

Hamilton County Community Services Agency

**For the Year Ended
June 30, 2003**

Arthur A. Hayes, Jr., CPA, JD, CFE
Director

Edward Burr, CPA
Assistant Director

Scarlet Z. Sneed, CPA, CFE
Audit Manager

Scott Price, CFE
In-Charge Auditor

Ike Boone, CFE
Staff Auditor

Gerry C. Boaz, CPA
Technical Analyst

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 401-7897

Financial/compliance audits of community services agencies are available on-line at
www.comptroller.state.tn.us/sa/reports/index.html.
For more information about the Comptroller of the Treasury, please visit our Web site at
www.comptroller.state.tn.us.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

October 26, 2004

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Hamilton County Community Services Agency
1304 McCallie Avenue
Chattanooga, Tennessee 37404

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Hamilton County Community Services Agency for the year ended June 30, 2003. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

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

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/th
04/048

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Hamilton County Community Services Agency
For the Year Ended June 30, 2003

AUDIT OBJECTIVES

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

COMPLIANCE FINDING

CSA Board Membership Violates State Law

The Department of Children's Services' (DCS) Regional Administrator serves on the board of directors of the Hamilton County CSA in violation of state law. According to state law, board members must be appointed by the Governor. The DCS Regional Administrator has not been appointed to the board by the Governor.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

Audit Report
Hamilton County Community Services Agency
For the Year Ended June 30, 2003

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTION		1
Post-Audit Authority		1
Background		1
AUDIT SCOPE		1
OBJECTIVES OF THE AUDIT		2
PRIOR AUDIT FINDINGS		2
OBSERVATIONS AND COMMENTS		2
Audit Committee Recommended		2
RESULTS OF THE AUDIT		5
Audit Conclusions		5
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>		6
Finding and Recommendation		8
Finding - The membership of the CSA board of directors violates state law		8
FINANCIAL SECTION		
Independent Auditor's Report		10
Management's Discussion and Analysis		12
Financial Statements		
Statements of Net Assets	A	19
Statements of Activities	B	20
Balance Sheets—General Fund	C	21

TABLE OF CONTENTS (CONT.)

	<u>Exhibit</u>	<u>Page</u>
Statements of Revenues, Expenditures, and Changes in Fund Balances—General Fund	D	22
Notes to the Financial Statements		23
Required Supplementary Information		
Schedule of Pension Funding Progress		32
Other Supplementary Information		
Budgetary Comparison Schedule		33
APPENDIX		34
Board of Directors		34

**Hamilton County Community Services Agency
For the Year Ended June 30, 2003**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Hamilton 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

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

The Hamilton County Community Services Agency’s administrative offices are in Chattanooga, Tennessee.

The governing body of the Hamilton County Community Services Agency is the board of directors. As of June 30, 2003, the board was composed of 13 members. (See Appendix.) An executive committee, consisting of 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, 2002, through June 30, 2003, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are

presented for the year ended June 30, 2003. The Hamilton 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, and contracts;
 3. to determine the fairness of the presentation of the financial statements; and
 4. to recommend appropriate actions to correct any deficiencies.
-

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

AUDIT COMMITTEE RECOMMENDED

As a result of the fraud-related business failures of companies such as Enron and WorldCom in recent years, Congress and the accounting profession have taken aggressive measures to try to detect and prevent future failures related to fraud. These measures have included the signing of the *Sarbanes-Oxley Act of 2002* by the President of the United States and the issuance of Statement on Auditing Standards No. 99 by the American Institute of Certified Public Accountants. This new fraud auditing standard has not only changed the way auditors perform audits but has also provided guidance to management and boards of directors on creating antifraud programs and controls. This guidance has included the need for an independent audit committee.

As a result of these developments, we are recommending that agencies with boards establish audit committees. The specific activities of any audit committee will depend on, among

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

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

At a minimum, audit committees should:

1. Develop a written charter that addresses the audit committee's purpose and mission, which should be, at a minimum, to assist the board in its oversight of the agency.
2. Formally reiterate, on a regular basis, to the board, agency management, and staff their responsibilities for preventing, detecting, and reporting fraud, waste, and abuse.
3. Serve as a facilitator of any audits or investigations of the agency, including advising auditors and investigators of any information they may receive or otherwise note regarding risks of fraud or weaknesses in the agency's internal controls; reviewing with the auditors any findings or other matters noted by the auditors during audit engagements; working with the agency management and staff to ensure implementation of audit recommendations; and assisting in the resolution of any problems the auditors may have with cooperation from agency management or staff.
4. Develop a formal process for assessing the risk of fraud at the agency, including documentation of the results of the assessments and assuring that internal controls are in place to adequately mitigate those risks.
5. Develop and communicate to staff of the agency their responsibilities to report allegations of fraud, waste, or abuse at the agency to the committee and the Comptroller of the Treasury's office as well as a process for immediately reporting such information.
6. Immediately inform the Comptroller's office when fraud is detected.
7. Develop and communicate to the board, agency management, and staff a written code of conduct reminding those individuals of the public nature of the agency and the need for all to maintain the highest level of integrity with regard to the financial operations and any related financial reporting responsibilities of the agency; to avoid preparing or

issuing fraudulent or misleading financial reports or other information; to protect agency assets from fraud, waste, and abuse; to comply with all relevant laws, rules, policies and procedures; and to avoid engaging in activities which would otherwise bring dishonor to the agency.

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

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

The Division of State Audit will be available to discuss with the board any questions it might have about the creation of its particular audit committee. There are also other audit committees which have already been established at other state agencies that the board may wish to contact for advice and further information.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Hamilton County Community Services Agency's financial statements for the year ended June 30, 2003, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. An immaterial instance of noncompliance, along with the recommendation and management's response, is included in the finding and recommendation.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered unqualified opinions on the Hamilton County Community Services Agency's financial statements.



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

SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

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

February 6, 2004

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

Dear Mr. Morgan:

We have audited the financial statements of the Hamilton County Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2003, and have issued our report thereon dated February 6, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Hamilton County 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
February 6, 2004
Page Two

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

Internal Control Over Financial Reporting

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

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

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA,
Director

AAH/th

FINDING AND RECOMMENDATION

1. The membership of the CSA board of directors violates state law

Finding

The Department of Children's Services' (DCS) Regional Administrator, a management-level DCS employee assigned to the community services agency (CSA) service area, serves on the board of directors of the Hamilton County CSA in violation of state law. Section 37-5-305(c), *Tennessee Code Annotated*, states, "The membership of each board serving a metropolitan community services agency shall consist of at least twelve (12) members appointed by the governor." The DCS Regional Administrator has not been appointed to the board by the Governor.

As a board member, the Regional Administrator can vote on all CSA business including the adoption of written policies, procedures, or rules and regulations to govern the CSA's internal operations; the making and executing of contracts; and the receiving, administering, allocating, and disbursing of funds made available under any federal or state assistance program.

The statute defining the board composition of the metropolitan community services agencies, such as Hamilton County CSA, does not include the Commissioner or the Commissioner's designee.

Recommendation

The membership of the Hamilton County Community Services Agency's board of directors should comply with the provisions of *Tennessee Code Annotated*.

Management's Comments

Hamilton County Community Services Agency

We concur. It has been the practice for the Regional Administrators to serve as the Commissioner's Designee for all regions, including the metropolitan community services agencies.

On October 1, 2003, we received notification from the former DCS Commissioner Michael Miller's office that the Regional Administrator would serve in each region as an ex officio member of the board. Their role was to be a "consultant to the board from DCS and an informant to DCS concerning CSA board activities." This change was implemented.

On May 6, 2004, we received notification from DCS Commissioner Viola Miller that the Regional Administrators would serve on the board as a voting member in each DCS region. This

change was implemented. We feel compelled to conduct board business as instructed by the DCS Commissioner.

Department of Children's Services

We concur that the composition of the metropolitan CSA boards shall be made by appointment of the Governor. Any appointments not made by the Governor are invalid and void. However, should the Governor appoint the Commissioner of the Department of Children's Services or her designee, the department contends that such appointment is legal, valid, and ethical.

This will be corrected by asking the Governor to appoint the Commissioner or her designee to serve on each metropolitan CSA board at the next available vacancy. The Regional Administrator will be advised to attend the meetings and represent the Commissioner but to refrain from voting until the appointment is made by the Governor.



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

SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

February 6, 2004

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

Dear Mr. Morgan:

We have audited the accompanying financial statements of the governmental activities and the general fund of the Hamilton County Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2003, which collectively comprise the agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the agency's management. Our responsibility is to express opinions on these financial statements, based on our 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 Hamilton County Community Services Agency as of June 30, 2003, 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.

The Honorable John G. Morgan
February 6, 2004
Page Two

The management's discussion and analysis and the Schedule of Pension Funding Progress for Hamilton County Community Services Agency are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our 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 32 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2004, on our consideration of Hamilton County Community Services Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

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

Arthur A. Hayes, Jr., CPA,
Director

AAH/th

Management's Discussion and Analysis

Management of Hamilton County Community Services Agency provides this *Management's Discussion and Analysis* of the Hamilton County Community Services Agency's Annual Financial Report for readers of the financial statements. This narrative overview and analysis of the financial activities of the Hamilton County Community Services Agency is for the fiscal year ended June 30, 2003. Hamilton County Community Services Agency is in its second year of implementing new reporting standards with significant changes in content and structure from years prior to fiscal year ended June 30, 2002. Therefore, much of the information is not easily comparable to fiscal years prior to June 30, 2002. In future years, as prior-year information becomes available, a comparative analysis of government-wide data will be presented.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights:

Net Assets - The assets of the agency exceeded its liabilities at fiscal year ended June 30, 2003, by \$336,433.57 (presented as "net assets"). Of this amount, \$332,985.85 was reported as "unrestricted net assets." Unrestricted net assets represent the amount available to be used to meet the agency's ongoing obligations.

Changes in Net Assets - The agency's total net assets increased by \$30,244.11 in fiscal year 2003.

Fund Highlights:

Governmental Fund - Fund Balance - As of the close of fiscal year 2003, the agency's only governmental fund, the general fund, reported an ending fund balance of \$387,056.74, an increase of \$41,458.88 in comparison with the prior year. Of this total amount, \$380,702.63 represents the "unreserved fund balance."

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

Government-Wide Financial Statements

The *government-wide financial statements* provide a broad view of the agency's operations using accounting methods similar to a private-sector business. The statements provide both short-term and long-term information about the agency's financial position, which assists in assessing the agency's economic condition at the end of the fiscal year. These are prepared using the economic resources measurement focus and the accrual basis of accounting. They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the agency's net assets may serve as a useful indicator of whether the financial position of the agency is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each of the agency's programs.

Governmental Activities – All of the agency's services are included here. Most of the agency's basic services are providing help to children and families. These activities are supported primarily by governmental revenues (state grants).

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The agency, like other agencies and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of the agency, reporting the agency's operations in more detail than the government-wide statements.

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the fund financial statements.

Required Supplementary Information

The basic financial statements are followed by the required supplementary information, which consists of a Schedule of Pension Funding Progress.

Supplementary Information

The Budgetary Comparison Schedule is presented as supplementary information. It follows the required supplementary information.

FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of an agency's financial position. The agency's net assets (government activities) totaled \$336,433.57 at the end of 2003, compared to \$306,189.46 at the end of the previous year.

Hamilton County Community Services Agency's Net Assets

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2002</u>
Current and other assets	\$ 627,316.73	\$ 521,696.42
Capital assets	<u>3,447.72</u>	<u>8,108.12</u>
Total Assets	<u>630,764.45</u>	<u>529,804.54</u>
Current and other liabilities	240,259.99	176,098.56
Long-Term liabilities	<u>54,070.89</u>	<u>47,516.52</u>
Total Liabilities	<u>294,330.88</u>	<u>223,615.08</u>
Invested in capital assets	3,447.72	8,108.12
Unrestricted	<u>332,985.85</u>	<u>298,081.34</u>
Total Net Assets	<u>\$ 336,433.57</u>	<u>\$ 306,189.46</u>

Changes in Net Assets

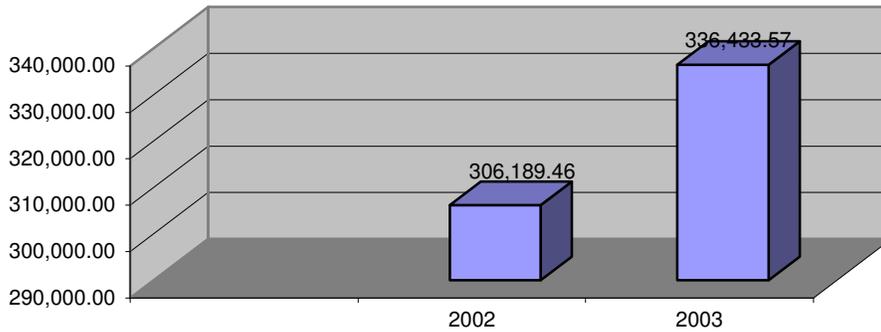
The agency's net assets increased by \$30,244.11 or 10%. Approximately 93% of the agency's total revenue came from Department of Children's Services, while the remaining 7% resulted from various funding sources.

Changes in Hamilton County Community Services Agency's Net Assets

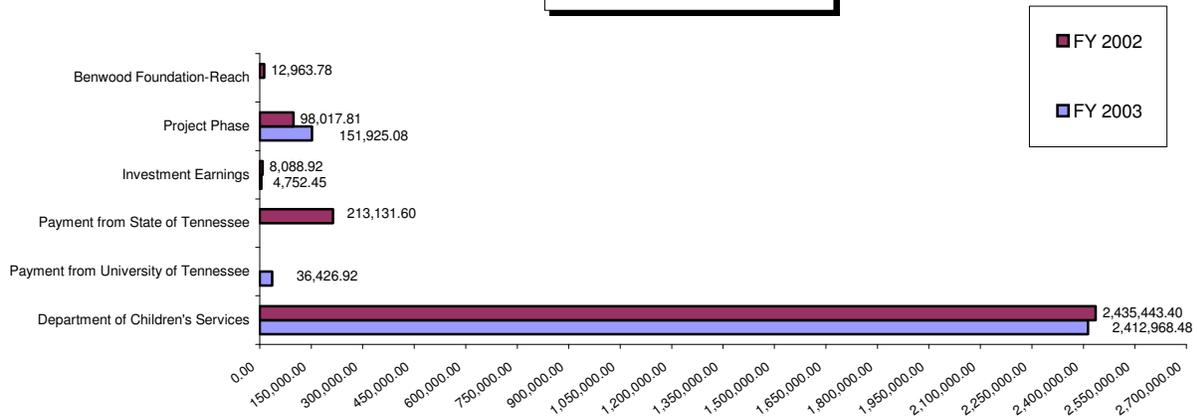
	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2002</u>
Revenues		
Program revenues		
State grants and contracts	\$ 2,564,893.56	\$ 2,438,335.94
Local grants and contracts	-	12,963.78
General revenues		
Payment from University of Tennessee	36,426.92	213,131.60
Interest	<u>4,752.45</u>	<u>8,088.92</u>
Total revenues	<u>2,606,072.93</u>	<u>\$ 2,672,520.24</u>
Expenses		
Administration	256,818.25	\$ 170,534.01
Child and Family Case Management	1,395,374.95	1,638,739.00

Child and Family Services	767,050.14	703,512.80
University of Tennessee-Project Phase	151,925.08	94,894.37
Benwood Foundation-Reach	-	11,282.69
Depreciation – unallocated	<u>4,660.40</u>	<u>4,660.40</u>
Total expenses	<u>\$2,575,828.82</u>	<u>\$2,623,623.27</u>
Increase in net assets	<u>\$ 30,244.11</u>	<u>\$ 48,896.97</u>

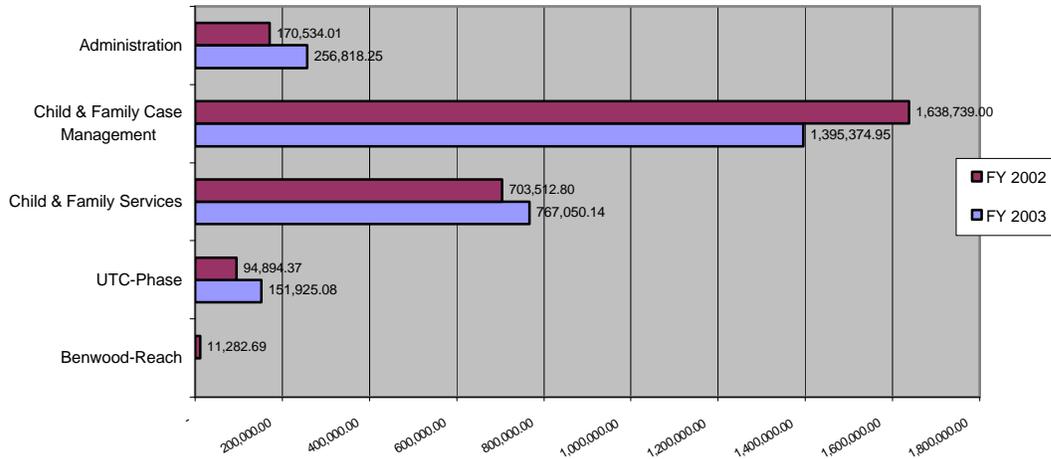
Net Assets



Sources of Revenue



FY 2002 and FY 2003 Expenses-Governmental Activities (excludes depreciation)



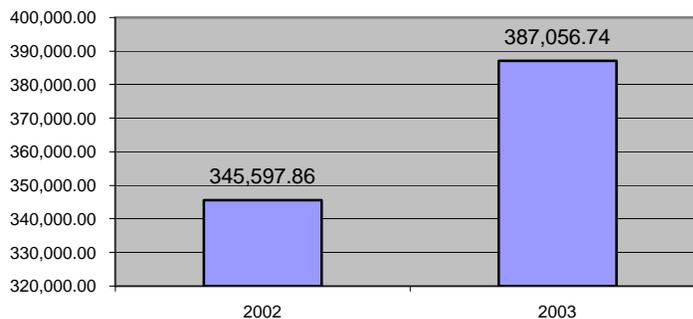
FINANCIAL ANALYSIS OF THE AGENCY’S INDIVIDUAL FUND

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

Governmental Fund

The focus of the agency’s governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the agency’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of an agency’s net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the agency’s governmental fund reported an ending fund balance of \$387,056.74, an increase of \$41,458.88 in comparison with the prior year.

Fund Balance



GENERAL FUND BUDGETARY HIGHLIGHTS

The agency recognized changes between the original budget and the final budget because of restructuring the Plan of Operation. In prior fiscal years, case management was included in the *Children and Family Services* budget as well as the *Family Support Services* budget. However, under the restructured Plan of Operation, all DCS case management was combined under the new heading *Child and Family Case Management*. Along with this change, all service dollars (Flexible Funding for Families, Emergency Residential, Family Support Services, and Independent Living) were combined under the new heading *Child and Family Services*. This restructure did not cause significant changes to the total budget. However, during this fiscal year, case management staff was cut by 14 positions, which resulted in a significant impact on the Child and Family Case Management budget.

CAPITAL ASSET AND DEBT LONG-TERM DEBT ACTIVITY

Capital Assets

The agency's investment in capital assets for its governmental activities as of June 30, 2003, amounts to \$23,302.00 which, net of accumulated depreciation of \$19,854.28, leaves a net book value of \$3,447.72. This investment in capital assets does not constitute a material balance on the balance sheet. Note 3 to the financial statements provides additional capital assets detail. Liabilities for future payments for compensated absences are described in detail in the Notes to the Financial Statements (Note 5).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our grantors, customers, and the citizens of the State of Tennessee with a general overview of the agency's finances and its use of the funds it receives. If you have any questions about this report or need additional information, contact the agency's Director of Fiscal Services, 1304 McCallie Avenue, Chattanooga, TN 37404.

Hamilton County Community Services Agency
Statement of Net Assets
June 30, 2003

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash (Note 2)	\$ 236,449.43
Prepaid items	6,354.11
Accounts receivable	47,088.00
Due from State of Tennessee	337,425.19
Capital assets (Note 3):	
Equipment	23,302.00
Less accumulated depreciation	<u>(19,854.28)</u>
Total capital assets, net of depreciation	<u>3,447.72</u>
Total assets	<u>630,764.45</u>
 Liabilities	
Accrued payroll, payroll taxes, and benefits	52,455.20
Accounts payable (Note 4)	152,401.95
Due to State of Tennessee	35,402.84
Long-term liabilities:	
Portion due or payable within one year:	
Compensated absences (Note 5)	36,677.04
Portion due or payable after one year:	
Compensated absences (Note 5)	<u>17,393.85</u>
Total liabilities	<u>294,330.88</u>
 Net Assets	
Invested in capital assets	3,447.72
Unrestricted	<u>332,985.85</u>
Total net assets	<u>\$ 336,433.57</u>

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

**Hamilton County Community Services Agency
Statement of Activities
For the Year Ended June 30, 2003**

Exhibit B

Programs	Program Revenues			Net (Expense) Revenue and Change in Net Assets
Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities:				
Administration	\$ 256,818.25	\$ -	\$ 254,494.84	\$ (2,323.41)
Child and Family Case Management	1,395,374.95	-	1,391,423.50	(3,951.45)
Child and Family Services	767,050.14	-	767,050.14	-
University of Tennessee-Project Phase	151,925.08	-	151,925.08	-
Depreciation - unallocated	4,660.40	-	-	(4,660.40)
Total governmental activities	\$ 2,575,828.82	\$ -	\$ 2,564,893.56	(10,935.26)
General revenues:				
Payment from University of Tennessee				36,426.92
Unrestricted investment earnings				4,752.45
Total general revenues				41,179.37
Change in net assets				30,244.11
Net assets - beginning				306,189.46
Net assets - ending				\$ 336,433.57

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

**Hamilton County Community Services Agency
Balance Sheet
General Fund
June 30, 2003**

Exhibit C

Assets

Cash (Note 2)	\$	236,449.43
Prepaid items		6,354.11
Accounts receivable		47,088.00
Due from State of Tennessee		337,425.19
Total assets	\$	<u>627,316.73</u>

Liabilities and Fund Balances

Liabilities:

Accrued payroll, payroll taxes, and benefits	\$	52,455.20
Accounts payable		152,831.49
Due to State of Tennessee		34,973.30
Total liabilities		<u>240,259.99</u>

Fund balances:

Reserved for prepaid items		6,354.11
Unreserved		380,702.63
Total fund balances		<u>387,056.74</u>
Total liabilities and fund balances	\$	<u>627,316.73</u>

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

Total fund balance	\$	387,056.74
--------------------	----	------------

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.		3,447.72
--	--	----------

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>(54,070.89)</u>
----------------------	--	--------------------

Total net assets	\$	<u>336,433.57</u>
------------------	----	-------------------

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

Hamilton County Community Services Agency
Statement of Revenues, Expenditures, and Changes in Fund Balances
General Fund
For the Year Ended June 30, 2003

Exhibit D

Revenues

State grants and contracts	\$ 2,601,320.48
Interest	<u>4,752.45</u>
Total revenues	<u>2,606,072.93</u>

Expenditures

Administration	254,494.84
Child and Family Case Management	1,391,423.50
Child and Family Services	767,050.14
University of Tennessee-Project Phase	<u>151,645.57</u>
Total expenditures	<u>2,564,614.05</u>
Excess of revenues over expenditures and net changes in fund balance	41,458.88

Fund balance - July 1, 2002	<u>345,597.86</u>
Fund balance - June 30, 2003	<u>\$ 387,056.74</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	\$ 41,458.88
----------------------------	--------------

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. (4,660.40)

The expense for compensated absences reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds. (6,554.37)

Changes in net assets of governmental activities	\$ <u>30,244.11</u>
---	----------------------------

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

Hamilton County Community Services Agency
Notes to the Financial Statements
June 30, 2003

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 Hamilton 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 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 Hamilton County Community Services Agency has no proprietary or fiduciary funds, and its only governmental fund is the general fund.

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

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Hamilton County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003

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, which are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds.

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

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

Assets and Liabilities

Cash

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

Capital Assets

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

Hamilton County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003

asset lives are not capitalized. Capitalized assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Computer Equipment	5 years
Telephone Equipment	5 years

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

Hamilton County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003

The Hamilton County Community Services Agency also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2003. The report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003, was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Equipment	\$ 23,302.00	\$ -	\$ -	\$ 23,302.00
Less accumulated depreciation	<u>(15,193.88)</u>	<u>(4,660.40)</u>	<u>-</u>	<u>(19,854.28)</u>
Total capital assets, net of depreciation	<u>\$ 8,108.12</u>	<u>\$ (4,660.40)</u>	<u>\$ -</u>	<u>\$ 3,447.72</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. ACCOUNTS PAYABLE

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

Vendors	\$134,265.34
Hamilton County Government	14,169.56
Employees	<u>3,967.05</u>
Amount reported as accounts payable	<u>\$152,401.95</u>

Hamilton County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003

NOTE 5. LONG-TERM LIABILITIES

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated absences	\$ 47,516.52	\$ 60,605.40	\$ 54,051.03	\$ 54,070.89
Total long-term liabilities	\$ 47,516.52	\$ 60,605.40	\$ 54,051.03	\$ 54,070.89

NOTE 6. OPERATING LEASE

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 \$61,008.00 and \$6,184.00 for the year ended June 30, 2003. The leases were cancelable at the lessee's option.

NOTE 7. 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.

Hamilton County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003

Funding Policy

As authorized by the agency's board of directors, the agency pays the total pension contribution for its employees. The agency is required to contribute an actuarially determined rate; for the year ended June 30, 2003, the rate was 9.67% of annual covered payroll. The contribution requirements of plan members are set by state statutes and approved by the political subdivision's governing body. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees.

Annual Pension Cost

The agency's annual pension cost of \$105,083 for the year ended June 30, 2003, was equal to the agency's required and actual contributions.

The required contribution for the year ended June 30, 2003, was determined as part of the July 1, 2001, actuarial valuations using the frozen initial liability actuarial cost method, a projected-benefit cost method. Significant actuarial assumptions used 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 valuation were 4.75% a year compounded annually (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries). The valuation also projected a 3.5% annual increase in the social security wage base. The actuarial value of the agency's assets was determined using techniques that smooth the effect of short-term volatility in the market value of both fixed income and equity securities over a five-year period. The agency's unfunded actuarial accrued liability is being amortized as a level-dollar amount of projected payroll on a closed basis. The remaining amortization period at July 1, 2001, was 17 years.

Three-Year Trend Information

Fiscal Year <u>Ended</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
June 30, 2003	\$ 105,083	100%	\$ -
June 30, 2002	\$ 109,217	100%	\$ -
June 30, 2001	\$ 99,576	100%	\$ -

Hamilton County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003

NOTE 8. 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*. Refer to Note 2 for information to obtain the *Tennessee Comprehensive Annual Report*.

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 is no liability for sick leave at June 30. The amount of unused sick leave was \$78,492.14 at June 30, 2003.

NOTE 10. DONATED FACILITIES

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

NOTE 11. RISK MANAGEMENT

The agency is exposed to various risks of loss related to general liability; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Commercial Coverage

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 had no claims filed with the commercial insurer.

Hamilton County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003

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

Hamilton County Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003

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

**Hamilton County Community Services Agency
Required Supplementary Information
Schedule of Pension Funding Progress**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funding Excess) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded (Funding Excess) AAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2001	\$230,027	\$511,409	\$281,382	44.98%	\$1,075,537	26.16%
July 1, 1999	\$ 49,822	\$386,143	\$336,321	12.90%	\$ 881,030	38.17%

Changes in Actuarial Assumptions

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

Supplementary Information
Hamilton County Community Services Agency
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget- over (under)</u>
	<u>Original</u>	<u>Final</u>		
Sources of Financial Resources:				
Fund Balance, July 1				
Amount approved for expenditure	\$ -	\$ 6,500.00	\$ 6,500.00	
Amount not approved for expenditure	345,597.86	339,097.86	339,097.86	
Revenues				
Department of Children's Services	3,223,044.00	3,032,456.00	2,412,968.48	\$ (619,487.52)
University of Tennessee-Project Phase	188,352.00	188,352.00	188,352.00	-
Interest Revenue	-	-	4,752.45	4,752.45
Total revenues	<u>3,411,396.00</u>	<u>3,220,808.00</u>	<u>2,606,072.93</u>	<u>(614,735.07)</u>
Total sources of financial resources	<u>3,756,993.86</u>	<u>3,566,405.86</u>	<u>2,951,670.79</u>	<u>(614,735.07)</u>
Expenditures				
Administration	241,218.00	357,552.00	254,494.84	103,057.16
Child & Family Case Management	1,952,534.00	1,680,456.00	1,391,423.50	289,032.50
Child & Family Services	1,043,244.00	1,014,900.00	767,050.14	247,849.86
University of Tennessee-Project Phase	174,400.00	174,400.00	151,645.57	22,754.43
Total expenditures	<u>3,411,396.00</u>	<u>3,227,308.00</u>	<u>2,564,614.05</u>	<u>662,693.95</u>
Fund Balance, June 30	<u>\$ 345,597.86</u>	<u>\$ 339,097.86</u>	<u>\$ 387,056.74</u>	<u>\$ 47,958.88</u>

APPENDIX

HAMILTON COUNTY COMMUNITY SERVICES AGENCY

Elleni D. Bean, Executive Director

BOARD OF DIRECTORS

Board Officers

Jo Ann Yates, Chair
Bernadine Turner, Vice-Chair
Faye Smartt, Treasurer
Earlene Stewart, Secretary

Executive Committee Members

Jo Ann Yates, Chair
Bernadine Turner, Vice-Chair
Faye Smartt, Treasurer
Earlene Stewart, Secretary
Jackie Jolley

Other Members of the Board of Directors

Jane Barker
Gary Behler
Willena M. Byrd
Howard Cotter
Lurone Jennings
Charles Peavyhouse
Tommy Perkins
Phil Smartt