

**Hamilton County Community Services Agency**

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

***Arthur A. Hayes, Jr., CPA, JD, CFE***  
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Financial/compliance audits of community services agencies are available on-line at  
[www.comptroller.state.tn.us/sa/reports/index.html](http://www.comptroller.state.tn.us/sa/reports/index.html).  
For more information about the Comptroller of the Treasury, please visit our Web site at  
[www.comptroller.state.tn.us](http://www.comptroller.state.tn.us).



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY**

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

**John G. Morgan  
Comptroller**

June 29, 2001

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
Board of Directors  
Hamilton County Community Services Agency  
1304 McCallie Avenue  
Chattanooga, Tennessee 37404

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Hamilton County 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 resulted in no audit findings.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/cj  
01/059

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Hamilton County Community Services Agency**  
For the Year Ended June 30, 2000

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## AUDIT OBJECTIVES

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

## AUDIT FINDINGS

The audit report contains no findings.

## OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

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"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**  
**Hamilton County Community Services Agency**  
**For the Year Ended June 30, 2000**

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# **Hamilton County Community Services Agency For the Year Ended June 30, 2000**

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## **INTRODUCTION**

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### **POST-AUDIT AUTHORITY**

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

### **BACKGROUND**

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

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

The Hamilton County Community Services Agency’s administrative offices are in Chattanooga, Tennessee.

The governing body of the Hamilton County Community Services Agency is the board of directors. As of June 30, 2000, the board was composed of 10 members. (See Appendix.) An executive committee, consisting of five board members, has the authority to act on behalf of the board of directors in the management of the agency’s property, affairs, and funds in extraordinary circumstances when the governing board cannot convene.

Prior to July 1, 1998, Hamilton County Community Services Agency was Chattanooga – Hamilton County Community Services Agency. The Chattanooga – Hamilton County Community Services Agency was staffed by employees of the Health Services Division of Hamilton County government who were responsible for program administration. A joint decision was made by the Department of Children’s Services, Hamilton County government, and the Chattanooga – Hamilton County Community Services Agency board of directors to operate

the agency independent of the county effective July 1, 1998. Employees of the Health Services Division of Hamilton County government were transferred directly into comparable job positions at Hamilton County Community Services Agency effective July 1, 1998.

The Hamilton County Community Services 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.

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### **AUDIT SCOPE**

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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 Hamilton County Community Services Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

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### **OBJECTIVES OF THE AUDIT**

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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.

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### **PRIOR AUDIT FINDINGS**

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There were no findings in the prior audit report.

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## RESULTS OF THE AUDIT

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### AUDIT CONCLUSIONS

#### Internal Control

As part of the audit of the Hamilton County 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. 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 Hamilton County Community Services Agency's financial statements.



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT**

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NASHVILLE, TENNESSEE 37243-0264  
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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***

January 25, 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 Hamilton County 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 January 25, 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 Hamilton County Community Services Agency's financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hamilton County Community Services Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

The Honorable John G. Morgan  
January 25, 2001  
Page Two

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

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

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." The signature is written in a cursive style with a large, prominent initial "A".

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

AAH/cj



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
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**Independent Auditor's Report**

January 25, 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 Hamilton County 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 Hamilton County 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 Hamilton County Community Services Agency changed its equipment capitalization policy.

The Honorable John G. Morgan  
January 25, 2001  
Page Two

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2001, on our consideration of Hamilton County 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 style.

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

AAH/cj

HAMILTON COUNTY 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	Account		Totals	Governmental	Account		Totals
	Fund Type	Groups			Fund Type	Groups		
General	General	General	(Memorandum	General	General	General	(Memorandum	
Fund	Fixed	Long-Term	Only)	Fund	Fixed	Long-Term	Only)	
	Assets	Obligations			Assets	Obligations		
<u>Assets and other debit</u>								
Assets:								
Cash (Note 2)	\$ 315,695.89	\$ -	\$ -	\$ 315,695.89	\$ 328,175.31	\$ -	\$ -	\$ 328,175.31
Accounts Receivable	131.00	-	-	131.00	-	-	-	-
Prepaid items	1,993.86	-	-	1,993.86	6,017.69	-	-	6,017.69
Due from primary government (Note 3)	36.00	-	-	36.00	36.00	-	-	36.00
General fixed assets (Note 4):								
Furniture and equipment	-	23,302.00	-	23,302.00	-	14,925.00	-	14,925.00
Other debit:								
Amount to be provided for retirement of general long-term obligations (Note 5)	-	-	36,695.90	36,695.90	-	-	37,347.43	37,347.43
Total assets and other debit	\$ <u>317,856.75</u>	\$ <u>23,302.00</u>	\$ <u>36,695.90</u>	\$ <u>377,854.65</u>	\$ <u>334,229.00</u>	\$ <u>14,925.00</u>	\$ <u>37,347.43</u>	\$ <u>386,501.43</u>
<u>Liabilities, other credit, and fund balance</u>								
Liabilities:								
Accounts payable	\$ 38,670.71	\$ -	\$ -	\$ 38,670.71	\$ 24,912.73	\$ -	\$ -	\$ 24,912.73
Accrued payroll	36,977.99	-	-	36,977.99	63,587.45	-	-	63,587.45
Accrued payroll taxes and benefits	2,746.85	-	-	2,746.85	4,784.01	-	-	4,784.01
Accrued annual leave (Note 5)	-	-	36,695.90	36,695.90	-	-	37,347.43	37,347.43
Due to primary government (Note 3)	33,446.51	-	-	33,446.51	64,417.51	-	-	64,417.51
Due to local government	14,194.56	-	-	14,194.56	14,900.14	-	-	14,900.14
Total liabilities	<u>126,036.62</u>	<u>-</u>	<u>36,695.90</u>	<u>162,732.52</u>	<u>172,601.84</u>	<u>-</u>	<u>37,347.43</u>	<u>209,949.27</u>
Other credit:								
Investment in general fixed assets (Note 4)	-	23,302.00	-	23,302.00	-	14,925.00	-	14,925.00
Fund balance:								
Reserved for prepaid items	1,993.86	-	-	1,993.86	6,017.69	-	-	6,017.69
Unreserved	189,826.27	-	-	189,826.27	155,609.47	-	-	155,609.47
Total other credit and fund balance	<u>191,820.13</u>	<u>23,302.00</u>	<u>-</u>	<u>215,122.13</u>	<u>161,627.16</u>	<u>14,925.00</u>	<u>-</u>	<u>176,552.16</u>
Total liabilities, other credit, and fund balance	\$ <u>317,856.75</u>	\$ <u>23,302.00</u>	\$ <u>36,695.90</u>	\$ <u>377,854.65</u>	\$ <u>334,229.00</u>	\$ <u>14,925.00</u>	\$ <u>37,347.43</u>	\$ <u>386,501.43</u>

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

HAMILTON COUNTY 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 contracts	\$ 1,759,764.75	\$ 1,616,937.00
Interest income	19,038.72	20,498.50
Total revenues	<u>1,778,803.47</u>	<u>1,637,435.50</u>
<u>Expenditures</u>		
Salaries and wages	983,214.20	841,635.42
Employee benefits and payroll taxes	306,136.71	284,890.64
Professional fees	259,711.73	259,436.62
Supplies	28,084.32	31,262.25
Telephone	11,871.53	23,851.85
Postage and shipping	2,851.92	1,622.56
Occupancy	81,069.05	75,340.77
Equipment rental and maintenance	11,874.49	43,597.80
Printing and publications	3,120.26	1,402.92
Travel, conferences and training	45,932.30	28,739.39
Insurance	4,511.99	1,330.00
Specific assistance to individuals	83.34	148.95
Other nonpersonnel costs	1,771.66	4,056.92
Capital purchases	8,377.00	11,925.00
Total expenditures	<u>1,748,610.50</u>	<u>1,609,241.09</u>
Excess of revenues over expenditures	<u>30,192.97</u>	<u>28,194.41</u>
Fund balance, July 1	<u>161,627.16</u>	<u>133,432.75</u>
Fund balance, June 30	<u>\$ 191,820.13</u>	<u>\$ 161,627.16</u>

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

**Hamilton County Community Services Agency**  
**Notes to the Financial Statements**  
**June 30, 2000, and June 30, 1999**

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**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 Hamilton County Community Services Agency is a component unit of the State of Tennessee and is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. Although the CSA is a separate legal entity, the state is financially accountable for the CSA because the state appoints a majority of the CSA’s governing body and approves the CSA’s Plan of Operation (budget).

**Basis of Presentation**

The accompanying financial statements have been prepared in conformity with 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 Hamilton County Community Services Agency are maintained on the modified accrual basis of accounting. Under this basis, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred.

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

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

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

**Hamilton County Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2000, and June 30, 1999**

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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.

**Hamilton County Community Services Agency  
Notes to the Financial Statements (Cont.)  
June 30, 2000, and June 30, 1999**

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**NOTE 2. DEPOSITS**

As of May 6, 1999, the Hamilton County Community Services Agency's bank account is in a financial institution that participates in the bank collateral pool administered by the Treasurer of the State of Tennessee. The securities pledged to protect this account 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 assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure. During the year ended June 30, 1999, deposits were often under-collateralized prior to the participation in the bank collateral pool. The greatest amount at risk was \$233,057.

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

**NOTE 3. DUE FROM/TO PRIMARY GOVERNMENT**

June 30, 2000

Due From:	
Department of Health—program funds	\$ <u>36.00</u>
Total due from primary government	\$ <u><u>36.00</u></u>
Due To:	
Department of Children's Services—program funds	\$ 8,245.72
Department of the Treasury—retirement contributions	3,505.51
Department of Employment Security—unemployment taxes	1,033.30
Comptroller of the Treasury—audit fees	19,316.95
Department of Finance and Administration— Office for Information Resources (telephone usage)	<u>1,345.03</u>
Total due to primary government	— <u><u>\$33,446.51</u></u> —

**Hamilton County Community Services Agency  
Notes to the Financial Statements (Cont.)  
June 30, 2000, and June 30, 1999**

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Due From:	
Department of Health-program funds	\$ <u>36.00</u>
Total due from primary government	\$ <u><u>36.00</u></u>
Due To:	
Department of Health-Office of Vital Records	\$ 5.00
Department of Children's Services-program funds	46,195.11
Department of Treasury-retirement contributions	6,390.54
Department of Employment Security-unemployment taxes	1,173.57
Comptroller of the Treasury-audit fees	4,240.00
Department of Finance and Administration- Office of Information Resources (telephone usage)	<u>6,413.29</u>
Total due to primary government	<u><u>\$64,417.51</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>\$14,925.00</u>	<u>\$8,377.00</u>	<u>\$ -</u>	<u>\$23,302.00</u>

**Hamilton County 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 July 1, 1998</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 1999</u>
Furniture and equipment	<u>\$ -</u>	<u>\$14,925.00</u>	<u>\$ -</u>	<u>\$14,925.00</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 July 1, 1999</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2000</u>
Amount to be provided for retirement of general long-term obligations	<u>\$37,347.43</u>	<u>\$ -</u>	<u>\$651.53</u>	<u>\$36,695.90</u>
Accrued annual leave	<u>\$37,347.43</u>	<u>\$ -</u>	<u>\$651.53</u>	<u>\$36,695.90</u>

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

	<u>Balance July 1, 1999</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2000</u>
Amount to be provided for retirement of general long-term obligations	<u>\$ -</u>	<u>\$37,347.43</u>	<u>\$ -</u>	<u>\$37,347.43</u>
Accrued annual leave	<u>\$ -</u>	<u>\$37,347.43</u>	<u>\$ -</u>	<u>\$37,347.43</u>

**Hamilton County Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2000, and June 30, 1999**

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**NOTE 6. OPERATING LEASES**

The agency leases office space and equipment to carry out its activities and to administer the various programs. Total expenditures under operating leases for space and equipment were \$59,061.90 and \$8,079.09 for the year ended June 30, 2000, and the total expenditures under operating leases for space and equipment were \$55,755.90 and \$40,740.84 for the year ended June 30, 1999. The leases were cancelable at the lessee's option.

**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. The agency is required to contribute an actuarially determined rate; for the years ended June 30, 2000, and June 30, 1999, the rate was 10.05% 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.

**Hamilton County Community Services Agency  
Notes to the Financial Statements (Cont.)  
June 30, 2000, and June 30, 1999**

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**C. Annual Pension Cost**

The agency's annual pension costs of \$94,506 for the year ended June 30, 2000, and \$77,903 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 July 1, 1998, initial participation actuarial study 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 values of assets were determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period. The Hamilton County Community Service Agency's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 1999, was 19 years.

**Two-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	\$94,506	100%	-
June 30, 1999	\$77,093	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 \$25,939.41 at June 30, 2000, and \$14,509.01 at June 30, 1999.

**Hamilton County Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2000, and June 30, 1999**

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**NOTE 9. DONATED FACILITIES**

The Departments of Children's Services and Health donate office space, utilities, telephone service, copiers, and computer use to the Hamilton County Community Services Agency. 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 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 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.

**Hamilton County Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2000, and June 30, 1999**

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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 can obtain insurance through Blue Cross Blue Shield of Tennessee. Claims are administered by Blue Cross Blue Shield of Tennessee, which is 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.

**NOTE 11. CHANGES IN ACCOUNTING PRINCIPLES**

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 did not result in a decrease in equipment.

**NOTE 12. RELATED-PARTY TRANSACTION**

During the years ended June 30, 2000, and June 30, 1999, a board officer was employed by the Chattanooga Health Services Department, and a board member was employed by Bethel Villages, both of which contract with the agency.

**Hamilton County Community Services Agency  
Required Supplementary Information  
Schedule of Pension Funding Progress**

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Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL Ratio (b-a)	Funded Payroll (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll [(b-a)/c]
07/01/99	\$49,822	\$386,143	\$336,321	12.90%	\$881,030	38.17%

Information is shown only for the year 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. 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.

## **APPENDIX**

### **HAMILTON COUNTY COMMUNITY SERVICES AGENCY**

Vicki L. James, Executive Director

#### **BOARD OF DIRECTORS**

##### Board Officers

Jo Ann Yates, Chair  
Bernadine Turner, Vice Chair  
Faye Smartt, Treasurer  
Earlene Stewart, Secretary

##### Executive Committee Members

Jackie Jolley  
Faye Smartt  
Earlene Stewart  
Bernadine Turner  
Jo Ann Yates

##### Other Members of the Board of Directors

Gary Behler  
Willena M. Byrd  
Dee Anne Irwin  
Charles Peavyhouse  
Tommy Perkins