

Mid-Cumberland Community Services Agency

**For the Year Ended
June 30, 2000**

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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

November 20, 2001

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
531 Metroplex Drive
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, 2000. 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 a deficiency, which is detailed in the Results of the Audit section of this report. The agency's management has responded to the audit finding; the response is included following the finding.

The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/snb
01/050

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, 2000

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 FINDING

Accrued Leave Liability Misstated Due to Calculation Errors

Because employees incorrectly entered information into the accounting software, employee leave balances and accrued leave liabilities were misstated. Agency personnel manually recalculated the leave balances; however, numerous errors were made in these recalculations (page 7).

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, 2000

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Mid-Cumberland Community Services Agency For the Year Ended June 30, 2000

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, 2000, the board was composed of 12 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, 1999, through June 30, 2000, and was conducted in accordance with government auditing standards generally accepted in the United States of America. Financial statements are presented for the year ended June 30, 2000, and for comparative purposes, the year ended June 30, 1999. 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

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Mid-Cumberland Community Services Agency filed its report with the Department of Audit on January 25, 2001. A follow-up of all prior audit findings was conducted as part of the current audit. The current audit disclosed that the agency has corrected previous audit findings concerning the inadequacy of controls over the execution of contracts and the untimely deposits of cash receipts.

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. Some of these CSA employees were secretaries for the department's regional administrative staff.

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 the 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 of 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, 2000, 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 government auditing standards generally accepted in the United States of America. A reportable condition, along with the recommendation and management's response, is detailed in the finding and recommendation. 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 2, 2001

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, 2000, and have issued our report thereon dated March 2, 2001. We conducted our audit in accordance with government auditing standards generally accepted in the United States of America.

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 certain less significant instances 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 assurance

The Honorable John G. Morgan
March 2, 2001
Page Two

on internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 condition was noted:

- Employee leave balances and leave liabilities were incorrect.

This condition is described in the Finding and Recommendation 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 the reportable condition described above is not a material weakness.

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,



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

AAH/snb

FINDING AND RECOMMENDATION

Employee leave balances and leave liabilities were incorrect

Finding

The Mid-Cumberland Community Services Agency miscalculated employees' annual leave balances. This resulted in some employees being denied leave to which they were entitled and others being awarded leave to which they were not entitled. These errors also caused the compensated absences liability in the financial statements to be misstated. An audit adjustment was made to the financial statements included in this report.

These errors occurred for several reasons. First, the accounting software was not set up to account for the proper leave accrual rate for employees with prior years of service with another eligible employer. Employees accrue from 7.5 to 15 hours of annual leave per month depending on their years of service with any Community Services Agency or the State of Tennessee. Employees with prior service with another eligible employer were accruing leave at a lesser rate based only on their service with this agency.

Second, the accounting software was not set up to properly identify employees reaching the maximum limit of annual leave that an employee may accrue before the annual leave converts to sick leave. An employee with less than 5 years of service may accrue a maximum of 225 hours of annual leave; 5 to 10 years, 270 hours; 10 to 20 years, 292.5 hours; and more than 20 years, 315 hours. However, the limitation set within the accounting software as the maximum annual leave accrual for all employees, regardless of years of service, was 270 hours. As a result of this improper limitation, employees with more than 10 years of service with this CSA or an eligible employer may have annual leave inappropriately convert to sick leave. Conversely, employees with less than 5 years of service with this CSA or an eligible employer may exceed their maximum allowable accrual without the system making the conversion of annual leave to sick leave.

Further exacerbating the miscalculation of the annual leave liability in the financial statements was the improper inclusion of the pay rate increase that was effective on July 1, 2000. The annual leave liability should have been calculated using the pay rate in effect on June 30, 2000. The contingent liability disclosure in the notes to the financial statements was also adversely affected.

In addition to the errors with pay rates, prior service, and maximum accrual limitations, sick/personal leave was also recorded incorrectly for enrollees in the Senior Community Services Employment Program (SCSEP). Although SCSEP enrollees are not employees of the CSA and do not accrue annual leave, they are allowed to accrue four hours per month of sick/personal leave. Because the leave balance at the enrollee's separation is payable to the enrollee, it should then be treated as a liability, not a contingency, and should be reflected in the annual leave balances, not sick leave balances. Instead of correctly recording the sick/personal leave as annual leave, the CSA recorded this leave as sick leave.

Because of the many errors noted in the leave schedule generated from the accounting system package, Mid-Cumberland Community Services Agency personnel recalculated the leave balances manually. However, these manual calculations also yielded errors.

We traced the manually calculated annual and sick leave balances for nine employees to the appropriate time sheets and recalculated the leave liability. Several errors in the manually calculated balances were noted.

- Two employees had prior breaks in service that affected their service anniversary dates. However, these breaks were not reflected in the accrual rate for these employees. Consequently, these employees earned leave at a higher rate for several months before they were actually entitled to accrue leave at that rate. This error overstated the annual leave calculation.
- One employee had accrued both annual and sick leave during a month that she was on leave without pay and therefore ineligible to accrue leave. This error overstated both the annual and sick leave calculations.
- Two employees took sick leave in July 2000 that was inadvertently deducted from the June 30 balance. Therefore the sick leave calculation was understated.
- The sick leave balance reflected on the time sheet did not agree with the manually calculated leave balance for two employees. The annual leave balance on the time sheet also did not agree for one of these employees. The result of these errors overstated both the annual and sick leave calculations. In addition, three employees had a negative, or overdrawn, leave balance at June 30, 2000, which may have been caused by reliance on information in the accounting system indicating that these employees had leave available to take when in fact they did not.

The leave balances from the accounting system are printed on employees' paycheck stubs so that employees may rely on these balances when scheduling leave. Therefore, it is imperative that this information be accurate. Inaccurate leave information can create additional expenditures for the CSA if leave is granted to employees with negative leave balances, or if a terminating employee has an annual leave balance in excess of the maximum accrual limit. Inaccurate information may unnecessarily penalize the employee if prior service is not recognized in the accrual of annual leave, annual leave prematurely converts to sick leave before reaching the appropriate maximum limitation, or the employee is forced to take leave without pay when a leave balance actually exists.

Recommendation

The leave balances of all employees should be reviewed in detail. The service dates should be adjusted to reflect prior service, and the accrual rate should be corrected to reflect the rate corresponding to the employee's total years of service. The maximum allowable annual leave accrual should also reflect the employee's total years of service. SCSEP enrollees' leave accrual should be accounted for as annual leave.

In addition to corrections, the agency should maintain a monthly manual calculation of leave accrued and taken until management becomes confident of the calculations within the accounting software. These manual calculations should be reconciled with the automated calculations, and corrections should be made when detected.

Leave liability amounts for financial statement purposes should be calculated at year-end before any pay raises for the new fiscal year are implemented.

Management's Comment

Management concurs with the audit finding. Internal work papers from the previous years' audits were not obtainable for this audit. An attempt was made to use the existing accounting software to prepare the audit accrual. The existing accounting software proved not capable; as a result a manual work paper was prepared in quick fashion.

As a result of this experience, the following actions have taken place in order to prevent this problem in the future:

- 1) New accounting software has been purchased and installed. The software is a Windows based software, thus allowing exporting to worksheets where the accrual information is maintained. New software was not purchased only for this purpose.
- 2) An employee has been assigned to maintain this accrual on a per payroll basis. The recording of the accrual can be a very time consuming process but should be performed more efficiently on a biweekly period.
- 3) In the new fiscal 2000-2001 year, a complete review was done that has corrected all the issues mentioned before. In addition, the worksheet was compared to the existing database, and most discrepancies between the payroll database and worksheet have been reconciled. This task took many hours to accomplish.

A trace on each employee for the past three years has been done to determine what the correct balances should be. Hopefully the process will be less time consuming and costly in the future.



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Independent Auditor's Report

March 2, 2001

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, 2000, and June 30, 1999, 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 government auditing standards generally accepted in the United States of America. 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, 2000, and June 30, 1999, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The Honorable John G. Morgan
March 2, 2001
Page Two

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 2, 2001, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." in a cursive script.

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

AAH/snb

MID-CUMBERLAND COMMUNITY SERVICES AGENCY
 COMBINED BALANCE SHEETS
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2000, AND JUNE 30, 1999

	June 30, 2000				June 30, 1999			
	Governmental Fund Type	Account Groups			Governmental Fund Type	Account Groups		
	General Fund	General Fixed Assets	General Long-term Obligations	Totals (Memorandum Only)	General Fund	General Fixed Assets	General Long-term Obligations	Totals (Memorandum Only)
<u>Assets and other debt</u>								
Assets:								
Cash (Note 2)	\$ 107,139.94	\$ -	\$ -	\$ 107,139.94	\$ 330,886.90	\$ -	\$ -	\$ 330,886.90
Prepaid items	25,532.68	-	-	25,532.68	7,879.93	-	-	7,879.93
Accounts receivable	44.64	-	-	44.64	44.64	-	-	44.64
Due from primary government (Note 3)	408,188.18	-	-	408,188.18	349,056.88	-	-	349,056.88
General fixed assets (Note 4)								
Furniture and equipment	-	173,948.40	-	173,948.40	-	250,867.22	-	250,867.22
Other debit:								
Amount to be provided for retirement of general long-term obligations (Note 5)	-	-	101,509.20	101,509.20	-	-	99,710.47	99,710.47
Total assets and other debit	<u>\$ 540,905.44</u>	<u>\$ 173,948.40</u>	<u>\$ 101,509.20</u>	<u>\$ 816,363.04</u>	<u>\$ 687,868.35</u>	<u>\$ 250,867.22</u>	<u>\$ 99,710.47</u>	<u>\$ 1,038,446.04</u>
<u>Liabilities, other credit, and fund balance</u>								
Liabilities								
Accounts Payable	\$ 111,161.27	\$ -	\$ -	\$ 111,161.27	\$ 192,359.84	\$ -	\$ -	\$ 192,359.84
Accrued Payroll	102,607.66	-	-	102,607.66	190,875.29	-	-	190,875.29
Accrued payroll taxes and benefits	7,783.22	-	-	7,783.22	16,578.32	-	-	16,578.32
Due to primary government (Note 3)	130,683.86	-	-	130,683.86	133,543.68	-	-	133,543.68
Due to other CSA	160.00	-	-	160.00	-	-	-	-
Accrued annual leave	-	-	101,509.20	101,509.20	-	-	99,710.47	99,710.47
Total Liabilities	<u>352,396.01</u>	<u>-</u>	<u>101,509.20</u>	<u>453,905.21</u>	<u>533,357.13</u>	<u>-</u>	<u>99,710.47</u>	<u>633,067.60</u>
Other credit:								
Investment in general fixed assets (Note 4)	-	173,948.40	-	173,948.40	-	250,867.22	-	250,867.22
Fund balance:								
Reserved for prepaid items	25,532.68	-	-	25,532.68	7,879.93	-	-	7,879.93
Unreserved	162,976.75	-	-	162,976.75	146,631.29	-	-	146,631.29
Total other credit and fund balance	<u>188,509.43</u>	<u>173,948.40</u>	<u>-</u>	<u>362,457.83</u>	<u>154,511.22</u>	<u>250,867.22</u>	<u>-</u>	<u>405,378.44</u>
Total liabilities, other credit, and fund balance	<u>\$ 540,905.44</u>	<u>\$ 173,948.40</u>	<u>\$ 101,509.20</u>	<u>\$ 816,363.04</u>	<u>\$ 687,868.35</u>	<u>\$ 250,867.22</u>	<u>\$ 99,710.47</u>	<u>\$ 1,038,446.04</u>

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, 2000, AND JUNE 30, 1999

	General Fund	
	For the Year Ended June 30, 2000	For the Year Ended June 30, 1999
<u>Revenues</u>		
State grants and contracts	\$ 4,524,456.38	\$ 4,512,464.76
TennCare Transportation contracts	336,070.94	215,580.45
In-kind revenue	48,200.00	-
Interest	16,166.48	24,833.04
Other	1,205.48	157.72
Total revenues	<u>4,926,099.28</u>	<u>4,753,035.97</u>
<u>Expenditures</u>		
Salaries and wages	2,715,069.15	2,551,828.22
In-kind salaries and benefits	29,267.00	-
Fringe benefits	557,085.55	523,746.26
Professional services	604,243.19	515,484.34
Specific assistance to individuals	-	2,974.40
Travel	244,417.25	205,920.20
Supplies	58,184.26	77,733.13
Postage and shipping	17,354.69	17,307.61
Printing	7,114.24	10,282.77
Telephone	132,845.09	109,598.16
Utilities	-	7,138.95
Insurance	17,912.52	10,341.57
Occupancy	370,785.61	303,099.73
In-kind occupancy	18,933.00	-
Equipment rental and maintenance	75,399.27	142,989.11
Equipment purchases	32,702.80	38,888.54
Grants and subsidies	-	211,732.17
Other nonpersonnel expenses	10,787.45	12,696.20
Total expenditures	<u>4,892,101.07</u>	<u>4,741,761.36</u>
Excess of revenues over expenditures	<u>33,998.21</u>	<u>11,274.61</u>
Fund balance, July 1	<u>154,511.22</u>	<u>143,236.61</u>
Fund balance, June 30	<u>\$ 188,509.43</u>	<u>\$ 154,511.22</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, 2000, and June 30, 1999

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 accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

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:

Governmental Fund Type

General Fund—used to account for all resources not accounted for in other funds.

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2000, and June 30, 1999

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 accounting principles generally accepted in the United States of America. 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.

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

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2000, and June 30, 1999

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, 2000

Due From:

Commission on Aging—program funds	\$ 167,638.55
Department of Children's Services—program funds	240,549.63
Total due from primary government	<u>\$ 408,188.18</u>

Due To:

Department of Health—program funds	\$ 31,538.22
Department of Health—Office of Vital Records	5.00
Department of Children's Services—leased equipment	15,567.50
Department of the Children's Services—Training	34,357.50
Department of the Treasury—retirement contributions	13,019.97
Department of Labor and Workforce Development— unemployment taxes	1,440.39
Comptroller of the Treasury—audit fees	21,012.60
Department of Finance and Administration— Office for Information Resources (telephone usage)	<u>13,742.68</u>
Total due to primary government	<u>\$ 130,683.86</u>

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2000, and June 30, 1999

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>
Due To:	
Department of Health—Office of Vital Records	\$ 5.00
Department of Children’s Services—leased equipment	86,725.11
Department of the 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>

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, 2000:

	<u>Balance</u> <u>July 1, 1999</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2000</u>
Furniture and equipment	<u>\$250,867.22</u>	<u>\$5,303.55</u>	<u>\$82,222.37</u>	<u>\$173,948.40</u>

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2000, and June 30, 1999

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>

NOTE 5. GENERAL LONG-TERM OBLIGATIONS

The following changes in general long-term obligations occurred during the year ended June 30, 2000:

	<u>Balance</u> <u>July 1, 1999</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2000</u>
Amount to be provided for retirement of general long-term obligations	<u>\$99,710.47</u>	<u>\$1,798.73</u>	<u>\$ -</u>	<u>\$101,509.20</u>
Accrued annual leave	<u>\$99,710.47</u>	<u>\$1,798.23</u>	<u>\$ -</u>	<u>\$101,509.20</u>
Total general long-term obligations	<u>\$99,710.47</u>	<u>\$1,798.23</u>	<u>\$ -</u>	<u>\$101,509.20</u>

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>Increase</u>	<u>Decrease</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>\$ -</u>	<u>\$99,710.47</u>

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2000, and June 30, 1999

Accrued annual leave	<u>\$98,252.41</u>	<u>\$1,458.06</u>	<u>\$ -</u>	<u>\$99,710.47</u>
Total general long-term obligations	<u>\$98,252.41</u>	<u>\$1,458.06</u>	<u>\$ -</u>	<u>\$99,710.47</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 \$321,499.58 and \$55,136.80 for the year ended June 30, 2000, and were \$281,960.03 and \$134,611.20 for the year ended June 30, 1999. All leases, except for the computer equipment leased from the State of Tennessee, were noncancelable.

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, 2000:

Year Ending <u>June 30</u>	
2001	\$ 210,596.98
2002	170,677.86
2003	177,310.06
2004	156,876.54
2005	<u>25,501.41</u>
Total minimum payments required	<u>\$ 740,962.85</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

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2000, and June 30, 1999

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 can be accessed at www.treasury.state.tn.us.

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; for the years ended June 30, 2000, and June 30, 1999 the rate was 4.64% of annual covered payroll. 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 costs of \$119,138 for the year ended June 30, 2000, and \$107,308 for the year ended June 30, 1999, were equal to the agency's required and actual contributions.

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

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2000, and June 30, 1999

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, 2000	\$119,138	100%	\$ -
June 30, 1999	\$107,308	100%	\$ -
June 30, 1998	\$142,749	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 \$99,162.67 at June 30, 2000, and \$113,825.56 at June 30, 1999.

NOTE 9. DONATED FACILITIES

The Department of Health donated office space, utilities, telephone service, and copier use to the Mid-Cumberland Community Services Agency during the year ended June 30, 1999. The agency was no longer using the facilities after 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.

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2000, and June 30, 1999

- A. The agency carries commercial insurance for risks of loss of its personal property and surety bond coverage for risks of employee dishonesty. In the past three fiscal years, the agency has not had any claims filed with the commercial issuer.

- 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.

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 three months with Prudential Health Care.

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2000, and June 30, 1999

NOTE 11. CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2000, the threshold for capitalizing equipment was increased from \$1,000 to \$5,000. This change in accounting principle resulted in a decrease in equipment of \$82,222.37.

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.

**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 <u>[(b-a)/c]</u>
July 1, 1999	\$1,880,049	\$1,880,049	\$ -	100%	\$2,268,739	-
June 30, 1997	\$1,354,095	\$1,354,095	\$ -	100%	\$2,333,966	-

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

Actuarial Assumptions

An actuarial valuation was performed as of July 1, 1999, to establish contribution rates as of July 1, 2000. The June 30, 1997, actuarial valuation established contribution rates for the years ended June 30, 2000, and June 30, 1999. Significant actuarial assumptions used in both valuations 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.

APPENDIX

MID-CUMBERLAND COMMUNITY SERVICES AGENCY

Beverly G. Bass, Executive Director

BOARD OF DIRECTORS

Board Officers

Theodore White, Jr., Chair
David Asbury, Vice-Chair
Barbara K. Swader, Treasurer
Janet B. Tabor, Secretary

Executive Committee Members

Theodore White, Jr., Chair
David Asbury, Vice-Chair
Barbara K. Swader, Treasurer
Janet B. Tabor, Secretary
Mary Todd Linville, At-Large
Julie Mills, At-Large

Other Members of the Board of Directors

Luther Bratton, Jr.
Debra Jean Byrd
Beth Kasch
Bettye McKinnon
Marie O. Mobley
Bettie Woodard