

Northeast Community Services Agency

**For the Year Ended
June 30, 2002**

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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

October 23, 2003

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Northeast Community Services Agency
P.O. Box 2467
Johnson City, Tennessee 37605

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Northeast Community Services Agency for the year ended June 30, 2002. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/eb
03/075

State of Tennessee

A u d i t H i g h l i g h t s

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Northeast Community Services Agency
For the Year Ended June 30, 2002

AUDIT OBJECTIVES

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

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

Audit Report
Northeast Community Services Agency
For the Year Ended June 30, 2002

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Northeast Community Services Agency For the Year Ended June 30, 2002

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Northeast 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 Northeast Community Services Agency serves the following counties: Carter, Greene, Hancock, Hawkins, Johnson, Sullivan, Unicoi, and Washington. The agency’s administrative offices are in Johnson City, Tennessee.

The governing body of the Northeast Community Services Agency is the board of directors. As of June 30, 2002, the board was composed of nine 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, 2001, through June 30, 2002, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 2002. The Northeast 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 Northeast 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 Children and Family Services, Family Support Services, Flexible Funding, and Emergency Residential. According to the CSA organization chart at the Department of Children's Services, several CSA employees reported to Department of Children's Services' supervisors. Some of these CSA employees were secretaries for the department's regional administrative staff.

The practice of allowing employees of non-state entities such as the community services agencies to report directly to officials or employees of the Department of Children's Services, in carrying out what can be construed as state programs, raises policy and legal issues. We do not believe these situations should be accepted as a matter of policy. Section 37-5-314, *Tennessee Code Annotated*, considers CSA employees "state employees" for the purposes of negligent acts or omissions within the scope of their authority. However, Section 37-5-315(2), *Tennessee Code Annotated*, 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 Northeast Community Services Agency and other CSAs serving the department.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Northeast Community Services Agency's financial statements for the year ended June 30, 2002, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

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



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

May 21, 2003

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 Northeast Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2002, and have issued our report thereon dated May 21, 2003. As discussed in Note 10 to the financial statements, the Northeast Community Services Agency adopted the provisions of Governmental Accounting Standards Board Statements 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; and 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Northeast 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

The Honorable John G. Morgan
May 21, 2003
Page 2

provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Northeast 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.

However, we noted other matters involving the internal control over financial reporting that we have reported to the 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, cursive script.

Arthur A. Hayes, Jr., CPA
Director

AAH/eb



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

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Independent Auditor's Report

May 21, 2003

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying financial statements of the governmental activities and the general fund of the Northeast Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2002, which collectively comprise the agency's basic financial statements as listed in the table of contents. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Northeast Community Services Agency as of June 30, 2002, and the respective changes in

The Honorable John G. Morgan
May 21, 2003
Page 2

financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 10 to the financial statements, the Northeast Community Services Agency adopted the provisions of Governmental Accounting Standards Board Statements 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*; and 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34*. This resulted in changes to the format and content of the financial statements.

The management’s discussion and analysis and the Schedule of Pension Funding Progress for Northeast Community Services Agency are not a required part of the basic financial statements but are 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the agency’s basic financial statements. The accompanying financial information on page 28 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2003, on our consideration of Northeast 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, appearing to read "Arthur A. Hayes, Jr.", written in a cursive style.

Arthur A. Hayes, Jr., CPA
Director

AAH/eb

MANAGEMENT'S DISCUSSION AND ANALYSIS NORTHEAST COMMUNITY SERVICES AGENCY

The management of Northeast Community Services Agency is providing the *Management's Discussion and Analysis* for readers of our financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2002. The Northeast Community Services Agency is applying the new GASB 34 reporting standard to the financial statements for this fiscal year and, as a result, includes significant changes in content and structure compared to previous year's financial statements. The new GASB 34 reporting standard does not require comparative financial statements to be enclosed during the year of implementation. In future years, as prior-year information becomes available, a comparative analysis of government-wide data will be presented.

FINANCIAL HIGHLIGHTS

- Northeast Community Services Agency's total assets were \$1,067,673, and total liabilities were \$507,734 at June 30, 2002
- Total net assets (assets less liabilities) were \$559,939, of which \$553,562 was unrestricted, and reflected an increase in total net assets of \$25,914 from the previous year
- Total reportable expenses of all governmental activities, including depreciation, were \$5,068,286
- The agency's general fund balance was reported at \$742,544, of which \$741,994 was unreserved, and reflected an increase in total fund balance of \$38,530 from the previous year

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include three parts: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The statements also contain required supplementary information and supplementary information that is not required.

Basic Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the operations of the agency—the **Government-Wide Financial Statements** and the **Fund Financial Statements**. The financial statements also include the **Notes to the Financial Statements**, which provide additional explanation and/or more detail to some of the information contained in the financial statements.

Government-Wide Financial Statements

The government-wide financial statements provide a broad view of the agency's operations using accounting methods similar to a private-sector business. The statements provide both short-term and long-term information about the agency's financial position and assist in assessing the agency's economic condition at the end of the fiscal year. The statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The statements also take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two (2) statements:

- 1) The statement of net assets presents all of the agency's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the agency's net assets may serve as a useful indicator of whether the financial position of the agency is improving or deteriorating.
- 2) The statement of activities presents information showing the agency's net assets and their changes during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected receivables, and earned but unused vacation leave). These activities are supported primarily by governmental revenues (state grants) and revenue from TennCare Managed Care Organizations and Behavioral Health Organizations. This statement also presents a comparison between direct expenses and program revenues for each governmental activity of the agency, including Administration, Community Services, Children's Services, Prison Health Services, or any other program.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or programs. The fund financial statements focus on individual funds of the agency, reporting the agency's operations in more detail than the government-wide statements. Northeast Community Services Agency has one type of fund:

Governmental Fund – The basic services provided by the agency are financed through a governmental fund. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds focus on the near-term inflows and outflows of those funds and the balances left at year-end that are available for spending. These funds are reported using a modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the agency's programs. The governmental fund statements provide a detailed short-term view of the agency's financial position, operations, and types of services provided. There are two governmental fund statements:

- 1) The governmental fund Balance Sheet, and
- 2) The governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances.

The relationship (or differences) between governmental activities and the governmental funds is described by reconciliations presented on the same pages as the governmental fund financial statements.

The agency has one governmental fund, the General Fund.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the financial statements.

Required Supplementary Information

The basic financial statements are followed by the required supplementary information that consists of a Schedule of Pension Funding Progress.

Other Supplementary Information

The Budgetary Comparison Schedule is presented as supplementary information. It follows the required supplementary information.

FINANCIAL ANALYSIS

Net Assets

The Northeast Community Services Agency's net assets were \$559,939 and \$534,025 at June 30, 2002, and June 30, 2001, respectively.

Northeast Community Services Agency	
Net Assets	
Governmental Activities	
Current and other assets	\$ 1,061,296.33
Capital assets	6,377.03
Total Assets	<u>1,067,673.36</u>
Current and other liabilities	318,751.94
Long-term liabilities	188,982.52
Total Liabilities	<u>507,734.46</u>
Net assets:	
Invested in capital assets	6,377.03
Unrestricted net assets	553,561.87
Total net assets	<u>\$ 559,938.90</u>

Changes in Net Assets

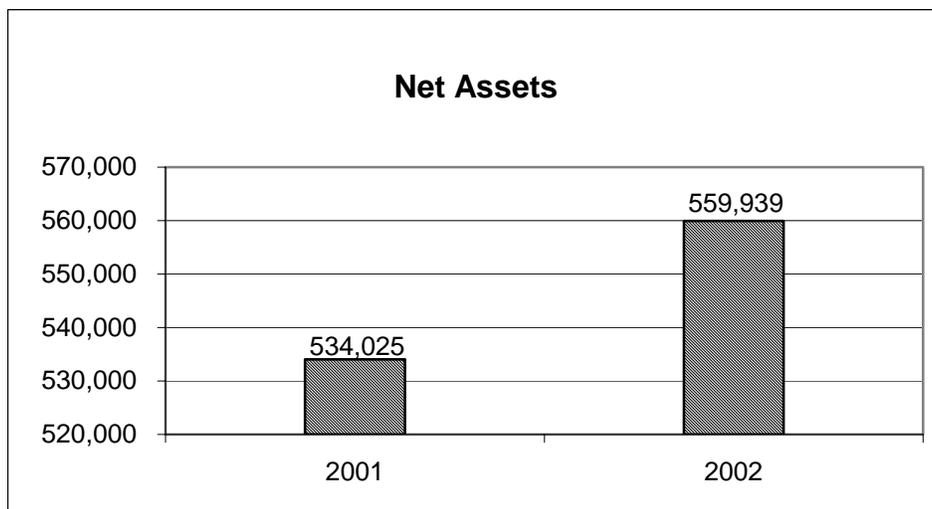
Total revenue was \$5,094,200; and total expenses were \$5,068,286 for June 30, 2002.

The agency's net assets increased by \$25,914, or 4.85%, from the previous year. Approximately 91.2% of the agency's total revenue came from the State of Tennessee, while the remaining 8.8% of revenue resulted from charges for other various program services provided.

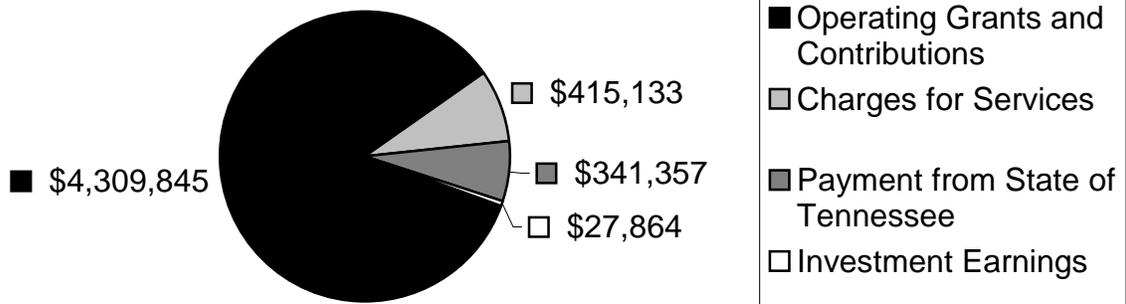
Northeast Community Services Agency
Changes in Net Assets

Governmental Activities

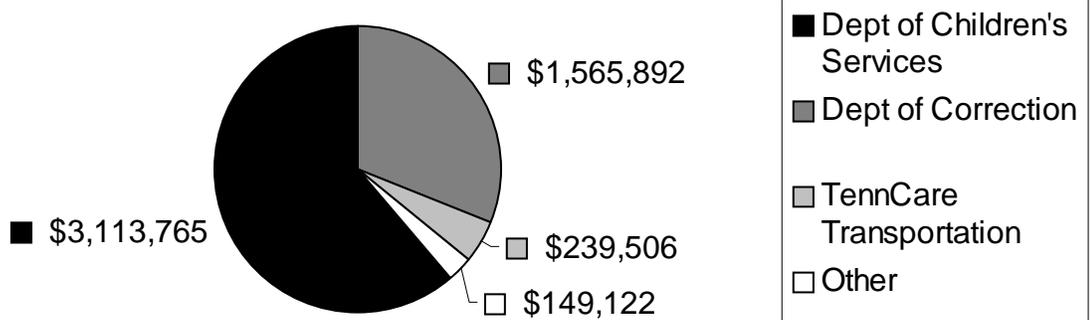
Revenues:	
Program revenues:	
Operating grants and contributions	\$ 4,309,845.36
Charges for services	415,132.86
General revenues:	
Payment from the State of Tennessee	341,357.22
Interest	27,864.07
Total revenues	<u>\$5,094,199.51</u>
Expenses:	
Administration	371,543.38
Children and Family Services	1,518,707.97
Family Support Services	1,096,849.02
Flexible Funding	109,092.51
Emergency Residential	17,571.82
Prison Health Services	1,565,892.51
TennCare Transportation	239,506.41
AmeriCorp Promise Fellows	25,450.43
Community Development Services	120,049.32
Depreciation - unallocated	3,622.56
Total expenses	<u>5,068,285.93</u>
Increase in net assets	<u>\$ 25,913.58</u>



Revenues-Governmental Activities



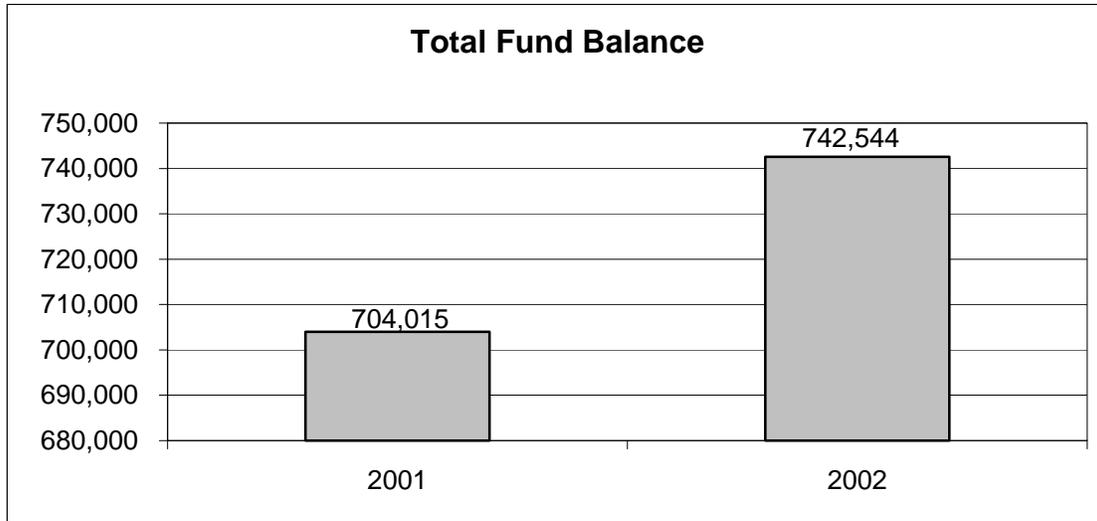
Expenses-Governmental Activities



FINANCIAL ANALYSIS OF THE AGENCY'S GENERAL FUND

Governmental Fund General Fund

The unreserved fund balance serves as a useful measure of an agency's net resources available for utilization at the end of the fiscal year. At the end of the current fiscal year, the agency's general fund reported an ending fund balance total of \$742,544, an increase of \$38,530 from the prior year.



GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the fiscal year ended June 30, 2002, the agency's operational budget was first reduced by the \$186,920 decrease in our Department of Correction contract, and later was increased by the \$61,840 addition of the AmeriCorp program, resulting in a total net decrease of approximately \$125,000.

The agency's final budget exceeded actual expenditures by more than \$1.1 million. Twelve agency case manager positions were transferred to the Department of Children's Services on October 1, 2001, without revision to their budgeted salaries in our operational budget.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital Assets

During the course of the fiscal year ended June 30, 2002, the agency did not invest in any additional capital assets. The agency's total investment in capital assets for its governmental activities as of June 30, 2002, was \$25,407.80; accumulated depreciation was \$19,030.77, and net book value was \$6,377.03. See Note 3 in the Notes to the Financial Statements for additional information.

Liabilities for future payments for compensated absences are described in detail in the Notes to the Financial Statements (Note 4).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Management of Northeast Community Services agency does anticipate changes and modifications to our programs and governmental activities affecting our budget next fiscal year. One of our major sources of funding, the Department of Children's Services, has been restructured. Another twelve agency staff positions will be transferred to the Department of Children's Services next fiscal year, and our role within the department will concentrate on the non-custodial population. Our other major source of funding, the Department of Correction, will increase staff positions, which will increase our contract and budget accordingly. Our TennCare Transportation program will not be immune to the restructuring at the state level, and a reduction in program revenue and charges will be imminent.

SUMMARY

This report is designed to provide readers with a general overview of the agency's finances and operations. Questions or comments may be directed to the agency's Director of Fiscal Services in Johnson City, TN.

Northeast Community Services Agency
Statement of Net Assets
June 30, 2002

	Governmental Activities
Assets	
Cash (Note 2)	\$ 713,096.88
Due from the State of Tennessee	339,899.45
Due from Local Government	7,750.00
Prepaid items	550.00
Equipment (Note 3):	25,407.80
Less accumulated depreciation	(19,030.77)
Total assets	1,067,673.36
 Liabilities	
Accrued payroll, payroll taxes, and benefits	153,570.82
Accounts payable	102,932.63
Due to the State of Tennessee	62,248.49
Long-term liabilities:	
Portion due or payable within one year:	
Compensated absences (Note 4)	150,057.11
Portion due or payable after one year:	
Compensated absences (Note 4)	38,925.41
Total liabilities	507,734.46
 Net Assets	
Invested in capital assets	6,377.03
Unrestricted	553,561.87
Total net assets	\$ 559,938.90

The notes to the financial statements are an integral part of this statement.

Northeast Community Services Agency
 Statement of Activities
 For the Year Ended June 30, 2002

Programs	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Change in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Administration	\$ 371,543.38	\$ -	\$ -	\$ (371,543.38)
Children and Family Services	1,518,707.97	-	1,514,718.28	(3,989.69)
Family Support Services	1,096,849.02	-	1,092,566.63	(4,282.39)
Flexible Funding	109,092.51	-	109,092.51	-
Emergency Residential	17,571.82	-	17,571.82	-
Prison Health Services	1,565,892.51	-	1,565,096.12	(796.39)
TennCare Transportation	239,506.41	390,132.86	-	150,626.45
Community Development Services	120,049.32	25,000.00	-	(95,049.32)
AmeriCorp Promise Fellows	25,450.43	-	10,800.00	(14,650.43)
Depreciation - unallocated	3,622.56	-	-	(3,622.56)
Total	\$ 5,068,285.93	\$ 415,132.86	\$ 4,309,845.36	(343,307.71)
		General revenues:		
			Payment from the State of Tennessee	341,357.22
			Unrestricted investment earnings	27,864.07
			<u>Total general revenues</u>	<u>369,221.29</u>
			Change in net assets	25,913.58
			Net assets - beginning	534,025.32
			<u>Net assets - ending</u>	<u>\$ 559,938.90</u>

The notes to the financial statements are an integral part of this statement.

Northeast Community Services Agency
Balance Sheet
General Fund
June 30, 2002

Assets	
Cash (Note 2)	\$ 713,096.88
Due from the State of Tennessee	339,899.45
Due from the local government	7,750.00
Prepaid items	550.00
Total assets	<u>\$ 1,061,296.33</u>
Liabilities and Fund Balance	
Liabilities:	
Accrued payroll, payroll taxes, and benefits	\$ 153,570.82
Accounts payable	102,932.63
Due to the State of Tennessee	62,248.49
Total liabilities	<u>318,751.94</u>
Fund balance:	
Reserved for prepaid items	550.00
Unreserved	741,994.39
Total fund balance	<u>742,544.39</u>
Total liabilities and fund balance	<u>\$ 1,061,296.33</u>

Reconciliation of the general fund balance sheet to the statement of net assets:

Total fund balance	\$ 742,544.39
Amounts reported in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the general fund.	6,377.03
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the general fund. Long-term liabilities at year-end consist of compensated absences.	<u>(188,982.52)</u>
Total net assets	<u>\$ 559,938.90</u>

The notes to the financial statements are an integral part of this statement.

Northeast Community Services Agency
Statement of Revenues, Expenditures, and Changes in Fund Balance
General Fund
For the Year Ended June 30, 2002

Revenues	
State grants and contracts	\$ 4,640,402.58
Federal grants and contracts	10,800.00
Local grants and contracts	25,000.00
TennCare Transportation contracts	390,132.86
Interest	27,864.07
Total revenues	5,094,199.51
 Expenditures	
Administration	370,013.13
Children and Family Services	1,514,718.28
Family Support Services	1,092,566.63
Flexible Funding	109,092.51
Emergency Residential	17,571.82
Prison Health Services	1,565,096.12
TennCare Transportation	241,199.54
Community Development Services	119,961.43
AmeriCorp Promise Fellows	25,450.43
Total expenditures	5,055,669.89
Excess of revenues over expenditures and net change in fund balance	38,529.62
Fund balance - July 1, 2001	704,014.77
Fund balance - June 30, 2002	\$ 742,544.39
 Reconciliation of the general fund statement of revenues, expenditures, and changes in fund balance to the statement of activities:	
Net change in fund balance	\$ 38,529.62
 Amounts reported in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. As there were no capital outlays during the period, this amount is depreciation expense.	(3,622.56)
The expense for compensated absences reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds.	(8,993.48)
Changes in net assets of governmental activities	\$ 25,913.58

The notes to the financial statements are an integral part of this statement.

Northeast Community Services Agency
Notes to the Financial Statements
June 30, 2002

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 Northeast 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). The CSA’s reporting entity does not include any component units.

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).

The CSA’s basic financial statements consist of government-wide financial statements (the statement of net assets and the statement of activities) and fund financial statements (the balance sheet and the statement of revenues, expenditures, and changes in fund balance). The Northeast Community Services Agency does not have any proprietary or fiduciary funds, and its only governmental fund is the general fund.

The statement of net assets presents all of the CSA’s financial and capital resources including both short-term and long-term information. The statement of activities presents a comparison between the direct expenses and program revenues for each of the CSA’s programs. Direct expenses are those that are specifically associated with a program. Program revenues include (a) charges paid by the recipients for services provided by the program and (b) grants and contributions that are restricted to meeting the operational requirements of the program. Revenues that are not classified as program revenues are presented as general revenues.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the

Northeast Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2002

timing of related cash flows. Grants are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual, generally when they are measurable and become available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenues that the CSA earns by incurring obligations are recognized in the same period the obligations are recognized. All other revenue items are considered to be available if collected within 60 days after the end of the current period.

Expenditures are recorded when the related fund liability is incurred, except for compensated absences, which are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in the government-wide statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Assets and Liabilities

Cash

Cash reported in both the government-wide and the fund financial statements consists of petty cash, demand deposits, and deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The liquidity of the LGIP is sufficient to cover any withdrawal request by a participant.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and the fund financial statements.

Capital Assets

Capital assets are defined by the CSA as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capitalized assets are reported in the government-wide financial statements. Capitalized assets are recorded at historical cost. Donated capital assets are recorded at estimated fair

**Northeast Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2002**

value at the date of donation. The CSA does not own any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capitalized assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Computer Equipment	3 years

Compensated Absences

It is the CSA's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the CSA's policy is to pay this benefit only if the employee is sick or upon death. In the government-wide financial statements, the liability for all vacation pay is accrued when earned. In the fund financial statements, a liability for these amounts is reported only if they have matured, for example, because of employee resignations and retirements.

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 Northeast 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.

Northeast Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2002

The Northeast 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* for the year ended June 30, 2002. The report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002, was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Equipment	\$ 25,407.80	\$ -	\$ -	\$ 25,407.80
Less accumulated depreciation	<u>(15,408.21)</u>	<u>(3,622.56)</u>	<u>-</u>	<u>(19,030.77)</u>
Total capital assets, net of depreciation	<u>\$ 9,999.59</u>	<u>\$ (3,622.56)</u>	<u>\$ -</u>	<u>\$ 6,377.03</u>

All capital assets essentially serve all of the CSA's programs. Therefore, all depreciation expense is reported on the statement of activities as depreciation-unallocated.

NOTE 4. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2002, was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Compensated absences	\$ <u>179,989.04</u>	\$ <u>191,950.31</u>	\$ <u>(182,956.83)</u>	\$ <u>188,982.52</u>
Total long-term liabilities	<u>\$ 179,989.04</u>	<u>\$ 191,950.31</u>	<u>\$ (182,956.83)</u>	<u>\$ 188,982.52</u>

**Northeast Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2002**

NOTE 5. 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 \$1,379.00 and \$16,634.46 for the year ended June 30, 2002. All leases except for the automobile, postage machine, and the copiers were cancelable at the lessee's option.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms exceeding one year as of June 30, 2002.

Year Ending <u>June 30</u>	
2003	\$ 12,438.12
2004	11,538.12
2005	<u>8,563.88</u>
Total minimum payments required	<u>\$ 32,540.12</u>

In addition, the State of Tennessee has entered into cancelable lease agreements for space and equipment on behalf of the agency. The agency reimburses the state for these lease payments each month. Total reimbursements to the state for operating leases were \$113,441.07 for the year ended June 30, 2002. The agency is not obligated to continue making the lease payments should it discontinue use of the space and equipment.

NOTE 6. DEFINED BENEFIT PENSION PLAN

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.

**Northeast Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2002**

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. The report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, 500 Deaderick Street, Nashville, Tennessee 37243-0230, or can be accessed at www.treasury.state.tn.us.

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, 2002, the rate was 8.77% 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.

Annual Pension Cost

The agency's annual pension cost of \$257,041 for the year ended June 30, 2002, was equal to the agency's required and actual contributions.

The required contribution for the year ended June 30, 2002, was determined as part of the July 1, 1999, 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 22 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, 2002	\$ 257,041	100%	-
June 30, 2001	\$ 239,143	100%	-
June 30, 2000	\$ 204,738	100%	-

Northeast Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2002

NOTE 7. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program that provides post-employment health insurance benefits to eligible agency retirees. This benefit is provided and administered by the State of Tennessee. The agency assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. Note 2 includes the information to obtain the report.

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 \$290,006.22 at June 30, 2002.

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.

Commercial Coverage

The agency carries commercial insurance for risks of loss of its personal property and surety bond coverage for risks of employee dishonesty. In the past three fiscal years, the agency has had no claims filed with the commercial insurer.

State of Tennessee's Claims Award Fund

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

Northeast Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2002

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, Section 9-8-101 et seq., *Tennessee Code Annotated*. 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 Section 50-6-101 et seq., *Tennessee Code Annotated*.

Health Coverage

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 Healthcare. 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 Healthcare.

NOTE 10. NEW ACCOUNTING PRONOUNCEMENTS

The Northeast Community Services Agency has implemented the provisions of Governmental Accounting Standards Board (GASB) Statements 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; and 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34*. These statements establish new financial reporting requirements and restructure much of the information that governments have

Northeast Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2002

presented in the past. Comparability with reports issued in all prior years will be affected. The State of Tennessee implemented these statements, as required, for the year ended June 30, 2002. As a component unit of the state, the Northeast Community Services Agency has also implemented the statements for the year ended June 30, 2002.

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

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funding Excess) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded (Funding Excess) AAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2001	\$3,422,613	\$3,729,814	\$307,201	91.76%	\$2,755,425	11.15%
July 1, 1999	\$2,581,757	\$2,740,630	\$158,873	94.20%	\$2,391,322	6.64%
June 30, 1997	\$1,773,221	\$1,934,936	\$161,715	91.64%	\$2,929,891	5.52%

Changes in Actuarial Assumptions

An actuarial valuation was performed as of July 1, 2001, to establish contribution rates as of July 1, 2002. The July 1, 1999, actuarial valuation established contribution rates for the year ended June 30, 2002. 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 and a projected annual increase in post-retirement benefits of 3% of the retiree's most recent benefit. Projected salary increases used in the 2001 valuation were 4.75% a year compounded annually, down from 5.5% a year in the 1999 valuation (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries). The 2001 valuation projected a 3.5% annual increase in the social security wage base, down from 4.5% in the 1999 valuation.

**Northeast Community Services Agency
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2002**

	Budgeted Amounts		Actual	Variance with Final Budget- Over (Under)
	Original	Final		
Sources of Financial Resources:				
Fund Balance, July 1				
Amount approved for expenditure	\$ 207,527.00	\$ 247,767.00	\$ 247,767.00	
Amount not approved for expenditure	496,487.77	456,247.77	456,247.77	
Revenues				
Department of Children's Services	3,818,600.00	3,818,600.00	3,075,306.46	\$ (743,293.54)
Department of Correction	1,991,899.00	1,804,979.00	1,565,096.12	(239,882.88)
TennCare Managed Care Organizations/ Behavioral Health Organizations	307,996.00	307,996.00	390,132.86	82,136.86
Tennessee Commission on National and Community Service	-	21,600.00	10,800.00	(10,800.00)
Local Education Authorities	29,000.00	29,000.00	25,000.00	(4,000.00)
Interest revenue	-	-	27,864.07	27,864.07
Total sources of financial resources	<u>6,851,509.77</u>	<u>6,686,189.77</u>	<u>5,798,214.28</u>	<u>(887,975.49)</u>
Expenditures				
Administration	455,831.00	447,583.00	370,013.13	(77,569.87)
Community Development Services	167,600.00	167,600.00	119,961.43	(47,638.57)
Children and Family Services	1,917,681.00	1,917,681.00	1,514,718.28	(402,962.72)
Emergency Residential	36,500.00	36,500.00	17,571.82	(18,928.18)
Family Support Services	1,366,790.00	1,366,790.00	1,092,566.63	(274,223.37)
Flexible Funding	242,600.00	242,600.00	109,092.51	(133,507.49)
Prison Health Services	1,873,926.00	1,695,254.00	1,565,096.12	(130,157.88)
TennCare Transportation	294,094.00	294,094.00	241,199.54	(52,894.46)
AmeriCorp Promise Fellows	-	61,840.00	25,450.43	(36,389.57)
Total expenditures	<u>6,355,022.00</u>	<u>6,229,942.00</u>	<u>5,055,669.89</u>	<u>(1,174,272.11)</u>
Fund Balance, June 30	\$ <u>496,487.77</u>	\$ <u>456,247.77</u>	\$ <u>742,544.39</u>	\$ <u>286,296.62</u>

APPENDIX

NORTHEAST COMMUNITY SERVICES AGENCY

Wilhelmina Williams, Executive Director

BOARD OF DIRECTORS

Board Officers

Ms. Carolyn Kinser, Chair
Ms. Brenda Kegley Vice-Chair
Mr. George Lowe, Treasurer
Mr. Michael Harrison, Secretary

Executive Committee Members

Mr. Michael Harrison
Ms. Brenda Kegley
Ms. Carolyn Kinser
Mr. Bossy Larkins
Mr. George Lowe

Other Members of the Board of Directors

Ms. Linda Buck
Ms. Judy Cole
Ms. Carol Kiener
Ms. Cleo Reed