,684	786,999
Pharmacy drugs	111,331	44,078
Other public health costs	<u>7,643,261</u>	<u>7,152,912</u>
Total expenses	31,252,177	30,283,892
<b>PROGRAM REVENUES</b>		
Charges for services	11,360,114	12,195,288
Operating grants & contributions	<u>14,604,740</u>	<u>15,057,816</u>
<b>NET PROGRAM REVENUE</b>	<b>(5,287,323)</b>	<b>(3,030,788)</b>
<b>GENERAL REVENUES</b>		
Taxes		
Property taxes	4,309,570	4,201,087
Oil & gas severance tax	332,165	355,746
Business privilege tax	67,355	66,854
Grants & contributions not restricted to specific programs	1,505,568	1,468,682
Unrestricted investment earnings	34,871	64,844
Miscellaneous	<u>333,110</u>	<u>246,108</u>
Total general revenues	<u>6,582,639</u>	<u>6,403,321</u>
<b>CHANGE IN NET ASSETS</b>	<b>1,295,316</b>	<b>3,372,533</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u><b>30,578,587</b></u>	<u><b>27,206,054</b></u>
<b>NET ASSETS - END OF YEAR</b>	<u><b>\$31,873,903</b></u>	<u><b>\$30,578,587</b></u>

See independent auditor's report and the notes to the financial statements.

MOBILE COUNTY BOARD OF HEALTH

BALANCE SHEET  
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2012  
(With Comparative Totals for 2011)

	<u>General Fund</u>	<u>Primary Care Fund</u>	<u>Ryan White Fund</u>
<b>ASSETS</b>			
Cash	\$ 7,030,160	\$2,743,406	\$ 487,638
Investments (certificates of deposit)	1,800,000	900,000	250,000
Accounts receivable	200,006	365,780	287,510
Inter-fund balances	1,102,112	-	-
Inventory	323,052	-	-
Prepaid expenses	<u>67,495</u>	<u>-</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>\$10,522,825</u>	<u>\$4,009,186</u>	<u>\$1,025,148</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 480,015	\$ -	\$ -
Accrued payroll	123,983	135,786	18,835
Payroll taxes payable	45,189	-	-
Fringe benefits payable	318,852	-	-
Deferred revenue	-	-	229,650
Inter-fund balances	<u>275,697</u>	<u>159,376</u>	<u>10,115</u>
<b>TOTAL LIABILITIES</b>	<u>1,243,736</u>	<u>295,162</u>	<u>258,600</u>
 <b>FUND BALANCES</b>			
Non-spendable	390,547	-	-
Spendable			
Restricted	-	-	-
Assigned	-	3,714,024	766,548
Unassigned	<u>8,888,542</u>	<u>-</u>	<u>-</u>
<b>TOTAL FUND BALANCES</b>	<u>9,279,089</u>	<u>3,714,024</u>	<u>766,548</u>
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	<u>\$10,522,825</u>	<u>\$4,009,186</u>	<u>\$1,025,148</u>

See independent auditor's report and the notes to the financial statements.

<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	
		<u>2012</u>	<u>2011</u>
\$ 1,222,152	\$ 2,844,887	\$14,328,243	\$15,030,439
1,590,000	1,700,000	6,240,000	4,880,000
-	1,102,322	1,955,618	1,941,777
-	-	1,102,112	1,897,400
-	-	323,052	342,255
-	-	67,495	20,193
<u>\$ 2,812,152</u>	<u>\$ 5,647,209</u>	<u>\$24,016,520</u>	<u>\$24,112,064</u>

\$ -	\$ -	\$ 480,015	\$ 519,227
-	128,962	407,566	322,768
-	-	45,189	68,942
-	-	318,852	343,871
-	-	229,650	19,503
<u>9</u>	<u>656,915</u>	<u>1,102,112</u>	<u>1,897,400</u>
<u>9</u>	<u>785,877</u>	<u>2,583,384</u>	<u>3,171,711</u>
-	-	390,547	362,448
2,812,143	2,180,238	2,180,238	1,885,159
-	2,681,094	9,973,809	10,449,674
<u>-</u>	<u>-</u>	<u>8,888,542</u>	<u>8,243,072</u>
<u>2,812,143</u>	<u>4,861,332</u>	<u>21,433,136</u>	<u>20,940,353</u>
<u>\$ 2,812,152</u>	<u>\$ 5,647,209</u>	<u>\$24,016,520</u>	<u>\$24,112,064</u>

**RECONCILIATION OF THE GOVERNMENT FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS**

**SEPTEMBER 30, 2012**

	<u>2012</u>	<u>2011</u>
Total fund balances per the Balance Sheet	\$21,433,136	\$20,940,353
<p>Capital assets are not financial resources &amp; therefore are not included in fund balances. Capital assets totaled \$23,878,149 and \$22,252,421 at September 30, 2012 and 2011, respectively. Accumulated depreciation at September 30, 2012 and 2011 totaled \$12,161,350 and \$11,293,458, respectively.</p>		
	11,716,799	10,958,963
<p>The compensated absences liability is not due and payable in the current year and therefore is not shown as a liability in the governmental funds balance sheet.</p>		
	<u>(1,276,032)</u>	<u>(1,320,729)</u>
Total net assets per the Statement of Net Assets	<u>\$31,873,903</u>	<u>\$30,578,587</u>

See independent auditor's report and the notes to the financial statements.

**MOBILE COUNTY BOARD OF HEALTH**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2012  
(With Comparative Totals for 2011)**

	<u>General Fund</u>	<u>Primary Care Fund</u>	<u>Ryan White Fund</u>
<b>REVENUES</b>			
Taxes	\$ 2,555,505	\$ -	\$ -
Federal grants	275,669	4,710,504	1,435,041
Other intergovernmental revenue	2,303,449	-	-
Charges for services	5,507,157	6,149,055	86,670
Interest income	14,347	5,616	1,754
Miscellaneous revenues	<u>127,726</u>	<u>143,962</u>	<u>150</u>
Total revenues	<u>10,783,853</u>	<u>11,009,137</u>	<u>1,523,615</u>
<b>PUBLIC HEALTH EXPENDITURES</b>			
Personnel costs	6,993,289	7,223,654	1,092,386
Pharmacy drugs	1,646	108,370	1,315
Other public health expenditures	2,372,687	3,381,828	445,543
Capital outlay	<u>1,421,427</u>	<u>168,785</u>	<u>1,180</u>
Total public health expenditures	<u>10,789,049</u>	<u>10,882,637</u>	<u>1,540,424</u>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(5,196)</b>	<b>126,500</b>	<b>(16,809)</b>
<b>TRANSFERS</b>	<b>740,809</b>	<b>(575,868)</b>	<b>(164,941)</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u><b>8,543,476</b></u>	<u><b>4,163,392</b></u>	<u><b>948,298</b></u>
<b>FUND BALANCE - END OF YEAR</b>	<u><b>\$ 9,279,089</b></u>	<u><b>\$ 3,714,024</b></u>	<u><b>\$ 766,548</b></u>

See independent auditor's report and the notes to the financial statements.

<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	
		<u>2012</u>	<u>2011</u>
\$ -	\$ 2,154,785	\$ 4,710,290	\$ 4,623,687
-	7,384,445	13,805,659	14,211,789
-	-	2,303,449	2,171,856
-	3,099,724	14,842,606	15,929,571
11,202	1,952	34,871	64,844
-	61,272	333,110	246,108
<u>11,202</u>	<u>12,702,178</u>	<u>36,029,985</u>	<u>37,247,855</u>
-	7,173,669	22,482,598	23,157,203
-	-	111,331	44,078
-	4,925,295	11,125,753	10,744,342
-	226,128	1,817,520	2,371,777
<u>-</u>	<u>12,325,092</u>	<u>35,537,202</u>	<u>36,317,400</u>
11,202	377,086	492,783	930,455
-	-	-	-
<u>2,800,941</u>	<u>4,484,246</u>	<u>20,940,353</u>	<u>20,009,898</u>
<u>\$ 2,812,143</u>	<u>\$ 4,861,332</u>	<u>\$21,433,136</u>	<u>\$20,940,353</u>

MOBILE COUNTY BOARD OF HEALTH

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

SEPTEMBER 30, 2012

	2012	2011
<b>Net change in fund balances per the Statement of Revenues, Expenditures, and Changes in Fund Balances</b>	<b>\$ 492,783</b>	<b>\$ 930,455</b>
 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. This is the amount by which capital outlays (\$1,817,520 in 2012 and \$2,371,777 in 2011) exceeded depreciation (\$1,059,684 in 2012 and \$786,999 in 2011).	757,836	1,584,778
 The unfunded retiree health insurance expense reported in the Statement of Activities does not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds (i.e. in the Statement of Revenues, Expenditures, and Changes in Fund Balances)	-	904,646
 The compensated absences expense reported in the Statement of Activities does not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds (i.e. in the Statement of Revenues, Expenditures, and Changes in Fund Balances)	44,697	(47,346)
 <b>Change in net assets per the Statement of Activities</b>	<b>\$1,295,316</b>	<b>\$3,372,533</b>

See independent auditor's report and the notes to the financial statements.

**MOBILE COUNTY BOARD OF HEALTH**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**SEPTEMBER 30, 2012**

	<u>Health Insurance Trust Fund</u>
<b>ASSETS</b>	
Cash	\$ 263,948
Investments:	
Equities	795,807
Corporate & governmental bonds	<u>1,023,047</u>
Total assets	2,082,802
<b>LIABILITIES</b>	<u>-</u>
<b>NET ASSETS</b>	<u><u>\$2,082,802</u></u>

**MOBILE COUNTY BOARD OF HEALTH**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Health Insurance Trust Fund</u>
<b>ADDITIONS</b>	
Employer contributions	\$ 725,617
Investment income	<u>128,702</u>
Total additions	854,319
<b>DEDUCTIONS</b>	
Claims payments	258,858
Trustee fees	<u>8,434</u>
Total deductions	<u>267,292</u>
<b>CHANGE IN NET ASSETS</b>	587,027
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>1,495,775</u>
<b>NET ASSETS - END OF YEAR</b>	<u><u>\$2,082,802</u></u>

See independent auditor's report and the notes to the financial statements.

**MOBILE COUNTY BOARD OF HEALTH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Mobile County Board of Health (the Board) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Board's accounting policies are described below.

Financial Reporting Entity

The Board was established prior to the creation of the Alabama State Department of Public Health. It serves as an agency of the Alabama State Department of Public Health, operating under the provisions of Code of Alabama 1975, Sections 22-3-1 through 22-3-12. The Board is composed of six medical officers and one member of the Mobile County Commission. The Board elects its own officers. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Board and its component unit. The component unit discussed below is included in the Board's reporting entity because of the significance of its operational or financial relationship with the Board.

In evaluating how to define the Board of Health for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not exclusive, criteria for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criteria used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financial relationships, regardless of whether the government is able to exercise oversight responsibilities.

**MOBILE COUNTY BOARD OF HEALTH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE 1    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Component Unit

The Family Oriented Primary Health Care Governing Council, Inc. an entity legally separate from the Board, is governed by an eleven-member council. The Board does not appoint the Council; however, the Council is financially dependent on the Board. Since the Council provides services exclusively to the Board, the primary health care and HIV/AIDS services of the Council are accounted for in the Board's primary health care fund and the HIV/AIDS Services Fund, respectively, which are special revenue funds. The primary health care fund is reported separately in the Board's fund financial statements and the HIV/AIDS Services fund is reported in the column "Other Governmental Funds".

BASIS OF PRESENTATION

GOVERNMENT-WIDE STATEMENTS

The Statement of Net Assets and the Statement of Activities display information about the Board. The Statement of Net Assets presents information about the assets, liabilities and net assets of the Board.

The Statement of Activities presents a comparison between direct expenses and program revenues for the Public Health function. Direct expenses are those that are specifically associated with a program or function. Program revenues include (a) fees and other charges paid by the patients and other recipients, 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, including all taxes, are presented as general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements provide information about the Board's funds. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are reported as Other Governmental Funds.

Fund Accounting

The Board uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

**MOBILE COUNTY BOARD OF HEALTH  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The Board uses governmental funds in its accounting and these are divided into fund types called general fund, special revenue funds, and capital projects fund. Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (Special Revenue Funds) and the acquisition or construction of general fixed assets (Capital Projects Fund). The General Fund is used to account for all general activities not accounted for in some other fund.

Only major funds as defined by GASB are reported in these financial statements. Non-major funds are reported in the column called "Other Governmental Funds".

General Fund - The Board's General Fund received revenues primarily from county and municipal appropriations and up to fifty percent of revenues received under a one mill ad valorem tax on property in Mobile County. This is always reported as a major fund.

Special Revenue Funds - Such funds account for the proceeds of specific revenue sources (other than those dedicated for major capital projects) requiring separate accounting because of legal or regulatory provision or administrative action. Special Revenue Funds reported as major funds are:

Primary Care Fund - Accounts for the receipt and expenditure of federal grant funds (and earned revenues such as Medicaid and Medicare) which are restricted to providing family health services primarily to the uninsured and under-insured.

Ryan White Fund - Accounts for the receipt and expenditure of federal grant funds and earned revenues which are restricted to providing HIV early intervention services primarily to the uninsured and under-insured.

Capital Projects Fund - This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities. This fund is a major fund.

In accordance with GASB Statement No. 54, which was adopted by the Board in fiscal 2010, a fund balance hierarchy was created which reflects the extent to which the Board is bound to observe constraints imposed on the use of governmental fund resources. GASB 54 requires the segregation of fund balances into the following applicable categories:

**MOBILE COUNTY BOARD OF HEALTH  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Fund balances which are not in spendable form, such as inventories and prepaid items.

Fund balances which are restricted by laws such as one-half of the ad valorem tax receipts are restricted for vector control.

Fund balances which are internally assigned for a particular use, such as capital project funds.

All other unassigned funds.

Under the terms of grant agreements, the Board funds certain programs by a combination of restricted cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Board's policy to first apply the restricted grant resources to such programs, followed by general revenues.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions are those in which the Board gives (or receives) value without directly receiving (or giving) equal value in exchange, such as property taxes and grants. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied.

The fund financial statements report governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Board considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year end. Grants and charges for services are susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for compensated absences, which are recognized when they are paid. Capital outlay is reported as an expenditure in governmental funds.

All governmental activities at the government-wide level are presented following the FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

**MOBILE COUNTY BOARD OF HEALTH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. Encumbrances totals as of September 30, 2012 were as follows:

General Fund	\$ 72,605
Primary Care Fund	13,908
Ryan White Fund	64
Other Special Revenues Funds	<u>10,536</u>
Total	<u>\$ 97,113</u>

Inventories

Inventories are valued at cost, which approximates market, using a method that closely approximates the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed.

Capital Assets

Capital assets that are purchased or constructed are reported at cost or estimated historical costs. Donated fixed assets are valued at their estimated fair market value on the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method generally over the following estimated useful lives and capitalization thresholds:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>	<u>Capitalization Threshold</u>
Building	40 years	\$1,000
Building improvements	20-40 years	\$1,000
Vehicles	5 years	\$1,000
Office equip. & furnishings	7-10 years	\$1,000
Computer equipment	5 years	\$1,000
Medical equipment	7-10 years	\$1,000
Computer software	5 years	\$1,000

**MOBILE COUNTY BOARD OF HEALTH  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Inter-fund Balances

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as inter-fund balances on the balance sheet.

Accumulated Unpaid Annual and Sick Leave

The Board has a standard sick and annual leave policy for its full time employees. Employees earn .038461 hours sick leave per paid hour. Annual leave is earned on a scale ranging from .038461 hours per paid hour (for the first five years of service) to .096153 per paid hour (over 25 years of service).

The Governmental Accounting Standards Board requires the accrual of a liability for future vacations, sick, or other leave benefits that meet all of the following conditions:

- a. The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- b. The obligation relates to rights that vest or accumulate.
- c. Payment of the compensation is probable.
- d. The amount can be reasonably estimated.

A maximum of 75% of unused sick leave is paid at retirement to employees who have either ten years of service and are over 60 or twenty-five years of service, regardless of age. (Sick leave is also paid at death if the employee dies during employment.) Therefore, 75% of the unused sick pay of employees who meet this criteria, \$230,775, is included as a liability in the accompanying September 30, 2012 statement of net assets.

Similarly, the amount of accrued annual leave, which is limited to 480 hours (280 hours for employees hired after March 31, 1996) and totals \$1,045,257 at September 30, 2012 is also included on the accompanying statement of net assets since unused annual leave is paid upon termination.

Inter-fund Transfers

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. All other inter-fund transactions are reported as transfers. There were no material non-reimbursement transfers in 2012.

Subsequent Events Evaluation

Subsequent events have been evaluated through December 21, 2012, the approximate date the financial statements were available to be issued.

**MOBILE COUNTY BOARD OF HEALTH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Comparative Data

Comparative total data for the prior year fund financial statement have been presented in order to provide an understanding of changes in the government's financial position and operations. However, presentation of prior year totals by major fund have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. For comparability, certain 2011 amounts may have been reclassified to conform with the financial statement presentation used in 2012.

**NOTE 2      CASH AND INVESTMENTS**

The Board's deposits at September 30, 2012 were held by financial institutions in the State of Alabama's Security of Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the Code of Alabama 1975 Sections 41-14A-1 through 41-14A-14. Under the Safe Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office and financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged failed to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

State statutes authorize the Board to invest in U.S. Treasury securities, securities of federal agencies, commercial paper, corporate bonds and repurchase agreements.

As of September 30, 2011 and 2012, all of the Board's investments were non-participating investments. Therefore, these investments were recorded at cost as allowed by GASB Statement No. 31.

**NOTE 3      BUDGETS**

The Board is not required by State law to adopt an annual budget. Accordingly, a comparison of actual expenses to budget is not required to be presented with the financial statements. However, an internal operating budget is prepared by management and approved by the Board.

**MOBILE COUNTY BOARD OF HEALTH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE 4    EMPLOYEE RETIREMENT PLAN**

Plan Description

The Board contributes to the Employees' Retirement System of Alabama, an agent multiple-employer public employee retirement system, that acts as a common investment and administrative agent for the various state agencies and departments.

The Employees' Retirement System was established as of October 1, 1945, under the provisions of Act 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for State employees, State police, and on an elective basis to all cities, counties, towns and quasi-public organizations. The responsibility for general administration and operation of the Employees' Retirement System is vested in the Board of Control. Benefit provisions are established by the Code of Alabama 1975, Sections 36-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Commission authority to accept or reject various Cost-Of-Living Adjustments (COLAs) granted to retirees.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

Funding Policy

Substantially all employees are members of the Employees' Retirement System of Alabama and are required to contribute 7.25 percent of their annual covered salary to it (7.50% effective October 1, 2012). Membership is mandatory for eligible employees. The Board is required to contribute at an actuarially determined rate; the rate in effect for the year ended September 30, 2012 was 8.44% of annual covered payroll (7.79% for fiscal 2011). The contribution requirements of plan members and the Board are established by and may be amended by the Employees Retirement System of Alabama.

**MOBILE COUNTY BOARD OF HEALTH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE 4 EMPLOYEE RETIREMENT PLAN (CONTINUED)**

Retirement Benefits

Employees vest in employer contributions after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, and (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death is provided to plan members.

Annual Pension Cost

For the year ended September 30, 2012, the Board's annual pension cost was \$916,835 and this amount was equal to the required and actual contributions. The required contribution was determined as part of the September 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, and (b) projected salary increases ranging from 4.61 to 7.75% per year. Both (a) and (b) included an inflation component of 4.50%. The actuarial value of the plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on the level percent open method. The remaining amortization period is 30 years.

Three-Year Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>% of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
9/30/11	\$1,428,287	100%	-0-
9/30/10	\$1,041,582	100%	-0-
9/30/09	\$1,026,417	100%	-0-

**MOBILE COUNTY BOARD OF HEALTH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE 5 DEFERRED COMPENSATION PLAN**

The Board offers all employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan permits them to defer Federal income taxation on a portion of their compensation until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. No employer contributions are made to the Plan.

Effective October 1, 1997, the deferred compensation plan is deemed to be a trust fund under the Internal Revenue Code, as amended, and accordingly, is no longer reported as an agency fund in the accompanying financial statements.

**NOTE 6 SUPPLEMENTAL RETIREMENT PLAN**

Full-time employees of the Board are also eligible for participation in a supplemental retirement plan maintained by the Board with contract administrators. Participating employees may elect to contribute from 3% to 13% of their salaries to this Plan. The Board matches each employee's contribution, up to a maximum of 3%, and participants become fully vested in Board contributions after five years of service.

**NOTE 7 DUE FROM OTHER GOVERNMENTS**

The following are amounts due from other governmental units as included in accounts receivable on the government-wide statement of net assets as of September 30, 2012.

	Total
State of Alabama	\$1,327,097
Medicaid	272,312
Federal government	137,221
Local governments	11,479
Medicare	19,693
Total	\$1,767,802

**NOTE 8 INTER-FUND BALANCES**

Inter-fund balances at September 30, 2012 represent amounts due to the General Fund from the Primary Care Fund and Other Governmental Funds for various advances made to fund operations.

**MOBILE COUNTY BOARD OF HEALTH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE 9 CHANGES IN CAPITAL ASSETS**

A summary of changes in the Board's capital assets is as follows:

	Balance <u>10/1/11</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>9/30/12</u>
Land	\$ 819,753	\$ 107,819	\$ -	\$ 927,572
Buildings and improvements	15,108,013	1,677,160	-	16,785,173
Improvements other than buildings	279,909	-	-	279,909
Equip. & furniture	5,409,642	658,662	(191,792)	5,876,512
Const. in progress	635,104	567,937	(1,194,058)	8,983
Less: Accum. depr.				
Bldgs/improvements	(7,742,555)	(417,355)	-	(8,159,910)
Equip./furniture	(3,550,903)	(635,001)	184,464	(4,001,440)
Net capital assets	<u>\$10,958,963</u>	<u>\$1,959,222</u>	<u>\$(1,201,386)</u>	<u>\$11,716,799</u>

**NOTE 10 CONCENTRATIONS OF CREDIT RISK**

The Board grants credit without collateral to its patients, all of whom are local residents and some of whom are insured under third-party payor agreements. The mix of receivables from patients, third-party payors, and governmental units at September 30, 2012 was as follows:

State govt. (non-Medicaid)	68%
Medicaid	14%
Federal government	7%
Patients	5%
Private insurance	2%
Medicare	1%
Local government	1%
Other third-party payors	2%
Total	<u>100%</u>

**NOTE 11 RISK MANAGEMENT**

The Board is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. The Board purchases commercial insurance for all significant risks of loss except injuries to and illnesses of employees, as discussed below. Settled insurance claims for the year ended September 30, 2012 did not exceed the commercial coverages.

**MOBILE COUNTY BOARD OF HEALTH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE 11 RISK MANAGEMENT - continued**

The Board is self-insured for health insurance claims. Such claims are administered by Blue Cross/Blue Shield of Alabama. Monthly claims liabilities are adequately provided for in the General and Special Revenue Funds through the maintenance of an accrued health insurance benefits liability account. The claims liability of \$268,800 at September 30, 2012 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Weekly payments are made from the liability account to reimburse Blue Cross/Blue Shield for claims paid on the Board's behalf and for the Blue Cross/Blue Shield administrative fee. Payments are also made from the liability account for re-insurance premiums which cover cumulative, annual claims over \$100,000 per covered individual (after an aggregate deductible of \$25,000).

**NOTE 12 RETIREE HEALTH INSURANCE PLAN**

Plan Description

In addition to employer provided health benefits for employees and their families, the Board has adopted a single-employer defined benefit plan that provides certain health care and life insurance benefits to its retirees and their spouses up to age 65.

Eligible Benefits

Until they become eligible for Medicare, retirees can continue their health coverage by contributing the same amount as active employees. Health benefits are provided through the same group health insurance plan that covers current employees.

Retiree life insurance benefits up to \$100,000 maximum based on ending salary (\$10,000 for those hired after December 31, 2000) are maintained if the retiree contributes one half of the premium cost.

Funding Policy

The Board makes monthly contributions to the Plan equal to one twelfth of the actuarially determined annual required contribution (ARC). The Board has created an irrevocable trust at Regions Bank to receive such employer contributions. Insureds make direct contributions to Blue Cross/Blue Shield in monthly amounts ranging from \$84 to \$202 depending on family size and tobacco use.

**MOBILE COUNTY BOARD OF HEALTH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE 12 RETIREE HEALTH INSURANCE PLAN - continued**

Trust Investments

The investment objective of the trust is one of income and growth. The investment strategy is relatively conservative and provides for the following portfolio mix:

Fixed income securities	50% - 70%
Equity securities	30% - 50%

Funding Status

During fiscal 2011, the Plan was fully funded and as of September 30, 2012, the Plan trust held assets totaling \$2,082,802.

The required schedule of funding progress on page 23 presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

For the year ended September 30, 2012, the Board's annual retiree health insurance cost was \$792,095 and this amount was 91% of the annual required contribution (ARC). The ARC was determined by the September 30, 2011 actuarial valuation using the projected unit credit cost method. The actuarial assumptions included (a) 4% investment rate of return, (b) 32.2 ARC adjustment factor, (c) a 5% - 10% medical cost trend rate, (d) a 2018 ultimate trend rate year, and (e) an inflation component of 4.50%. The actuarial value of the plan assets was determined using a level percentage of pay amortization method and a 30 year remaining amortization period. Plan assets are valued on a market value basis.

The Valuation Process

The actuarial valuation process includes the necessity of estimation and the use of actuarial assumptions about future events (such as the level of future employment, mortality, health care cost trends, etc). Also, actuarially determined amounts are subject to continual revision as actual results are compared to previous assumptions and new estimates are made.

Three-Year Trend Information

Fiscal Year Ending	Annual Required Contribution (ARC)	% of ARC Contributed	Net Obligation
9/30/12	\$874,471	91%	\$82,376
9/30/11	\$874,471	100%	-0-
9/30/10	\$718,449	100%	-0-

MOBILE COUNTY BOARD OF HEALTH

SCHEDULE OF RETIREE HEALTH INSURANCE PLAN FUNDING PROGRESS

Actuarial Valuation Date	* Actuarial Value of Assets (a)	Actuarial Accrued Liab. (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c
9/30/10**	\$-0-	\$11,096,237	\$11,096,237	0.0%	\$14,625,544	75.9%
9/30/08	\$-0-	\$9,146,033	\$9,146,033	0.0%	\$13,782,054	66.4%

\* In September 2011, \$1,495,662 was contributed to the Plan's Trust. This amount represented the total of the actuarially-determined annual required contributions (net of benefit payments) since the adoption of GASB 45.

\*\* Actuarial studies are performed for the Plan every two years. Also, the September 30, 2010 retirement rates have been adjusted to reflect the discontinuance of the DROP. The actuarial study as of September 30, 2012 is expected to be completed during the third quarter of fiscal 2013.

**MOBILE COUNTY BOARD OF HEALTH**  
**SCHEDULE OF RETIREMENT PLAN FUNDING PROGRESS**  
**AS OF SEPTEMBER 30, 2012**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	(1) <u>Actuarial Accrued Liab. (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
9/30/11 (4)	\$36,566,068	\$49,135,616	\$12,569,548	74.4%	\$17,380,177	72.3%
9/30/10	\$37,516,437	\$47,790,675	\$10,274,238	78.5%	\$15,450,351	66.5%
9/30/09	\$37,939,903	\$45,498,917	\$7,559,014	83.4%	\$14,638,574	51.6%
9/30/08	\$38,508,593	\$42,857,840	\$4,349,246	89.9%	\$14,281,722	30.5%
9/30/07	\$37,835,466	\$40,140,473	\$2,305,007	94.3%	\$13,536,872	17.0%
9/30/06 (3)	\$36,481,111	\$39,421,831	\$2,940,720	92.5%	\$13,744,550	21.4%
9/30/05	\$35,074,240	\$37,434,939	\$2,360,699	93.7%	\$13,267,061	17.8%
9/30/04 (2)	\$33,478,177	\$33,765,090	\$286,912	99.2%	\$12,648,453	2.3%
9/30/03 (2)	\$32,190,820	\$32,968,928	\$778,108	97.6%	\$13,076,488	6.0%
9/30/02 (2)	\$31,228,566	\$30,567,675	(\$660,891)	102.2%	\$12,383,416	-5.3%
9/30/01 (3)	\$30,529,479	\$28,629,549	(\$1,899,930)	106.6%	\$11,267,983	-16.9%
9/30/00	\$29,252,932	\$26,854,074	(\$2,398,858)	108.9%	\$10,515,591	-22.8%

(1) Reflects liability for cost of living benefit increases granted on or after October 1, 1978.

(2) Reflects effect of DROP.

(3) Reflects change in actuarial assumptions.

(4) Market value of assets as of September 30, 2011 = \$31,149,721.

## MOBILE COUNTY BOARD OF HEALTH

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SEPTEMBER 30, 2012

<u>Grantor Agency</u>	<u>Program Title</u>	<u>CFDA #</u>	<u>Expenditures</u>
<b><u>U.S. Dept. of Health &amp; Human Services</u></b>			
<u>Direct</u>	Consolidated Health Centers	93.224	\$ 3,429,157
	HIV Early Intervention Services	93.918	918,600
	Healthy Start	93.926	1,500,000
	Affordable Care Act New & Expanded Svc	93.527	<u>1,194,319</u>
Sub-total			<u>7,042,076</u>
<b><u>Passed through the State of Alabama:</u></b>			
Dept. of	Immunizations	93.268	87,748
Public	CDCP-Investigations & Technical Asst.	93.283	97,196
Health	Breast & Cervical Cancer Early Detect.	93.919	74,710
	HIV/AIDS Surveillance	93.944	84,338
	Maternal & Child Health Services	93.994	302,600
	Family Planning Services	93.217	555,482
	Sexually Transmitted Diseases Control	93.977	50,000
	Bioterrorism Preparedness	93.889	74,323
	Teen Pregnancy Prevention Initiative	93.946	627,979
	Emergency Preparedness	93.069	208,436
	TB Control	93.116	59,462
	Communities Putting Prevention to Work	93.724	1,462,951
	Retail Tobacco Inspections	93.	23,805
	ARRA Prevention & Wellness	93.723	3,483
	Children's Health Ins. Program (CHIP)	93.767	<u>3,500</u>
Sub-total			<u>3,716,013</u>
Children's	Temporary Assistance for		
Trust Fund	Needy Families	93.558	<u>33,750</u>
<b><u>Passed through National Assn. of County &amp; City Health Officials</u></b>			
	Medical Reserve Corp	93.008	5,000
<b><u>Passed through University of South Alabama</u></b>			
	Health Education Specialty Clinic	93.153	<u>350</u>
<b><u>Passed through Catholic Social Services</u></b>			
	Refugee & Entrant Assistance	93.576	<u>29,200</u>
<b><u>Passed through United Way of Central AL</u></b>			
	HIV Early Intervention Services	93.918	<u>516,441</u>
Total U. S. Dept. of Health & Human Services			<u>11,342,830</u>
<b><u>U. S. Dept. of Agriculture</u></b>			
<b><u>Passed through the State of Alabama:</u></b>			
Dept. of	Special Supplement Food Program for		
Pub. Health	Women, Infants & Children	10.557	2,359,600
Auburn Univ.	Food Stamp Nutrition Education	10.561	<u>103,229</u>
Total U. S. Dept. of Agriculture			<u>2,462,829</u>
<b>Total Federal Awards</b>			<b><u>\$13,805,659</u></b>

**MOBILE COUNTY BOARD OF HEALTH**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**SEPTEMBER 30, 2012**

**NOTE 1   BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards for the Mobile County Board of Health for the year ended September 30, 2012 was prepared on the modified accrual basis of accounting.

**S. W. CHIEPALICH**  
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Bernard H. Eichold, M.D., Health Officer  
Mobile County Board of Health  
Mobile, Alabama

I have audited the financial statements of the Mobile County Board of Health as of September 30, 2012, and have issued my report thereon dated December 21, 2012. I conducted my audit in accordance with auditing standards which are generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Mobile County Board of Health's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mobile County Board of Health's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

I noted certain other matters that I reported to the Organization's management in a separate letter dated December 21, 2012.

This report is intended solely for the information and use of the Board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountant

December 21, 2012

**S. W. CHIEPALICH**  
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Bernard H. Eichold, M.D., Health Officer  
Mobile County Board of Health  
Mobile, Alabama

Compliance

I have audited the compliance of the Mobile County Board of Health with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Mobile County Board of Health's major federal programs for the year ended September 30, 2012. Mobile County Board of Health's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Mobile County Board of Health's management. My responsibility is to express an opinion on Mobile County Board of Health's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards which are generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types on compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Board's compliance with those requirements.

In my opinion, the Board complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

Management of the Mobile County Board of Health is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Board's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine my auditing procedures for the purpose of expressing my opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Board's internal control over compliance.

A *deficiency in internal control* over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountant

December 21, 2012

MOBILE COUNTY BOARD OF HEALTH  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:  
 Material weaknesses identified?  yes  no

Significant deficiencies identified that  
 are not considered material weaknesses?  yes  none reported

Noncompliance material to financial  
 statements noted?  yes  no

Federal Awards

Internal control over major programs:  
 Material weaknesses identified?  yes  no

Significant deficiencies identified that  
 are not considered material weaknesses?  yes  none reported

Type of auditor's report issued on  
 compliance for major programs: Unqualified

Any audit findings disclosed that are  
 required to be reported by Sec. 510(a)  
 of OMB Circular A-133?  yes  no

Identification of major programs:

- Department of Health & Human Services
- 1.) CFDA #93.918 Eliminating Disparities
  - 2.) CFDA #93.926 Healthy Start
  - 3.) CFDA #10.557 Special Supplemental Food Program  
 for Women, Infants & Children

Dollar threshold used to distinguish  
 between type A and type B programs: \$414,170

Auditee qualified as low-risk auditee?  yes  no

SECTION II - FINANCIAL STATEMENT FINDINGS

None.

SECTION III - FEDERAL AWARD FINDINGS & QUESTIONED COSTS

None.

MOBILE COUNTY BOARD OF HEALTH

BOARD MEMBERS AND OFFICIALS

AS OF SEPTEMBER 30, 2012

<u>Board Members</u>	<u>Title</u>	<u>Address</u>	<u>Term Expires</u>
Elizabeth Harper-Minto, MD	Chairman	533 N. Mobile Street Fairhope, AL 36532	12/12
Edward R. Flotte, MD	Secretary	Coastal Neurological Inst. 3280 Dauphin St., Bldg. A Mobile, AL 36606	12/14
Duncan Scott, MD	Member	Nephrology Assc. of Mobile 124 S. University Blvd. P. O. Box 850849 Mobile, AL 36685	12/12
George T. Koulianos, MD	Member	Ctr. for Reproductive Med. 3 Mobile Infirmary, Ste.213 Mobile, AL 36607	12/13
Ronald D. Franks, MD	Member	University of South Ala. 307 N. University Blvd. CSAB 170 Mobile, AL 36688	12/13
Henry J. Koch, MD	Member	Mobile OB-GYN, P. C. 6701 Airport Blvd., B-321 Mobile, AL 36608	12/14
Connie Hudson, President Mobile County Commission	Member	205 Government St. Mobile, AL 36644	11/12

Official

Bernard H. Eichold II, M.D., Dr.P.H. (Date of Employment: 5/1/90)	Health Officer	Mobile Co. Health Dept. P. O. Box 2867 Mobile, Ala. 36652-2867	Indefinite
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**S. W. CHIEPALICH**  
CERTIFIED PUBLIC ACCOUNTANT, P.C.

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Mobile, Alabama 36685

PH: (251) 344-7042

FAX: (251) 344-7055

December 21, 2012

Bernard H. Eichold, M.D., Health Officer  
Mobile County Board of Health  
Mobile, Alabama

Several high-profile cases of improper financial reporting in the last decade have occurred with both public companies (Enron, Worldcom, HealthSouth, etc.) as well as non-profit organizations (United Way, American Red Cross, the Nature Conservancy). These and other cases led to the passage of the Sarbanes-Oxley Act of 2002 and the most comprehensive overhaul of auditing standards in over 30 years. These revised auditing standards, which are now generally accepted in the U.S., were applicable to the Mobile County Board of Health's (the Board's) 2012 audit and resulted in (among other things) a heightened responsibility to communicate certain matters to the Board. This letter is designed to meet this communication responsibility.

## **Required Communications**

*The Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards* - The auditor's responsibility is to render an opinion about whether the internally-prepared financial statements are fairly presented, in all material respects, with U.S. generally accepted accounting principles. This responsibility does not relieve management of its responsibility regarding the financial statements.

*Scope and Timing of the Audit* - The audit was performed in accordance with the planned scope and timing, which was consistent with prior audits.

Qualitative Aspects of Accounting Practices - Although the auditor can advise management about the appropriateness of accounting policies and their application, management retains ultimate responsibility for their selection and use. The significant accounting policies used by the Board are described in Note 1 to the audited financial statements and no new accounting policies were adopted during fiscal 2012. There were no transactions entered into by the Board during 2012 for which there is a lack of authoritative guidance and there are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

The use of estimates in the preparation of financial statements (useful life for capital assets, the estimated collection percentage for accounts receivable, etc.) is discussed in the notes to the audited financial statements. I evaluated the factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit - None.

Corrected and Uncorrected Financial Statement Misstatements - All significant misstatements noted during the audit have been reported to management in the form of "Adjusting Journal Entries", which were reviewed and approved by management and properly recorded in the Board's accounting records.

Disagreements with Management - None.

Management Consultations with Other Independent Accountants (i.e. second opinions) - To my knowledge, there were no consultations with other accountants.

Other Audit Findings or Issues:

The following items represent minor findings, isolated exceptions, and/or recommendations for improvement which are presented for management's information, consideration, and correction, where appropriate. These items do not represent significant deficiencies in internal controls, noncompliance with laws, regulations, contracts, or grant agreements that could have a direct and material effect on the financial statements, or material noncompliance with major programs.

- 1.) The year end accounts payable detail includes numerous "stockroom" entries (\$42,276 debit items and \$22,155 credit items) which were not cleared before year end, resulting the an overstatement of supplies expense and accounts payable. The A/P Clerk should be reminded of the process for clearing stockroom entries which can otherwise misstate the financial statements.
- 2.) The OPEB contributions were not calculated and remitted to the Trust for two of the bi-weekly payrolls (those where there was a third payroll in the month). This resulted in the under-funding of the Trust by about \$67,000, which should be deposited in fiscal 2013.
- 3.) In fiscal 2012, the methodology for calculating depreciation was changed, resulting in the beginning of year accumulated depreciation being different from the ending accumulated depreciation from the prior year. Reverting back to a methodology that begins with the ending accumulated depreciation from the prior year as the starting point for the subsequent year's depreciation calculations is recommended.
- 4.) Now that the retiree health insurance liability of \$11,000,000 is being funded in a responsible manner, consideration should be given to addressing the twelve to eighteen million dollar under-funded status of the retirement plan. (This under-funded liability has grown ten million dollars in the last four years and the recent increases in the employee contribution rate serve only to reduce the employer contributions with no real change in the total amount being contributed.) Therefore, consideration should be given to making periodic discretionary lump sum contributions to the retirement plan.
- 5.) The testing of the pharmacy controls noted on page 3 of the Pharmacy Outsource Agreement (prohibiting the dispensing of 340B drugs to non-MCHD patients and duplicate discounts on Medicaid prescriptions) should be incorporated into the Internal Audit annual audit tests.
- 6.) The indirect cost rate for non-federal programs was not updated in 2012 to the calculated rate, resulting in such programs being over-charged 2% (33% rate from fiscal 2011 was not updated to the correct rate of 31% for 2012).

Also, in recent years, the organization has followed the practice of rounding the calculated indirect cost rate up to the next full percentage point, which causes a slight over-charge of indirect costs to those programs which do not have a negotiated rate. To prevent this in future years, rounding down is recommended.

7.) Building construction and renovation charges are generally not allowable costs under federal operating grants. To fund such costs, use of the capital projects funds is recommended. Also, a long-term capital expenditures budget is recommended and the capital projects fund should be increased during fiscal 2013 by available reserves from the general and special revenue funds.

8.) Other minor accounting issues:

a.) \$1,400 check to YMCA dated 6/21/12 is still outstanding at year end.

b.) The State income tax withholding for September was paid twice.

c.) Two cash receipts on 10/18/12 (ad valorem taxes of \$2,435 and oil and gas of \$12,462) were recorded as having been received before year end rather than as a receivable at year end.

d.) The following equipment additions were inadvertently omitted from the equipment schedule:

Security system video recorder (S&O Enterprises)  
Messaging board (Advanced Control Concepts)

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The above information is intended solely for the use of the Board and management and should not be used by anyone else.

*S.W. Chiepalich*  
Certified Public Accountant