

Mid-Cumberland Community Services Agency

**For the Year Ended
June 30, 1997**

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June 23, 1998

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Mid-Cumberland Community Services Agency
Nashville, Tennessee 37211

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Mid-Cumberland Community Services Agency, formerly the Mid-Cumberland Community Health Agency, for the year ended June 30, 1997. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed a deficiency, which is detailed in the Results of the Audit section of this report. The agency's management has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/th
97/120

State of Tennessee

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

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Mid-Cumberland Community Services Agency
For the Year Ended June 30, 1997

A U D I T O B J E C T I V E S

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, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

C O M P L I A N C E F I N D I N G

The Agency Committed Funds Without Approval

The agency entered into a contract before the Plan of Operation was approved, thus agreeing to perform services before it had the approval to do so (page 7).

O P I N I O N O N T H E F I N A N C I A L S T A T E M E N T S

The opinion on the financial statements is unqualified.

Audit Report
Mid-Cumberland Community Services Agency
For the Year Ended June 30, 1997

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Mid-Cumberland Community Services Agency For the Year Ended June 30, 1997

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Mid-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.

The Mid-Cumberland Community Services Agency comprises the following counties: Cheatham, Dickson, Houston, Humphreys, Montgomery, Robertson, Rutherford, Stewart, Sumner, Trousdale, Williamson, and Wilson. The agency’s administrative offices are in Nashville, Tennessee.

The governing body of the Mid-Cumberland Community Services Agency is the board of directors. As of June 30, 1997, the board was composed of 13 members. (See Appendix.)

An executive committee, consisting of six 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, 1996, through June 30, 1997, and was conducted in accordance with generally accepted auditing standards 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, 1997, and for comparative purposes, the year ended June 30, 1996. The Mid-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 an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; 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, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," it included tests of compliance with applicable federal laws and regulations and consideration of internal control 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, as amended by the Single Audit Act Amendments of 1996, and OMB Circular A-133.

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 Mid-Cumberland Community Services Agency, formerly the Mid-Cumberland Community Health Agency, filed its report with the Department of Audit on October 3, 1997. A follow-up of the prior audit finding 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 compliance with Assessment and Care Coordination Team Guidelines.

OBSERVATIONS AND COMMENTS

During the audit period, the Mid-Cumberland Community Services Agency entered into a contract with the Department of Health, specifying that the agency would operate the Community Development, Community Prevention Initiative, and Children's Special Services Care Coordination programs. The department's participation in the Community Development and Children's Special Services Care Coordination 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. The CSAs were responsible for posting the vacant positions, but the Department of Health's regional directors would interview and make recommendations to hire. The regional directors would also be responsible for supervising all Community Development staff and for operating the program.

For the Children's Special Services Care Coordination program, the Department of Health selected the personnel to be hired and set the salary schedules. Those hired under the contract for this program also worked in the counties or regional health offices 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 these costs, including 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 Mid-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 Over Financial Reporting

As part of the audit of the agency's financial statements for the year ended June 30, 1997, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted auditing standards 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*. An immaterial instance of noncompliance, along with the recommendation and management's response, is included in the finding and recommendation.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the financial statements of the Mid-Cumberland Community Services Agency.

**Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

October 31, 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 Mid-Cumberland Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 1997, and have issued our report thereon dated October 31, 1997. We conducted our audit in accordance with generally accepted auditing standards 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 agency's financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We did, however, note an immaterial instance of noncompliance that we have included in the Finding and Recommendation section of this report. We also noted certain other less significant instances of noncompliance that we have reported to the agency's management in a separate letter.

The Honorable W. R. Snodgrass
October 31, 1997
Page Two

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on 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 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 for the information of the General Assembly of the State of Tennessee 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/th

FINDING AND RECOMMENDATION

The agency committed funds without approval

Finding

The Mid-Cumberland Community Services Agency entered into a fiscal year 1998 contract with the Department of Health before the fiscal year 1998 Plan of Operation was approved. The Plan of Operation is the legal instrument governing the activities of the community services agency [*Tennessee Code Annotated*, Section 37-5-310(a)] and must be approved by the Commissioner of Children's Services, the Commissioner of Finance and Administration, and the Comptroller of the Treasury. Therefore, the agency agreed to perform services and may have committed state and federal funds before it had approval to do so. According to the Community Health Agency Rules and Regulations governing the community services agencies, the agency could have continued operating under the fiscal year 1997 contract with the Department of Health, provided funds were still available.

Recommendation

The Mid-Cumberland Community Services Agency should not enter into contracts until the Plan of Operation has been approved. If the new fiscal year Plan of Operation is not approved on July 1, the agency should continue under the previous year's plan, provided funds are available.

Management's Comment

We concur. We agree that the specified contract with the Department of Health was, in fact, executed prior to the formal approval of the agency's Fiscal Year 1998 Plan of Operations. The agency was informed by the Department of Health that under their policies no funds for continuing program operations could be, or would be, made available to the Agency on or after July 1, 1997, absent the agency's execution of the contract documents on the Department of Health's requested time schedule, which ended prior to the final approval of the Fiscal Year 1998 Plan of Operations. Therefore, the agency executed the contract documents as requested by the Department of Health with a focus on continuing to provide, on an uninterrupted basis, the essential program services provided to the various programs' clientele under this contract. Had we not executed the contract as instructed by the Department of Health, we also would have been placed in the position of having no reasonable choice but to discontinue these program operations, thereby having to place all program staff on unpaid furlough status. Additionally, we had submitted our Plan of Operations timely and were under the impression that it would be approved by July 1, 1997, the date on which the contract in question was signed. At no point did

we intend to circumvent the rules and regulations governing the CSAs. Our only intent was to ensure that essential services for the population served were not interrupted.

Independent Auditor's Report

October 31, 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 Mid-Cumberland Community Services Agency, a component unit of the State of Tennessee, as of June 30, 1997, and June 30, 1996, 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, 1997. 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 auditing standards 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mid-Cumberland Community Services Agency as of June 30, 1997, and June 30, 1996, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

The Honorable W. R. Snodgrass
October 31, 1997
Page Two

As discussed in Note 7 to the financial statements, the agency implemented GASB Statement 27, "Accounting for Pensions by State and Local Government Employers," in conformity with generally accepted accounting principles.

The Schedule of Funding Progress for Mid-Cumberland Community Services Agency is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 1997, on our consideration of Mid-Cumberland Community Services Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

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

AAH/th

MID-CUMBERLAND COMMUNITY SERVICES AGENCY
 COMBINED BALANCE SHEETS
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 1997, AND JUNE 30, 1996

| | June 30, 1997 | | | | | June 30, 1996 | | | | |
|---|---------------------------|------------------------|----------------------------|-------------------------------------|--------------------------------|---------------------------|------------------------|----------------------------|-------------------------------------|--------------------------------|
| | Governmental Fund Type | Fiduciary Fund Type | Account Groups | | Totals (Memorandum Only) | Governmental Fund Type | Fiduciary Fund Type | Account Groups | | Totals (Memorandum Only) |
| | General Fund | Agency Fund | General Fixed Assets | General Long-term Obligations | | General Fund | Agency Fund | General Fixed Assets | General Long-term Obligations | |
| Assets and other debit | | | | | | | | | | |
| Assets: | | | | | | | | | | |
| Cash (Note 2) | \$ 282,826.21 | \$ - | \$ - | \$ - | \$ 282,826.21 | \$ 31,681.89 | \$ - | \$ - | \$ - | \$ 31,681.89 |
| Investments | - | 53,099.65 | - | - | 53,099.65 | - | 31,652.79 | - | - | 31,652.79 |
| Prepaid items | 16,333.04 | - | - | - | 16,333.04 | 9,977.86 | - | - | - | 9,977.86 |
| Accounts receivable | 62,698.56 | - | - | - | 62,698.56 | 50,486.56 | - | - | - | 50,486.56 |
| Due from primary government (Note 3) | 243,936.59 | - | - | - | 243,936.59 | 309,034.87 | - | - | - | 309,034.87 |
| General fixed assets (Note 4): | | | | | | | | | | |
| Furniture and equipment | - | - | 275,963.87 | - | 275,963.87 | - | - | 261,875.08 | - | 261,875.08 |
| Other debit: | | | | | | | | | | |
| Amount to be provided for retirement of general long-term obligations (Note 5) | - | - | - | 115,179.51 | 115,179.51 | - | - | - | 94,940.94 | 94,940.94 |
| Total assets and other debit | \$ 605,794.40 | \$ 53,099.65 | \$ 275,963.87 | \$ 115,179.51 | \$ 1,050,037.43 | \$ 401,181.18 | \$ 31,652.79 | \$ 261,875.08 | \$ 94,940.94 | \$ 789,649.99 |
| Liabilities, other credit, and fund balance | | | | | | | | | | |
| Liabilities: | | | | | | | | | | |
| Accounts payable | \$ 232,179.98 | \$ - | \$ - | \$ - | \$ 232,179.98 | \$ 55,597.48 | \$ - | \$ - | \$ - | \$ 55,597.48 |
| Accrued payroll | 155,719.23 | - | - | - | 155,719.23 | 149,316.24 | - | - | - | 149,316.24 |
| Accrued payroll taxes and benefits | 13,172.17 | - | - | - | 13,172.17 | 15,155.11 | - | - | - | 15,155.11 |
| Accrued annual leave (Note 5) | - | - | - | 115,179.51 | 115,179.51 | - | - | - | 94,940.94 | 94,940.94 |
| Due to primary government (Note 3) | 87,239.27 | - | - | - | 87,239.27 | 55,873.79 | - | - | - | 55,873.79 |
| Amounts held in custody for others | - | 53,099.65 | - | - | 53,099.65 | - | 31,652.79 | - | - | 31,652.79 |
| Total liabilities: | 488,310.65 | 53,099.65 | - | 115,179.51 | 656,589.81 | 275,942.62 | 31,652.79 | - | 94,940.94 | 402,536.35 |
| Other credit: | | | | | | | | | | |
| Investment in general fixed assets (Note 4) | - | - | 275,963.87 | - | 275,963.87 | - | - | 261,875.08 | - | 261,875.08 |
| Fund balance: | | | | | | | | | | |
| Reserved for prepaid items | 16,333.04 | - | - | - | 16,333.04 | 9,977.86 | - | - | - | 9,977.86 |
| Unreserved | 101,150.71 | - | - | - | 101,150.71 | 115,260.70 | - | - | - | 115,260.70 |
| Total other credit and fund balance | 117,483.75 | - | 275,963.87 | - | 393,447.62 | 125,238.56 | - | 261,875.08 | - | 387,113.64 |
| Total liabilities, other credit, and fund balance | \$ 605,794.40 | \$ 53,099.65 | \$ 275,963.87 | \$ 115,179.51 | \$ 1,050,037.43 | \$ 401,181.18 | \$ 31,652.79 | \$ 261,875.08 | \$ 94,940.94 | \$ 789,649.99 |

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

MID-CUMBERLAND COMMUNITY SERVICES AGENCY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEARS ENDED JUNE 30, 1997, AND JUNE 30, 1996

| | General Fund | |
|---|--|--|
| | For the Year Ended June 30, 1997 | For the Year Ended June 30, 1996 |
| <u>Revenues</u> | | |
| State grants and contracts | \$ 4,321,315.53 | \$ 3,896,826.72 |
| Local grants and contracts | - | 4,300.00 |
| Private grants and contracts | 244,442.54 | 252,556.15 |
| TennCare contract services | 212,071.36 | 170,213.72 |
| Interest | 22,191.77 | 23,211.40 |
| Other | 241.60 | 187.66 |
| Total revenues | <u>4,800,262.80</u> | <u>4,347,295.65</u> |
| <u>Expenditures</u> | | |
| Salaries and wages | 2,626,499.17 | 2,500,165.80 |
| Fringe benefits | 604,208.99 | 650,224.23 |
| Professional services | 450,207.17 | 330,785.08 |
| Supplies | 86,125.74 | 72,023.45 |
| Telephone | 118,118.58 | 110,907.14 |
| Postage | 24,775.15 | 24,688.61 |
| Occupancy | 279,555.06 | 250,167.59 |
| Equipment rental and maintenance | 171,841.03 | 170,254.65 |
| Printing and subscriptions | 14,941.10 | 27,571.81 |
| Travel/conferences | 170,660.33 | 180,158.60 |
| Insurance other than furnishings | 8,898.77 | 6,846.51 |
| Grants and subsidies | 213,238.94 | 495.60 |
| Specific assistance to individuals | 18,794.29 | 106.94 |
| Other nonpersonnel expenses | 6,064.50 | 3,642.38 |
| Furniture and equipment (Note 4) | 14,088.79 | 20,671.73 |
| Total expenditures | <u>4,808,017.61</u> | <u>4,348,710.12</u> |
| Deficiency of revenues under expenditures | (7,754.81) | (1,414.47) |
| Fund balance, July 1 | <u>125,238.56</u> | <u>126,653.03</u> |
| Fund balance, June 30 | <u>\$ 117,483.75</u> | <u>\$ 125,238.56</u> |

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

MID-CUMBERLAND COMMUNITY SERVICES AGENCY
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED JUNE 30, 1997

| | <u>Balance</u> <u>July 1, 1996</u> | <u>Additions</u> | <u>Balance</u> <u>June 30, 1997</u> |
|------------------------------------|---------------------------------------|---------------------|--|
| <u>Assets</u> | | | |
| Investments | \$ <u>31,652.79</u> | \$ <u>21,446.86</u> | \$ <u>53,099.65</u> |
| <u>Liabilities</u> | | | |
| Amounts held in custody for others | \$ <u>31,652.79</u> | \$ <u>21,446.86</u> | \$ <u>53,099.65</u> |

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

Mid-Cumberland Community Services Agency
Notes to the Financial Statements
June 30, 1997, and June 30, 1996

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 Mid-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 Mid-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 Mid-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.

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

The general fund is 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 is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental fund not recorded directly in that fund.

The agency's financial activities reported in the accompanying statements are classified into 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 Type

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

Account Groups

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

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

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

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.

NOTE 2. DEPOSITS

The 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

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

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, 1997, the carrying amount of the agency's deposits was \$10,940.54, and the bank balance was \$49,992.55. The entire bank balance was insured.

At June 30, 1996, the carrying amount of the agency's deposits was \$8,025.43, and the bank balance was \$203,173.28. The entire bank balance was insured.

At June 30, 1997, and June 30, 1996, the agency had deposits in the State of Tennessee Local Government Investment Pool administered by the State Treasurer of \$271,635.67 and \$23,406.46, respectively.

At June 30, 1997, and June 30, 1996, petty cash on hand was \$250.

NOTE 3. DUE FROM/TO PRIMARY GOVERNMENT

June 30, 1997

| | |
|---|----------------------------|
| Due From: | |
| Department of Health—program funds | \$206,734.35 |
| Department of Children's Services—program funds | 32,271.00 |
| Commission on Aging—program funds | 3,190.06 |
| Local Government Group Insurance | <u>1,741.18</u> |
| | |
| Total due from primary government | <u><u>\$243,936.59</u></u> |
| | |
| Due To: | |
| Department of the Treasury—retirement contributions | \$ 19,531.59 |
| Department of Employment Security—unemployment taxes | 1,866.21 |
| Comptroller of the Treasury—audit fees | 23,641.54 |
| Department of Finance and Administration— Office for Information Resources | 42,069.93 |
| Department of Health—Vital records | <u>130.00</u> |
| | |
| Total due to primary government | <u><u>\$ 87,239.27</u></u> |

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

June 30, 1996

| | |
|---|---------------------|
| Due From: | |
| Department of Health—program funds | \$112,676.92 |
| Department of Children’s Services—program funds | 152,508.52 |
| Commission on Aging—program funds | 39,765.44 |
| Commission on Children and Youth—program funds | 1,197.60 |
| Local Government Group Insurance | <u>2,886.39</u> |
| | |
| Total due from primary government | <u>\$309,034.87</u> |
| | |
| Due To: | |
| Department of the Treasury—retirement contributions | \$ 23,223.30 |
| Department of Employment Security—unemployment taxes | 149.13 |
| Department of Finance and Administration— Office for Information Resources | 32,376.36 |
| Department of Health—Vital records | <u>125.00</u> |
| | |
| Total due from primary government | <u>\$ 55,873.79</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.

The following changes in general fixed assets occurred during the year ended June 30, 1997:

| | Balance <u>July 1, 1996</u> | Additions | Deletions | Balance <u>June 30, 1997</u> |
|----------------------------|--------------------------------|--------------------|-------------|---------------------------------|
| Furniture and equipment | <u>\$261,875.08</u> | <u>\$14,088.79</u> | <u>\$ -</u> | <u>\$275,963.87</u> |

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

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and 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>\$241,203.35</u> | <u>\$20,671.73</u> | <u>\$ -</u> | <u>\$261,875.08</u> |

NOTE 5. GENERAL LONG-TERM OBLIGATIONS

The following changes in general long-term obligations occurred during the year ended June 30, 1997:

| | <u>Balance</u> <u>July 1, 1996</u> | <u>Increases</u> | <u>Balance</u> <u>June 30, 1997</u> |
|--|---------------------------------------|--------------------|--|
| Amount to be provided for retirement of general long- term obligations | <u>\$94,940.94</u> | <u>\$20,238.57</u> | <u>\$115,179.51</u> |
| Accrued annual leave | <u>\$94,940.94</u> | <u>\$20,238.57</u> | <u>\$115,179.51</u> |

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>Balance</u> <u>June 30, 1996</u> |
|--|---------------------------------------|--------------------|--|
| Amount to be provided for retirement of general long- term obligations | <u>\$79,360.58</u> | <u>\$15,580.36</u> | <u>\$94,940.94</u> |
| Accrued annual leave | <u>\$79,360.58</u> | <u>\$15,580.36</u> | <u>\$94,940.94</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 \$253,381.96 and \$166,103.71 for the year ended June 30,

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

1997, and were \$238,608.32 and \$146,911.52 for the year ended June 30, 1996. All leases for space, except for the Gallatin office and the Murfreesboro office, were non-cancelable. All leases for the computer equipment leased from the State of Tennessee were noncancelable.

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, 1997:

| Year Ending <u>June 30</u> | |
|---------------------------------|----------------------------|
| 1998 | \$210,374.60 |
| 1999 | 66,099.61 |
| 2000 | 11,156.14 |
| 2001 | <u>334.13</u> |
| Total minimum payments required | <u><u>\$287,964.48</u></u> |

NOTE 7. DEFINED BENEFIT PENSION PLAN

During the June 30, 1997, fiscal year, the agency implemented GASB Statement 27, "Accounting for Pensions by State and Local Government Employers." In accordance with that statement, at transition it was determined that a pension liability or asset does not exist for the plan.

A. Plan Description

All full-time employees are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The TCRS administers a defined benefit pension plan that provides retirement, disability, and death benefits as well as annual cost-of-living adjustments to plan members and beneficiaries. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of 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.

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230, or by calling 615-741-8202, ext. 139.

B. Funding Policy

As authorized by the agency's board of directors, the agency pays the total pension contribution for its employees. A small number of employees whose contribution rate was greater than 5% prior to the adoption of a noncontributory system still contribute the excess over 5%. The agency is required to contribute an actuarially determined rate; the current rate is 5.99% of annual covered payroll. The agency contributed \$145,675.63 (5.99% of current covered payroll) for the fiscal year ended June 30, 1997. The contribution requirements of plan members are set by state statutes and approved by the political subdivision's governing body. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees.

C. Annual Pension Cost

The agency's annual pension cost of \$145,675.63 for fiscal year 1997 met the agency's required contribution.

The required contribution was determined as part of the June 30, 1995, actuarial valuation using the frozen initial liability actuarial cost method, a projected-benefit cost method. Significant actuarial assumptions used include (a) rate of return on investment of present and future assets of 8% a year compounded annually, (b) projected salary increases of 7% a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 6% annual increase in the social security wage base, and (d) projected post-retirement benefit increases of 3% of the retiree's initial benefit. The actuarial value of the agency's assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period. Amortized book value is used for fixed-income securities. The agency's unfunded actuarial accrued liability is being amortized as a level-dollar amount of projected payroll on a

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

closed basis. The remaining amortization period at June 30, 1995, was 23 years.

Three-Year Trend Information

| <u>Fiscal Year</u> <u>Ended</u> | <u>Annual Pension</u> <u>Cost (APC)</u> | <u>Percentage of APC</u> <u>Contributed</u> | <u>Net Pension</u> <u>Obligation</u> |
|------------------------------------|--|--|---|
| June 30, 1997 | \$145,675.63 | 100% | \$ - |

Information is shown only for the years available. Additional years will be shown as they become available.

NOTE 8. DEFERRED COMPENSATION PLAN

The Mid-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 participant. 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 9. 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

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

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 \$127,746.61 at June 30, 1997, and \$110,539.55 at June 30, 1996.

NOTE 10. DONATED FACILITIES

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

NOTE 11. 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, surety bond coverage for risks of employee dishonesty, and professional liability coverage for board members and directors. In the past three fiscal years, the agency has not had any claims filed with the commercial insurer.
- B. The agency participates in the State of Tennessee's Claims Award Fund. 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 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

Mid-Cumberland Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

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. Employees have the option of obtaining insurance through either Blue Cross Blue Shield of Tennessee or Prudential Health Care of Nashville. Claims are administered by these companies, which are currently under contract to provide these and other services to the state. Insurance premiums are adjusted at the end of the year based on the claims experience of the pool. Individual pool participants are not assessed additional premiums based on individual claims experience. Employees and providers have 13 months to file medical claims with Blue Cross Blue Shield of Tennessee and three months with Prudential Health Care.

NOTE 12. RELATED-PARTY TRANSACTIONS

The following related-party transactions occurred during the years ended June 30, 1997, and June 30, 1996:

One of the members of the board of directors had an indirect relationship with a transportation services provider used by the agency. The amount paid to the transportation services provider was less than \$5,000 for the period July 1, 1995, through June 30, 1997.

In addition, the following related-party transactions occurred during the year ended June 30, 1996:

One of the members of the board of directors was employed by Omni Vision, Inc., a subcontractor of the agency. The agency's contract with Omni Vision was for \$30,000.

**Mid-Cumberland Community Services Agency
Required Supplementary Information
Schedule of Funding Progress for
Mid-Cumberland Community Services Agency**

| 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) |
|--------------------------------|---|---|---|--------------------------|---------------------------|---|
| 6/30/97 | \$1,354,095 | 1,354,095 | \$ - | 100% | \$2,431,980 | 0% |

Information is shown only for the year available. Additional years will be shown as they become available.

Changes in Actuarial Assumptions

An actuarial valuation was performed as of June 30, 1997, which established subsequent contribution rates. As a result of the June 30, 1996, experience study, significant actuarial assumptions used in the valuation included (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 5.5% a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 4.5% annual increase in the social security wage base, and (d) projected post-retirement increases of 3% annually of the retiree's initial benefit. The actuarial assumptions set forth in (a), (b), and (c) above for the June 30, 1997, valuation differ from the assumptions used in the June 30, 1995, valuation. The June 30, 1997, actuarial valuation also utilized a different methodology for the actuarial value of assets. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period.

APPENDIX

MID-CUMBERLAND COMMUNITY SERVICES AGENCY

Beverly G. Bass, Executive Director

BOARD OF DIRECTORS

Board Officers

John W. Darden - Chair
Theodore White, Jr. - Vice Chair
Wanda Collins - Secretary
Julie C. Mills - Treasurer

Executive Committee Members

John W. Darden
Theodore White, Jr.
Wanda Collins
Julie C. Mills
Janet Tabor
Terri Parks

Other Members of the Board of Directors

Barbara Swader
Mary Todd-Linville
Carol Fayette
David Asbury
Debra Byrd
Brenda Hyden
Tim Florence