

**Knox County Community Services Agency**

**For the Year Ended  
June 30, 1998**

**Arthur A. Hayes, Jr., CPA**  
Director

**Barbara K. White, CPA**  
Assistant Director

**Kandi B. Thomas, CPA**  
Audit Manager

**Robert Harrill, CPA**  
In-Charge Auditor

**Kelli Longmire**  
Staff Auditor

**Erica V. Smith, CPA**  
Technical Analyst

**Jane Russ**  
Editor

April 5, 1999

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee  
and  
Board of Directors  
Knox County Community Services Agency  
Knoxville, Tennessee 37917

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Knox County Community Services Agency, for the year ended June 30, 1998. 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 certain deficiencies, which are detailed in the Results of the Audit section of this report. The agency's management has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/sdr  
98/107

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Knox County Community Services Agency**  
For the Year Ended June 30, 1998

---

## AUDIT OBJECTIVES

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

## INTERNAL CONTROL FINDINGS

### **Financial Responsibilities Not Segregated\***

One employee performed all cash-receipting, purchasing, disbursing, and recordkeeping duties (page 7).

### **Proper Budgetary Procedures Not Followed**

The agency incurred expenditures before contract budgets were amended (page 8).

\* This finding is repeated from the prior audit.

## 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**  
**Knox County Community Services Agency**  
**For the Year Ended June 30, 1998**

---

**TABLE OF CONTENTS**

---

	<u>Exhibit</u>	<u>Schedule</u>	<u>Page</u>
<b>INTRODUCTION</b>			1
Post-Audit Authority			1
Background			1
<b>AUDIT SCOPE</b>			2
<b>OBJECTIVES OF THE AUDIT</b>			2
<b>PRIOR AUDIT FINDINGS</b>			2
Resolved Audit Finding			3
Repeated Audit Finding			3
<b>OBSERVATION AND COMMENTS</b>			3
<b>RESULTS OF THE AUDIT</b>			4
Audit Conclusions			4
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>			5
Findings and Recommendations			
Finding 1 - Financial responsibilities were not segregated			7
Finding 2 - Proper budgetary procedures were not followed			8
<b>FINANCIAL STATEMENTS</b>			
Independent Auditor's Report			10
Combined Balance Sheets	A		12

---

**TABLE OF CONTENTS (CONT.)**

---

	<u>Exhibit</u>	<u>Schedule</u>	<u>Page</u>
Statements of Revenues, Expenditures, and Changes in Fund Balances	B		13
Statement of Changes in Assets and Liabilities–Agency Fund	C		14
Notes to the Financial Statements			15
 <b>REQUIRED SUPPLEMENTARY INFORMATION</b>			
Schedule of Funding Progress for Knox County Community Services Agency			25
 <b>APPENDIX</b>			
Board of Directors			26

# **Knox County Community Services Agency For the Year Ended June 30, 1998**

---

## **INTRODUCTION**

---

### **POST-AUDIT AUTHORITY**

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

### **BACKGROUND**

Tennessee’s 12 community health agencies were created by Chapter 567 of the Public Acts of 1989, known as the Community Health Agency Act of 1989. This legislation established a defined system of health services to make health care available to the indigent citizens of Tennessee. The community health agencies determined areas of need in their geographic areas and ensured that services were available to meet those needs.

In May 1996, the Community Services Agency Act of 1996 replaced the community health agencies with the community services agencies. The purpose of these agencies is to coordinate funds and programs designated for care of children and other citizens in the state.

The Knox County Community Services Agency’s administrative offices are in Knoxville, Tennessee.

The governing body of the Knox County Community Services Agency is the board of directors. As of June 30, 1998, the board was composed of 13 members. (See Appendix.) An executive committee, consisting of five board members, has the authority to act on behalf of the board of directors in the management of the agency’s property, affairs, and funds in extraordinary circumstances when the governing board cannot convene.

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

---

## AUDIT SCOPE

---

The audit was limited to the period July 1, 1997, through June 30, 1998, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1998, and for comparative purposes, the year ended June 30, 1997. The Knox County Community Services Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

---

## OBJECTIVES OF THE AUDIT

---

The objectives of the audit were

1. to consider the agency's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, 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.**

---

## 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 Knox County Community Services Agency filed

its report with the Department of Audit on September 28, 1998. 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 substantially corrected the previous audit finding concerning the following of proper financial procedures.

### **REPEATED AUDIT FINDING**

The prior audit report contained a finding concerning not properly segregating financial duties. This finding has not been resolved and is repeated in this report.

---

## **OBSERVATIONS AND COMMENTS**

---

During the audit period, the Knox County Community Services Agency entered into a contract with the Department of Children's Services, specifying that the CSA would assist in implementing and/or operating various state programs. However, the department's participation in this contract was greater than indicated in the contract. Through this contract, state officials directly supervised CSA employees. And although these CSA employees' salaries, travel costs, and other program costs were paid by the CSA, the Department of Children's Services reimbursed the CSA for these costs, including the CSA's administrative costs for serving as a fiscal agent. These contracts appear to create "employer-employee" relationships between the department and these individuals.

Programs under the supervision of the Department of Children's Services included Child Protective Service, Adoption Assistance, Foster Care, Juvenile Justice Services, and Family Crisis Intervention. The CSA organizational chart at the Department of Children's Services shows that CSA employees reported to Department of Children's Services supervisors.

The practice of allowing employees of non-state entities such as the community services agencies to report directly to officials or employees of the Department of Children's Services in carrying out what can be construed as state programs raises policy and legal issues. We do not believe these situations should be accepted as a matter of policy. Additionally, it is unclear whether *Tennessee Code Annotated*, Section 37-5-315(2), completely insulates the state from legal liability. The code states, "This part shall not be construed as creating an employer-employee relationship between the department, the community services agencies or their contractors. . . ." This legal concern arises from a review of the factors commonly used in determining the existence of an employer-employee relationship. These factors include, most

importantly, an entity's or individual's right to hire or fire and the right to control the performance of a job or work.

In addition, the state apparently has incurred additional cost by contracting with non-state entities to operate programs. Over the years, the CSAs have operated programs for various departments of the state. In addition to direct program costs, the CSAs have received funding from each state department to defray the costs of administration. These costs included the salaries and benefits of the executive director and fiscal officer and costs of travel, supplies, and equipment used by the administrative staff.

The most recent audit on the Department of Children's Services includes an audit finding on this inappropriate contract with the Knox County Community Services Agency and other CSAs serving 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, 1998, 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 government auditing standards. Reportable conditions, along with recommendations and management's responses, are detailed in the findings and recommendations. Consideration of internal control over financial reporting disclosed no material weaknesses.

#### Compliance

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

#### Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the financial statements of the Knox County 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 20, 1998

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 Knox County Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 1998, and have issued our report thereon dated October 20, 1998. We conducted our audit in accordance with generally accepted government auditing standards.

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 certain other less significant instances of noncompliance that we have reported to the agency's management in a separate letter.

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

The Honorable W. R. Snodgrass  
October 20, 1998  
Page Two

our opinion on the financial statements and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention related to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable conditions were noted:

- Financial duties were not segregated.
- Proper budgetary procedures were not followed.

These conditions are described in the Findings and Recommendations section of this report.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses.

We also noted other matters involving the internal control over financial reporting that we have reported to the agency's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

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

AAH/sdr

## **FINDINGS AND RECOMMENDATIONS**

### **1. Financial duties were not segregated**

#### **Finding**

As noted in the prior audit, the Knox County Community Services Agency did not segregate cash-receipting, purchasing, disbursing, and recordkeeping duties. The office manager had the following responsibilities:

- Processed time sheets, prepared payroll registers, received and distributed the payroll checks that were not direct deposited, and maintained personnel files.
- Received cash and checks and prepared the deposit.
- Performed the agency's purchasing, fixed asset recordkeeping, and receiving functions, and performed the annual inventory of fixed assets.

Since all these responsibilities were handled by one person, errors or irregularities may have occurred and gone undetected. Management concurred with the prior finding and stated that duties would be segregated. However, because of a small staff, management could not segregate these functions until July 1, 1998.

#### **Recommendation**

The executive director and accountant at Knox County Community Services Agency should review the duties assigned to each employee and design an appropriate control structure. The responsibilities for processing and preparing payroll register should be separate from personnel responsibilities. Also, the receipting of cash and checks should be separate from preparing bank deposits. Duties involving the purchasing, recordkeeping, and receiving of goods and services should also be separated. In addition, adequate management review over these areas should be instituted.

#### **Management's Comment**

We concur. The chief fiscal officer will be responsible for processing, preparing and verifying payroll registers, preparing the bank deposit, and recordkeeping. The office manager will be responsible for auditing the time sheets and other personnel and purchasing duties. The receipting of cash and checks and the receiving of goods and services will be handled by an administrative specialist. The executive director will be responsible for adequate management review.

## **2. Proper budgetary procedures were not followed**

### **Finding**

The Knox County Community Services Agency did not prudently manage its budgetary activities. Because it did not follow proper accounting procedures, the agency exceeded the Emergency Residential budget that was approved in the Plan of Operation.

The chief fiscal officer did not adequately monitor the program budget to ensure enough funds were available for Emergency Residential program expenditures, and ultimately used other program funds to cover the Emergency Residential expenditures. At year-end, the approved budget for Emergency Residential was \$38,529, but expenditures totaled \$121,838.25. Although the agency's board of directors had approved amendments to the Plan of Operation (budget) to accommodate the additional expenditures, the amendments were not immediately forwarded to the appropriate agencies (Department of Children's Services, Comptroller of the Treasury) for approval. In essence, expenditures were incurred before all parties approved the related budgetary changes.

### **Recommendation**

The chief fiscal officer should monitor contract budgets to ensure compliance with budgetary restrictions. Additionally, changes to the Plan of Operation should be forwarded to the appropriate approval agencies in a timely manner. Expenditures in excess of approved budgets should not be incurred before all required approvals of budget amendments are obtained.

### **Management's Comment**

#### **Knox County Community Services Agency:**

We concur. The Knox County Community Services Agency has restructured internally to ensure compliance with budgetary restrictions. The accounting reports provided by the Knox County Finance Department were reviewed thoroughly each month by the chief fiscal officer. As of September 1998, all accounting reports were produced in house. The Emergency Residential Coordinator is closely monitoring program budgets to ensure enough funds are available for program expenditures. A report for each program budget is presented to the Board of Directors monthly. All Plan of Operation changes approved by Board of Directors have been submitted to the Department of Children's Services within one week of the approval.

#### **Department of Children's Services:**

We concur. The Executive Director and the Fiscal Director of the Knox County CSA during the period related to this finding had no prior experience with the operational requirements of a community services agency. The lack of this experience and the lack of an adequate accounting system contributed to the delays in the submittal of required amendments. The Fiscal

Director has been replaced and a new accounting system has been purchased and installed. It is anticipated that all required budget amendments will be submitted in a timely manner for future periods.

## **Independent Auditor's Report**

October 20, 1998

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 Knox County Community Services Agency, a component unit of the State of Tennessee, as of June 30, 1998, and June 30, 1997, 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, 1998. 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 Knox County Community Services Agency as of June 30, 1998, and June 30, 1997, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

The Honorable W. R. Snodgrass  
October 20, 1998  
Page Two

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 1998, on our consideration of Knox County Community Services Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

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

AAH/sdr

KNOX COUNTY COMMUNITY SERVICES AGENCY  
COMBINED BALANCE SHEETS  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 1998, AND JUNE 30, 1997

	June 30, 1998					June 30, 1997				
	Governmental Fund Type	Fiduciary Fund Type	Account Groups		Totals	Governmental Fund Type	Fiduciary Fund Type	Account Groups		Totals
	General Fund	Agency Fund	General Fixed Assets	General Long-Term Obligations	(Memorandum Only)	General Fund	Agency Fund	General Fixed Assets	General Long-Term Obligations	(Memorandum Only)
<b>Assets and other debit</b>										
Assets:										
Cash (Note 2)	\$ 289,101.86	\$ -	\$ -	\$ -	\$ 289,101.86	\$ 126,370.48	\$ -	\$ -	\$ -	\$ 126,370.48
Cash with Knox County Trustee (Note 2)	-	-	-	-	-	22,328.97	-	-	-	22,328.97
Investments	-	50,356.97	-	-	50,356.97	-	37,758.97	-	-	37,758.97
Prepaid items	502.56	-	-	-	502.56	3,000.00	-	-	-	3,000.00
Accounts receivable	3,769.30	-	-	-	3,769.30	3,331.53	-	-	-	3,331.53
Due from primary government (Note 3)	153,979.24	-	-	-	153,979.24	170,353.88	-	-	-	170,353.88
General fixed assets (Note 4)										
Furniture and equipment	-	-	38,047.18	-	38,047.18	-	-	36,884.06	-	36,884.06
Other debit:										
Amount to be provided for retirement of general long-term obligations (Note 5)	-	-	-	37,719.43	37,719.43	-	-	-	27,183.36	27,183.36
Total assets and other debit(s)	\$ <u>447,352.96</u>	\$ <u>50,356.97</u>	\$ <u>38,047.18</u>	\$ <u>37,719.43</u>	\$ <u>573,476.54</u>	\$ <u>325,384.86</u>	\$ <u>37,758.97</u>	\$ <u>36,884.06</u>	\$ <u>27,183.36</u>	\$ <u>427,211.25</u>
<b>Liabilities, other credit, and fund balance</b>										
Liabilities:										
Accounts payable	\$ 30,341.62	\$ -	\$ -	\$ -	\$ 30,341.62	\$ 21,232.39	\$ -	\$ -	\$ -	\$ 21,232.39
Checks payable	157,638.60	-	-	-	157,638.60	-	-	-	-	-
Accrued payroll	26,533.24	-	-	-	26,533.24	15,495.13	-	-	-	15,495.13
Accrued payroll taxes and benefits	1,984.54	-	-	-	1,984.54	1,155.07	-	-	-	1,155.07
Accrued annual leave	-	-	-	37,719.43	37,719.43	-	-	-	27,183.36	27,183.36
Due to primary government (Note 3)	183,276.90	-	-	-	183,276.90	162,176.20	-	-	-	162,176.20
Due to local government	9,581.40	-	-	-	9,581.40	29,647.45	-	-	-	29,647.45
Amounts held in custody of others	-	50,356.97	-	-	50,356.97	-	37,758.97	-	-	37,758.97
Total liabilities	<u>409,356.30</u>	<u>50,356.97</u>	<u>-</u>	<u>37,719.43</u>	<u>497,432.70</u>	<u>229,706.24</u>	<u>37,758.97</u>	<u>-</u>	<u>27,183.36</u>	<u>294,648.57</u>
Other credit:										
Investment in general fixed assets (Note 4)	-	-	38,047.18	-	38,047.18	-	-	36,884.06	-	36,884.06
Fund balance:										
Reserved for prepaid items	502.56	-	-	-	502.56	3,000.00	-	-	-	3,000.00
Unreserved	37,494.10	-	-	-	37,494.10	92,678.62	-	-	-	92,678.62
Total other credit and fund balance	<u>37,996.66</u>	<u>-</u>	<u>38,047.18</u>	<u>-</u>	<u>76,043.84</u>	<u>95,678.62</u>	<u>-</u>	<u>36,884.06</u>	<u>-</u>	<u>132,562.68</u>
Total liabilities, other credit, and fund balance	\$ <u>447,352.96</u>	\$ <u>50,356.97</u>	\$ <u>38,047.18</u>	\$ <u>37,719.43</u>	\$ <u>573,476.54</u>	\$ <u>325,384.86</u>	\$ <u>37,758.97</u>	\$ <u>36,884.06</u>	\$ <u>27,183.36</u>	\$ <u>427,211.25</u>

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

KNOX COUNTY COMMUNITY SERVICES AGENCY  
 STATEMENTS OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 FOR THE YEARS ENDED JUNE 30, 1998, AND JUNE 30, 1997

	General Fund	
	For the Year Ended June 30, 1998	For the Year Ended June 30, 1997
<u>Revenues</u>		
State grants and contracts	\$ 1,653,974.22	\$ 1,601,893.40
Interest	12,211.63	4,167.47
Total revenues	<u>1,666,185.85</u>	<u>1,606,060.87</u>
<u>Expenditures</u>		
Salaries and wages	858,348.65	710,008.85
Fringe benefits	239,815.70	216,790.81
Professional services	393,350.21	379,897.08
Travel	44,358.10	22,442.40
Supplies	14,095.43	12,501.16
Printing and publications	963.12	1,133.56
Communications	77,368.89	76,537.98
Occupancy	88,054.87	92,816.27
Furniture and equipment (Note 4)	1,163.12	14,998.00
Equipment rental and maintenance	6,349.72	5,096.04
Total expenditures	<u>1,723,867.81</u>	<u>1,532,222.15</u>
Excess (deficit) of revenues over (under) expenditures	<u>(57,681.96)</u>	<u>73,838.72</u>
Fund balance, July 1	<u>95,678.62</u>	<u>21,839.90</u>
Fund balance, June 30	<u>\$ 37,996.66</u>	<u>\$ 95,678.62</u>

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

KNOX COUNTY COMMUNITY SERVICES AGENCY  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUND  
FOR THE YEAR ENDED JUNE 30, 1998

---

	<u>Balance</u> <u>July 1, 1997</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 1998</u>
<u>Assets</u>				
Investments	\$ <u>37,758.97</u>	\$ <u>13,774.47</u>	\$ <u>1,176.47</u>	\$ <u>50,356.97</u>
<u>Liabilities</u>				
Amount held in custody for others	\$ <u>37,758.97</u>	\$ <u>13,774.47</u>	\$ <u>1,176.47</u>	\$ <u>50,356.97</u>

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

**Knox County Community Services Agency**  
**Notes to the Financial Statements**  
**June 30, 1998, and June 30, 1997**

---

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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 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 Knox County CSA works in conjunction with the Tennessee Department of Children's Services and the Knox County government to coordinate "funds or programs designated for care of children and other citizens in the state."

The legislation did not affect factors considered in determining reporting status. Title 37, Chapter 5 of *Tennessee Code Annotated* established the CSA as "a political subdivision and instrumentality of the state." The Knox County Community Services Agency is a component unit of the State of Tennessee and is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. Although the CSA is a separate legal entity, the CSA is financially accountable to the state because the state approves the CSA's Plan of Operation (budget).

**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.

**Fund Structure, Basis of Accounting, and Measurement Focus**

The financial records of the Knox County 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.

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

**Knox County Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

---

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.

**Totals (Memorandum Only)**

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

**Budgetary Process**

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

**Knox County Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

---

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.

**Investments**

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

**Prepaid Items**

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

**Checks Payable**

This amount represents the sum of checks written for the agency by the Knox County Finance Department. The agency will reimburse the Knox County Finance Department for the amount of checks payable.

**NOTE 2. DEPOSITS**

At June 30, 1998, and 1997, the carrying amounts of funds held in the Local Government Investment Pool (LGIP) were \$289,101.86 and \$126,070.48, respectively. Custodial credit risk for cash in LGIP is presented in the Tennessee Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 1998, and June 30, 1997.

At June 30, 1997, the carrying amount of funds held in trust by the Knox County Trustee was \$22,328.97. The Knox County Trustee's custodial risk is presented in the Knox County CAFR. The June 30, 1997, Knox County CAFR includes both category 1 and category 2 collateral.

At June 30, 1997, petty cash on hand was \$300.00.

**Knox County Community Services Agency  
Notes to the Financial Statements (Cont.)  
June 30, 1998, and June 30, 1997**

---

**NOTE 3. DUE FROM/TO PRIMARY GOVERNMENT**

June 30, 1998

Due From:	
Department of Children's Services—program funds	<u>\$ 153,979.24</u>
Total due from primary government	<u>\$ 153,979.24</u>
Due To:	
Department of Children's Services—program funds	\$ 91,168.75
Department of Children's Services—leased equipment	51,490.75
Comptroller of the Treasury—audit fees	26,184.97
Local Government Group Insurance	11,832.55
Department of Finance and Administration— Office for Information Resources	<u>2,599.88</u>
Total due to primary government	<u>\$ 183,276.90</u>

June 30, 1997

Due From:	
Department of Children's Services—program funds	<u>\$ 170,353.88</u>
Total due from primary government	<u>\$ 170,353.88</u>
Due To:	
Department of Children's Services—program funds	\$ 135,652.83
Department of Employment Security—unemployment taxes	735.99
Comptroller of the Treasury—audit fees	21,775.36
Department of Finance and Administration— Office for Information Resources	<u>4,012.02</u>
Total due to primary government	<u>\$ 162,176.20</u>

**Knox County Community Services Agency  
Notes to the Financial Statements (Cont.)  
June 30, 1998, and June 30, 1997**

---

**NOTE 4. GENERAL FIXED ASSETS**

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

The following changes in general fixed assets occurred during the year ended June 30, 1998:

	<u>Balance July 1, 1997</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 1998</u>
Furniture and equipment	<u>\$36,884.06</u>	<u>\$1,163.12</u>	<u>\$ -</u>	<u>\$ 38,047.18</u>

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

	<u>Balance July 1, 1996</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 1997</u>
Furniture and equipment	<u>\$21,886.06</u>	<u>\$14,998.00</u>	<u>\$ -</u>	<u>\$36,884.06</u>

**NOTE 5. GENERAL LONG-TERM OBLIGATIONS**

The following changes in general long-term obligations occurred during the year ended June 30, 1998:

	<u>Balance July 1, 1997</u>	<u>Increases (Decreases)</u>	<u>Balance June 30, 1998</u>
Amount to be provided for retirement of general long-term obligations	<u>\$27,183.36</u>	<u>\$10,536.07</u>	<u>\$37,719.43</u>
Accrued annual leave	<u>\$27,183.36</u>	<u>\$10,536.07</u>	<u>\$37,719.43</u>

**Knox County Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

---

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>(Decreases)</u>	<u>Balance</u> <u>June 30, 1997</u>
Amount to be provided for retirement of general long-term obligations	<u>\$26,900.92</u>	<u>\$282.44</u>	<u>\$27,183.36</u>
Accrued annual leave	<u>\$26,900.92</u>	<u>\$282.44</u>	<u>\$27,183.36</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 \$74,120.26 and \$1,575.68 for the year ended June 30, 1998, respectively, and was \$74,295.47 for space for the year ended June 30, 1997. 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 payments each month. Total reimbursements to the state for the operating lease were \$51,490.75 for the year ended June 30, 1998, and \$49,670.09 for the year ended June 30, 1997. The agency is not obligated to continue making the lease payments should it discontinue use of the space and equipment.

**NOTE 7. DEFINED BENEFIT PENSION PLAN**

**A. Plan Description**

All full-time employees are members of the Political Subdivision Pension Plan (PSPP), an agent, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The TCRS administers a defined benefit pension plan that provides retirement, disability, and death benefits, as well as annual cost-of-living adjustments, to plan members and beneficiaries. Benefit provisions are established in state statute found in Title 8, Chapters 34-37, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Amendments to the TCRS are not applicable to a

**Knox County Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

---

political subdivision unless approved by the political subdivision's governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling 615-741-8202, ext. 101.

**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 7.81% of annual covered payroll. The agency contributed \$66,179 for the year ended June 30, 1998. 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 \$66,179 for fiscal year 1998 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 closed basis. The remaining amortization period at June 30, 1995, was 22 years.

**Knox County Community Services Agency  
Notes to the Financial Statements (Cont.)  
June 30, 1998, and June 30, 1997**

---

**Three-Year Trend Information**

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 1997	\$55,455	100%	\$ -
June 30, 1998	\$66,179	100%	\$ -

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

**NOTE 8. DEFERRED COMPENSATION PLAN**

The Knox County 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 an employee dies or is absent because of illness, injury, or related family death, there

**Knox County Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

---

is no liability for sick leave at June 30. The amount of unused sick leave was \$29,687.49 at June 30, 1998, and \$22,781.94 at June 30, 1997.

**NOTE 10. 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 State of Tennessee's Claims Award Fund, an internal service fund in which the state has set aside assets for claims settlement. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the participating agencies based on a percentage of each agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation.
- C. The agency has elected to provide health coverage for its employees through a health plan for eligible local governments and quasi-governmental agencies in Tennessee. The Local Government Group Insurance Fund provides access to affordable health insurance by pooling risk among the groups. The plan provides for greater stability in controlling premium increases and, through a structured managed-care program, helps contain health care costs of participating members.

The plan is administered by the State of Tennessee, using a separately established fund. Premiums of participating units are deposited to this fund and used to pay claims for health care costs of participants, as well as the state's administrative costs of the plan. The agency's obligation under the plan is limited to 80% of the total premiums. The employees are responsible for the remaining 20% of the total premiums. Employees have the option of obtaining insurance through either Blue Cross Blue Shield of Tennessee or Health Source Tennessee. Claims

**Knox County Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

---

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

**NOTE 11. PRIOR-PERIOD RESTATEMENT**

The June 30, 1997, balance sheet was restated to correct for errors in reporting. Receivables due from the primary government were overstated by \$17,855.64 and payables to the primary government were overstated by \$60,000.00. As a result, fund balance was increased by \$42,144.36.

Knox County Community Services Agency  
 Required Supplementary Information  
 Schedule of Funding Progress for  
 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	\$356,784	\$356,784	\$ -	100%	\$709,811.85	0%

Changes in Actuarial Assumptions

An actuarial valuation was performed as of June 30, 1997, to establish 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**

### **KNOX COUNTY COMMUNITY SERVICES AGENCY**

William Lane, Executive Director

#### **BOARD OF DIRECTORS**

##### Executive Committee Members

Ms. Libby M. Tarpy - Chair  
Ms. Cynthia K. Teague – Vice Chair  
Ms. Annie M. Jones - Treasurer  
Ms. Ann Ince - Secretary  
Mr. Richard L. Bean – Sergeant-at-Arms

##### Other Members of the Board of Directors

Ms. Cynthia L. Chapman  
Judge Carey Garrett  
Mr. Mike Harkleroad  
Ms. Marianne House  
Ms. Bobbie McGarithy  
Ms. Sue Methvin  
Ms. Cecelia J. Waters  
Ms. Donna Wright