

Mid-Cumberland Community Services Agency

**For the Year Ended
June 30, 1999**

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
Nashville, Tennessee 37243-0260
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John G. Morgan
Comptroller

August 21, 2000

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Mid-Cumberland Community Services Agency
Nashville, Tennessee 37211

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Mid-Cumberland 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 disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The agency's management has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/eb
00/067

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

**Financial and Compliance Audit
Mid-Cumberland 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.

INTERNAL CONTROL FINDINGS

Controls Over the Execution of Contracts Need Improvement

The agency did not obtain or maintain properly executed contracts for vendors in the Flexible Funding for Families program.

Cash Receipts Not Promptly Deposited

Fifteen of 64 cash receipts tested (23%) were not deposited within the time limits established in the agency's policies and procedures.

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
Mid-Cumberland Community Services Agency
For the Year Ended June 30, 1999

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**Mid-Cumberland 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 Mid-Cumberland 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 Mid-Cumberland Community Services Agency serves the following counties: Cheatham, Dickson, Houston, Humphreys, Montgomery, Robertson, Rutherford, Stewart, Sumner, Trousdale, Williamson, and Wilson. The agency’s administrative offices are in Nashville, Tennessee.

The governing body of the Mid-Cumberland Community Services Agency is the board of directors. As of June 30, 1999, the board was composed of 13 members. (See Appendix.) An executive committee, consisting of six 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 Mid-Cumberland 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.

OBSERVATIONS AND COMMENTS

As noted in the prior audit, the Mid-Cumberland Community Services Agency has entered into a contract with the Department of Children's Services, specifying that the community services agency (CSA) would assist in implementing various state programs. However, the department's participation in this contract was greater than indicated in the contract. Through this contract, state officials directly supervised CSA employees. And although these CSA

employees' salaries, travel costs, and other program costs were paid by the CSA, the Department of Children's Services reimbursed the CSA for these costs, including the CSA's administrative costs for serving as a fiscal agent. This contract appears to create "employer-employee" relationships between the department and these individuals.

Programs under the supervision of the Department of Children's Services included Child Protective Services, Adoption Assistance, Foster Care, Juvenile Justice Services, and Family Crisis Intervention. According to the CSA organization chart at the Department of Children's Services, several CSA employees reported to Department of Children's Services supervisors.

The practice of allowing employees of non-state entities such as the community services agencies to report directly to officials or employees of the Department of Children's Services, in carrying out what can be construed as state programs, raises policy and legal issues. We do not believe these situations should be accepted as a matter of policy. *Tennessee Code Annotated*, Section 37-5-314, considers CSA employees "state employees" for the purposes of negligent acts or omissions within the scope of their authority. However, *Tennessee Code Annotated*, Section 37-5-315(2), states: "This part shall not be construed as creating an employer-employee relationship between the department, the community services agencies or their contractors." This legal concern arises from the legislative intent that the department not create an employer-employee relationship with community services agencies and a review of the factors commonly used in determining the existence of an employer-employee relationship. These factors include Department of Children's Services' ability to direct and control the work of CSA employees it supervises. These relationships also create inherent problems for the Department of Children's Services supervisory personnel in that they have less direct control over the performance of CSA case managers.

In addition, the state apparently has incurred additional cost by contracting with non-state entities to operate programs. Over the years, the CSAs have operated programs for various departments of the state. In addition to direct program costs, the CSAs have received funding from each state department to defray the costs of administration. These costs included the salaries and benefits of the executive director and fiscal officer and costs of travel, supplies, and equipment used by the administrative staff.

The most recent audit on the Department of Children's Services includes an audit finding on these inappropriate contracts with the Mid-Cumberland Community Services Agency and other CSAs serving the department.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Mid-Cumberland 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. Reportable conditions, along with recommendations and management's responses, are detailed in the findings and recommendations. 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 Mid-Cumberland Community Services Agency's financial statements.



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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***

March 30, 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 Mid-Cumberland 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 March 30, 2000. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the Mid-Cumberland 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 did note a less significant instance of noncompliance that we have reported to the agency's management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mid-Cumberland 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

The Honorable John G. Morgan
March 30, 2000
Page Two

assurance on internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable conditions were noted:

- Controls over the execution of contracts are inadequate
- The agency did not promptly deposit cash receipts

These conditions are described in the Findings and Recommendations section of this report.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses.

We also noted other matters involving the internal control over financial reporting that we have reported to the Mid-Cumberland Community Services 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, appearing to read "Arthur A. Hayes, Jr.", written in a cursive style.

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

AAH/eb

FINDINGS AND RECOMMENDATIONS

1. Controls over the execution of contracts are inadequate

Finding

The Mid-Cumberland Community Services Agency did not follow its policies and procedures in obtaining and maintaining properly executed contracts. The agency allowed work to be performed by vendors under the Flexible Funding for Families program for extended periods of time before the contracts were executed. In addition, the agency could not produce executed contracts with several of the vendors. In the Flexible Funding for Families program, a contract with a vendor is required if an individual purchase is greater than \$1,000, or the anticipated aggregate annual purchase of like services is greater than \$5,000.

For 7 of 24 contractor files reviewed (29%), the agency did not have an executed contract on file. Agency personnel contacted the vendors to determine if each vendor possessed a copy of the executed contract, but no copies of the contract were located. The expenditures during the year ended June 30, 1999, for these vendors totaled \$215,868. Since 3 of the vendors were approved in the original Plan of Operation, the contracts should have been signed and in place by July 1, 1998, according to the contract management process in the agency's administrative directives.

In addition, the contracts with 5 of 24 vendors (21%) were signed 54 to 193 days after the expenditures exceeded the program's \$1,000/\$5,000 limits. Expenditures far exceeded these limits before contracts were executed.

All of these vendors and contracts were authorized by the board of directors and included in the Plan of Operation or subsequent Plan Changes that were approved by the state. After authorization from the board and the state, the agency's policies and program guidelines were not followed properly. It is the contract manager's responsibility to ensure that service contracts are in place and current. It appears that after the contracts were authorized by the board of directors and the state, the agency failed to prepare the contracts, send the contracts to the board chair for official signature, and submit the contracts to vendors for signatures. By following the approved procedures, the agency would reduce the liability to itself and to the state if a dispute arose with a vendor's service.

Recommendation

The Mid-Cumberland Community Services Agency's contract manager should ensure that once contracts are authorized by the board of directors and the state, the contracts are completely executed in a timely manner and properly retained. The contract manager should follow the administrative directives governing the processing of contracts from the proposal stage through board approvals, vendor signings, and any needed amendments.

Management's Comment

We concur with the finding that MCCSA did not obtain signed contracts with some vendors.

The contract process was followed. The contracts were listed in the operational plan approved by the Board of Directors of MCCSA. The Department of Children's Services approved the plan. Throughout the year as contract amounts changed, the board and DCS approved plan changes. All the plan changes were documented. The board and DCS were fully aware of all contracts.

MCCSA did not experience any contract or vendor problems during this fiscal year. There were no contract disputes. The majority of the contracts (71%) were signed and received by MCCSA.

MCCSA has instituted procedures to assure the contract process is followed completely to conclusion and are listed below:

1. All contracts are prepared for signature before the Plan of Operation is approved.
2. Once the Plan is approved, the contracts are sent for vendor signature. This occurs between July 1 and July 31.
3. The contracts are received back from the vendors and immediately sent to the board for signature.
4. The contracts are then filed.
5. A log is maintained to determine status on all contracts. This log is reported to the Executive Director and Director of Fiscal Services on a monthly basis.

2. The agency did not promptly deposit cash receipts

Finding

The Mid-Cumberland Community Services Agency (MCCSA) did not make prompt deposits of cash receipts in accordance with its policies and procedures for 15 of 64 items tested (23%). The number of days late ranged from one to seven working days. The total amount of late deposits was \$51,698.

The *MCCSA Policy and Procedures Manual*, Section 3.12, "Depositing of Revenues," states:

Monies collected by the Agency will be promptly receipted and must be routinely scheduled for deposit at a minimum of twice weekly. However, if the total amount collected exceeds \$50.00 at any time prior to the scheduled date of deposit, such monies must be deposited within one business day of receipt.

When cash receipts are not promptly deposited, the possibility of misappropriation increases.

Recommendation

The agency's fiscal director should ensure that receipts are promptly deposited to the agency's bank account as outlined in the *MCCSA Policy and Procedures Manual*.

Management's Comment

We concur with the finding that MCCSA did not make prompt deposit of cash receipts.

The policy is very strict in that any cash item more than \$50 received in the office has to be deposited within 24 hours.

MCCSA staff has established procedures that will eliminate this as a problem in the future as listed below:

1. Staff has been made aware of the importance of timely cash deposits.
2. Procedure of cash deposits during working hours has been altered so that deposits are made at the end of the working day. This allows employees to make deposits in the bank on their way home.
3. This fulfills the policy of making the cash deposits within 24 hours of receipt.
4. Director of Fiscal Services monitors the deposit process for timeliness.



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Independent Auditor's Report

March 30, 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 Mid-Cumberland 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 Mid-Cumberland 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
March 30, 2000
Page Two

As discussed in Note 11, the Mid-Cumberland Community Services Agency changed its equipment capitalization policy.

The Schedule of Pension Funding Progress for Mid-Cumberland 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 March 30, 2000, on our consideration of Mid-Cumberland 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, cursive script.

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

AAH/eb

MID-CUMBERLAND 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	Account		Totals	Governmental	Account		Totals
	Fund Type	General	General		Fund Type	General	General	
	General	Fixed	Long-Term	(Memorandum	General	Fixed	Long-Term	(Memorandum
	Fund	Assets	Obligations	Only)	Fund	Assets	Obligations	Only)
Assets and other debit								
Assets:								
Cash (Note 2)	\$ 330,886.90	\$ -	\$ -	\$ 330,886.90	\$ 361,310.88	\$ -	\$ -	\$ 361,310.88
Prepaid items	7,879.93	-	-	7,879.93	12,216.16	-	-	12,216.16
Accounts receivable	44.64	-	-	44.64	17,528.33	-	-	17,528.33
Due from primary government (Note 3)	349,056.88	-	-	349,056.88	431,989.02	-	-	431,989.02
General fixed assets (Note 4):								
Furniture and equipment	-	250,867.22	-	250,867.22	-	278,429.58	-	278,429.58
Other debit:								
Amount to be provided for retirement of general long-term obligations (Note 5)	-	-	99,710.47	99,710.47	-	-	98,252.41	98,252.41
Total assets and other debit(s)	\$ 687,868.35	\$ 250,867.22	\$ 99,710.47	\$ 1,038,446.04	\$ 823,044.39	\$ 278,429.58	\$ 98,252.41	\$ 1,199,726.38
Liabilities, other credit, and fund balance								
Liabilities:								
Accounts payable	\$ 192,359.84	\$ -	\$ -	\$ 192,359.84	\$ 320,088.13	\$ -	\$ -	\$ 320,088.13
Accrued payroll	190,875.29	-	-	190,875.29	163,033.74	-	-	163,033.74
Accrued payroll taxes and benefits	16,578.32	-	-	16,578.32	13,695.42	-	-	13,695.42
Accrued annual leave (Note 5)	-	-	99,710.47	99,710.47	-	-	98,252.41	98,252.41
Due to primary government (Note 3)	133,543.68	-	-	133,543.68	182,520.49	-	-	182,520.49
Due to other CSA	-	-	-	-	470.00	-	-	470.00
Total liabilities	533,357.13	-	99,710.47	633,067.60	679,807.78	-	98,252.41	778,060.19
Other credit:								
Investment in general fixed assets (Note 4)	-	250,867.22	-	250,867.22	-	278,429.58	-	278,429.58
Fund balance:								
Reserved for prepaid items	7,879.87	-	-	7,879.87	12,216.16	-	-	12,216.16
Unreserved	146,631.35	-	-	146,631.35	131,020.45	-	-	131,020.45
Total other credit and fund balance	154,511.22	250,867.22	-	405,378.44	143,236.61	278,429.58	-	421,666.19
Total liabilities, other credit, and fund balance	\$ 687,868.35	\$ 250,867.22	\$ 99,710.47	\$ 1,038,446.04	\$ 823,044.39	\$ 278,429.58	\$ 98,252.41	\$ 1,199,726.38

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

MID-CUMBERLAND 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	\$ 4,512,464.76	\$ 4,376,335.62
Private contracts	-	172,980.53
TennCare Transportation contracts	215,580.45	210,016.26
Interest	24,833.04	18,746.95
Other	157.72	1,790.91
Total revenues	<u>4,753,035.97</u>	<u>4,779,870.27</u>
<u>Expenditures</u>		
Salaries and wages	2,551,828.22	2,606,821.65
Fringe benefits	523,746.26	581,476.99
Professional services	515,484.34	411,923.53
Specific assistance to individuals	2,974.40	26,977.88
Travel	205,920.20	212,663.58
Supplies	77,733.13	73,552.63
Postage and shipping	17,307.61	19,836.88
Printing	10,282.77	7,309.46
Telephone	109,598.16	107,899.76
Utilities	7,138.95	3,717.84
Insurance	10,341.57	8,085.96
Occupancy	303,099.73	277,776.21
Equipment rental and maintenance	142,989.11	183,695.67
Capital purchases	38,888.54	8,069.96
Awards and subsidies	211,732.17	214,811.00
Other nonpersonnel costs	12,696.20	7,041.79
Total expenditures	<u>4,741,761.36</u>	<u>4,751,660.79</u>
Excess of revenues over expenditures	<u>11,274.61</u>	<u>28,209.48</u>
Fund balance, July 1	<u>143,236.61</u>	<u>115,027.13</u>
Fund balance, June 30	<u>\$ 154,511.22</u>	<u>\$ 143,236.61</u>

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

Mid-Cumberland 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 Mid-Cumberland 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). Certain amounts presented for the preceding year have been reclassified for comparative purposes.

Fund Structure, Basis of Accounting, and Measurement Focus

The financial records of the Mid-Cumberland 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:

Mid-Cumberland 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 not accounted for in other funds .

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 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.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

NOTE 2. DEPOSITS

The Mid-Cumberland 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. 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 Mid-Cumberland 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	\$ 97,931.68
Department of Children's Services—program funds	245,778.28
Local Government Group Insurance	<u>5,346.92</u>

Total due from primary government	<u><u>\$349,056.88</u></u>
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Due To:

Department of Health—Office of Vital Records	\$ 5.00
Department of Children's Services—leased equipment	86,725.11
Department of Children's Services—Claims Award Fund	2,200.00
Department of the Treasury—retirement contributions	8,049.50
Department of Employment Security—unemployment taxes	2,036.57
Comptroller of the Treasury—audit fees	20,150.00
Department of Finance and Administration— Office for Information Resources (telephone usage)	13,270.05
Commission on Aging—program funds	<u>1,107.45</u>

Total due to primary government	<u><u>\$ 133,543.68</u></u>
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Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

June 30, 1998

Due From:	
Department of Health—program funds	\$ 54,768.55
Department of Children’s Services—program funds	286,982.40
Commission on Aging—program funds	85,563.23
Local Government Group Insurance	<u>4,674.84</u>
Total due from primary government	<u><u>\$431,989.02</u></u>

Due To:	
Department of Health—Office of Vital Records	\$ 25.00
Department of Children’s Services—leased equipment	144,254.03
Department of the Treasury—retirement contributions	17,984.18
Department of Employment Security—unemployment taxes	1,578.59
Comptroller of the Treasury—audit fees	<u>18,678.69</u>
Total due to primary government	<u><u>\$182,520.49</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	<u>\$278,429.58</u>	<u>\$38,888.54</u>	<u>\$66,450.90</u>	<u>\$250,867.22</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	<u>\$275,963.87</u>	<u>\$10,468.96</u>	<u>\$8,003.25</u>	<u>\$278,429.58</u>

Mid-Cumberland 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</u> <u>July 1, 1998</u>	<u>Increases</u>	<u>Balance</u> <u>June 30, 1999</u>
Amount to be provided for retirement of general long-term obligations	<u>\$98,252.41</u>	<u>\$1,458.06</u>	<u>\$99,710.47</u>
Accrued annual leave	<u>\$98,252.41</u>	<u>\$1,458.06</u>	<u>\$99,710.47</u>
Total general long-term obligations	<u>\$98,252.41</u>	<u>\$1,458.06</u>	<u>\$99,710.47</u>

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

	<u>Balance</u> <u>July 1, 1997</u>	<u>(Decreases)</u>	<u>Balance</u> <u>June 30, 1998</u>
Amount to be provided for retirement of general long-term obligations	<u>\$115,179.51</u>	<u>\$(16,927.10)</u>	<u>\$98,252.41</u>
Accrued annual leave	<u>\$115,179.51</u>	<u>\$(16,927.10)</u>	<u>\$98,252.41</u>
Total general long-term obligations	<u>\$115,179.51</u>	<u>\$(16,927.10)</u>	<u>\$98,252.41</u>

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 \$281,960.03 and \$134,611.20 for the year ended June 30, 1999, and were \$259,386.64 and \$173,833.88 for the year ended June 30, 1998. All leases were noncancelable except for the computer equipment leased from the State of Tennessee.

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms exceeding one year as of June 30, 1999:

Year Ending <u>June 30</u>	
2000	\$200,212.47
2001	2,555.91
2002	2,419.92
2003	1,063.15
2004	<u>15.00</u>
Total minimum payments required	<u><u>\$206,266.45</u></u>

NOTE 7. 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 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

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

contribution rate was greater than 5% prior to the adoption of a non-contributory system still contribute the excess over 5%. The agency is required to contribute an actuarially determined rate; the current rate is 4.64% of annual covered payroll. The agency contributed \$107,308 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 \$107,308 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.

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	\$107,308	100%	\$ -
June 30, 1998	\$142,749	100%	\$ -
June 30, 1997	\$145,676	100%	\$ -

NOTE 8. 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 \$113,825.56 at June 30, 1999, and \$120,063.66 at June 30, 1998.

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

NOTE 9. DONATED FACILITIES

The Department of Health donated office space, utilities, telephone service, and copiers to the Mid-Cumberland Community Services Agency during the years ended June 30, 1999, and June 30, 1998. The agency was no longer using the facilities at June 30, 1999. The value of the donation is not recorded in the financial statements.

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, surety bond coverage for risks of employee dishonesty, and professional liability coverage for board members and directors. In the past three fiscal years, the agency has not had any claims filed with the commercial insurer.
- 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 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.

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1999, and June 30, 1998

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 of Nashville. 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 3 months with Prudential Health Care.

NOTE 11. CHANGE IN ACCOUNTING PRINCIPLE

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 \$20,508.89.

NOTE 12. PRIOR PERIOD RESTATEMENT

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. These revisions require that all assets and income of the 457 plan be held in trust for the exclusive benefit of the participants and their beneficiaries rather than remaining the property of the CSA as previously required. Governmental Accounting Standards Board Statement 32, *Accounting and Financial Reporting for Internal Revenue Code 457 Deferred Compensation Plans*, rescinded the requirement to account for the plan assets in an agency fund of the employer.

**Mid-Cumberland Community Services Agency
Required Supplementary Information
Schedule of Pension Funding Progress**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funding Excess) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded (Funding Excess) AAL as a Percentage of Covered Payroll [(b-a)/c]
June 30, 1997	\$1,354,095	\$1,354,095	\$ -	100%	\$2,431,980	- %

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

MID-CUMBERLAND COMMUNITY SERVICES AGENCY

Beverly G. Bass, Executive Director

BOARD OF DIRECTORS

Board Officers

Theodore White, Jr. – Chairman

Marie Mobley – Vice-Chairman

Janet Tabor – Secretary

David Asbury – Treasurer

Executive Committee Members

Theodore White, Jr. – Montgomery County

Marie Mobley – Robertson County

Janet Tabor – Cheatham County

David Asbury – Humphreys County

At-large – Barbara Swader – Rutherford County

At-large – Luther Bratton – Sumner County

Other Members of the Board of Directors

Julie Mills – Wilson County

Mary Todd Linville – Trousdale County

Debra Byrd – Stewart County

Brenda Hayden – Williamson County

Betty Woodard – Dickson County

Bettye McKinnon – Houston County

Beth Kasch – Department of Children's Services Representative