

**Upper Cumberland Community Services Agency
(Formerly Upper Cumberland Community Health Agency)**

**For the Year Ended
June 30, 1996**

Arthur A. Hayes, Jr., CPA
Director

Barbara K. White, CPA
Assistant Director

Kandi B. Thomas, CPA
Audit Manager

Robert L. Harrill, CPA
In-Charge Auditor

Wallace Barber
Scott Price
Staff Auditors

Dianne Mitchell McKay, CPA
Technical Manager

Fawn W. Ellis, CPA
Technical Reviewer

Leslie Bethea
Editor

June 4, 1997

The Honorable Don Sundquist, Governor
and

Members of the General Assembly
State Capitol

Nashville, Tennessee 37243

and

Board of Directors

Upper Cumberland Community Services Agency

Cookeville, Tennessee 38501

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Upper Cumberland Community Services Agency, formerly the Upper Cumberland Community Health Agency, for the year ended June 30, 1996. 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 the internal control structure and tests of compliance resulted in no audit findings.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/sdr
96/144

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, 1996

AUDIT OBJECTIVES

The objectives of the audit were to consider the agency's internal control structure; to determine the fairness of the presentation of the financial statements; to determine compliance with laws, regulations, contracts, and grants; 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 Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Upper Cumberland Community Services Agency
For the Year Ended June 30, 1996

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Upper Cumberland Community Services Agency For the Year Ended June 30, 1996

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

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, legislation known as 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.

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 a 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, 1995, through June 30, 1996, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1996, and for comparative purposes, the year ended June 30, 1995. 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 structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine the fairness of the presentation of the financial statements;
3. to determine compliance with laws, regulations, contracts, and grants; and
4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act of 1984 and Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments," it included tests of compliance with applicable federal laws and regulations and consideration of the internal control structure used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act of 1984 and OMB Circular A-128.

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, formerly the Upper Cumberland Community Health Agency, filed its report with the Department of Audit on July 11, 1996. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the agency has corrected the previous audit finding concerning the agency's inadequate collateralization of deposits.

OBSERVATIONS AND COMMENTS

During the audit period, the Upper Cumberland Community Services Agency entered into a contract with the Department of Health. The contract specified the programs the agency would operate, which included Community Development Program and Children's Special Services Care Coordination Program. The department's participation in these programs, however, was greater than indicated in the contract. The department operated the programs, and the agency served mainly as a fiscal agent.

The Department of Health informed the Community Services Agencies (CSAs) in November 1995 that all existing Community Development Program staff and equipment would be transitioned to the department's regional offices. Filled positions would move to the regional offices as soon as space was available. For vacant positions, the CSAs were responsible for posting the position, and the Department of Health's regional directors would interview and make recommendations to hire. The regional directors would be responsible for supervising all Community Development staff and for operating the program.

For the other program mentioned above, the Department of Health selected the personnel to be hired and set the salary schedules. Those hired under the contract for the program also worked in the counties or regional health office and were supervised by Department of Health employees.

The salaries for all program employees, travel costs, and other program costs were paid by agency checks. The Department of Health reimbursed the agency for costs incurred under the contract. Included in the reimbursement were the agency's administrative costs for serving as a fiscal agent.

The Attorney General has previously advised that contracts of this type are unauthorized. The contracts with the Upper Cumberland Community Services Agency and other agencies serving the Department of Health were also noted in the most recent audit report on the department.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control Structure

As part of the audit of the agency's financial statements for the year ended June 30, 1996, we considered the internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. The report on the internal control structure is on the following pages. Consideration of the internal control structure disclosed no material weaknesses.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the financial statements of the Upper Cumberland Community Services Agency. In our opinion, the statements included in this report present fairly, in all material respects, the agency's financial position as of June 30, 1996, and the results of its operations for the year then ended. The independent auditor's report follows the compliance report.

Compliance with Laws and Regulations

The results of our audit tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards. The compliance report follows the report on the internal control structure.

**Report on the Internal Control Structure
Based on an Audit of the Financial Statements Performed in
Accordance With *Government Auditing Standards***

February 13, 1997

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of the Upper Cumberland Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 1996, and have issued our report thereon dated February 13, 1997.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The agency's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

The Honorable W. R. Snodgrass
February 13, 1997
Page Two

In planning and performing our audit of the agency's financial statements for the year ended June 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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 structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the agency's management in a separate letter

This report is intended for the information of the General Assembly of the State of Tennessee, the board of directors, and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

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

AAH/sdr

**Compliance Report Based on an Audit of the
Financial Statements Performed in Accordance
With *Government Auditing Standards***

February 13, 1997

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of the Upper Cumberland Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 1996, and have issued our report thereon dated February 13, 1997.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the agency is the responsibility of the agency's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards.

We did, however, note certain immaterial instances of noncompliance that we have reported to the agency's management in a separate letter.

The Honorable W. R. Snodgrass
February 13, 1997
Page Two

This report is intended for the information of the General Assembly of the State of Tennessee, the board of directors, and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

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

AAH/sdr

Independent Auditor's Report

February 13, 1997

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying combined balance sheets of the Upper Cumberland Community Services Agency, a component unit of the State of Tennessee, as of June 30, 1996, and June 30, 1995, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended and the statement of changes in assets and liabilities of the agency fund for the year ended June 30, 1996. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Upper Cumberland Community Services Agency as of June 30, 1996, and June 30, 1995, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

The Honorable W. R. Snodgrass
February 13, 1997
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In accordance with generally accepted government auditing standards, we have also issued reports dated February 13, 1997, on our consideration of Upper Cumberland Community Services Agency's internal control structure and on its compliance with laws and regulations.

Sincerely,

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

AAH/sdr

Upper Cumberland Community Services Agency
Notes to the Financial Statements
June 30, 1996, and June 30, 1995

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

In May 1996, the Tennessee General Assembly replaced the community health agency (CHA) with the community services agency (CSA). Although the agency's mission has changed from providing health care services to indigent citizens in the state to coordinating care for children and other citizens in the state, CHA employees, financial assets and obligations, and fund balances now belong to the CSA. The Upper Cumberland CSA works in conjunction with the Tennessee Department of Children's Services to coordinate "funds or programs designated for care of children and other citizens in the state."

Factors considered in determining reporting status were not affected by the above legislation. 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).

B. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). Certain amounts presented for the preceding year have been reclassified for comparative purposes.

C. Fund Structure, Basis of Accounting, and Measurement Focus

The financial records of the Upper Cumberland CSA are maintained on the modified accrual basis of accounting. Under this basis, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred.

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

The general and expendable trust funds are presented using the flow of current financial resources measurement focus. The agency fund is custodial in nature and does not measure results of operations or have a measurement focus.

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

The agency's financial activities reported in the accompanying statements are classified into two fund types and two account groups.

Governmental Fund Type

General Fund—used to account for all resources not accounted for in another fund.

Fiduciary Fund Types

Agency Fund—used to account for *Internal Revenue Code*, Section 457, deferred compensation plan balances.

Expendable Trust Fund—used to account for activities of employee flexible benefit trusts whose principal and income may be used for the purposes of the trust.

Account Groups

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

General Long-Term Obligations Account Group—used to account for capital leases and annual leave obligations. The General Long-Term Obligations Account Group is not a fund, but rather a separate set of self-

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

balancing accounts that provides certain information about the agency's noncurrent liabilities.

D. Totals (Memorandum Only)

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

E. Budgetary Process

Legislation requires the CSA board to submit an annual plan of operation for review and approval to the Commissioners of the Tennessee Departments of Children's Services and Finance and Administration and to the Comptroller of the Treasury. As part of this plan, the CSA is to submit a financial plan for operating and capital expenditures. The agency's 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.

F. Investments

This classification consists of investments in the deferred compensation plan valued at fair value.

G. Prepaid Items

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

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

NOTE 2. DEPOSITS

The agency's bank accounts are in financial institutions which 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.

At June 30, 1996, the carrying amount of the agency's deposits was \$2,013.31, and the bank balance was \$63,045.96. The entire bank balance was insured.

At June 30, 1995, the carrying amount of the agency's deposits was \$1,772.85, and the bank balance was \$58,155.83. The entire bank balance was insured.

At June 30, 1996, and June 30, 1995, the agency had deposits in the Tennessee Local Government Investment pool of \$260,012.31 and \$386,265.69, respectively. The custodial credit risk for cash in the Tennessee Local Government Investment Pool is presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 1996, and June 30, 1995.

At June 30, 1996, and June 30, 1995, petty cash on hand was \$150.00.

NOTE 3. DUE FROM/TO PRIMARY GOVERNMENT

Year Ended June 30, 1996

Due From:	
Department of Health—program funds	\$ 83,682.31
Department of Mental Health-conference	1,370.00
Local Government Group Insurance	<u>146.89</u>
Total due from primary government	<u><u>\$ 85,199.20</u></u>

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

Year Ended June 30, 1996

Due To:	
Department of Children's Services-program funds	\$ 62,589.65
Department of Finance and Administration-Americorp funds	16,882.53
Department of Finance and Administration-Office of Information Resources	4,388.67
Department of Employment Security-unemployment taxes	759.41
Department of the Treasury-retirement contributions	<u>4,864.82</u>
Total due to primary government	<u><u>\$ 89,485.08</u></u>

Year Ended June 30, 1995

Due From:	
Department of Health-program funds	<u>\$ 46,635.20</u>
Total due from primary government	<u><u>\$ 46,635.20</u></u>

Year Ended June 30, 1995

Due To:	
Department of Finance and Administration-program funds	\$ 113,397.23
Department of Finance and Administration-Office of Information Resources	3,524.85
Comptroller of the Treasury-audit fee	38,708.64
Department of Health-Vital Records	55.00
Department of Employment Security-unemployment taxes	788.46
Department of the Treasury-retirement contributions	<u>4,784.68</u>
Total due to primary government	<u><u>\$ 161,258.86</u></u>

NOTE 4. GENERAL FIXED ASSETS

General fixed assets are recorded at cost and are not depreciated. Donations are recorded at fair value at the date of the donation.

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

The following changes in general fixed assets occurred during the year ended June 30, 1996:

	<u>Balance</u> <u>July 1, 1995</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 1996</u>
Furniture and equipment	<u>\$109,464.42</u>	<u>\$19,504.11</u>	<u>\$648.00</u>	<u>\$128,320.53</u>

The following changes in general fixed assets occurred during the year ended June 30, 1995:

	<u>Balance</u> <u>July 1, 1994</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 1995</u>
Furniture and equipment	<u>\$83,206.98</u>	<u>\$26,805.09</u>	<u>\$547.65</u>	<u>\$109,464.42</u>

NOTE 5. GENERAL LONG-TERM OBLIGATIONS

The following changes in general long-term obligations occurred during the year ended June 30, 1996:

	<u>Balance</u> <u>July 1, 1995</u>	<u>Increases</u> <u>(Decreases)</u>	<u>Balance</u> <u>June 30, 1996</u>
Amount to be provided for retirement of general long-term obligations	<u>\$61,565.68</u>	<u>\$(1,479.50)</u>	<u>\$60,086.18</u>
Accrued annual leave	\$36,067.01	\$ 4,971.14	\$41,038.15
Capital lease obligations	<u>25,498.67</u>	<u>(6,450.64)</u>	<u>19,048.03</u>
Total general long-term obligations	<u>\$61,565.68</u>	<u>\$(1,479.50)</u>	<u>\$60,086.18</u>

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

The following changes in general long-term obligations occurred during the year ended June 30, 1995:

	<u>Balance</u> <u>July 1, 1994</u>	<u>Increases</u> <u>(Decreases)</u>	<u>Balance</u> <u>June 30, 1995</u>
Amount to be provided for retirement of general long-term obligations	<u>\$62,210.01</u>	<u>\$ (644.33)</u>	<u>\$61,565.68</u>
Accrued annual leave	\$31,204.95	\$4,862.06	\$36,067.01
Capital lease obligations	<u>31,005.06</u>	<u>(5,506.39)</u>	<u>25,498.67</u>
Total general long-term obligations	<u>\$62,210.01</u>	<u>\$ (644.33)</u>	<u>\$61,565.68</u>

NOTE 6. OPERATING LEASES

The agency leases office space and equipment to carry out its activities and to administer the various grant programs. Total expenditures under operating leases for space and equipment were \$76,961.79 and \$64,561.16 for the year ended June 30, 1996, and were \$75,902.65 and \$59,329.42 for the year ended June 30, 1995. The leases were cancelable at the lessee's option.

In addition, the State of Tennessee has entered into a cancelable lease agreement for equipment on behalf of the agency. The agency reimburses the state for the lease payment each month. Total reimbursement to the state for the operating lease was \$52,589.82 for the year ended June 30, 1996, and was \$55,958.07 for the year ended June 30, 1995. The agency is not obligated to continue making the lease payment should it discontinue use of the equipment.

NOTE 7. CAPITAL LEASES

The agency has certain lease agreements in effect that are considered capital leases. These agreements have beginning and ending dates ranging from March 31, 1993, to May 22, 1999, and imputed interest rates ranging from 12.15% to 19.24%. The fol-

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

lowing 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, 1996:

1996-97	\$ 9,964.80
1997-98	8,724.80
1998-99	<u>4,063.60</u>
 Total minimum lease payments	 22,753.20
 Less amounts representing interest	 <u>3,705.17</u>
 Present value of net minimum lease payments	 <u>\$19,048.03</u>

Capital leases for equipment are reported at \$35,105.00 in the General Fixed Assets Account Group at June 30, 1996.

NOTE 8. DEFINED BENEFIT PENSION PLAN

A. Plan Description

All full-time employees of the agency are members of an agent multiple-employer pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS acts as a common investment and administrative agent for political subdivisions in the state. The agency participates in the TCRS as a political subdivision and is liable for the costs associated with the operation and administration of its plan. The agency's payroll for employees covered by the plan for the year ended June 30, 1996, was \$1,099,410, and total payroll was \$1,155,295. At June 30, 1995, covered payroll was \$1,042,066, and total payroll was \$1,042,066.

The TCRS administers a defined benefit retirement plan covering teachers and general employees of the state, higher education employees, and employees of participating political subdivisions. Membership in the system is mandatory for all participants' full-time employees. The TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Mem-

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

bers may retire at age 60 with five years' service or at any age with 30 years' service. Early retirement with reduced benefits is available to vested members who are at least age 55 or have 25 years of service. Members are vested after five years of service. Disability benefits are available to members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member performed duties. Benefit provisions are established and amended by state statute. Amendments to the TCRS plan are not applicable to a political subdivision unless approved by the political subdivision's governing body.

As authorized by the agency's board of directors, the agency pays the total pension contribution for its employees.

B. Funding Status and Progress

The "pension benefit obligation," which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the agency's pension program as administered by TCRS on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and among employers. The measure is independent of the actuarial funding method used to determine contributions to the system.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1995, and an actuarial update performed as of June 30, 1996. Significant actuarial assumptions used include (a) rate of return on investment of present and future assets of 8 percent a year compounded annually, (b) projected salary increases of 7 percent a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 6 percent annual increase in the Social Security wage base, and (d) projected post-retirement benefit increases of 3 percent of the retiree's initial benefit.

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

Total assets in excess of pension benefit obligation applicable to agency employees was \$317,955 at June 30, 1996, and \$211,501 at June 30, 1995, as follows:

	<u>June 30, 1996</u>	<u>June 30, 1995</u>
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to but not yet receiving benefits	\$135,634	\$125,587
Current employees:		
Accumulated employee contributions including allocated investment earnings	23,876	22,739
Employer-financed vested	84,840	66,851
Employer-financed nonvested	<u>67,926</u>	<u>53,523</u>
Total pension benefit obligation	312,276	268,700
Net assets available for benefits, at cost or amortized cost (market value is \$687,567 at June 30, 1996, and \$521,104 at June 30, 1995)	<u>630,231</u>	<u>480,201</u>
Assets in excess of pension benefit obligation	<u><u>\$317,955</u></u>	<u><u>\$211,501</u></u>

C. Actuarially Determined Contribution Requirements and Contributions Made

It is the policy of the Board of Trustees of TCRS to fund pension benefits by actuarially determined contributions which are intended to provide funding for both the normal cost and the unfunded actuarial accrued liability cost, so sufficient assets will be available to pay benefits when due. The frozen initial liability method, a projected-benefit cost method, is used to value the plan. All unfunded actuarial accrued liabilities are amortized over a 30-year period. The accrued liability for basic benefits and cost-of-living benefits is amortized as a level-dollar amount.

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The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation as described in B above.

The contribution to the TCRS for the year ended June 30, 1996, was made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 1993. The contribution consisted of (a) \$74,210 in normal costs (6.75% of current covered payroll), (b) \$10,884 in amortization of the unfunded actuarial accrued liability (.99% of current covered payroll), and (c) \$1,869 in administrative costs (.17% of current covered payroll). The agency contributed \$86,963 (7.91% of current covered payroll). The actuarial valuation as of June 30, 1993, computed contribution rates effective July 1, 1994, through June 30, 1996. The actuarial valuation as of June 30, 1995, determined the rates for a two-year period beginning July 1, 1996.

Actuarially required contributions for the year ended June 30, 1995, totaled \$82,427 (7.91% of covered payroll). The contribution consisted of (a) \$70,339 in normal costs (6.75% of current covered payroll), (b) \$10,316 in amortization of the unfunded actuarial accrued liability (.99% of current covered payroll), and (c) \$1,772 in administrative costs (.17% of current covered payroll).

D. Trend Information

Three-year historical trend information designed to give an indication of the progress made by the agency in accumulating sufficient assets to pay benefits when due is presented below for fiscal years 1996 and 1995. Information for fiscal year 1994 is not available.

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
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	(1)	(2)	(3)	(4)	(5)	(6)
	Net Assets	Pension	Percentage	Assets in	Annual	Assets
Fiscal	Available	Benefit	Funded	Excess of PBO	Covered	in Excess of
Year	For Benefits	Obligation	(1)÷(2)	(2)-(1)	Payroll	PBO as a
						Percentage of
						Covered Payroll
						(4)÷(5)
1996	\$630,231	\$312,276	201.82%	\$(317,955)	\$1,099,410	(28.92%)
1995	\$480,201	\$268,700	178.71%	\$(211,501)	\$1,042,066	(20.30%)

Showing assets in excess of pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation for analysis purposes. In addition, for the two years ended June 30, 1996, and 1995, the agency's contributions to the TCRS, made in accordance with actuarially determined requirements, were 7.91% of annual covered payroll. Information for fiscal year 1994 is not available. Ten-year historical trend information for the retirement system as a whole may be found in the *Tennessee Consolidated Retirement System Comprehensive Annual Financial Report* for the year ended June 30, 1996.

NOTE 9. DEFERRED COMPENSATION PLAN

The Upper Cumberland Community Services Agency offers its employees a deferred compensation plan in accordance with *Internal Revenue Code*, Section 457. The plan, available to all agency employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or emergency.

Section 457 plan balances have been reported as an agency fund in the financial statements. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights, are (until paid or made available to the employee or other beneficiary) solely the property and rights of the agency (without being restricted to the provisions of benefits under the plan), subject only to claims of the agency's general creditors. Participants' rights under the plan are equal to those of general creditors of the agency in an amount equal to the fair value of the deferred account for each partici-

Upper Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

pant. The agency has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The agency believes it is unlikely that it will use these assets to satisfy the claims of general creditors in the future.

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 \$51,228.03 at June 30, 1996, and \$47,592.79 at June 30, 1995.

NOTE 11. DONATED FACILITIES

The Tennessee Department of Health donates office space, utilities, telephone service, copiers, computer use and computers to the Upper Cumberland Community Services Agency. The value of the donation is not recorded in the financial statements.

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.

- A. The agency carries commercial insurance for risks of loss of its personal property and surety bond coverage for risks of employee dishonesty. In the past three fiscal years, the agency has not had any claims filed with the commercial insurer
- B. The agency participates in the Claims Award Fund, the State of Tennessee's risk pool for risks of loss related to general liability, automobile liability, professional malpractice, and workers' compensation.

The Claims Award Fund is an internal service fund in which the state has set aside assets for claim settlement. This fund services all claims for risk of loss

Upper Cumberland Community Services Agency
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to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the participating agencies based on a percentage of each agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation.

- C. The agency has elected to provide health coverage for its employees through a health plan for eligible local governments and quasi-governmental agencies in Tennessee. The Local Government Group Insurance Fund provides access to affordable health insurance by pooling risk among the groups. The plan provides for greater stability in controlling premium increases and, through a structured managed care program, helps contain health care costs of participating members.

The plan is administered by the State of Tennessee, using a separately established fund. To this fund, premiums of participating units are deposited 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 percent of the total premiums. The employees are responsible for the remaining 20 percent of the total premiums. Claims are administered by Blue Cross and Blue Shield of Tennessee, which is currently under contract to provide these and other services to the state. Insurance premiums are adjusted at the end of the year based on the claims experience of the pool. Individual pool participants are not assessed additional premiums based on individual claims experience.

APPENDIX

UPPER CUMBERLAND COMMUNITY SERVICES AGENCY

Sue Standifer, Executive Director

BOARD OF DIRECTORS

Board Officers

Carolyn Fox, Secretary and Treasurer

Jean McFall, Vice Chair

Gladys Swindle, Chair

Executive Committee Members

Carolyn Fox

Jean McFall

Gladys Swindle

Other Members of the Board of Directors

Glennis Bassi

Jerry Futrell

Louise Gorenflo

W. Howard Groce

Janice Lee

William Martin

Sherry Midgett

Nolan Northcutt

Stephen Officer

Clay Parsons

James L. Smith, D.D.S.