

Knox County Community Services Agency

**For the Year Ended
June 30, 2001**

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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

July 25, 2002

The Honorable Don Sundquist, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and
Board of Directors
Knox County Community Services Agency
413 Northshore Drive, Suite E
Knoxville, Tennessee 37919

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Knox County Community Services Agency for the year ended June 30, 2001. 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/cj
02/064

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Knox County Community Services Agency
For the Year Ended June 30, 2001

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.

COMPLIANCE FINDING

Alleged Employee Fraud Was Not Reported to the Comptroller of the Treasury

The Executive Director of the Knox County Community Services Agency did not notify the Comptroller of the Treasury about possible employee fraud and the ultimate resolution of management's investigation.

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
Knox County Community Services Agency
For the Year Ended June 30, 2001

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**Knox County Community Services Agency
For the Year Ended June 30, 2001**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Knox 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 Knox County Community Services Agency’s administrative offices are in Knoxville, Tennessee.

The governing body of the Knox County Community Services Agency is the board of directors. As of June 30, 2001, the board was composed of 12 members. (See Appendix.) An executive committee, consisting of five board members, has the authority to act on behalf of the board of directors in the management of the agency’s property, affairs, and funds in extraordinary circumstances when the governing board cannot convene.

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

AUDIT SCOPE

The audit was limited to the period July 1, 2000, through June 30, 2001, 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, 2001, and for comparative purposes, the year ended June 30, 2000. The Knox 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.

OBSERVATIONS AND COMMENTS

As noted in prior audits, the Knox County 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, Foster Care, Juvenile Justice Services, and a Health Unit. According to the CSA organization chart at the Department of Children's Services, several CSA employees reported to Department of Children's Services supervisors.

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

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Knox County Community Services Agency's financial statements for the year ended June 30, 2001, 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*. An immaterial instance of noncompliance, along with the recommendation and management's response, is included in the finding and recommendation.

Fairness of Financial Statement Presentation

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



**STATE OF TENNESSEE
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DIVISION OF STATE AUDIT**

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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 7, 2002

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 Knox County Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2001, and have issued our report thereon dated March 7, 2002. 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 Knox 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 Finding and Recommendation section of this report. We also noted an other less significant instance of noncompliance that we have reported to the agency's management in a separate letter.

The Honorable John G. Morgan
March 7, 2002
Page Two

Internal Control Over Financial Reporting

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

We also noted other matters involving the internal control over financial reporting that we have reported to the Knox 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,

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

Arthur A. Hayes, Jr., CPA,
Director

AAH/cj

FINDING AND RECOMMENDATION

Alleged employee fraud was not reported to the Comptroller of the Treasury

Finding

The Executive Director of the Knox County Community Services Agency (CSA) did not notify the Comptroller of the Treasury about possible employee fraud and the ultimate resolution of management's investigation. Section 8-19-501, *Tennessee Code Annotated*, states,

It is the duty of any official of any agency of the state having knowledge of shortages of money of the state, or unauthorized removal of state property, occasioned either by malfeasance or misfeasance in office of any state employee, to report the same immediately to the comptroller of the treasury.

During discussions with the Fiscal Director, we were informed of the inappropriate activity of a former employee. The employee worked for the CSA for approximately four months. Due to the quality of her job performance, she was fired on October 15, 2001. After her termination, management discovered that during her employment, she had acquired a CSA cell phone and accumulated \$1,246.13 in personal phone calls without the knowledge of the Fiscal Director and the Executive Director. Also, there was \$73.78 unaccounted for in the petty cash fund for which she was the custodian. The Executive Director had agreed to give her severance pay for a two-week period before the above-mentioned items were discovered. However, this severance paycheck was used to recover the majority of the inappropriate phone call expenses.

The Comptroller's office was not notified of the initiation or ultimate resolution of this investigation. The purpose of the statutory requirement to notify the Comptroller is to ensure a prompt and thorough investigation and appropriate resolution in the best interest of the state.

Recommendation

The Executive Director should ensure that all instances or suspected instances of fraud are reported immediately to the Comptroller of the Treasury.

Management's Comment

We concur with the audit finding that the Comptroller of the Treasury was not notified of the situation involving unauthorized use of state property, which in this case was a cell phone, and the unaccounted for amount in petty cash fund. However, it is believed that the intent of the state code was followed in both the protection of state property and the handling of the situation in the best interest of the state.

The employee in question was terminated prior to the discovery that a CSA cell phone had been improperly used to accumulate \$1,246.13 in personal calls and the uncovering of an unaccountable shortage of petty cash of \$73.78. Although responsible for petty cash, the funds could not be directly and unequivocally proven to be taken by this employee. A total of \$1,060.28 was withheld from the final check issued to this employee to cover the phone charges, leaving a total possible amount in question of \$259.63. At the time, it was not known that the incident was required to be reported to the comptroller's office, but an exhaustive effort was made to handle the situation in the best possible manner, and advice was received from the DCS Regional Administrator, district attorney general, and the police department. It was decided not to pursue this any further.

The procedures and policies that have been instituted to prevent a similar situation from recurring include an awareness by all personnel of the required notification to the comptroller's office. A bright yellow sign is prominently posted near the mail boxes indicating the number to be called. In addition, closer and careful monitoring of the imprest petty cash fund and tight controls over the loaner phones are in place. The phones are kept securely by one employee who is required to notify the Executive Director and Office Manager when a phone is taken out, returned, and requires prior approval if the usage is for more than five business days. It is believed that these steps will alleviate future problems in these areas.



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Independent Auditor's Report

March 7, 2002

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 Knox County Community Services Agency, a component unit of the State of Tennessee, as of June 30, 2001, and June 30, 2000, 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 Knox County Community Services Agency as of June 30, 2001, and June 30, 2000, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable John G. Morgan
March 7, 2002
Page Two

As discussed in Note 10, the Knox County Community Services Agency changed its equipment capitalization policy.

The Schedule of Pension Funding Progress for Knox 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 March 7, 2002, on our consideration of Knox 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 that reads "Arthur A. Hayes, Jr." The signature is written in a cursive style with a large initial "A" and a distinct "Jr." at the end.

Arthur A. Hayes, Jr., CPA,
Director

AAH/cj

KNOX COUNTY COMMUNITY SERVICES AGENCY
 COMBINED BALANCE SHEETS
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2001, AND JUNE 30, 2000

	June 30, 2001				June 30, 2000			
	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)	\$ 199,019.96	\$ -	\$ -	\$ 199,019.96	\$ 366,801.56	\$ -	\$ -	\$ 366,801.56
Prepaid items	3,603.47	-	-	3,603.47	1,166.00	-	-	1,166.00
Due from primary government	261,612.67	-	-	261,612.67	38,032.81	-	-	38,032.81
General fixed assets (Note 3):								
Furniture and equipment	-	54,911.62	-	54,911.62	-	24,904.00	-	24,904.00
Other debit:								
Amount to be provided for retirement of general long-term obligations (Note 4)	-	-	88,589.07	88,589.07	-	-	51,127.05	51,127.05
Total assets and other debit	<u>\$ 464,236.10</u>	<u>\$ 54,911.62</u>	<u>\$ 88,589.07</u>	<u>\$ 607,736.79</u>	<u>\$ 406,000.37</u>	<u>\$ 24,904.00</u>	<u>\$ 51,127.05</u>	<u>\$ 482,031.42</u>
<u>Liabilities, other credit, and fund balance</u>								
Liabilities:								
Accounts payable	\$ 128,789.74	\$ -	\$ -	\$ 128,789.74	\$ 150,631.43	\$ -	\$ -	\$ 150,631.43
Checks payable	-	-	-	-	9,090.05	-	-	9,090.05
Accrued payroll	49,715.46	-	-	49,715.46	42,406.34	-	-	42,406.34
Accrued payroll taxes and benefits	19,490.71	-	-	19,490.71	14,504.16	-	-	14,504.16
Accrued annual leave (Note 4)	-	-	63,389.78	63,389.78	-	-	51,127.05	51,127.05
Due to primary government	58,283.14	-	-	58,283.14	38,096.86	-	-	38,096.86
Capital lease obligation (Notes 4 and 6)	-	-	25,199.29	25,199.29	-	-	-	-
Total liabilities	<u>256,279.05</u>	<u>-</u>	<u>88,589.07</u>	<u>344,868.12</u>	<u>254,728.84</u>	<u>-</u>	<u>51,127.05</u>	<u>305,855.89</u>
Other credit:								
Investment in general fixed assets (Note 3)	-	54,911.62	-	54,911.62	-	24,904.00	-	24,904.00
Fund balance:								
Reserved for prepaid items	3,603.47	-	-	3,603.47	1,166.00	-	-	1,166.00
Unreserved	204,353.58	-	-	204,353.58	150,105.53	-	-	150,105.53
Total other credit and fund balance	<u>207,957.05</u>	<u>54,911.62</u>	<u>-</u>	<u>262,868.67</u>	<u>151,271.53</u>	<u>24,904.00</u>	<u>-</u>	<u>176,175.53</u>
Total liabilities, other credit, and fund balance	<u>\$ 464,236.10</u>	<u>\$ 54,911.62</u>	<u>\$ 88,589.07</u>	<u>\$ 607,736.79</u>	<u>\$ 406,000.37</u>	<u>\$ 24,904.00</u>	<u>\$ 51,127.05</u>	<u>\$ 482,031.42</u>

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

KNOX COUNTY COMMUNITY SERVICES AGENCY
 STATEMENTS OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 FOR THE YEARS ENDED JUNE 30, 2001, AND JUNE 30, 2000

	General Fund	
	For the Year Ended June 30, 2001	For the Year Ended June 30, 2000
<u>Revenues</u>		
State grants and contracts	\$ 2,830,536.58	\$ 1,945,030.39
Interest	22,148.58	17,156.40
Other	-	1,157.50
Total revenues	<u>2,852,685.16</u>	<u>1,963,344.29</u>
<u>Expenditures</u>		
Salaries and wages	1,248,477.20	1,064,895.15
Fringe benefits	338,940.07	271,965.97
Professional services	960,102.13	343,618.56
Travel	57,895.20	48,734.36
Supplies	36,918.42	19,088.07
Printing and publications	1,986.11	1,386.34
Communications	34,503.44	30,756.44
Occupancy	96,086.20	95,255.99
Equipment rental and maintenance	15,091.57	14,273.72
Furniture and equipment	30,007.62	-
Capital lease principal	4,421.93	-
Capital lease interest	1,190.97	-
Total expenditures	<u>2,825,620.86</u>	<u>1,889,974.60</u>
Excess of revenues over expenditures	<u>27,064.30</u>	<u>73,369.69</u>
<u>Other financing sources</u>		
Capital leases	<u>29,621.22</u>	-
Total other financing sources	<u>29,621.22</u>	-
Excess of revenues and other financing sources over expenditures	<u>56,685.52</u>	-
Fund balance, July 1	<u>151,271.53</u>	<u>77,901.84</u>
Fund balance, June 30	<u>\$ 207,957.05</u>	<u>\$ 151,271.53</u>

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

Knox County Community Services Agency
Notes to the Financial Statements
June 30, 2001, and June 30, 2000

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 Knox 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 Knox 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:

Governmental Fund Type

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

**Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

Account Groups

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

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

Totals (Memorandum Only)

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

Budgetary Process

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

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

Prepaid Items

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

Checks Payable

Checks payable represent the sum of checks written in excess of the Community Services Agency’s checking account balance.

Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000

NOTE 2. DEPOSITS

The Knox 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. 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 Knox 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. 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, 2001:

	<u>Balance</u> <u>July 1, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2001</u>
Furniture and equipment	<u>\$ 24,904.00</u>	<u>\$ 30,007.62</u>	<u>\$ -</u>	<u>\$ 54,911.62</u>

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>\$ 30,105.36</u>	<u>\$ -</u>	<u>\$ 5,201.36</u>	<u>\$ 24,904.00</u>

**Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

NOTE 4. GENERAL LONG-TERM OBLIGATIONS

The following changes in general long-term obligations occurred during the year ended June 30, 2001:

	<u>Balance July 1, 2000</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2001</u>
Amount to be provided for retirement of general long-term obligations	<u>\$51,127.05</u>	<u>\$106,455.80</u>	<u>\$68,993.78</u>	<u>\$88,589.07</u>
Accrued annual leave	\$51,127.05	\$76,834.58	\$64,571.85	\$63,389.78
Capital lease obligations	<u> -</u>	<u>29,621.22</u>	<u>4,421.93</u>	<u>25,199.29</u>
Total general long-term obligations	<u>\$51,127.05</u>	<u>\$106,455.80</u>	<u>\$68,993.78</u>	<u>\$88,589.07</u>

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

	<u>Balance July 1, 1999</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2000</u>
Amount to be provided for retirement of general long-term obligations	<u>\$43,426.93</u>	<u>\$64,687.01</u>	<u>\$56,986.89</u>	<u>\$51,127.05</u>
Accrued annual leave	<u>\$43,426.93</u>	<u>\$64,687.01</u>	<u>\$56,986.89</u>	<u>\$51,127.05</u>
Total general long-term obligations	<u>\$43,426.93</u>	<u>\$64,687.01</u>	<u>\$56,986.89</u>	<u>\$51,127.05</u>

**Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

NOTE 5. 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 \$81,598 and \$437.52 for the year ended June 30, 2001, and were \$81,598 and \$412.80 for the year ended June 30, 2000. The leases were cancelable at the lessee's option.

NOTE 6. CAPITAL LEASE

The agency has a certain lease agreement in effect that is considered a capital lease. This agreement has beginning and ending dates ranging from September 1, 2000, to August 31, 2006, and an imputed interest rate of 5%. The following is a schedule by years of future minimum lease payments under the capital lease together with the present value of the net minimum lease payments at June 30, 2001:

Year Ending <u>June 30</u>	
2002	\$ 6,735.48
2003	6,735.48
2004	6,735.48
2005	6,735.48
2006	<u>1,122.58</u>
Total minimum payments required	<u>28,064.50</u>
Less amounts representing interest	<u>2,865.21</u>
Present value of net minimum lease payments	<u>\$ 25,199.29</u>

The total value of equipment capitalized under lease obligations was \$30,007.62 at June 30, 2001.

Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000

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. The agency is required to contribute an actuarially determined rate; for the year ended June 30, 2001, the rate was 7.74% of annual covered payroll, and for the year ended June 30, 2000, the rate was 7.13% 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 \$94,131 for the year ended June 30, 2001, and \$76,691 for the year ended June 30, 2000, were equal to the agency's required and actual contributions.

The required contributions for the years ended June 30, 2001, and June 30, 2000, were determined as part of the July 1, 1999, and June 30, 1997, actuarial valuations using the frozen initial liability actuarial cost method, a projected-benefit cost method. Significant actuarial assumptions used include (a) rate of

**Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

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 22 years.

Three-Year Trend Information

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
June 30, 2001	\$94,131	100%	\$ -
June 30, 2000	\$76,691	100%	\$ -
June 30, 1999	\$64,746	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 \$52,582.15 at June 30, 2001, and \$46,195.13 at June 30, 2000.

NOTE 9. 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 and directors and officer liability. In the past three fiscal years, the agency has not had any claims filed with the commercial insurer.

Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000

- 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. As a participant in the Claims Award Fund, the agency is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101-et seq.
- 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 John Deere Health. 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 John Deere Health.

Knox County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000

NOTE 10. 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 \$5,201.36.

NOTE 11. NEW ACCOUNTING PRONOUNCEMENTS

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This statement establishes new financial reporting requirements and restructures much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The State of Tennessee will implement this statement, as required, for the year ending June 30, 2002. As a component unit of the state, the Knox County Community Services Agency will also implement the statement for the year ending June 30, 2002. Management has not yet determined the full impact that GASB Statement 34 will have on the agency's financial statements.

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

Actuarial Valuation Date	Actuarial Value of Plan Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) <u>(b)</u>	Unfunded (Funding Excess) AAL <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	Unfunded (Funding Excess) AAL as a Percentage of Covered Payroll <u>[(b-a)/c]</u>
July 1, 1999	\$568,701	\$707,212	\$138,511	80.41%	\$944,817	14.66%
June 30, 1997	\$356,784	\$356,784	\$0	100%	\$668,052	0.00%

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 year ended June 30, 2000. 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

KNOX COUNTY COMMUNITY SERVICES AGENCY

Marcus A. Hill, Executive Director

BOARD OF DIRECTORS

Board Officers

Ms. Ann S. Ince, Chair
Ms. Danni Varlan, Vice-Chair
Ms. Cecelia J. Waters, Treasurer
Ms. Marianne House, Secretary
Mr. Terry Brown, Sergeant-at-Arms

Other Members of the Board of Directors

Mr. Richard L. Bean
Mr. Mike Harkleroad
Ms. Annie M. Jones
Ms. Carole Martin
Ms. Sue Methvin
Ms. Patsy Miller
Ms. Libby M. Tarpy