

**Memphis and Shelby County Community Services Agency
For the Year Ended
June 30, 1999**

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Financial/compliance audits of community services agencies are available on-line at
www.comptroller.state.tn.us/sa/reports/index.html.
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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

July 31, 2000

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee
and
Board of Directors
Memphis and Shelby County Community Services Agency
1407 Union Avenue, Suite 1300
Memphis, Tennessee 38104

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Memphis and Shelby County Community Services Agency for the year ended June 30, 1999. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/cj
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State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Memphis and Shelby County Community Services Agency
For the Year Ended June 30, 1999

AUDIT OBJECTIVES

The objectives of the audit were to consider the agency's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, and contracts; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Audit Report
Memphis and Shelby County Community Services Agency
For the Year Ended June 30, 1999

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**Memphis and Shelby County Community Services Agency
For the Year Ended June 30, 1999**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Memphis and Shelby County Community Services Agency. The audit was conducted pursuant to Section 37-5-313, *Tennessee Code Annotated*, which authorizes the Comptroller of the Treasury to “make an annual audit of the program established by this part as part of the comptroller’s annual audit pursuant to Section 9-3-211.”

BACKGROUND

Tennessee’s 12 community health agencies were created by Chapter 567 of the Public Acts of 1989, known as the Community Health Agency Act of 1989. This legislation established a defined system of health services to make health care available to the indigent citizens of Tennessee. The community health agencies determined areas of need in their geographic areas and ensured that services were available to meet those needs.

In May 1996, the Community Services Agency Act of 1996 replaced the community health agencies with the community services agencies. The purpose of these agencies is to coordinate funds and programs designated for care of children and other citizens in the state.

The Memphis and Shelby County Community Services Agency’s administrative offices are in Memphis, Tennessee. The governing body of the Memphis and Shelby County Community Services Agency is the board of directors. As of June 30, 1999, the board was composed of 11 members. (See Appendix.) An executive committee, consisting of five board members, has the authority to act on behalf of the board of directors in the management of the agency’s property, affairs, and funds in extraordinary circumstances when the governing board cannot convene.

The agency’s programs are carried out by staff under the supervision of the executive director, who is appointed by the Commissioner of the Department of Children’s Services, subject to the approval of the board.

AUDIT SCOPE

The audit was limited to the period July 1, 1998, through June 30, 1999, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1999, and for comparative purposes, the year ended June 30, 1998. The Memphis and Shelby County Community Services Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the agency's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
 2. to determine compliance with certain provisions of laws, regulations, and contracts;
 3. to determine the fairness of the presentation of the financial statements; and
 4. to recommend appropriate actions to correct any deficiencies.
-

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Memphis and Shelby County Community Services Agency's financial statements for the year ended June 30, 1999, we considered internal control over

financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the Memphis and Shelby County Community Services Agency's financial statements.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

February 25, 2000

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the Memphis and Shelby County Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 1999, and have issued our report thereon dated February 25, 2000. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

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

We noted certain less significant instances of noncompliance that we have reported to the agency's management in a separate letter.

The Honorable John G. Morgan
February 25, 2000
Page Two

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Memphis and Shelby County Community Services Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the agency's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the board of directors, and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/cj



STATE OF TENNESSEE
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Independent Auditor's Report

February 25, 2000

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying combined balance sheets of the Memphis and Shelby County Community Services Agency, a component unit of the State of Tennessee, as of June 30, 1999, and June 30, 1998, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Memphis and Shelby County Community Services Agency as of June 30, 1999, and June 30, 1998, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

The Honorable John G. Morgan
February 25, 2000
Page Two

As discussed in Note 12, the Memphis and Shelby County Community Services Agency changed its equipment capitalization policy.

The Schedule of Pension Funding Progress for Memphis and Shelby County Community Services Agency is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2000, on our consideration of Memphis and Shelby County Community Services Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/cj

MEMPHIS AND SHELBY COUNTY COMMUNITY SERVICES AGENCY
 COMBINED BALANCE SHEETS
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 1999, AND JUNE 30, 1998

	June 30, 1999				June 30, 1998			
	Governmental Fund Type	Account Groups		Totals (Memorandum Only)	Governmental Fund Type	Account Groups		Totals (Memorandum Only)
	General Fund	General Fixed Assets	General Long-Term Obligations		General Fund	General Fixed Assets	General Long-Term Obligations	
<u>Assets and other debit</u>								
Assets:								
Cash (Note 2)	\$ 682,940.22	\$ -	\$ -	\$ 682,940.22	\$ 996,554.79	\$ -	\$ -	\$ 996,554.79
Accounts receivable	531.92	-	-	531.92	68,628.34	-	-	68,628.34
Due from primary government (Note 3)	423,584.44	-	-	423,584.44	58,595.73	-	-	58,595.73
Due from local government	-	-	-	-	75,000.00	-	-	75,000.00
General fixed assets (Note 4):								
Furniture and equipment	-	455,499.33	-	455,499.33	-	459,819.99	-	459,819.99
Leased equipment	-	78,353.93	-	78,353.93	-	130,267.39	-	130,267.39
Other debit:								
general long-term obligations (Note 5)	-	-	116,267.24	116,267.24	-	-	116,825.16	116,825.16
Total assets and other debit	\$ 1,107,056.58	\$ 533,853.26	\$ 116,267.24	\$ 1,757,177.08	\$ 1,198,778.86	\$ 590,087.38	\$ 116,825.16	\$ 1,905,691.40
<u>Liabilities, other credit, and fund balance</u>								
Liabilities:								
Accounts payable	\$ 145,673.14	\$ -	\$ -	\$ 145,673.14	\$ 109,075.15	\$ -	\$ -	\$ 109,075.15
Accrued payroll	178,241.69	-	-	178,241.69	171,939.79	-	-	171,939.79
Accrued payroll taxes and benefits	15,413.35	-	-	15,413.35	16,764.07	-	-	16,764.07
Accrued annual leave	-	-	113,121.62	113,121.62	-	-	80,783.79	80,783.79
Capital lease obligations	-	-	3,145.62	3,145.62	-	-	36,041.37	36,041.37
Due to primary government (Note 3)	46,882.77	-	-	46,882.77	333,335.18	-	-	333,335.18
Due to local government	4,697.00	-	-	4,697.00	25,097.81	-	-	25,097.81
Due to Shelby State Community College	480.00	-	-	480.00	-	-	-	-
Due to other CSA	-	-	-	-	1,077.95	-	-	1,077.95
Total liabilities	391,387.95	-	116,267.24	507,655.19	657,289.95	-	116,825.16	774,115.11
Other credit:								
Investment in general fixed assets (Note 4)	-	533,853.26	-	533,853.26	-	590,087.38	-	590,087.38
Fund balance:								
Unreserved	715,668.63	-	-	715,668.63	541,488.91	-	-	541,488.91
Total other credit and fund balance	715,668.63	533,853.26	-	1,249,521.89	541,488.91	590,087.38	-	1,131,576.29
Total liabilities, other credit, and fund balance	\$ 1,107,056.58	\$ 533,853.26	\$ 116,267.24	\$ 1,757,177.08	\$ 1,198,778.86	\$ 590,087.38	\$ 116,825.16	\$ 1,905,691.40

The Notes to the Financial Statements are an integral part of this statement.

MEMPHIS AND SHELBY COUNTY COMMUNITY SERVICES AGENCY
 STATEMENTS OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 FOR THE YEARS ENDED JUNE 30, 1999, AND JUNE 30, 1998

	General Fund	
	For the Year Ended June 30, 1999	For the Year Ended June 30, 1998
<u>Revenues</u>		
State contracts	\$ 4,768,698.03	\$ 4,901,297.70
Local grants and contracts	9,216.00	135,118.19
TennCare Transportation contracts	466,304.92	516,835.86
Interest	55,319.39	55,811.00
Other	752.00	3,690.33
Total revenues	<u>5,300,290.34</u>	<u>5,612,753.08</u>
<u>Expenditures</u>		
Salaries and wages	2,415,219.18	2,518,383.34
Employee benefits and payroll taxes	590,586.91	662,150.83
Professional fees and grants and awards	1,255,704.86	1,242,964.42
Specific assistance to individuals	63,289.29	207,170.41
Travel and conferences and meetings	101,448.97	64,221.17
Supplies	112,273.42	77,839.45
Postage and shipping	12,577.49	11,495.16
Printing and publications	11,850.50	15,483.57
Telephone	86,162.47	88,977.41
Insurance	3,114.00	4,618.30
Occupancy	277,684.06	299,023.70
Equipment rental and maintenance	126,024.39	184,400.74
Capital purchases	60,883.77	39,572.03
Interest	1,831.04	4,095.81
Other nonpersonnel costs	7,460.27	2,642.55
Total expenditures	<u>5,126,110.62</u>	<u>5,423,038.89</u>
Excess of revenues over expenditures	<u>174,179.72</u>	<u>189,714.19</u>
Fund balance, July 1	<u>541,488.91</u>	<u>351,774.72</u>
Fund balance, June 30	<u>\$ 715,668.63</u>	<u>\$ 541,488.91</u>

The Notes to the Financial Statements are an integral part of this statement.

Memphis and Shelby County Community Services Agency
Notes to the Financial Statements
June 30, 1999, and June 30, 1998

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Title 37, Chapter 5, of *Tennessee Code Annotated*, established the CSA as “a political subdivision and instrumentality of the state.” The Memphis and Shelby County Community Services Agency is a component unit of the State of Tennessee and is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. Although the CSA is a separate legal entity, the state is financially accountable for the CSA because the state appoints a majority of the CSA’s governing body and approves the CSA’s Plan of Operation (budget).

Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

Fund Structure, Basis of Accounting, and Measurement Focus

The financial records of the Memphis and Shelby County Community Services Agency are maintained on the modified accrual basis of accounting. Under this basis, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred.

The general fund is presented using the flow of current financial resources measurement focus.

The agency’s accounts are organized and operated on the basis of fund types and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental fund not recorded directly in that fund.

The agency’s financial activities reported in the accompanying statements are classified into one fund type and two account groups:

Memphis and Shelby County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

Governmental Fund Type

General Fund—used to account for all resources.

Account Groups

General Fixed Assets Account Group (GFAAG)—used to account for all the agency's fixed assets. The GFAAG is not a fund, but rather a management control and accountability listing of the agency's general fixed assets.

General Long-Term Obligations Account Group—used to account for capital leases and annual leave obligations. The General Long-Term Obligations Account Group is not a fund, but rather a separate set of self-balancing accounts that provides certain information about the agency's noncurrent liabilities.

Totals (Memorandum Only)

The total columns of the combined balance sheets are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation.

Budgetary Process

Legislation requires the CSA board to submit an annual plan of operation for review and approval to the Commissioner of Children's Services, Commissioner of Finance and Administration, and the Comptroller of the Treasury. As part of this plan, the CSA is to submit a financial plan for operating and capital expenditures. This financial plan is prepared on the modified accrual basis of accounting. The Plan of Operation may be amended during the year with the written approval of the Commissioners and the Comptroller.

The agency does not have an annual appropriated budget. The Plan of Operation serves as an annual financial plan for budgetary purposes.

NOTE 2. DEPOSITS

The Memphis and Shelby County Community Services Agency's bank accounts are in financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account.

Memphis and Shelby County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

The Memphis and Shelby County Community Services Agency also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 3. DUE FROM/TO PRIMARY GOVERNMENT

June 30, 1999

Due From:	
Department of Health—program funds	\$227,322.10
Department of Children's Services—program funds	<u>196,262.34</u>
Total due from primary government	<u><u>\$423,584.44</u></u>
Due To:	
Department of Children's Services—Claims Award Fund	\$ 300.00
Department of the Treasury—retirement contributions	14,288.73
Department of Employment Security—unemployment taxes	1,594.52
Comptroller of the Treasury—audit fees	<u>30,699.52</u>
Total due to primary government	<u><u>\$46,882.77</u></u>

June 30, 1998

Due From:	
Department of Children's Services—program funds	\$58,595.73
Total due from primary government	\$58,595.73

Memphis and Shelby County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

Due To:	
Department of Health–program funds	\$126,939.43
Department of Health–Office of Vital Records	5.00
Department of Children’s Services–leased equipment	117,466.84
Department of the Treasury–retirement contributions	29,911.84
Department of Employment Security–unemployment taxes	1,500.53
Comptroller of the Treasury–audit fees	<u>57,511.54</u>
 Total due to primary government	 <u><u>\$333,335.18</u></u>

NOTE 4. GENERAL FIXED ASSETS

General fixed assets are recorded at cost and are not depreciated. Donations are recorded at estimated fair value at the date of the donation.

The following changes in general fixed assets occurred during the year ended June 30, 1999:

	<u>Balance</u> <u>July 1, 1998</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 1999</u>
Furniture and equipment	\$459,819.99	\$112,797.23	\$117,117.89	\$455,499.33
Leased equipment	<u>130,267.39</u>	<u>-</u>	<u>51,913.46</u>	<u>78,353.93</u>
Total	<u><u>\$590,087.38</u></u>	<u><u>\$112,797.23</u></u>	<u><u>\$169,031.35</u></u>	<u><u>\$533,853.26</u></u>

The following changes in general fixed assets occurred during the year ended June 30, 1998:

	<u>Balance</u> <u>July 1, 1997</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 1998</u>
Furniture and equipment	\$417,732.89	\$42,087.10	\$ -	\$459,819.99
Leased equipment	<u>132,782.46</u>	<u>-</u>	<u>2,515.07</u>	<u>130,267.39</u>
Total	<u><u>\$550,515.35</u></u>	<u><u>\$42,087.10</u></u>	<u><u>\$2,515.07</u></u>	<u><u>\$590,087.38</u></u>

Memphis and Shelby County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

NOTE 5. GENERAL LONG-TERM OBLIGATIONS

The following changes in general long-term obligations occurred during the year ended June 30, 1999:

	<u>Balance July 1, 1998</u>	<u>Increases (Decreases)</u>	<u>Balance June 30, 1999</u>
Amount to be provided for retirement of general long-term obligations	<u>\$116,825.16</u>	<u>\$ (557.92)</u>	<u>\$116,267.24</u>
Accrued annual leave	<u>\$ 80,783.79</u>	<u>\$32,337.83</u>	<u>\$113,121.62</u>
Capital lease obligation	<u>36,041.37</u>	<u>(32,895.75)</u>	<u>3,145.62</u>
Total general long-term obligations	<u>\$116,825.16</u>	<u>\$ (557.92)</u>	<u>\$116,267.24</u>

The following changes in general long-term obligations occurred during the year ended June 30, 1998:

	<u>Balance July 1, 1997</u>	<u>(Decreases)</u>	<u>Balance June 30, 1998</u>
Amount to be provided for retirement of general long-term obligations	<u>\$166,421.64</u>	<u>\$(49,596.48)</u>	<u>\$116,825.16</u>
Accrued annual leave	<u>\$102,804.79</u>	<u>\$(22,021.00)</u>	<u>\$ 80,783.79</u>
Capital lease obligations	<u>63,616.85</u>	<u>(27,575.48)</u>	<u>36,041.37</u>
Total general long-term obligations	<u>\$166,421.64</u>	<u>\$(49,596.48)</u>	<u>\$116,825.16</u>

Memphis and Shelby County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

NOTE 6. OPERATING LEASES

The agency leases office space and equipment to carry out its activities and to administer the various grant programs. Total expenditures under operating leases for space and equipment were \$277,684.06 and \$61,754.76 for the year ended June 30, 1999, and were \$299,023.70 and \$2,882.52 for the year ended June 30, 1998. The leases were cancelable at the lessee's option.

NOTE 7. CAPITAL LEASE

The agency has a lease agreement in effect that is considered a capital lease. This agreement began July 1, 1994, and ends August 31, 1999, and the imputed interest rate is 8.048%. The following is a schedule of the future minimum lease payment under the capital lease, together with the present value of the net minimum lease payment at June 30, 1999:

Total minimum lease payment (due in the year ending June 30, 2000)	<u>\$3,177.29</u>
Less amounts representing interest	<u>31.67</u>
Present value of net minimum lease payment	<u><u>\$3,145.62</u></u>

The total value of equipment capitalized under this lease agreement is reported at \$78,353.93 in the General Fixed Assets Account Group at June 30, 1999.

NOTE 8. DEFINED BENEFIT PENSION PLAN

A. Plan Description

All full-time employees are members of the Political Subdivision Pension Plan (PSPP), an agent, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The TCRS administers a defined benefit pension plan that provides retirement, disability, and death benefits, as well as annual cost-of-living adjustments, to plan members and beneficiaries. Benefit provisions are established in state statute found in Title 8, Chapters 34-37, *Tennessee Code Annotated*. State statutes are

Memphis and Shelby County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

amended by the Tennessee General Assembly. Amendments to the TCRS are not applicable to a political subdivision unless approved by the political subdivision's governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling 615-741-8202.

B. Funding Policy

As authorized by the agency's board of directors, the agency pays the total pension contribution for its employees. A small number of employees whose contribution rate was greater than 5% prior to the adoption of a noncontributory system still contribute the excess over 5%. The agency is required to contribute an actuarially determined rate; the current rate is 7.63% of annual covered payroll. The agency contributed \$182,751.74 for the year ended June 30, 1999. The contribution requirements of plan members are set by state statutes and approved by the political subdivision's governing body. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees.

C. Annual Pension Cost

The agency's annual pension cost of \$182,751.74 for fiscal year 1999 met the agency's required contribution.

The required contribution was determined as part of the June 30, 1997, actuarial valuation using the frozen initial liability actuarial cost method, a projected-benefit cost method. Significant actuarial assumptions used include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 5.5% a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 4.5% annual increase in the social security wage base, and (d) projected post-retirement benefit increases of 3% of the retiree's most recent benefit. The actuarial value of the agency's assets was determined using techniques that smooth the effect of short-term volatility in the market value of both fixed income and equity securities over a five-year period. The agency's unfunded actuarial accrued liability is being

Memphis and Shelby County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

amortized as a level-dollar amount of projected payroll on a closed basis. The remaining amortization period at June 30, 1997, was 20 years.

Three-Year Trend Information

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
June 30, 1999	\$182,752	100%	-
June 30, 1998	\$205,532	100%	-
June 30, 1997	\$200,330	100%	-

NOTE 9. CONTINGENCIES

Sick Leave—The agency records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The amount of unused sick leave was \$102,636.32 at June 30, 1999, and \$93,211.00 at June 30, 1998.

NOTE 10. RISK MANAGEMENT

The agency is exposed to various risks of loss related to general liability; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

- A. The agency carries commercial insurance for risks of loss of its personal property and surety bond coverage for risks of employee dishonesty. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.
- B. The agency participates in the State of Tennessee's Claims Award Fund, an internal service fund in which the state has set aside assets for claims settlement. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the participating agencies based on a percentage of each agency's expected loss costs, which

Memphis and Shelby County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation.

- C. The agency has elected to provide health coverage for its employees through a health plan for eligible local governments and quasi-governmental agencies in Tennessee. The Local Government Group Insurance Fund provides access to affordable health insurance by pooling risk among the groups. The plan provides for greater stability in controlling premium increases and, through a structured managed-care program, helps contain health care costs of participating members.

The plan is administered by the State of Tennessee, using a separately established fund. Premiums of participating units are deposited to this fund and used to pay claims for health care costs of participants, as well as the state's administrative costs of the plan. The agency's obligation under the plan is limited to 80% of the total premiums. The employees are responsible for the remaining 20% of the total premiums. Employees have the option of obtaining insurance through either Blue Cross Blue Shield of Tennessee or Prudential Health Care. Claims are administered by these companies, which are currently under contract to provide these and other services to the state. Insurance premiums are adjusted at the end of the year based on the claims experience of the pool. Individual pool participants are not assessed additional premiums based on individual claims experience. Employees and providers have 13 months to file medical claims under Blue Cross Blue Shield of Tennessee and Prudential Health Care.

NOTE 11. RELATED-PARTY TRANSACTIONS

During the years ended June 30, 1999, and June 30, 1998, a board member was employed by the Shelby County Government, and a board member was employed by St. Joseph's Hospital, both of which contract with the agency. During the year ended June 30, 1999, two board members were on the Board of Directors of Access Med Plus, which contracts with the agency.

Memphis and Shelby County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

NOTE 12. CHANGES IN ACCOUNTING PRINCIPLES

During the year ended June 30, 1999, the threshold for capitalizing equipment was increased from \$500 to \$1,000. This change in accounting principle resulted in a decrease in equipment of \$64,848.69.

NOTE 13. RESTATEMENT OF COMPARATIVE STATEMENTS

The June 30, 1998, comparative financial statements have been restated to eliminate the IRC 457 Deferred Compensation Plan agency fund. The plan was amended prior to June 30, 1998, to comply with revisions to IRC Section 457 that require that the plan assets remain the property of the contributing employees rather than the property of the CSA as previously required. Governmental Accounting Standards Board Statement 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, rescinded the requirement to account for the plan assets in an agency fund of the employer.

**Memphis and Shelby County Community Services Agency
Required Supplementary Information
Schedule of Pension Funding Progress**

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded (Funding Excess) AAL	Funded Ratio	Covered Payroll	Unfunded (Funding Excess) AAL as a Percentage of Covered Payroll
<u> </u>	<u>(a)</u>	<u>(b)</u>	<u>(b-a)</u>	<u>(a/b)</u>	<u>(c)</u>	<u>[(b-a)/c]</u>
6/30/97	\$960,055	\$1,164,726	\$204,671	82.43%	\$2,407,808	8.5%

Information is shown only for the year available. Additional years will be shown as they become available.

Changes in Actuarial Assumptions

An actuarial valuation was performed as of June 30, 1997, to establish contribution rates as of July 1, 1998. As a result of the June 30, 1996, experience study, significant actuarial assumptions used in the valuation included (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 5.5% a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 4.5% annual increase in the social security wage base, and (d) projected post-retirement increases of 3% annually of the retiree's most recent benefit. The actuarial assumptions set forth in (a), (b), and (c) above for the June 30, 1997, valuation differ from the assumptions used in the June 30, 1995, valuation. The June 30, 1997, actuarial valuation also utilized a different methodology for the actuarial value of assets. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of both fixed income and equity securities over a five-year period.

APPENDIX

MEMPHIS AND SHELBY COUNTY COMMUNITY SERVICES AGENCY

Barbara Holden, Executive Director

BOARD OF DIRECTORS

Board Officers

William Terrell, Jr., MD, Chair
Malrie R. Shelton, Vice Chair
Joan M. Carlson, Secretary/Treasurer

Executive Committee Members

Joan M. Carlson
Nancy Lawhead
Sara Lewis
Malrie R. Shelton
William Terrell, Jr., MD

Other Members of the Board of Directors

Betsy Black
J. W. Gibson
Bill Hackett
Snowden Morgan
Juanita White
Juene Wood