

AUDIT REPORT

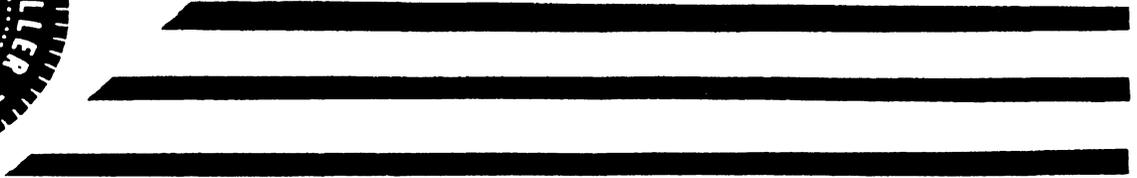
Upper Cumberland Community Services Agency

For the Year Ended
June 30, 2003



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

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

John G. Morgan
Comptroller

August 16, 2005

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Upper Cumberland Community Services Agency
417 East Broad Street
Cookeville, Tennessee 38501

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Upper Cumberland Community Services Agency for the year ended June 30, 2003. You will note from the independent auditor's report that unqualified opinions were 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/th
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State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Upper Cumberland Community Services Agency
For the Year Ended June 30, 2003

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 opinions on the financial statements are unqualified.

Audit Report
Upper Cumberland Community Services Agency
For the Year Ended June 30, 2003

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**Upper Cumberland Community Services Agency
For the Year Ended June 30, 2003**

INTRODUCTION

POST-AUDIT AUTHORITY

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

BACKGROUND

The Community Services Agency Act of 1996 created 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 Upper Cumberland Community Services Agency serves the following counties: Cannon, Clay, Cumberland, Dekalb, Fentress, Jackson, Macon, Overton, Pickett, Putnam, Smith, Van Buren, Warren, and White. The agency’s administrative offices are in Cookeville, Tennessee.

The governing body of the Upper Cumberland Community Services Agency is the board of directors. As of June 30, 2003, the board was composed of 13 members. (See Appendix.) An executive committee, consisting of three 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, 2002, through June 30, 2003, 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, 2003, and for comparative purposes, the year ended June 30, 2002. The Upper Cumberland Community Services Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Upper Cumberland Community Services Agency filed its report with the Department of Audit on January 2, 2004. A follow-up of the prior audit finding was conducted as part of the current audit. The current audit disclosed that the agency has corrected the previous audit finding concerning improving controls over contracts.

OBSERVATIONS AND COMMENTS

AUDIT COMMITTEE RECOMMENDED

As a result of the fraud-related business failures of companies such as Enron and WorldCom in recent years, Congress and the accounting profession have taken aggressive measures to try to detect and prevent future failures related to fraud. These measures have included the signing of the *Sarbanes-Oxley Act of 2002* by the President of the United States and the issuance of *Statement on Auditing Standards Number 99 (SAS 99)* by the American Institute

of Certified Public Accountants. This new fraud auditing standard has not only changed the way auditors perform audits but has also provided guidance to management and boards of directors on creating antifraud programs and controls. This guidance has included the need for an independent audit committee.

As a result of these developments, we are recommending that agencies with boards establish audit committees. The specific activities of any audit committee will depend on, among other things, the mission, nature, structure, and size of each agency. In establishing the audit committee and creating its charter, each board should examine its agency's particular circumstances. Anti-fraud literature notes that there are two categories of fraud: fraudulent financial reporting and misappropriation of assets. The audit committee should consider the risks of fraud in its agency in general as well as the history of its particular agency with regard to prior audit findings, previously disclosed weaknesses in internal control, and compliance issues. The audit committee should consider both the risk of fraudulent financial reporting and the risk of fraud due to misappropriation or abuse of agency assets. Also, the board and the audit committee should keep in mind that agencies receiving public funding should have a lower threshold of materiality than private sector entities with regard to fraud risks.

Boards should exercise professional judgment in establishing the duties, responsibilities, and authority of their audit committee. The factors noted below are not intended to be an exhaustive listing of those matters to be considered. The committee should not limit its scope to reacting to a preconceived set of issues and actions but rather should be proactive in its oversight of the agency as it concentrates on the internal control and audit-related activities of the entity. In fact, this individualized approach is one of the main benefits derived from an audit committee.

At a minimum, audit committees should:

1. Develop a written charter that addresses the audit committee's purpose and mission, which should be, at a minimum, to assist the board in its oversight of the agency.
2. Formally reiterate, on a regular basis, to the board, agency management, and staff their responsibilities for preventing, detecting, and reporting fraud, waste, and abuse.
3. Serve as a facilitator of any audits or investigations of the agency, including advising auditors and investigators of any information they may receive or otherwise note regarding risks of fraud or weaknesses in the agency's internal controls; reviewing with the auditors any findings or other matters noted by the auditors during audit engagements; working with the agency management and staff to ensure implementation of audit recommendations; and assisting in the resolution of any problems the auditors may have with cooperation from agency management or staff.
4. Develop a formal process for assessing the risk of fraud at the agency, including documentation of the results of the assessments and assuring that internal controls are in place to adequately mitigate those risks.

5. Develop and communicate to staff of the agency their responsibilities to report allegations of fraud, waste, or abuse at the agency to the committee and the Comptroller's Office as well as a process for immediately reporting such information.
6. Immediately inform the Comptroller of the Treasury's Office when fraud is detected.
7. Develop and communicate to the board, agency management, and staff a written code of conduct reminding those individuals of the public nature of the agency and the need for all to maintain the highest level of integrity with regard to the financial operations and any related financial reporting responsibilities of the agency; to avoid preparing or issuing fraudulent or misleading financial reports or other information; to protect agency assets from fraud, waste, and abuse; to comply with all relevant laws, rules, policies and procedures; and to avoid engaging in activities which would otherwise bring dishonor to the agency.

The charter of the audit committee should include, at a minimum, the following provisions:

1. The audit committee should be a standing committee of the board.
2. The audit committee should be composed of at least three members. The chair of the audit committee should preferably have some accounting or financial management background. Each member of the audit committee should have an adequate background and education to allow a reasonable understanding of the information presented in the financial reports of the agency and the comments of auditors with regard to internal control and compliance findings and other issues.
3. The members of the audit committee must be independent from any appearances of other interests that are in conflict with their duties as members of the audit committee.
4. An express recognition that the board, the audit committee, and the management and staff of the agency are responsible for taking all reasonable steps to prevent, detect, and report fraud, waste, and abuse.
5. The audit committee should meet regularly throughout the year. The audit committee can meet by telephone, if that is permissible for other committees. However, the audit committee is strongly urged to meet at least once a year in person. Members of the audit committee may be members of other standing committees of the board, but the audit committee meetings should be separate from the meetings of other committees of the board.
6. The audit committee should record minutes of its meetings.

The Division of State Audit will be available to discuss with the board any questions it might have about the creation of its particular audit committee. There are also other audit

committees which have already been established that the board may wish to contact for advice and further information.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Upper Cumberland Community Services Agency's financial statements for the year ended June 30, 2003, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions 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 unqualified opinions on the Upper Cumberland Community Services Agency's financial statements.



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

April 1, 2004

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 governmental activities and the general fund of the Upper Cumberland Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2003, which collectively comprise the agency's basic financial statements and have issued our report thereon dated April 1, 2004. 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 Upper Cumberland Community Services Agency's financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The Honorable John G. Morgan
April 1, 2004
Page Two

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Upper Cumberland Community Services Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 flourish at the end.

Arthur A. Hayes, Jr., CPA
Director

AAH/th



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

April 1, 2004

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 Upper Cumberland Community Services Agency, a component unit of the State of Tennessee, as of and for the years ended June 30, 2003, and 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 opinions on these financial statements, based on our audits.

We conducted our audits 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 audits provide 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 Upper Cumberland Community Services Agency as of June 30, 2003, and 2002, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the Schedule of Pension Funding Progress for Upper Cumberland Community Services Agency are not a required part of the basic

The Honorable John G. Morgan
April 1, 2004
Page Two

financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 audits were 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 34 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 audits 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 April 1, 2004, on our consideration of Upper Cumberland Community Services Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

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

Arthur A. Hayes, Jr., CPA
Director

AAH/th

UPPER CUMBERLAND COMMUNITY SERVICES AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Upper Cumberland Community Services Agency provides this *Management's Discussion and Analysis* for readers of the financial statements. This narrative overview and analysis of the financial activities of the Upper Cumberland Community Services Agency is for the fiscal year ended June 30, 2003, and fiscal year ended June 30, 2002. Upper Cumberland Community Services Agency is in its second year of implementing new reporting standards with significant changes in content and structure from the years prior to fiscal year June 30, 2002. Therefore, much of the information is not easily comparable to fiscal years prior to June 30, 2002. Complete comparative analysis will be presented in future years.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights:

Net Assets - The assets of the agency exceeded its liabilities at June 30, 2003, by \$385,950.47 and at June 30, 2002, by \$423,057.13 (presented as "net assets"). Of these amounts, \$358,163.14 at June 30, 2003, and \$386,092.56 at June 30, 2002, was reported as "unrestricted net assets." Unrestricted net assets represent the amount available to be used to meet the agency's ongoing obligations.

Changes in Net Assets - The agency's total net assets decreased by \$37,106.66 in fiscal year 2003, and increased by \$102,628.82 in fiscal year 2002.

Fund Highlights:

Governmental Funds Fund Balances - As of the close of fiscal years 2003 and 2002, the agency reported for its only governmental fund, the general fund, ending fund balances of \$442,989.54 and \$464,365.20, respectively, a decrease of \$21,375.66 and an increase of \$76,348.31, respectively, in comparison with the prior year. Of the total amounts, \$440,528.17 and \$464,315.20 represent the "unreserved fund balance" at each respective year-end.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Upper Cumberland Community Services Agency's basic financial statements. The basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information (the Schedule of Pension Funding Progress) and supplementary information which is not required (the Budgetary Comparison Schedule) in addition to the basic financial statements. These components are described below:

Basic Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the agency—the *Government-Wide Financial Statements* and the *Fund Financial Statements*. These financial statements also include the *Notes to the Financial Statements* that explain some of the information in the financial statements and provide more detail.

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, which assists in assessing the agency’s economic condition at the end of the fiscal year. These are prepared using the economic resources measurement focus and the accrual basis of accounting. They 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 statements:

The *Statement of Net Assets* presents all of the government’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.

The *Statement of Activities* presents information showing how the government’s net assets changed during the most recent 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 earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each of the agency’s programs.

Governmental Activities – All of the agency’s services are included here. Most of the agency’s basic services are providing help to children and families and transportation for TennCare enrollees. These activities are supported primarily by governmental revenues (state grants) and revenue from TennCare Managed Care Organizations and Behavioral Health Organizations. Most services normally associated with the agency fall into services provided for children as funded by the Department of Children’s Services and the Department of Health.

The government-wide financial statements can be found immediately following this discussion and analysis.

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 objectives. The agency, like other agencies and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related

legal requirements. The fund financial statements focus on individual parts of the agency, reporting the agency's operations in more detail than the government-wide statements.

Governmental Funds Financial Statements – The basic services provided by the agency are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the agency's near-term financing requirements. This approach is known as using the current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the agency's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the agency. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the same pages as the governmental fund financial statements. The agency has one governmental fund, the General Fund. The basic governmental funds financial statements can be found immediately following the government-wide statements.

Notes to the Financial Statements

The notes 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 fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information, which 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

As noted earlier, net assets may serve over time as a useful indicator of an agency's financial position. The agency's net assets (governmental activities) totaled \$385,950.47 at the end of 2003, compared to \$423,057.13 at the end of the previous year.

UCCSA'S NET ASSETS

Governmental Activities

	<u>2003</u>	<u>2002</u>
Current and other assets	\$787,288.03	\$962,150.98
Capital assets	<u>39,819.73</u>	<u>36,964.57</u>
Total assets	<u>827,107.76</u>	<u>999,115.55</u>
Current and other liabilities	344,298.49	497,785.78
Long-term liabilities	<u>96,858.80</u>	<u>78,272.64</u>
Total liabilities	<u>441,157.29</u>	<u>576,058.42</u>
Net assets		
Invested in capital assets, net of related debt	27,787.33	36,964.57
Unrestricted	<u>358,163.14</u>	<u>386,092.56</u>
Total net assets	<u>\$385,950.47</u>	<u>\$423,057.13</u>

Changes in Net Assets

The agency's net assets decreased by \$37,106.66 or 8.8% in the fiscal year ended June 30, 2003, and increased by \$102,628.82 or 32% in fiscal year ended June 30, 2002. Approximately 71% of the agency's total revenue came from the State of Tennessee, 20% from federal revenue sources, and 9% resulted from charges for various goods and services provided during fiscal year 2003. During fiscal year 2002, approximately 72% of the agency's total revenue came from the State of Tennessee, 17% from federal revenue sources, and 10% resulted from charges for various goods and services provided. The primary factors involved in the decrease of net assets were additional staff expenditures in the TennCare Transportation Program and increased agency matching funds for the Americorps Promise Fellows Program. These programs were primarily responsible for the decrease in fund balance and thus net assets.

Changes in UCCSA's Net Assets

Governmental Activities

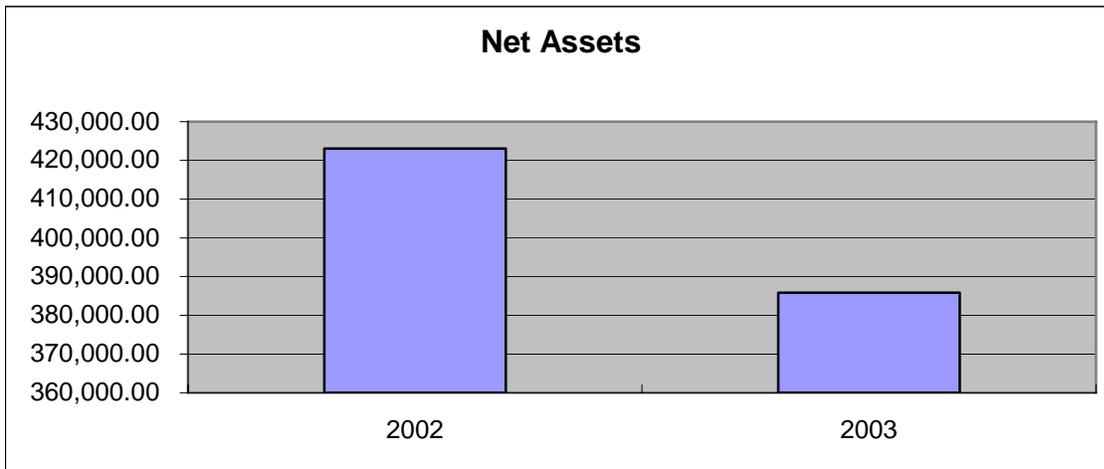
Revenues

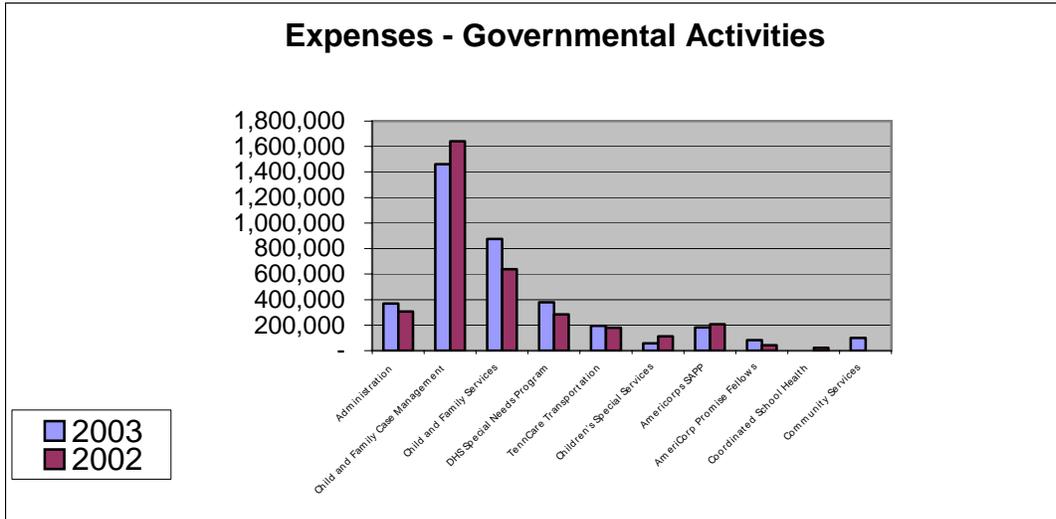
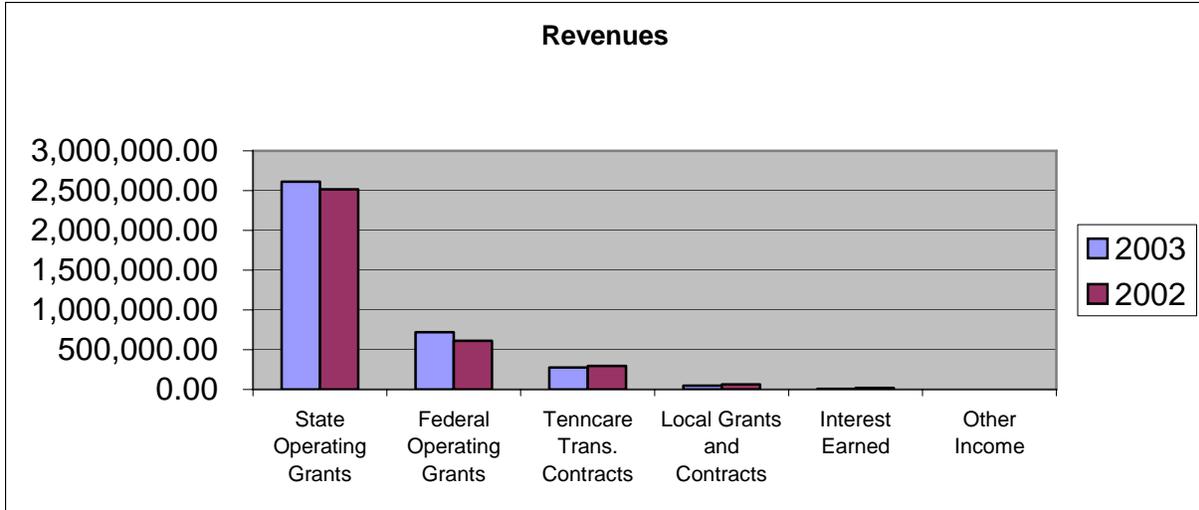
	<u>2003</u>	<u>2002</u>
Program revenues		
Charges for services	\$ 327,029.01	\$ 369,188.56
State grants and contracts	2,567,949.10	2,241,830.71
Federal grants and contracts	718,197.66	612,113.40
Other	1,996.18	1,215.00
General revenues		
Payment from state	40,815.40	266,071.22
Interest	<u>6,807.88</u>	<u>18,468.48</u>
Total revenues	<u>3,662,795.23</u>	<u>3,508,887.37</u>

Expenses

Administration	359,612.19	275,496.97
Health and social services	<u>3,340,289.70</u>	<u>3,130,761.58</u>
Total expenses	<u>3,699,901.89</u>	<u>3,406,258.55</u>

Increase/(decrease) in net assets	<u>(\$37,106.66)</u>	<u>\$ 102,628.82</u>
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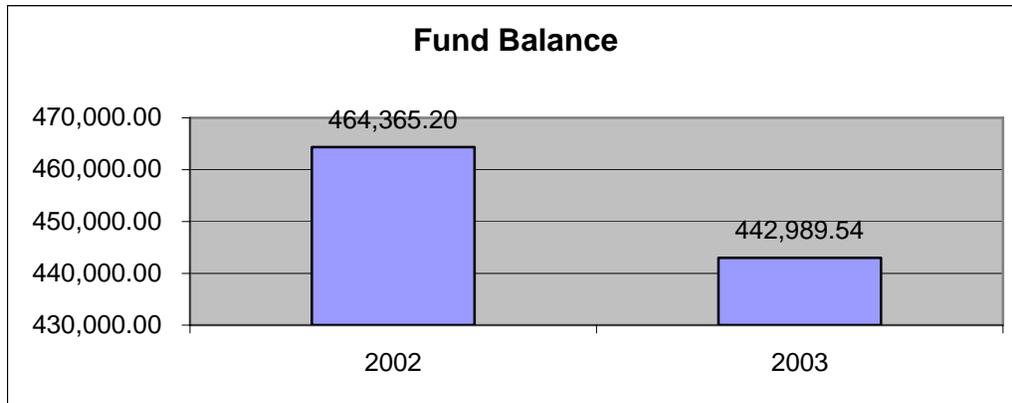
FINANCIAL ANALYSIS OF THE AGENCY'S GOVERNMENTAL FUND

As noted earlier, the agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund

The focus of the agency's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of an agency's net resources available for spending at the end of the fiscal year. As of June 30, 2003, and 2002, the agency's governmental fund reported an ending fund balance of \$442,989.54 and \$464,365.20, respectively, a decrease of \$21,375.66 and an increase of \$76,348.31 in comparison with the respective prior year. The primary factors involved in the

decrease of fund balance were additional staff expenditures in the TennCare Transportation Program and increased agency matching funds for the Americorps Promise Fellows Program.



CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The agency's investment in capital assets for its governmental activities as of June 30, 2003, amounted to \$59,859.00, which, net of accumulated depreciation of \$20,039.27, left a net book value of \$39,819.73. As of June 30, 2002, the investment in capital assets amounted to \$47,059.00, which, net of accumulated depreciation of \$10,094.43, leaves a net book value of \$36,964.57. This investment in capital assets does not constitute a material balance on the statement of net assets. Note 3 to the financial statements provides additional capital assets detail. Liabilities for future payments for compensated absences and capital leases are described in detail in the Notes to the Financial Statements (Notes 5 and 7).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Management does foresee significant changes in their programs in the near future. As economic factors and budgets affect the State of Tennessee, they will probably affect our agency since we are almost totally funded by the state.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our grantors, customers, and the citizens of the State of Tennessee with a general overview of the agency's finances and its use of the funds it receives. If you have any questions about this report or need additional information, contact the agency's Director of Fiscal Services, 417 East Broad Street, Cookeville, Tennessee 38501.

Upper Cumberland Community Services Agency
Statements of Net Assets
June 30, 2003, and June 30, 2002

	<u>Governmental Activities</u>	
	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Assets		
Cash (Note 2)	\$ 365,516.71	\$ 800,916.72
Accounts receivable	4,585.51	6,836.78
Due from the State of Tennessee	414,724.44	154,347.48
Prepaid items	2,461.37	50.00
Capital assets (Note 3):		
Equipment	59,859.00	47,059.00
Less accumulated depreciation	<u>(20,039.27)</u>	<u>(10,094.43)</u>
Total assets	<u>827,107.76</u>	<u>999,115.55</u>
Liabilities		
Accrued payroll, payroll taxes, and benefits	100,514.48	85,337.30
Accounts payable (Note 4)	206,943.47	64,912.32
Due to the State of Tennessee	34,444.99	342,152.83
Deferred Revenue	2,395.55	5,383.33
Long-term liabilities:		
Portion due or payable within one year:		
Capital leases (Notes 5 and 7)	3,920.86	-
Compensated absences (Note 5)	44,785.34	50,838.01
Portion due or payable after one year:		
Capital leases (Notes 5 and 7)	8,111.54	-
Compensated absences (Note 5)	<u>40,041.06</u>	<u>27,434.63</u>
Total liabilities	<u>441,157.29</u>	<u>576,058.42</u>
Net Assets		
Invested in capital assets, net of related debt	27,787.33	36,954.57
Unrestricted	<u>358,163.14</u>	<u>386,092.56</u>
Total net assets	<u>\$ 385,950.47</u>	<u>\$ 423,057.13</u>

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

Upper Cumberland Community Services Agency
 Statements of Activities
 For the Years Ended June 30, 2003, and June 30, 2002

Programs	For the Year Ended June 30, 2003				For the Year Ended June 30, 2002				
	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Assets	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Assets	
		Charges for Services	Operating Grants and Contributions			Charges for Services	Operating Grants and Contributions		
Governmental Activities:									
Administration	\$ 359,612.19	\$ -	\$ 267,839.27	\$ (91,772.92)	\$ 275,496.97	\$ -	\$ -	\$ (275,496.97)	
Child and Family Case Management (Note 14)	1,462,572.56	-	1,465,431.81	2,859.25	1,626,769.40	-	1,623,398.65	(3,370.75)	
Child and Family Services (Note 14)	875,493.42	-	875,493.42	-	653,967.46	-	653,967.46	-	
DHS Special Needs Program	381,959.47	-	379,130.69	(2,828.78)	283,768.52	-	273,980.55	(9,787.97)	
TennCare Transportation	196,221.86	276,440.29	-	80,218.43	180,496.21	298,590.18	-	118,093.97	
Children's Special Services	56,414.08	-	56,414.08	-	111,269.11	-	111,615.39	346.28	
AmeriCorp-SAAP	183,449.62	45,716.70	121,035.08	(16,697.84)	209,056.87	64,425.04	147,070.42	2,438.59	
AmeriCorp Promise Fellows	82,696.68	4,872.02	30,905.61	(46,919.05)	43,181.63	6,173.34	22,874.26	(14,134.03)	
Coordinated School Health Coalition	-	-	-	-	22,252.38	-	22,252.38	-	
Community Services	101,482.01	-	91,892.98	(9,589.03)	-	-	-	-	
Total	\$ 3,699,901.89	\$ 327,029.01	\$ 3,288,142.94	(84,729.94)	\$ 3,406,258.55	\$ 369,188.56	\$ 2,855,159.11	(181,910.88)	
General revenues:					General revenues:				
Payment from the State of Tennessee				40,815.40	Payment from the State of Tennessee				266,071.22
Unrestricted investment earnings				6,807.88	Unrestricted investment earnings				18,468.48
Total general revenues				47,623.28	Total general revenues				284,539.70
Change in net assets				(37,106.66)	Change in net assets				102,628.82
Net assets - July 1				423,057.13	Net assets - July 1				320,428.31
Net assets - June 30				\$ 385,950.47	Net assets - June 30				\$ 423,057.13

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

Upper Cumberland Community Services Agency
Balance Sheets
General Fund
June 30, 2003, and June 30, 2002

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Assets		
Cash (Note 2)	\$ 365,516.71	\$ 800,916.72
Accounts receivable	4,585.51	6,836.78
Due from the State of Tennessee	414,724.44	154,347.48
Prepaid items	2,461.37	50.00
Total assets	<u>\$ 787,288.03</u>	<u>\$ 962,150.98</u>
Liabilities and Fund Balance		
Liabilities:		
Accrued payroll, payroll taxes, and benefits	\$ 100,514.48	\$ 85,337.30
Accounts payable (Note 4)	206,943.47	64,912.32
Deferred revenue	2,395.55	5,383.33
Due to the State of Tennessee	34,444.99	342,152.83
Total liabilities	<u>344,298.49</u>	<u>497,785.78</u>
Fund balance:		
Reserved for prepaid items	2,461.37	50.00
Unreserved	440,528.17	464,315.20
Total fund balance	<u>442,989.54</u>	<u>464,365.20</u>
Total liabilities and fund balance	<u>\$ 787,288.03</u>	<u>\$ 962,150.98</u>
Reconciliation of the general fund balance sheet to the statement of net assets:		
Total fund balance	\$ 442,989.54	\$ 464,365.20
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.	39,819.73	36,964.57
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:		
Capital leases payable	(12,032.40)	-
Compensated absences	<u>(84,826.40)</u>	<u>(78,272.64)</u>
Total net assets	<u>\$ 385,950.47</u>	<u>\$ 423,057.13</u>

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

Upper Cumberland Community Services Agency
 Statements of Revenues, Expenditures, and Changes in Fund Balance
 General Fund
 For the Years Ended June 30, 2003, and June 30, 2002

	For the Year Ended June 30, 2003	For the Year Ended June 30, 2002
Revenues		
State grants and contracts	\$ 2,613,886.88	\$ 2,514,075.27
Federal grants and contracts	718,197.66	612,113.40
Local grants and contracts	47,197.90	64,425.04
TennCare Transportation contracts	276,189.93	298,590.18
Other Income	514.98	1,215.00
Interest	6,807.88	18,468.48
Total revenues	<u>3,662,795.23</u>	<u>3,508,887.37</u>
Expenditures		
Administration	367,965.54	306,980.34
Child and Family Case Management	1,461,784.66	1,639,818.53
Child and Family Services	875,493.42	637,547.58
DHS Special Needs Program	379,130.69	283,503.85
TennCare Transportation	193,221.86	180,512.80
Children's Special Services	56,414.08	111,615.39
AmeriCorps-SAPP	181,741.81	207,153.97
AmeriCorp Promise Fellows	82,209.10	43,154.22
Coordinated School Health	-	22,252.38
Community Services	99,009.73	-
Total expenditures	<u>3,696,970.89</u>	<u>3,432,539.06</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(34,175.66)</u>	<u>76,348.31</u>
Other Financing Source		
Capital lease	12,800.00	-
Total other financing source	<u>12,800.00</u>	<u>-</u>
Net change in fund balance	(21,375.66)	76,348.31
Fund balance - July 1	464,365.20	388,016.89
Fund balance - June 30	<u>\$ 442,989.54</u>	<u>\$ 464,365.20</u>

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

Net change in fund balance \$ (21,375.66) \$ 76,348.31

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. This is the amount by which capital outlays exceeded depreciation expense in the period.	2,855.16	31,978.94
Payments on capital leases consume the current financial resources of governmental funds. These transactions, however, have no effect on net assets.	767.60	-
Some capital assets acquired during the period were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability.	(12,800.00)	-
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.	(6,553.76)	(5,698.43)
Changes in net assets of governmental activities	<u>\$ (37,106.66)</u>	<u>\$ 102,628.82</u>

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

Upper Cumberland Community Services Agency
Notes to the Financial Statements
June 30, 2003, and 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 Upper Cumberland Community Services Agency is a component unit of the State of Tennessee and is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. Although the CSA is a separate legal entity, the state is financially accountable for the CSA because the state appoints a majority of the CSA’s governing body and approves the CSA’s Plan of Operation (budget). The CSA’s reporting entity includes no 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 Upper Cumberland Community Services Agency has no 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,

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

regardless of the 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 and capital lease principal and interest, which are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the CSA funds certain programs by a combination of specific cost-reimbursement grants and general revenues. It is the CSA's policy to first apply restricted resources to such programs and then unrestricted resources.

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.

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

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

assets are reported in the government-wide financial statements. Capitalized assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The CSA owns no 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	5 years
Telephone Equipment	5 years
Other Equipment	5 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.

Capital Leases

A capital lease arrangement for the acquisition of a capital asset is recognized as a long-term obligation in the government-wide financial statements at the inception of the arrangement. In the fund financial statements, a liability relating to a capital lease is only reported when payment is due.

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.

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

NOTE 2. DEPOSITS

The Upper Cumberland 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 Upper Cumberland Community Services Agency also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2003, and 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, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Equipment	\$ 47,059.00	\$ 12,800.00	\$ -	\$ 59,859.00
Less accumulated depreciation	(10,094.53)	9,944.84	-	20,039.27
Total capital assets, net of depreciation	<u>\$ 36,964.57</u>	<u>\$ 2,855.16</u>	<u>\$ -</u>	<u>\$ 39,819.73</u>

Depreciation expense was charged to the CSA programs as follows:

<u>Program</u>	<u>Amount</u>
Administration	\$ 2,928.28

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

Children and Family Services	4,024.34
TennCare Transportation	2,109.30
AmeriCorp Promise Fellows	168.83
AmeriCorp SAPP	214.59
Community Services	175.04
DHS Special Needs Program	<u>324.46</u>
Total depreciation expense	\$ <u>9,944.84</u>

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

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>
Equipment	\$ 22,559.65	\$ 35,134.00	\$ 10,634.65	\$ 47,059.00
Less accumulated depreciation	<u>(17,574.02)</u>	<u>(3,155.06)</u>	<u>(10,634.65)</u>	<u>(10,094.43)</u>
Total capital assets, net of depreciation	\$ <u>4,985.63</u>	\$ <u>31,978.94</u>	\$ <u>-</u>	\$ <u>36,964.57</u>

Depreciation expense was charged to the CSA programs as follows:

<u>Program</u>	<u>Amount</u>
Administration	\$ 2,452.97
Children and Family Services	377.72
TennCare Transportation	249.88
AmeriCorp Promise Fellows	27.41
Americorp SAPP	33.31
DHS Special Needs Program	<u>13.77</u>
Total depreciation expense	\$ <u>3,155.06</u>

NOTE 4. ACCOUNTS PAYABLE

Payables at June 30, 2003, consist of the following:

Employees	\$ 5,486.51
Vendors	<u>201,456.96</u>
Amount reported as accounts payable	\$ <u>206,943.47</u>

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

NOTE 5. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated absences	\$ 78,272.64	\$ 101,027.12	\$ 94,473.36	\$ 84,826.40
Capital leases	<u>-</u>	<u>12,800.00</u>	<u>767.60</u>	<u>12,032.40</u>
Total long-term liabilities	<u>\$ 78,272.64</u>	<u>\$ 113,827.12</u>	<u>\$ 95,240.96</u>	<u>\$ 96,858.80</u>

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated absences	\$ 72,574.21	\$ 101,181.48	\$ 95,483.05	\$ 78,272.64
Total long-term liabilities	<u>\$ 72,574.21</u>	<u>\$ 101,181.48</u>	<u>\$ 95,483.05</u>	<u>\$ 78,272.64</u>

NOTE 6. OPERATING LEASE

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 \$86,400.00 and \$6,871.00 for the year ended June 30, 2003, and \$85,950.00 and \$8,282.35 for the year ended June 30, 2002. All leases except for the postage machine were cancelable at the lessee's option. Total expenditures for the non-cancelable lease were \$1,667.00 for the year ending June 30, 2003 and \$2,037.55 for the year ended June 30, 2002.

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, 2003.

<u>Year Ending June 30</u>	
2004	\$ 2,103.00
2005	2,103.00

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

2006		2,103.00
2007		<u>1,927.75</u>
Total minimum payments required	\$	<u><u>8,236.75</u></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 \$2,778.84 for the year ended June 30, 2002. The agency was not obligated to continue making the lease payments when it discontinued use of the space. The lease was cancelled on September 1, 2002. There were no reimbursements to the state for operating leases for the year ended June 30, 2003.

NOTE 7. CAPITAL LEASE

The agency has a lease agreement in effect that is considered a capital lease. This agreement is from April 16, 2003, to April 16, 2006, and an imputed interest rate of 10.28%. The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments at June 30, 2003.

Year Ending <u>June 30</u>		
2004	\$	4,976.64
2005		4,976.64
2006		<u>3,939.84</u>
Total minimum payments required		13,893.12
Less minimum representing interest		<u>1,860.72</u>
Present value of net minimum lease payments	\$	<u><u>12,032.40</u></u>

The capitalized value of equipment acquired under these lease agreements was \$12,800.00. The value at June 30, 2003, net of depreciation was \$12,226.96.

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

NOTE 8. 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.

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, 2003, the rate was 8.40 % of annual covered payroll and for the year ended June 30, 2002, the rate was 6.57 % 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 \$131,928.38 for the year ended June 30, 2003, and \$105,021.05 for the year ended June 30, 2002, was equal to the agency's required and actual contributions.

The required contribution for the years ended June 30, 2003, and June 30, 2002, were determined as part of the July 1, 2001, and July 1, 1999, actuarial valuations using the frozen initial liability actuarial cost method, a projected-benefit cost method. 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

**Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002**

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. 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, 2001, was 20 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, 2003	\$ 131,929	100%	\$ -
June 30, 2002	\$ 105,021	100%	\$ -
June 30, 2001	\$ 99,458	100%	\$ -

NOTE 9. 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 10. 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 \$115,027.61 at June 30, 2003, and \$ 98,352.15 at June 30, 2002.

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

NOTE 11. IN-KIND CONTRIBUTIONS

In-kind contributions represent the value of noncash contributions provided by an external organization. These contributions may consist of volunteer time, services, space, utilities, supplies, or equipment use. Because the receipt of in-kind contributions does not result in current financial resources, the value of the contributions is not recognized in the financial statements.

The Department of Children's Services and Health donate office space, utilities, telephone service, and copier and computer use to the Upper Cumberland Community Services Agency. The value of the donation is not recorded in the financial statements.

In addition, teachers and members of the community contribute their time and supplies to the Americorps program. Also, supplies are donated by local businesses and space is donated by participating school systems. Upper Cumberland Community Services Agency received in-kind contributions for this program of \$27,992 for the year ended June 30, 2003, and \$78,715.27 for the year ended June 30, 2002.

NOTE 12. 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

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, 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. Claims are administered by Blue Cross Blue Shield, which is currently under contract to provide these and other services to the state. Insurance premiums are adjusted at the end of the year based on the claims experience of the pool. Individual pool participants are not assessed additional premiums based on individual claims experience. Employees and providers have 13 months to file medical claims under Blue Cross Blue Shield of Tennessee.

The Local Government Group Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Eighth Avenue North, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298.

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

NOTE 13. NEW ACCOUNTING PRONOUNCEMENTS

The Upper Cumberland 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 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 Upper Cumberland Community Services Agency has also implemented the statements for the year ended June 30, 2002.

NOTE 14. PRIOR YEAR RECLASSIFICATION

Certain amounts presented for the preceding year have been reclassified for comparative purposes. Expenditures reported as Children and Family Services, Family Support Services, Flexible Funding, and Emergency Residential for the year ended June 30, 2002, were reclassified and reported as Child and Family Case Management and Child and Family Services for the year ended June 30, 2003.

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

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funding Excess) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded (Funding Excess) AAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2001	\$1,603,516	\$1,616,546	\$13,030	99%	\$1,506,476	.86%
July 1, 1999	\$1,219,906	\$1,219,906	-	100%	\$1,077,432	-
June 30, 1997	\$890,108	\$890,108	-	100%	\$1,120,411	-

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 projected an 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.

Supplementary Information
Upper Cumberland Community Services Agency
Budgetary Comparison Schedules
General Fund
For the Years Ended June 30, 2003, and June 30, 2002

	For the June 30, 2003				For the June 30, 2002			
	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)
	Original	Final			Original	Final		
Sources of Financial Resources:								
Fund Balance, July 1								
Amount approved for expenditure	\$ 77,090.00	\$ 143,107.00	\$ 143,107.00		\$ 21,479.00	\$ 94,504.00	\$ 94,504.00	
Amount not approved for expenditure	387,275.20	321,258.20	321,258.20		366,537.89	293,512.89	293,512.89	
Revenues								
Department of Children's Services	2,585,816.00	2,968,510.00	2,608,764.50	\$ (359,745.50)	2,996,090.00	3,033,990.00	2,483,625.58	\$ (550,364.42)
TennCare Managed Care Organizations/ Behavioral Health Organizations	306,546.00	306,546.00	276,189.93	(30,356.07)	306,000.00	306,000.00	298,590.18	(7,409.82)
Department of Health	121,500.00	99,100.00	60,121.88	(38,978.12)	156,742.00	150,467.00	118,975.03	(31,491.97)
Tennessee Commission on National and Community Service	239,191.00	231,386.00	159,020.37	(72,365.63)	187,015.00	239,191.00	178,060.74	(61,130.26)
Local Education Authorities	62,700.00	68,000.00	45,716.70	(22,283.30)	62,500.00	62,700.00	64,425.04	1,725.04
Department of Human Services	507,631.00	507,631.00	404,717.52	(102,913.48)	363,914.00	349,411.00	315,077.63	(34,333.37)
Department of Education	-	-	-	-	-	65,124.00	24,032.57	(41,091.43)
Tennessee Commission on Children and Youth	-	150,000.00	94,337.89	(55,662.11)	-	-	-	-
In-kind contributions - Americorp Promise Fellows	-	-	-	-	-	13,312.00	-	(13,312.00)
In-kind contributions - Americorp	87,200.00	52,660.00	-	(52,660.00)	46,278.00	73,888.00	-	(73,888.00)
Other CSAs	15,000.00	7,500.00	5,122.38	(2,377.62)	-	15,000.00	6,417.12	(8,582.88)
Putnam County	-	3,874.00	985.20	(2,888.80)	-	-	-	-
City of Crossville	-	5,729.00	496.00	(5,233.00)	-	-	-	-
Interest revenue	-	-	6,807.88	6,807.88	-	-	18,468.48	18,468.48
Other	-	-	13,314.98	13,314.98	-	-	1,215.00	1,215.00
Total revenues	<u>3,925,584.00</u>	<u>4,400,936.00</u>	<u>3,675,595.23</u>	<u>(725,340.77)</u>	<u>4,118,539.00</u>	<u>4,309,083.00</u>	<u>3,508,887.37</u>	<u>(800,195.63)</u>
Total sources of financial resources	<u>4,389,949.20</u>	<u>4,865,301.20</u>	<u>4,139,960.43</u>	<u>(725,340.77)</u>	<u>4,506,555.89</u>	<u>4,697,099.89</u>	<u>3,896,904.26</u>	<u>(800,195.63)</u>
Expenditures								
Administration	321,459.00	455,008.00	367,965.54	(87,042.46)	300,428.00	338,379.00	306,980.34	(31,398.66)
Child and Family Case Management	1,491,582.00	1,469,210.00	1,461,784.66	(7,425.34)	2,014,932.00	2,014,932.00	1,639,818.53	(375,113.47)
Child and Family Services	889,013.00	1,181,400.00	875,493.42	(305,906.58)	758,740.00	796,640.00	637,547.58	(159,092.42)
DHS Special Needs Program	453,013.00	466,256.00	379,130.69	(87,125.31)	290,399.00	319,488.00	283,503.85	(35,984.15)
TennCare Transportation	295,335.00	295,335.00	193,221.86	(102,113.14)	294,789.00	294,789.00	180,512.80	(114,276.20)
Children's Special Services	114,600.00	92,200.00	56,414.08	(35,785.92)	147,797.00	141,932.00	111,615.39	(30,316.61)
AmeriCorp-SAPP	326,656.00	303,734.00	181,741.81	(121,992.19)	292,452.00	326,438.00	207,153.97	(119,284.03)
AmeriCorp Promise Fellows	111,016.00	103,439.00	82,209.10	(21,229.90)	-	110,689.00	43,154.22	(67,534.78)
School Health Coalition	-	-	-	-	-	60,300.00	22,252.38	(38,047.62)
Community Services	-	177,461.00	99,009.73	(78,451.27)	40,481.00	-	-	-
Total expenditures	<u>4,002,674.00</u>	<u>4,544,043.00</u>	<u>3,696,970.89</u>	<u>(847,072.11)</u>	<u>4,140,018.00</u>	<u>4,403,587.00</u>	<u>3,432,539.06</u>	<u>(971,047.94)</u>
Fund Balance, June 30	<u>\$ 387,275.20</u>	<u>\$ 321,258.20</u>	<u>\$ 442,989.54</u>	<u>\$ 121,731.34</u>	<u>\$ 366,537.89</u>	<u>\$ 293,512.89</u>	<u>\$ 464,365.20</u>	<u>\$ 170,852.31</u>

APPENDIX

UPPER CUMBERLAND COMMUNITY SERVICES AGENCY

Sue Standifer, Executive Director

BOARD OF DIRECTORS

Board Officers and Executive Committee Members

Byron Houston, Chair
Lillian Fox, Vice-Chair
Glennis Bassi, Secretary

Other Members of the Board of Directors

Carolyn Fox
Doyle Gaines
W. Howard Groce
Don Hyder
Cris McCall
Jean McCall
Walteen Parker
Ben Sparkman
Bonnie Stephens
Billie D. Williams