

**Memphis and Shelby County
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

December 27, 2001

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Memphis and Shelby County Community Services Agency
1407 Union Avenue, Suite 1300
Memphis, Tennessee 38104

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Memphis and Shelby County Community Services Agency for the year ended June 30, 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 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/mb
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State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

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

The Agency's Financial Activities Were Not Prudently Managed

The Chief Financial Officer (CFO) maintained excessive balances in the agency's non-interest-bearing payroll account. At times, the account balance was over \$500,000. The CFO did not bill for \$40,000 of revenues due from the city school system. Also, several errors were noted in the financial statements, which included account balances that were understated and overstated (page 6).

Bank Reconciliations Were Not Performed Timely

The bank statements for the operating and payroll accounts were not reconciled to the accounting records for some months. For other months, the reconciliations were performed many months after the bank statements were received (page 7).

Both of the reportable conditions described above were considered 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.

COMPLIANCE FINDING

The Agency Did Not Comply With Contract Terms

Services under an emergency residential contract were authorized prior to the approval of the contract, and the maximum liability under the contract was exceeded by more than \$50,000 (page 9).

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

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

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Audit Report
Memphis and Shelby County Community Services Agency
For the Year Ended June 30, 2000

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

BACKGROUND

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

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

The Memphis and Shelby County Community Services Agency’s administrative offices are in Memphis, Tennessee.

The governing body of the Memphis and Shelby County Community Services Agency is the board of directors. As of June 30, 2000, the board was composed of ten members. (See Appendix.) An executive committee, consisting of four 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 Memphis and Shelby County Community Services Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Memphis and Shelby County Community Services Agency's financial statements for the year ended June 30, 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. Reportable conditions, along with recommendations and management's responses, are detailed in the findings and recommendations. Consideration of internal control over financial reporting disclosed material weaknesses.

Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. An immaterial instance of noncompliance, along with the recommendation and management's response, is included in the findings and recommendations.

Fairness of Financial Statement Presentation

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



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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***

April 27, 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 Memphis and Shelby 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 April 27, 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 Memphis and Shelby County Community Services Agency's financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We did, however, note an immaterial instance of noncompliance that we have included in the Findings and Recommendations section of this report. We also noted certain other 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 Memphis and Shelby County Community Services Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide

The Honorable John G. Morgan
April 27, 2001
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:

- Proper financial procedures were not followed
- Bank reconciliations were not performed timely, and procedures were not followed

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. We believe 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 Memphis and Shelby County 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/mb

FINDINGS AND RECOMMENDATIONS

1. Proper financial procedures were not followed

Finding

Memphis and Shelby County Community Services Agency did not prudently manage its financial activities. The following are examples:

- The financial statements that were provided to the Department of Finance and Administration on October 4, 2000, for inclusion in the 2000 *Tennessee Comprehensive Annual Financial Report* (CAFR) were materially different from the statements provided to the auditors on March 27, 2001. From the time the statements were prepared for the CAFR until fieldwork for the audit began, total assets and other debits increased \$144,409, total liabilities and other credits increased \$284,321, and fund balance decreased \$139,912. Also during this time, total revenues increased \$546,056 and total expenditures increased \$685,968. The statements prepared for the CAFR did not accurately reflect the agency's financial position at June 30, 2000.
- Several errors were noted in the financial statements prepared by the agency's Chief Financial Officer (CFO). The general fixed asset account group was understated by \$59,565.73, the payroll payable account was overstated by \$71,788.01, and cash was overstated by \$69,694.77.
- Several unrecorded receivables were discovered by the auditors, including \$2,532.36 due from the Tennessee Commission on Children and Youth and \$38,596 due from Shelby County Government for services provided by the CSA prior to June 30, 2000, and payment received subsequent to this date. In addition, the CFO did not record a receivable for an insurance settlement received on July 28, 2000, for \$15,350 for damages to an agency vehicle that occurred on June 19, 2000.
- A contract made on January 31, 2000, with Memphis City Schools for \$40,000 required the agency to submit invoices to Memphis City Schools on a monthly basis from January 31, 2000, through June 30, 2000. As of April 27, 2001, the CFO had not submitted any invoices for services performed.
- The agency maintained excessive funds in its non-interest-bearing payroll account. From March 2000 through June 2000, the daily balance ranged from a low of \$164,223.09 to a high of \$574,819.79. The payroll account balance confirmed by the bank at June 30, 2000, was \$570,315.26. State law requires the community services agencies to deposit their excess funds into the state's Local Government Investment Pool (LGIP) so that these funds may earn interest.

- Audit work was delayed due to poor response time on document requests. A list of documents needed was provided to the CFO early in the audit process. However, the CFO took weeks to provide some of the documents, which should have been readily available.
- Bank reconciliations were not performed in a timely manner, and reconciliation procedures were not followed, as noted in finding 2.

Recommendation

The executive director should ensure that the chief financial officer manages the agency's financial activities prudently and correctly. Financial statements should be prepared that completely and accurately reflect all of the agency's financial activities during the fiscal year. Only funds sufficient to meet the agency's payroll obligations should be maintained in the payroll account. The CFO should submit invoices in a timely manner for amounts owed to the agency, and bank reconciliations should be prepared in a timely manner.

Management's Comment

We concur with the finding. Year-end closing for fiscal year 1999/2000 was not done timely. As a result, materially different financial reports were given to the Comptroller's Division of State Audit and the Department of Finance and Administration. Year-end closing for fiscal year 2000/2001 was done timely. The unaudited financial statements given to the Department of Finance and Administration do not contain material overstatements or understatements.

During fiscal year 2000/2001 the agency did not maintain excessive amounts in its bank accounts. The CFO is closely monitoring all activities in both the payroll and the operating accounts to ensure that excess amounts are not maintained in these accounts. The balances in the various accounts accurately reflect the agency's operational needs. Invoices are being submitted and bank reconciliations are being performed on time and according to policy.

2. Bank reconciliations were not performed timely, and procedures were not followed

Finding

Bank reconciliations were not performed timely, and procedures related to the preparation and review of the reconciliations and the signing of checks were not followed.

The operating account bank statement was not reconciled to the accounting records from July 1999 through September 1999 and for the month of November 1999. The reconciliations for the remaining months through June 2000 were prepared from four months to nine months late, including the fiscal year-end reconciliation that was not prepared until November 9, 2000. In addition, the

reconciliations that were prepared reconciled to an outstanding check amount rather than to zero. The reconciliations did not specify the individual outstanding check amounts or the payee of the checks. After further investigation, it was noted that many of these checks had been outstanding for more than six months. It was further noted that the agency did not have original copies of bank statements for the months of July, October, and November 1999, but rather faxed copies from the bank, and the agency did not maintain copies of cancelled checks for the months of July, August, September, October, and December of 1999.

The payroll account bank statement was not reconciled to the accounting records from July 1999 through October 1999. The reconciliations for the remaining months through June 2000 were prepared from 4 to 11 months late. In addition, the bank statements for the months of July 1999 and October 1999 were missing, and the June 2000 statement was a faxed copy from the bank. Copies of cancelled checks for the payroll account were missing for the months of July, August, September, October, and December of 1999 and for the month of June 2000. In addition, the agency payroll bank reconciliation at June 30, 2000, does not appear to be accurate. The agency reported \$1,158.00 as an outstanding checks amount on the reconciliation that could not be verified by the auditors, and the payroll bank balance exceeded the book balance by \$2,316.00. Management could not explain this difference.

In addition, the bank reconciliation is not reviewed by the executive director, and the person performing the reconciliation does not sign and date the reconciliation. According to the agency's internal operations policy entitled "Custodian of Accounts and Account Reconciliations," bank reconciliations are to be performed monthly, and the executive director and the person performing the reconciliation will both sign and date the reconciliation.

Furthermore, the agency did not follow its own policy concerning the signing of checks. According to the agency's internal operations policy entitled "Signing of Checks," checks are to be signed by the agency's executive director or an authorized board member. Based on the signature authorization form, three persons who are not an executive director or board member were authorized to sign checks. These persons should not be authorized to sign the agency's checks. In addition, the agency did not notify the bank that the former executive director is no longer authorized to sign the agency's checks. The former executive director left the agency on March 31, 2001. As of April 25, 2001, the agency had not notified the bank of this change.

Recommendation

The executive director should ensure that all bank account balances are reconciled to the accounting records monthly. All reconciling items should be reviewed and explained. In conjunction with the reconciliation, any old or unusual outstanding checks should be investigated and appropriate action taken. Bank reconciliations should be reviewed upon completion, and the executive director and the reconciliation preparer should sign and date the reconciliation in accordance with agency policy. Only persons authorized by agency policy should be allowed to sign checks. Signature authorization forms should be updated promptly when employees leave.

Management's Comment

We concur with the finding. To comply with the agency policy, bank statements are mailed directly to the Executive Director, who then forwards the statements to the accounting department for reconciliation. The Executive Director has instructed the CFO to make sure that bank statements are reconciled within one month of receipt of the bank statement. For fiscal year 2000/2001 bank reconciliations were performed on time.

The agency has all bank statements that have been received from the bank. In addition, the agency has copies of all its cancelled checks. Currently, only the agency's Board Chairperson and Executive Director are authorized to sign agency checks. These are the only persons doing so.

3. The agency should comply with contract terms and include all contracts in its plan of operation

Finding

The Memphis and Shelby County Community Services Agency (CSA) did not comply with the terms of an emergency residential contract and did not include this contract in its annual plan of operation.

The CSA contracted with the Exceptional Needs Care Management Agency (ENCMA) to provide emergency residential services for children in the custody of the State of Tennessee. This contract was to cover the period July 1, 1999, through June 30, 2000. Services were authorized as early as August 11, 1999; however, the contract was not signed until December 1, 1999. The contract states that the CSA is not bound by the contract until it is signed by the appropriate officials. In addition, the contract states, "In no event shall the maximum liability to the agency under this contract exceed \$20,000.00." Memphis and Shelby County Community Services Agency's cash disbursements to ENCMA from December 9, 1999, through June 30, 2000, totaled \$73,477.08, and accounts payable to ENCMA totaled \$660.35. The contract with ENCMA was not amended to increase the maximum liability to the CSA.

Also, the contract with ENCMA was not included in the CSA's plan of operation or in any amendments to the plan of operation. *Tennessee Code Annotated*, Section 37-5-310(a)(2), states that the plan of operation shall include contracts for services.

Recommendation

The executive director and the chief financial officer should ensure that contracts for services are signed in a timely manner, and services should not be authorized or provided until a signed contract is in place. Also, contract limits should not be exceeded, and all applicable contracts should be included in the agency's plan of operation.

Management's Comment

We concur with the finding. For fiscal year 2000/2001, the agency closely monitored expenditures in all its contract programs. In accordance with policy, the agency has contracts with all vendors who receive payments in excess of \$5,000. All contracts were included in the plan of operations for fiscal year 2000/2001. All expenditures are kept within contracted amounts.



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Independent Auditor's Report

April 27, 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 Memphis and Shelby 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 Memphis and Shelby 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 12, the Memphis and Shelby County Community Services Agency changed its equipment capitalization policy.

The Schedule of Pension Funding Progress for Memphis and Shelby County Community Services Agency is not a required part of the basic financial statements but is supplementary

The Honorable John G. Morgan
April 27, 2001
Page Two

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 April 27, 2001, on our consideration of Memphis and Shelby County Community Services Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. 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/mb

MEMPHIS AND SHELBY 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 Fund Type	Account Groups		Totals (Memorandum Only)	Governmental Fund Type	Account Groups		Totals (Memorandum Only)
	General Fund	General Fixed Assets	General Long-Term Obligations		General Fund	General Fixed Assets	General Long-Term Obligations	
<u>Assets and other debit</u>								
Assets:								
Cash (Note 2)	\$ 576,964.87	\$ -	\$ -	\$ 576,964.87	\$ 682,940.22	\$ -	\$ -	\$ 682,940.22
Accounts receivable	15,398.33	-	-	15,398.33	531.92	-	-	531.92
Due from primary government (Note 3)	505,362.41	-	-	505,362.41	423,584.44	-	-	423,584.44
Due from local government	78,596.00	-	-	78,596.00	-	-	-	-
General fixed assets (Note 4):								
Furniture and equipment	-	298,526.23	-	298,526.23	-	455,499.33	-	455,499.33
Leased equipment	-	-	-	-	-	78,353.93	-	78,353.93
Other debit:								
Amount to be provided for retirement of general long-term obligations (Note 5)	-	-	121,581.30	121,581.30	-	-	116,267.24	116,267.24
Total assets and other debit	<u>\$ 1,176,321.61</u>	<u>\$ 298,526.23</u>	<u>\$ 121,581.30</u>	<u>\$ 1,596,429.14</u>	<u>\$ 1,107,056.58</u>	<u>\$ 533,853.26</u>	<u>\$ 116,267.24</u>	<u>\$ 1,757,177.08</u>
<u>Liabilities, other credit, and fund balance</u>								
Liabilities:								
Accounts payable	\$ 229,536.65	\$ -	\$ -	\$ 229,536.65	\$ 145,673.14	\$ -	\$ -	\$ 145,673.14
Accrued payroll	73,980.76	-	-	73,980.76	178,241.69	-	-	178,241.69
Accrued payroll taxes and benefits	24,708.37	-	-	24,708.37	15,413.35	-	-	15,413.35
Accrued annual leave (Note 5)	-	-	121,581.30	121,581.30	-	-	113,121.62	113,121.62
Capital lease obligations	-	-	-	-	-	-	3,145.62	3,145.62
Due to primary government (Note 3)	53,267.05	-	-	53,267.05	46,882.77	-	-	46,882.77
Due to local government	-	-	-	-	4,697.00	-	-	4,697.00
Due to Shelby State Community College	-	-	-	-	480.00	-	-	480.00
Due to other CSA	1,140.00	-	-	1,140.00	-	-	-	-
Total liabilities	<u>382,632.83</u>	<u>-</u>	<u>121,581.30</u>	<u>504,214.13</u>	<u>391,387.95</u>	<u>-</u>	<u>116,267.24</u>	<u>507,655.19</u>
Other credit:								
Investment in general fixed assets (Note 4)	-	298,526.23	-	298,526.23	-	533,853.26	-	533,853.26
Fund balance:								
Unreserved	793,688.78	-	-	793,688.78	715,668.63	-	-	715,668.63
Total other credit and fund balance	<u>793,688.78</u>	<u>298,526.23</u>	<u>-</u>	<u>1,092,215.01</u>	<u>715,668.63</u>	<u>533,853.26</u>	<u>-</u>	<u>1,249,521.89</u>
Total liabilities, other credit, and fund balance	<u>\$ 1,176,321.61</u>	<u>\$ 298,526.23</u>	<u>\$ 121,581.30</u>	<u>\$ 1,596,429.14</u>	<u>\$ 1,107,056.58</u>	<u>\$ 533,853.26</u>	<u>\$ 116,267.24</u>	<u>\$ 1,757,177.08</u>

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

MEMPHIS AND SHELBY COUNTY COMMUNITY SERVICES AGENCY
 STATEMENTS OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 FOR THE YEARS ENDED JUNE 30, 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	\$ 4,970,616.97	\$ 4,768,698.03
Local grants and contracts	83,358.13	9,216.00
TennCare Transportation contracts	650,460.69	466,304.92
Interest	39,493.58	55,319.39
In-kind contributions	-	-
Other	15,350.00	752.00
Total revenues	<u>5,759,279.37</u>	<u>5,300,290.34</u>
<u>Expenditures</u>		
Salaries and wages	2,584,803.73	2,415,219.18
Employee benefits and payroll taxes	664,285.83	590,586.91
Professional fees and grants and awards	1,483,350.90	1,255,704.86
Specific assistance to individuals	130,468.41	63,289.29
Travel and conferences and meetings	156,099.72	101,448.97
Supplies	191,613.31	112,273.42
Postage and shipping	12,677.58	12,577.49
Printing and publications	8,372.18	11,850.50
Telephone	78,310.58	86,162.47
Insurance	947.34	3,114.00
Occupancy	277,053.97	277,684.06
Equipment rental and maintenance	63,953.10	126,024.39
Capital purchases	24,294.25	60,883.77
Interest	35.54	1,831.04
Other nonpersonnel costs	4,992.78	7,460.27
Total expenditures	<u>5,681,259.22</u>	<u>5,126,110.62</u>
Excess of revenues over expenditures	<u>78,020.15</u>	<u>174,179.72</u>
Fund balance, July 1	<u>715,668.63</u>	<u>541,488.91</u>
Fund balance, June 30	<u>\$ 793,688.78</u>	<u>\$ 715,668.63</u>

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

Memphis and Shelby County Community Services Agency
Notes to the Financial Statements
June 30, 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 Memphis and Shelby County Community Services Agency is a component unit of the State of Tennessee and is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. Although the CSA is a separate legal entity, the state is financially accountable for the CSA because the state appoints a majority of the CSA’s governing body and approves the CSA’s Plan of Operation (budget).

Basis of Presentation

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

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

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

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

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

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 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.

NOTE 2. DEPOSITS

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

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

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

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

NOTE 3. DUE FROM/TO PRIMARY GOVERNMENT

June 30, 2000

Due From:	
Department of Health—program funds	\$456,725.81
Department of Children's Services—program funds	47,766.70
Department of Labor and Workforce Development— unemployment taxes	<u>869.90</u>
Total due from primary government	<u>\$505,362.41</u>
Due To:	
Department of the Treasury—retirement contributions	\$ 23,236.28
Comptroller of the Treasury—audit fees	<u>30,030.77</u>
Total due to primary government	<u>\$ 53,267.05</u>

June 30, 1999

Due From:	
Department of Health—program funds	\$ 227,322.10
Department of Children's Services—program funds	<u>196,262.34</u>
Total due from primary government	<u>\$423,584.44</u>

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

Department of Children’s Services–Claims Award Fund	\$ 300.00
Department of the Treasury–retirement contributions	14,288.73
Department of Employment Security–unemployment taxes	1,594.52
Comptroller of the Treasury–audit fees	<u>30,699.52</u>

Total due to primary government \$46,882.77

NOTE 4. GENERAL FIXED ASSETS

General fixed assets are recorded at cost and are not depreciated.

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	\$455,499.33	\$102,648.18	\$259,621.28	\$298,526.23
Leased equipment	<u>78,353.93</u>	<u>-</u>	<u>78,353.93</u>	<u>-</u>
Total	<u><u>\$533,853.26</u></u>	<u><u>\$102,648.18</u></u>	<u><u>\$337,975.21</u></u>	<u><u>\$298,526.23</u></u>

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

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

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

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>\$116,267.24</u>	<u>\$ 8,459.68</u>	<u>\$3,145.62</u>	<u>\$ 121,581.30</u>
Accrued annual leave	<u>\$113,121.62</u>	<u>\$ 8,459.68</u>	<u>\$ -</u>	<u>\$121,581.30</u>
Capital lease obligations	<u>\$ 3,145.62</u>	<u>\$ -</u>	<u>\$3,145.62</u>	<u>\$ -</u>
Total general long-term obligations	<u>\$116,267.24</u>	<u>\$8,459.68</u>	<u>\$3,145.62</u>	<u>\$121,581.30</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>\$116,825.16</u>	<u>\$32,337.83</u>	<u>\$32,895.75</u>	<u>\$116,267.24</u>
Accrued annual leave	<u>\$ 80,783.79</u>	<u>\$32,337.83</u>	<u>\$ -</u>	<u>\$113,121.62</u>
Capital lease obligations	<u>\$ 36,041.37</u>	<u>\$ -</u>	<u>\$ 32,895.75</u>	<u>\$ 3,145.62</u>
Total general long-term obligations	<u>\$116,825.16</u>	<u>\$32,337.83</u>	<u>\$32,895.75</u>	<u>\$116,267.24</u>

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

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 \$253,248.69 and \$23,635.03 for the year ended June 30, 2000, and were \$277,684.06 and \$61,754.76 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 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 year ended June 30, 2000, the rate was 7.79% of annual covered payroll. For the year ended June 30, 1999, the rate was 7.22% of annual covered payroll from July 1, 1998 through September 30, 1998. The rate was 7.79% of annual covered payroll from October 1, 1998 through June 30, 1999. The contribution requirements of plan members are set by state statutes and approved by

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

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 \$205,761 for the year ended June 30, 2000, and \$182,752 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 benefit. The actuarial value of the agency's assets was determined using techniques that smooth the effect of short-term volatility in the market value of both fixed income and equity securities over a five-year period. The agency's unfunded actuarial accrued liability is being amortized as a level-dollar amount of projected payroll on a closed basis. The remaining amortization period at July 1, 1999, was 24 years.

Three-Year Trend Information

Fiscal Year <u>Ended</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
June 30, 2000	\$205,761	100%	-
June 30, 1999	\$182,752	100%	-
June 30, 1998	\$205,532	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

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

liability for sick leave at June 30. The amount of unused sick leave was \$106,167.11 at June 30, 2000, and \$102,636.32 at June 30, 1999.

NOTE 9. DONATED VEHICLE

The Memphis and Shelby County Community Services Agency had the use of a van for one year ending February 28, 2000. 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.
- B. The agency participates in the State of Tennessee's Claims Award Fund, an internal service fund in which the state has set aside assets for claims settlement. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the participating agencies based on a percentage of each agency's expected loss costs, which 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

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

controlling premium increases and, through a structured managed-care program, helps contain health care costs of participating members.

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

NOTE 11. RELATED-PARTY TRANSACTIONS

During the year ended June 30, 2000, a board member was employed by Memphis City Schools, which contracts with the agency. During the year ended June 30, 2000 and June 30, 1999, a board member was employed by Shelby County Government, and two board members were on the Board of Directors of Access MedPlus, both of which contract with the agency. During the year ended June 30, 1999, a board member was employed by St. Joseph's Hospital, which contracts with the agency.

NOTE 12. 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 \$240,833.08.

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

**Memphis and Shelby County 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 (AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 1999	\$1,561,486	\$1,761,861	\$200,375	88.63%	\$2,396,860	8.36%
June 30, 1997	\$ 960,055	\$1,164,726	\$204,671	82.43%	\$2,316,785	8.83%

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

MEMPHIS AND SHELBY COUNTY COMMUNITY SERVICES AGENCY

Barbara Holden, Executive Director

BOARD OF DIRECTORS

Board Officers

Malrie Shelton, Chair
Nancy Lawhead, Vice-Chair
J.W. Gibson, Secretary-Treasurer

Executive Committee Members

Betsy Black
J.W. Gibson
Nancy Lawhead
Malrie Shelton

Other Members of the Board of Directors

Sara Lewis
Snowden Morgan
Rieta Selberg
William Terrell, Jr., MD
Juanita White
Jeune Wood