

**South Central Community Services Agency**

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

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Financial/compliance audits of community services agencies are available on-line at  
[www.comptroller.state.tn.us/sa/reports/index.html](http://www.comptroller.state.tn.us/sa/reports/index.html).  
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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

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

John G. Morgan  
Comptroller

September 12, 2003

The Honorable Phil Bredesen, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
Board of Directors  
South Central Community Services Agency  
854 West James Campbell Boulevard  
Columbia, Tennessee 38401

Ladies and Gentlemen:

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

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

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/eb  
03/043

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**South Central Community Services Agency**  
For the Year Ended June 30, 2002

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## AUDIT OBJECTIVES

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

## AUDIT FINDINGS

The audit report contains no findings.

## OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

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"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

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**Audit Report**  
**South Central Community Services Agency**  
**For the Year Ended June 30, 2002**

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**South Central Community Services Agency  
For the Year Ended June 30, 2002**

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**INTRODUCTION**

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**POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the South Central 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 South Central Community Services Agency serves the following counties: Bedford, Coffee, Giles, Hickman, Lawrence, Lewis, Lincoln, Marshall, Maury, Moore, Perry, and Wayne. The agency’s administrative offices are in Columbia, Tennessee.

The governing body of the South Central Community Services Agency is the board of directors. As of June 30, 2002, the board was composed of four members. (See Appendix.) 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.

The agency’s former executive director retired on June 30, 2000, and shortly thereafter the chair of the board of directors and all of the executive committee members resigned. The board ceased to function. The inactive board officially consisted of one member and the commissioner of the Department of Children’s Services’ designee. Although the current executive director provided the Governor’s office with names of potential board members, only one appointment had been made as of June 30, 2002. During the audit period, the executive

director worked in conjunction with the Department of Children's Services to manage the agency's property, affairs, and funds.

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### **AUDIT SCOPE**

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The audit was limited to the period July 1, 2001, through June 30, 2002, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 2002. The South Central Community Services Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

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### **OBJECTIVES OF THE AUDIT**

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The objectives of the audit were

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

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There were no findings in the prior audit report.

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### **OBSERVATIONS AND COMMENTS**

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As noted in prior audits, the South Central Community Services Agency has entered into a contract with the Department of Children's Services, specifying that the community services

agency (CSA) would assist in implementing various state programs. However, the department's participation in this contract was greater than indicated in the contract. Through this contract, state officials directly supervised CSA employees. And although these CSA employees' salaries, travel costs, and other program costs were paid by the CSA, the Department of Children's Services reimbursed the CSA for these costs, including the CSA's administrative costs for serving as a fiscal agent. This contract appears to create "employer-employee" relationships between the department and these individuals.

Programs under the supervision of the Department of Children's Services included Children and Family Services, Family Support Services, Flexible Funding, and Emergency Residential. According to the CSA organization chart at the Department of Children's Services, several CSA employees reported to Department of Children's Services supervisors. Some of these CSA employees were secretaries for the department's regional administrative staff.

The practice of allowing employees of non-state entities such as the community services agencies to report directly to officials or employees of the Department of Children's Services, in carrying out what can be construed as state programs, raises policy and legal issues. We do not believe these situations should be accepted as a matter of policy. Section 37-5-314, *Tennessee Code Annotated*, considers CSA employees "state employees" for the purposes of negligent acts or omissions within the scope of their authority. However, Section 37-5-315(2), *Tennessee Code Annotated*, states: "This part shall not be construed as creating an employer-employee relationship between the department, the community services agencies or their contractors." This legal concern arises from the legislative intent that the department not create an employer-employee relationship with community services agencies and a review of the factors commonly used in determining the existence of an employer-employee relationship. These factors include the Department of Children's Services' ability to direct and control the work of CSA employees it supervises. These relationships also create inherent problems for the Department of Children's Services' supervisory personnel in that they have less direct control over the performance of CSA case managers.

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

The most recent audit of the Department of Children's Services includes an audit finding on these inappropriate contracts with the South Central Community Services Agency and other CSAs serving the department.

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## RESULTS OF THE AUDIT

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### AUDIT CONCLUSIONS

#### Internal Control

As part of the audit of the South Central Community Services Agency's financial statements for the year ended June 30, 2002, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no material weaknesses.

#### Compliance

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

#### Fairness of Financial Statement Presentation

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



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

March 20, 2003

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

Dear Mr. Morgan:

We have audited the financial statements of the South Central Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2002, and have issued our report thereon dated March 20, 2003. As discussed in Note 11 to the financial statements, the South Central Community Services Agency implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; and 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the South Central Community Services Agency's financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The Honorable John G. Morgan  
March 20, 2003  
Page Two

We noted 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 South Central Community Services Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

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

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA,  
Director

AAH/eb



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

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**Independent Auditor's Report**

March 20, 2003

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

Dear Mr. Morgan:

We have audited the accompanying financial statements of the governmental activities and the general fund of the South Central Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2002, which collectively comprise the agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the South Central Community Services Agency as of June 30, 2002, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the financial statements, the South Central Community Services Agency adopted the provisions of Governmental Accounting Standards Board

The Honorable John G. Morgan

March 20, 2003

Page Two

Statements 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*; and 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34*. This resulted in changes to the format and content of the financial statements.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the agency’s basic financial statements. The accompanying financial information on page 29 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2003, on our consideration of South Central Community Services Agency’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." in a cursive script.

Arthur A. Hayes, Jr., CPA,  
Director

AAH/eb

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

This section presents our discussion and analysis of the South Central Community Services Agency’s financial performance during the fiscal year ended June 30, 2002. Please read it in conjunction with the South Central Community Services Agency’s financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

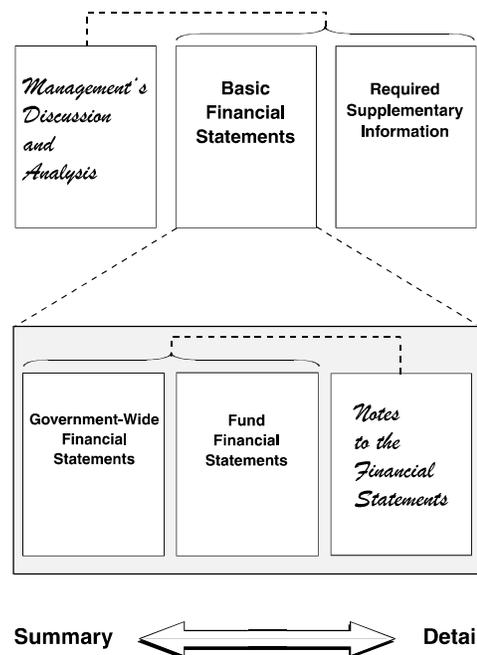
- The South Central Community Services Agency’s total net assets were \$393,169 at June 30, 2002.
- During the year, the South Central Community Services Agency’s expenses were \$2,981,956; this was \$52,090 less than the \$3,034,046 generated in revenues for governmental activities.
- The total costs of the South Central Community Services Agency’s programs were significantly changed from last year; three new programs were added this year.
- The general fund reported a fund balance this year of \$449,153.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements consists of three parts—*management’s discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the South Central Community Services Agency:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the SCCSA’s *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government.
- The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.

**Figure A-1: Required Components of the South Central Community Services Agency’s Financial Statements**



The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of the financial statements are arranged and related to one another.

Figure A-2 summarizes the major features of the agency’s financial statements, including the portion of the SCCSA government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

**Figure A-2: Major Features of SCCSA’s  
Government-wide and Fund Financial Statements**

	<u>Government-wide</u>	<u>Fund Statements</u>
Scope	Entire agency	All activities of the Fund
Required Financial Statements	*Statement of net assets *Statement of activities	*Balance Sheet *Statement of revenues, expenditures & changes in fund balance
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

### **Government-wide Statements**

The government-wide statements report information about the South Central Community Services Agency as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the government’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the South Central Community Services Agency’s *net assets* and how they have changed. Net assets—the difference between the South Central Community Services Agency’s assets and liabilities—are one way to measure the South Central Community Services Agency’s financial health, or position.

- Over time, increases or decreases in the South Central Community Services Agency’s net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the South Central Community Services Agency, you need to consider additional non-financial factors such as changes in the South Central Community Services Agency’s non-custodial role in the Department of Children’s Services.

The government-wide financial statements of the South Central Community Services Agency include only one category, *Governmental activities*. All of the agency’s services are included in this category. Grants finance most of these activities: help for children and families, staff development, health-related services, and general administration.

**Fund Financial Statements**

The fund financial statements provide information about the South Central Community Services Agency’s *general fund*—not the South Central Community Services Agency as a whole. Funds are accounting devices that the South Central Community Services Agency uses to keep track of specific sources of funding and spending for particular purposes. The agency establishes funds to ensure and demonstrate compliance with finance-related legal requirements.

The South Central Community Services Agency has one kind of fund:

- *Governmental funds*—The South Central Community Services Agency’s services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the South Central Community Services Agency’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information following the governmental funds statements that explains the relationship (or differences) between them.

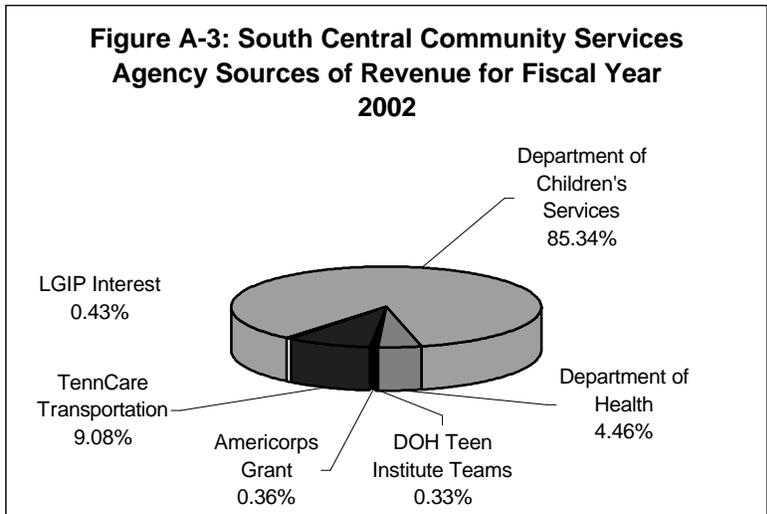
**FINANCIAL ANALYSIS OF THE SOUTH CENTRAL COMMUNITY SERVICES AGENCY AS A WHOLE**

**Net assets.** The South Central Community Services Agency’s net assets were approximately \$393,169 at June 30, 2002. (See Table A-1)

**Table A-1: SCCSA’s Net Assets**

	<b>Governmental Activities 2002</b>
Current Assets	\$ 806,222
Capital Assets, net	2,584
<b>Total Assets</b>	<b>808,806</b>
Current Liabilities	405,150
Long-Term Liabilities	10,487
<b>Total Liabilities</b>	<b>415,637</b>
Net Assets	
Invested in Capital Assets	2,584
Unrestricted	390,585
<b>Total Net Assets</b>	<b>\$ 393,169</b>

Note: The South Central Community Services Agency did not restate its 2001 financial statements in this first year of implementation of GASB 34. Comparative information will be provided in future years.



**Changes in net assets.** The South Central Community Services Agency's total revenues were \$3,034,046. A significant portion, 85%, of the Agency's revenue comes from the Department of Children's Services. (See Figure A-3.) Nine percent comes from TennCare Transportation, while only 4% relates to the Department of Health. The total cost of all programs and services was \$2,981,956; 80% of these costs are directly related to Department of Children's Services Programs.

**Governmental Activities**

- The South Central Community Services Agency received a significant amount of additional funding for a new program started for the Department of Children's Services.
- The South Central Community Services Agency had a reduction in Children's Special Services and received a new grant for the Middle Tennessee Teen Institute; both are through the Department of Health.
- The South Central Community Services Agency sponsored two AmeriCorps Promise Fellows, which are only partially funded by a grant.

**Table A-2: Changes in SCCSA's Net Assets**

	<u><b>2002</b></u>
<b>Revenues</b>	
Program Revenues	
Charges for services	\$ 285,604
Operating grants and contributions	2,529,895
General Revenues	
Payment from the State of Tennessee	205,391
Interest	13,156
<b>Total Revenues</b>	<u><b>3,034,046</b></u>
<b>Expenses</b>	
Administration	255,199
Health and Social Services	2,726,757
<b>Total Expenses</b>	<u><b>2,981,956</b></u>
<b>Increase in Net Assets</b>	<b>52,090</b>
<b>Beginning Net Assets</b>	<u><b>341,079</b></u>
<b>Ending Net Assets</b>	<u><u><b>\$ 393,169</b></u></u>

Note: The South Central Community Services Agency did not restate its 2001 financial statements in this first year of implementation of GASB 34. Comparative information will be provided in future years.

**FINANCIAL ANALYSIS OF THE SOUTH CENTRAL COMMUNITY SERVICES AGENCY'S FUND**

Revenues from the governmental fund type totaled \$3,034,045, an increase of almost 50% over the preceding year. The increase in governmental revenues is a result of non-custodial programs shifted completely to the South Central Community Services Agency. Additionally, revenues received through the TennCare Transportation program are from MCOs and BHOs. These revenues go directly to the general fund to pay for the cost of the program and its administration with the remainder going to fund balance.

**General Fund Budgetary Highlights**

Over the course of the year, the South Central Community Services Agency revised its budget several times. Even with these adjustments, actual expenditures were \$879,611 below final budget amounts. The most significant positive variance resulted from staffing. Staffing is budgeted for full employment throughout the full year. Budget revisions for vacant positions throughout the year are more difficult to get approved. On the other hand, net change in fund balance was a \$58,351 increase.

- Interest received from the LGIP savings account was \$13,156, less than half from the previous year.
- Throughout the year, many staffing changes took place in the Department of Children’s Services programs. Fifteen new positions were added, and in two major moves 21 positions were transferred to the state.

**CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY**

**Capital Assets**

At the end of 2002, the South Central Community Services Agency did not invest in any new capital assets. Table A-4 lists the South Central Community Services Agency’s remaining capital assets.

**Table A-4: SCCSA’s Capital Assets**

	Governmental Activities		Total %
	<u>2002</u>	<u>2001</u>	<u>Change</u>
Office equipment	20,536.50	20,536.50	0%
Total historical cost	20,536.50	20,536.50	0%
Total accumulated depreciation	17,952.75	15,567.75	15%
Net capital assets	<u>2,583.75</u>	<u>4,968.75</u>	(48%)

**Long-Term Debt**

The only long-term debt that South Central Community Services Agency has is compensated absences. At 2002 year-end, the compensated absences were \$58,568 and \$54,692 at the 2001 year-end.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

South Central Community Services Agency does expect changes in our programs in the near future. The Department of Children's Services, our main source of funding, has been restructuring our role in the department. In the upcoming year, South Central Community Services Agency will only work directly with the non-custodial population. Supervision of custodial funds will continue.

South Central Community Services Agency  
Statement of Net Assets  
June 30, 2002

	Governmental Activities
<b>Assets</b>	
Cash (Note 2)	\$ 639,014.25
Due from the State of Tennessee	165,623.91
Prepaid items	1,583.66
Equipment (Note 3)	20,536.50
Less accumulated depreciation	<u>(17,952.75)</u>
Total assets	<u>808,805.57</u>
 <b>Liabilities</b>	
Accrued payroll, payroll taxes, and benefits	62,750.47
Accounts payable	163,814.79
Due to the State of Tennessee	130,503.51
Long-term liabilities:	
Portion due or payable within one year:	
Compensated absences (Note 4)	48,081.18
Portion due or payable after one year:	
Compensated absences (Note 4)	<u>10,486.68</u>
Total liabilities	<u>415,636.63</u>
 <b>Net Assets</b>	
Invested in capital assets	2,583.75
Unrestricted	<u>390,585.19</u>
Total net assets	<u>\$ 393,168.94</u>

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

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

<b>Programs</b>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Change in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
<b>Governmental Activities:</b>				
Administration	\$ 252,813.31	\$ -	\$ -	\$ (252,813.31)
Children and Family Services	1,191,824.30	-	1,199,335.54	7,511.24
Family Support Services	1,049,117.03	-	1,040,625.92	(8,491.11)
Flexible Funding	116,865.15	-	116,865.15	-
Emergency Residential	27,016.23	-	27,016.23	-
TennCare Transportation	179,186.53	275,476.90	-	96,290.37
Children's Special Services	84,123.51	-	90,251.77	6,128.26
Middle Tennessee Teen Institute	46,700.12	10,126.57	45,000.00	8,426.45
AmeriCorp Promise Fellows	24,657.38	-	10,800.00	(13,857.38)
Community Development	7,266.60	-	-	(7,266.60)
Depreciation - unallocated	2,385.00	-	-	(2,385.00)
<b>Total</b>	<b>\$ <u>2,981,955.16</u></b>	<b>\$ <u>285,603.47</u></b>	<b>\$ <u>2,529,894.61</u></b>	<b><u>(166,457.08)</u></b>
General revenues:				
Payment from the State of Tennessee				205,391.43
Unrestricted investment earnings				<u>13,155.76</u>
Total general revenues				<u>218,547.19</u>
Change in net assets				52,090.11
Net assets - beginning				<u>341,078.83</u>
Net assets - ending				<b>\$ <u>393,168.94</u></b>

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

South Central Community Services Agency  
Balance Sheet  
General Fund  
June 30, 2002

<b>Assets</b>	
Cash (Note 2)	\$ 639,014.25
Due from the State of Tennessee	165,623.91
Prepaid items	1,583.66
Total assets	<u>\$ 806,221.82</u>
<b>Liabilities and Fund Balance</b>	
Liabilities:	
Accrued payroll, payroll taxes, and benefits	\$ 62,750.47
Accounts payable	163,814.79
Due to the State of Tennessee	130,503.51
Total liabilities	<u>357,068.77</u>
Fund balance:	
Reserved for prepaid items	1,583.66
Unreserved	447,569.39
Total fund balance	<u>449,153.05</u>
Total liabilities and fund balance	<u>\$ 806,221.82</u>

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

Total fund balance	\$ 449,153.05
Amounts reported in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the general fund.	2,583.75
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the general fund. Long-term liabilities at year-end consist of:	
Compensated absences	<u>(58,567.86)</u>
Total net assets	<u>\$ 393,168.94</u>

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

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

**Revenues**

State grants and contracts	\$ 2,589,234.27
Federal grants and contracts	146,051.77
TennCare Transportation contracts	275,476.90
Charges for services	10,126.57
Interest	13,155.76
Total revenues	<u>3,034,045.27</u>

**Expenditures**

Administration	249,876.36
Children and Family Services	1,199,335.54
Family Support Services	1,040,625.92
Flexible Funding	116,865.15
Emergency Residential	27,016.23
TennCare Transportation	178,713.33
Children's Special Services	84,637.44
Middle Tennessee Teen Institute	46,700.12
AmeriCorp Promise Fellows	24,657.38
Community Development	7,266.60
Total expenditures	<u>2,975,694.07</u>
Excess of revenues over expenditures and net change in fund balance	58,351.20
Fund balance - July 1	390,801.85
Fund balance - June 30	<u>\$ 449,153.05</u>

**Reconciliation of the general fund statement of revenues, expenditures, and changes in fund balance to the statement of activities:**

Net change in fund balance	\$ 58,351.20
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Amounts reported in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. As there were no capital outlays during the period, this amount is depreciation expense. (2,385.00)

The expense for compensated absences reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds. (3,876.09)

<b>Changes in net assets of governmental activities</b>	<u>\$ 52,090.11</u>
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The notes to the financial statements are an integral part of this statement.

**South Central Community Services Agency**  
**Notes to the Financial Statements**  
**June 30, 2002**

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

**Reporting Entity**

Title 37, Chapter 5, of *Tennessee Code Annotated*, established the CSA as “a political subdivision and instrumentality of the state.” The South Central Community Services Agency is a component unit of the State of Tennessee and is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. Although the CSA is a separate legal entity, the state is financially accountable for the CSA because the state appoints a majority of the CSA’s governing body and approves the CSA’s Plan of Operation (budget). The CSA’s reporting entity does not include any component units.

**Basis of Presentation**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

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

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

**Measurement Focus and Basis of Accounting**

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

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

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

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

Expenditures are recorded when the related fund liability is incurred, except for compensated absences and capital lease principal and interest, which are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Acquisitions under capital leases are reported as other financing sources.

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

**Assets and Liabilities**

Cash

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

Prepaid Items

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

Capital Assets

Capital assets are defined by the CSA as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capitalized

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

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assets are reported in the government-wide financial statements. Capitalized assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The CSA does not own any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capitalized assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Computer Software	5 years

Compensated Absences

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

**Budgetary Process**

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

The agency does not have an annual appropriated budget. The Plan of Operation serves as an annual financial plan for budgetary purposes.

**NOTE 2. DEPOSITS**

The South Central Community Services Agency's bank accounts are in financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts

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

covered by the pool are considered to be insured for purposes of credit risk disclosure.

The South Central Community Services Agency also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report* for the year ended June 30, 2002. The report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

**NOTE 3. CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Equipment	\$ 20,536.50	\$ —	\$ —	\$ 20,536.50
Less accumulated depreciation	<u>(15,567.75)</u>	<u>(2,385.00)</u>	<u>—</u>	<u>(17,952.75)</u>
Total capital assets, net of depreciation	<u>\$ 4,968.75</u>	<u>\$ (2,385.00)</u>	<u>\$ —</u>	<u>\$ 2,583.75</u>

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

**NOTE 4. LONG-TERM LIABILITIES**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated absences	\$ 54,691.77	\$ 78,646.51	\$ (74,770.42)	\$ 58,567.86
Total long-term liabilities	<u>\$ 54,691.77</u>	<u>\$ 78,646.51</u>	<u>\$ (74,770.42)</u>	<u>\$ 58,567.86</u>

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

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**NOTE 5. OPERATING LEASES**

The agency leases office space and equipment to carry out its activities and to administer the various grant programs. Total expenditures under operating leases for space and equipment were \$26,215.92 and \$19,380.08 for the year ended June 30, 2002. The leases were cancelable at the lessee's option.

In addition, the State of Tennessee has entered into cancelable lease agreements for space and equipment on behalf of the agency. The agency reimburses the state for these lease payments each month. Total reimbursements to the state for operating leases were \$32,564.94 for the year ended June 30, 2002. The agency is not obligated to continue making the lease payments should it discontinue use of the space and equipment.

**NOTE 6. DEFINED BENEFIT PENSION PLAN**

**Plan Description**

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

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

**Funding Policy**

As authorized by the agency's board of directors, the agency pays the total pension contribution for its employees. The agency is required to contribute an actuarially determined rate; for the year ended June 30, 2002, the rate was 5.45% of annual covered payroll. The contribution requirements of plan members are set by state statutes and approved by the political subdivision's governing body. Contribution

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

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requirements for the agency are established and may be amended by the TCRS' Board of Trustees.

**Annual Pension Cost**

The agency's annual pension cost of \$73,539 for the year ended June 30, 2002, was equal to the agency's required and actual contributions.

The required contribution for the year ended June 30, 2002, was determined as part of the July 1, 1999, actuarial valuation using the frozen initial liability actuarial cost method, a projected-benefit cost method. Significant actuarial assumptions used include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 5.5% a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 4.5% annual increase in the social security wage base, and (d) projected post-retirement benefit increases of 3% of the retiree's most recent benefit. The actuarial value of the agency's assets was determined using techniques that smooth the effect of short-term volatility in the market value of both fixed income and equity securities over a five-year period.

**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, 2002	\$73,539	100%	\$ -
June 30, 2001	\$58,744	100%	\$ -
June 30, 2000	\$52,347	100%	\$ -

**NOTE 7. OTHER POST-EMPLOYMENT BENEFITS**

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

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

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**NOTE 8. CONTINGENCIES**

Sick Leave—The agency records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The amount of unused sick leave was \$48,945.76 at June 30, 2002.

**NOTE 9. DONATED FACILITIES**

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

**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.

**Commercial Coverage**

The agency carries commercial insurance for risks of loss of its personal property and surety bond coverage for risks of employee dishonesty. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**State of Tennessee's Claims Award Fund**

The agency participates in the State of Tennessee's Claims Award Fund, an internal service fund in which the state has set aside assets for claims settlement. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the participating agencies based on a percentage of each 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

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

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liability and premium allocation. As a participant in the Claims Award Fund, the agency is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, Section 9-8-101 et seq., *Tennessee Code Annotated*. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits under workers' compensation are set forth in Section 50-6-101 et seq., *Tennessee Code Annotated*.

**Health Coverage**

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

The plan is administered by the State of Tennessee, using a separately established fund. Premiums of participating units are deposited to this fund and used to pay claims for health care costs of participants, as well as the state's administrative costs of the plan. The agency's obligation under the plan is limited to 80% of the total premiums. The employees are responsible for the remaining 20% of the total premiums. Claims are administered by Blue Cross Blue Shield of Tennessee, which is currently under contract to provide these and other services to the state. Insurance premiums are adjusted at the end of the year based on the claims experience of the pool. Individual pool participants are not assessed additional premiums based on individual claims experience. Employees and providers have 13 months to file medical claims.

**NOTE 11. NEW ACCOUNTING PRONOUNCEMENTS**

The South Central Community Services Agency has implemented the provisions of Governmental Accounting Standards Board (GASB) Statements 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; and 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34*. These statements establish new financial reporting requirements and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The State of Tennessee implemented these statements, as required, for

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

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the year ended June 30, 2002. As a component unit of the state, the South Central Community Services Agency has also implemented the statements for the year ended June 30, 2002.

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

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Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funding Excess) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded (Funding Excess) AAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2001	\$1,186,000	\$1,186,000	\$ –	100%	\$1,077,000	0.00%
July 1, 1999	\$925,000	\$925,000	\$ –	100%	\$1,084,000	0.00%
June 30, 1997	\$671,000	\$671,000	\$ –	100%	\$1,062,000	0.00%

Changes in Actuarial Assumptions

An actuarial valuation was performed as of July 1, 2001, to establish contribution rates as of July 1, 2002. The July 1, 1999, actuarial valuation established contribution rates for the year ended June 30, 2002. Significant actuarial assumptions used in both valuations included a rate of return on investment of present and future assets of 7.5% a year compounded annually and a projected annual increase in post-retirement benefits of 3% of the retiree's most recent benefit. Projected salary increases used in the 2001 valuation were 4.75% a year compounded annually, down from 5.5% a year in the 1999 valuation (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries). The 2001 valuation projected a 3.5% annual increase in the social security wage base, down from 4.5% in the 1999 valuation.

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Sources of Financial Resources:</b>				
Fund Balance, July 1				
Amount approved for expenditure	\$ 105,186.00	\$ -	\$ -	
Amount not approved for expenditure	215,615.85	390,801.85	390,801.85	
<b>Revenues</b>				
Department of Children's Services	3,265,402.00	3,265,402.00	2,589,234.27	\$ (676,167.73)
TennCare Managed Care Organizations/ Behavioral Health Organizations	227,057.00	236,877.00	275,476.90	38,599.90
Department of Health	128,800.00	173,800.00	135,251.77	(38,548.23)
Middle Tennessee Teen Institute	-	13,000.00	10,126.57	(2,873.43)
Tennessee Commission on National and Community Service	-	21,600.00	10,800.00	(10,800.00)
Community Services Agencies	-	144,626.00	-	(144,626.00)
Interest revenue	-	-	13,155.76	13,155.76
Total sources of financial resources	<u>3,942,060.85</u>	<u>4,246,106.85</u>	<u>3,424,847.12</u>	<u>(821,259.73)</u>
<b>Expenditures</b>				
Administration	288,835.00	288,835.00	249,876.36	(38,958.64)
Children and Family Services	1,542,140.00	1,542,140.00	1,199,335.54	(342,804.46)
Family Support Services	1,262,527.00	1,262,527.00	1,040,625.92	(221,901.08)
Flexible Funding	209,500.00	209,500.00	116,865.15	(92,634.85)
Emergency Residential	31,400.00	31,400.00	27,016.23	(4,383.77)
TennCare Transportation	216,849.00	226,669.00	178,713.33	(47,955.67)
Children's Special Services	121,944.00	121,944.00	84,637.44	(37,306.56)
Middle Tennessee Teen Institute	-	57,200.00	46,700.12	(10,499.88)
AmeriCorp Promise Fellows	-	61,840.00	24,657.38	(37,182.62)
Community Development	53,250.00	53,250.00	7,266.60	(45,983.40)
Total expenditures	<u>3,726,445.00</u>	<u>3,855,305.00</u>	<u>2,975,694.07</u>	<u>(879,610.93)</u>
<b>Fund Balance, June 30</b>	<u>\$ 215,615.85</u>	<u>\$ 390,801.85</u>	<u>\$ 449,153.05</u>	<u>\$ 58,351.20</u>

## **APPENDIX**

### **SOUTH CENTRAL COMMUNITY SERVICES AGENCY**

Mr. Kenny Graves, Executive Director

#### **BOARD OF DIRECTORS**

Mr. David R. Hudgins

Mr. Jack Keny

Ms. Vivian Lovvron (commissioner's designee)

Ms. Marcia Vanattia