

South Central Community Services Agency

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

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

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John G. Morgan
Comptroller

April 21, 2005

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
P.O. Box 459
Columbia, Tennessee 38402

Ladies and Gentlemen:

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

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

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/eb
04/070

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, 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.

INTERNAL CONTROL FINDING

The Agency's Controls Over Payroll and Personnel Were Not Adequate

Staff of the South Central Community Services Agency has not shown sufficient regard to controls over payroll and personnel transactions. Documentation authorizing payroll additions or changes was not signed by the executive director, personnel change forms were not signed by the payroll entry clerk, one employee was paid the wrong rate, two files lacked documentation of the employees' qualifications, and the former executive director implemented a travel reimbursement policy that violated state policy and possibly IRS regulations (page 8).

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

Audit Report
South Central Community Services Agency
For the Year Ended June 30, 2003

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**South Central 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 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

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 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, 2003, the board was composed of nine 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, and for comparative purposes, 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*.

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 opinions 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 Number 99* (SAS 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's Office as well as a process for immediately reporting such information.
6. Immediately inform the Comptroller of the Treasury'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 South Central Community Services Agency's financial statements for the year ended June 30, 2004, 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. A reportable condition, along with the recommendation and management's response, is detailed in the finding and recommendation. 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.



STATE OF TENNESSEE
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DIVISION OF STATE AUDIT

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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 24, 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 South Central 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 March 24, 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 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*.

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

The Honorable John G. Morgan
March 24, 2004
Page Two

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

The following reportable condition was noted:

- The agency's controls over payroll and personnel were not adequate.

This condition is described in the Finding and Recommendation section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

We also noted other matters involving the internal control over financial reporting that we have reported to the South Central 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,



Arthur A. Hayes, Jr., CPA,
Director

AAH/eb

FINDING AND RECOMMENDATION

The agency's controls over payroll and personnel were not adequate

Finding

Staff of the South Central Community Services Agency has not shown sufficient regard for controls over payroll and personnel transactions. The following deficiencies in controls were noted:

- Written documentation authorizing pay or position changes was not maintained in all personnel files. According to the agency's practice, the executive director verbally instructed the personnel officer to process an employee's pay raise or promotion. The personnel officer prepared a personnel change form and gave it to the payroll clerk to enter into the system. After entering the information, the payroll clerk signed off on the form and filed it in the employee's personnel file. The form was never signed by the executive director to document the authorization of the change. Although alternative documentation for all salary changes was obtained, it was not always maintained in the employee's personnel file.
- Personnel change forms for three employees, showing information to be entered into the accounting system, were not signed by the payroll clerk to indicate that the information had been entered into the system and to document the individual making the change. Our review of information in the accounting system indicated the information had been correctly entered.
- One newly hired employee was paid \$13.81 per hour rather than \$13.18. Although the agency subsequently detected the error, the former executive director, acting within his authority, chose not to correct it.
- For 2 of 16 employees (13%) hired during the fiscal year, there was no documentation in the personnel file indicating that the employee met the qualifications for the position.
- One newly hired employee had two social security numbers on file.
- Based on a policy enacted by the former executive director on April 4, 2004, (retroactive to April 1, 2003), case managers were paid for commuting mileage traveled exceeding 50 miles roundtrip between their home and office. This violates the State of Tennessee Comprehensive Travel Regulations that the CSA is required to follow. It is also an apparent violation of Internal Revenue Service regulations in that the payments for commuting mileage were not reported as income on the employees' W2 forms. The current executive director has rescinded this policy.

Management is responsible for ensuring that additions to and changes in payroll are accurate and authorized, that employees meet the minimum qualifications for the positions held, and that transactions comply with applicable laws and regulations.

Recommendation

Management should ensure that the controls are adequately designed and functioning to prevent incorrect payments to employees. Documentation authorizing payroll additions or changes should be signed by the executive director, maintained in each employee's personnel file, and signed by the member of the accounting staff entering the information into the payroll system. Management should review additions or changes for accuracy. Documentation to support an employee's qualifications for the position held should be maintained in the employee's personnel file. Management should determine why the employee noted has two social security numbers on file. The correct social security number should be identified and used on all applicable employee records. Reimbursement for mileage should be in compliance with the State of Tennessee Comprehensive Travel Regulations.

Management's Comment

We concur. The executive director will sign all authorization of change forms pertaining to salary changes and the agency will maintain the forms in the personnel files. The payroll clerk will sign all authorization of change forms as she enters the new information into our system. The Fiscal Director will verify that signatures are in place. The employee paid at the incorrect rate was a data entry error. The current Executive Director will review and correct such data entry errors as needed. All missing employment documentation has been placed into personnel files. An annual review of all personnel files is now conducted to determine if all employment documentation is current and correct. The employee with two social security numbers on file was also a data entry error. All employment documentation will be reviewed by the HR Director to assure all information is correct. The current Executive Director rescinded the April 4, 2004, travel policy to meet the State of Tennessee Comprehensive Travel Regulations before the audit was completed.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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Independent Auditor's Report

March 24, 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 South Central Community Services Agency, a component unit of the State of Tennessee, as of and for the years ended June 30, 2003, and 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 opinions on these financial statements, based on our audits.

We conducted our audits 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 audits provide 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, 2003, and 2002, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable John G. Morgan
March 24, 2004
Page Two

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 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 audits were 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 34 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 March 24, 2004, 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 that reads "Arthur A. Hayes, Jr." The signature is written in a cursive style with a large, prominent initial "A".

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, 2003. Please read it in conjunction with the South Central Community Services Agency's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

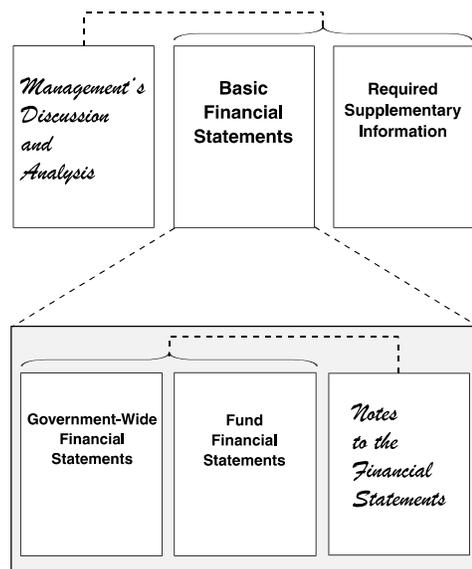
- The South Central Community Services Agency's total net assets were \$411,772 at June 30, 2003, and \$393,169, at June 30, 2002.
- During the year, the South Central Community Services Agency's expenses were \$3,204,236; this was \$18,603 less than the \$3,222,839 generated in revenues for governmental activities. During FY 2002, expenses were \$2,981,956; this was \$52,090 less than the \$3,034,046 generated in revenues for governmental activities.
- The general fund reported a fund balance this year of \$474,108, and a fund balance last year of \$449,153.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements consist 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 fund* 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



Summary ↔ Detail

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’s government	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 fund* - The South Central Community Services Agency's services are included in the governmental fund, which focuses 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 fund statements that explains the relationship (or differences) between them.

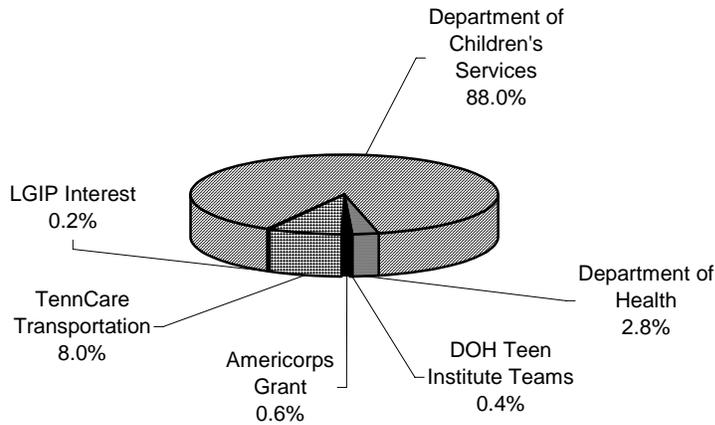
FINANCIAL ANALYSIS OF THE SOUTH CENTRAL COMMUNITY SERVICES AGENCY AS A WHOLE

Net assets. The South Central Community Services Agency's net assets were \$411,772 at June 30, 2003, and \$393,169 at June 30, 2002. (See Table A-1)

Table A-1: SCCSA's Net Assets

	Governmental Activities <u>2003</u>	Governmental Activities <u>2002</u>
Current Assets	\$ 697,223	\$ 806,222
Capital Assets, net	199	2,584
Total Assets	697,422	808,806
Current Liabilities	223,116	357,069
Long-Term Liabilities	62,534	58,568
Total Liabilities	285,650	415,637
Net Assets		
Invested in Capital Assets	199	2,584
Unrestricted	411,573	390,585
Total Net Assets	\$ 411,772	\$ 393,169

Figure A-3: South Central Community Services Agency Sources of Revenue for Fiscal Year 2003



Changes in net assets. The Agency's total revenues for the fiscal years ended June 30, 2003, and June 30, 2002, were \$3,222,839 and \$3,034,046, respectively. A significant portion, 88%, of the Agency's revenue came from the Department of Children's Services. (See Figure A-3.) Eight percent came from TennCare Transportation, while 3% related to the Department of Health. The total cost of all programs and services for the 2003 fiscal year was \$3,204,236; 80% of these costs are directly related to Department of Children's Services Programs. The total cost of all programs and services was \$2,981,956 for 2002 fiscal year.

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 both this year and last year.
- During fiscal year 2003, the South Central Community Services Agency sponsored three AmeriCorp Promise Fellows, which are only partially funded by a grant, and during fiscal 2002, the agency sponsored two AmeriCorp Promise Fellows.
- 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 in fiscal year 2002; both were through the Department of Health.

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

	<u>2003</u>	<u>2002</u>
Revenues		
Program Revenues		
Charges for services	\$ 272,469	\$ 285,604
Operating grants and contributions	2,945,451	2,529,895
General Revenues		
Payment from the State of Tennessee	-	205,391
Interest	4,919	13,156
Total Revenues	3,222,839	3,034,046
Expenses		
Administration	308,469	255,199
Health and Social Services	2,895,767	2,726,757
Total Expenses	3,204,236	2,981,956
Increase in Net Assets	18,603	52,090
Beginning Net Assets	393,169	341,079
Ending Net Assets	\$ 411,772	\$ 393,169

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

Revenues from the governmental fund type totaled \$3,222,839, a slight increase over the preceding year's revenues of \$3,034,046. Mid-way through the year the Department of Children's Services added \$436,000 to the agency's budget for custodial services. 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.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Assets

The South Central Community Services Agency did not invest in any new capital assets during the 2003 or 2002 fiscal years. Table A-4 lists the South Central Community Services Agency's remaining capital assets.

Table A-4: SCCSA's Capital Assets

	Governmental Activities			Total %	
	2003	2002	Change	2001	Change
Office equipment	\$20,536.50	\$20,536.50	0%	\$20,536.50	0%
Total historical cost	20,536.50	20,536.50	0%	20,536.50	0%
Total accumulated depreciation	20,337.75	17,952.75	13%	15,567.75	15%
Net capital assets	\$198.75	\$2,583.75	(92%)	\$4,968.75	(48%)

Long-Term Debt

The only long-term debt that South Central Community Services Agency has is compensated absences. At 2003 year-end, the compensated absences were \$62,534, \$58,568 at the 2002 year-end, and the fiscal year 2001 amount was \$54,692.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

South Central Community Services Agency does expect minor changes in our programs in the near future. The Department of Children's Services cut the \$436,000 of additional custodial funding in the current year to less than half in the 2004 fiscal year. The agency has been authorized to hire three additional non-custodial workers in the upcoming year.

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, P.O. Box 459, Columbia, TN 38402-0459.

South Central Community Services Agency
Statements of Net Assets
June 30, 2003, and June 30, 2002

	<u>Governmental Activities</u>	
	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Assets		
Cash (Note 2)	\$ 232,399.91	\$ 639,014.25
Due from the State of Tennessee	463,039.16	165,623.91
Prepaid items	1,784.03	1,583.66
Capital assets (Note 3):		
Furniture and equipment	20,536.50	20,536.50
Less accumulated depreciation	<u>(20,337.75)</u>	<u>(17,952.75)</u>
Total assets	<u>697,421.85</u>	<u>808,805.57</u>
Liabilities		
Accrued payroll, payroll taxes, and benefits	55,442.10	62,750.47
Accounts payable	121,935.65	163,814.79
Due to the State of Tennessee	45,737.62	130,503.51
Long-term liabilities:		
Portion due or payable within one year:		
Compensated absences (Note 4)	25,141.52	28,867.47
Portion due or payable after one year:		
Compensated absences (Note 4)	<u>37,392.51</u>	<u>29,700.39</u>
Total liabilities	<u>285,649.40</u>	<u>415,636.63</u>
Net Assets		
Invested in capital assets	198.75	2,583.75
Unrestricted	411,573.70	390,585.19
Total net assets	<u>\$ 411,772.45</u>	<u>\$ 393,168.94</u>

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

South Central Community Services Agency
 Statements of Activities
 For the Years Ended June 30, 2003, and June 30, 2002

Programs	For the Year Ended June 30, 2003				For the Year Ended June 30, 2002			
	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Assets	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions			Charges for Services	Operating Grants and Contributions	
Governmental Activities:								
Administration	306,083.90	\$ -	\$ 291,125.73	\$ (14,958.17)	\$ 252,813.31	\$ -	\$ -	\$ (252,813.31)
Child and Family Case Management	1,402,241.89	-	1,399,615.80	(2,626.09)	1,630,322.68	-	1,629,342.81	(979.87)
Child and Family Services	1,145,873.20	-	1,145,873.20	-	754,500.03	-	754,500.03	-
TennCare Transportation	160,407.27	258,922.44	-	98,515.17	179,186.53	275,476.90	-	96,290.37
Children's Special Services	42,196.86	-	44,936.82	2,739.96	84,123.51	-	90,251.77	6,128.26
Middle Tennessee Teen Institute	57,203.38	13,547.00	45,000.00	1,343.62	46,700.12	10,126.57	45,000.00	8,426.45
AmeriCorp Promise Fellows	46,683.38	-	18,900.00	(27,783.38)	24,657.38	-	10,800.00	(13,857.38)
Community Services	41,161.30	-	-	(41,161.30)	7,266.60	-	-	(7,266.60)
Depreciation - unallocated	2,385.00	-	-	(2,385.00)	2,385.00	-	-	(2,385.00)
Total	\$ 3,204,236.18	\$ 272,469.44	\$ 2,945,451.55	13,684.81	\$ 2,981,955.16	\$ 285,603.47	\$ 2,529,894.61	(166,457.08)
General revenues:					General revenues:			
Payment from the State of Tennessee				-	Payment from the State of Tennessee			
Unrestricted investment earnings				4,918.70	Unrestricted investment earnings			
Total general revenues				4,918.70	Total general revenues			
Change in net assets				18,603.51	Change in net assets			
Net assets - July 1				393,168.94	Net assets - July 1			
Net assets - June 30				\$ 411,772.45	Net assets - June 30			

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

South Central Community Services Agency
Balance Sheets
General Fund
June 30, 2003, and June 30, 2002

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Assets		
Cash (Note 2)	\$ 232,399.91	\$ 639,014.25
Due from the State of Tennessee	463,039.16	165,623.91
Prepaid items	1,784.03	1,583.66
Total assets	<u>\$ 697,223.10</u>	<u>\$ 806,221.82</u>
Liabilities and Fund Balance		
Liabilities:		
Accrued payroll, payroll taxes, and benefits	\$ 55,442.10	\$ 62,750.47
Accounts payable	121,935.65	163,814.79
Due to the State of Tennessee	45,737.62	130,503.51
Total liabilities	<u>223,115.37</u>	<u>357,068.77</u>
Fund balance:		
Reserved for prepaid items	1,784.03	1,583.66
Unreserved	472,323.70	447,569.39
Total fund balance	<u>474,107.73</u>	<u>449,153.05</u>
Total liabilities and fund balance	<u>\$ 697,223.10</u>	<u>\$ 806,221.82</u>
Reconciliation of the general fund balance sheet to the statement of net assets:		
Total fund balance	\$ 474,107.73	\$ 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.	198.75	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>(62,534.03)</u>	<u>(58,567.86)</u>
Total net assets	<u>\$ 411,772.45</u>	<u>\$ 393,168.94</u>

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

South Central Community Services Agency
 Statements of Revenues, Expenditures, and Changes in Fund Balance
 General Fund
 For the Years Ended June 30, 2003, and June 30, 2002

	For the Year Ended June 30, 2003	For the Year Ended June 30, 2002
Revenues		
State grants and contracts	\$ 2,836,614.73	\$ 2,589,234.27
Federal grants and contracts	108,836.82	146,051.77
TennCare Transportation contracts	258,922.44	275,476.90
Charges for services	13,547.00	10,126.57
Interest	4,918.70	13,155.76
Total revenues	3,222,839.69	3,034,045.27
Expenditures		
Administration	305,041.57	249,876.36
Child and Family Case Management	1,399,615.80	1,629,342.81
Child and Family Services	1,145,873.20	754,500.03
TennCare Transportation	160,138.59	178,713.33
Children's Special Services	42,167.79	84,637.44
Middle Tennessee Teen Institute	57,203.38	46,700.12
AmeriCorp Promise Fellows	46,683.38	24,657.38
Community Services	41,161.30	7,266.60
Total expenditures	3,197,885.01	2,975,694.07
Excess of revenues over expenditures and net change in fund balance	24,954.68	58,351.20
Fund balance, July 1	449,153.05	390,801.85
Fund balance, June 30	\$ 474,107.73	\$ 449,153.05
Reconciliation of the general fund statement of revenues, expenditures, and changes in fund balance to the statement of activities:		
Net change in fund balance	\$ 24,954.68	\$ 58,351.20
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)	(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.	(3,966.17)	(3,876.09)
Changes in net assets of governmental activities	\$ 18,603.51	\$ 52,090.11

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, 2003, and June 30, 2002

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).

Certain amounts presented for the preceding year have been reclassified for comparative purposes.

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.

South Central Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

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.

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.

South Central Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

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 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
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.

South Central Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

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 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 years ended June 30, 2003, and 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, 2003, was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Equipment	\$ 20,536.50	\$ -	\$ -	\$ 20,536.50
Less accumulated depreciation	<u>(17,952.75)</u>	<u>(2,385.00)</u>	<u>-</u>	<u>(20,337.75)</u>
Total capital assets, net of depreciation	<u>\$ 2,583.75</u>	<u>\$ (2,385.00)</u>	<u>\$ -</u>	<u>\$ 198.75</u>

South Central Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

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, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated absences	\$ <u>58,567.86</u>	\$ <u>64,094.56</u>	\$ <u>60,128.39</u>	\$ <u>62,534.03</u>
Total long-term liabilities	<u>\$ 58,567.86</u>	<u>\$ 64,094.56</u>	<u>\$ 60,128.39</u>	<u>\$ 62,534.03</u>

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	\$ <u>54,691.77</u>	\$ <u>78,646.51</u>	\$ <u>74,770.42</u>	\$ <u>58,567.86</u>
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, 2003, and June 30, 2002

NOTE 5. 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 \$26,512.92 and \$17,675.79 for the year ended June 30, 2003, and \$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 \$35,475.24 for the year ended June 30, 2003, and \$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.

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 7.33% of annual covered payroll and for the year ended June 30, 2002, the rate was 5.45% of annual

**South Central Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002**

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 \$85,960 for the year ended June 30, 2003, and \$73,539 for the year ended June 30, 2002, were equal to the agency's required and actual contributions.

The required contributions for the years ended June 30, 2003, and June 30, 2002, were determined as part of the July 1, 2001, and July 1, 1999, actuarial valuations using the frozen initial liability actuarial cost method, a projected-benefit cost method. 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. 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, 2003	\$ 85,960	100%	\$ -
June 30, 2002	\$ 73,539	100%	\$ -
June 30, 2001	\$ 58,744	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

South Central Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. Note 2 includes the information to obtain the report.

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 \$68,452.72 at June 30, 2003, and \$48,945.76 at June 30, 2002.

Litigation—The agency is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

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.

South Central Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

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 Blue Cross Blue Shield of Tennessee. Claims are administered by this company, 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 under Blue Cross Blue Shield of Tennessee.

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.

South Central Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

NOTE 11. RELATED-PARTY TRANSACTIONS

Section 37-5-305, *Tennessee Code Annotated*, defines the membership of the Community Services Agency's (CSA) Board of Directors. Included on each rural CSA's board is the Commissioner of the Department of Children's Services (DCS) or the commissioner's designee. The commissioner has designated the DCS Regional Administrator, a management-level DCS employee assigned to the CSA service area. 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; or the receiving, administering, allocating and disbursing of funds made available under any federal or state assistance program. As a DCS employee, the Regional Administrator can authorize transactions that will be paid by the CSA. DCS is the primary funding source of the South Central Community Services Agency, providing over \$2.8 million in revenue.

In addition, the DCS Commissioner appoints the agency's Executive Director with the approval of the CSA's board of directors. The DCS Commissioner also approves any CSA policies, procedures or rules and regulations proposed by the board of directors, as well as all contracts for the purchase of services or the acquisition or improvement of real property. Furthermore, the Commissioner is responsible for the review and approval of the CSA's plan of operation submitted in accordance with Section 37-5-310, *Tennessee Code Annotated*.

NOTE 12. PRIOR-PERIOD RESTATEMENT

The CSA did not correctly allocate the compensated absences payable at June 30, 2002, between the portion due or payable within one year and the portion due or payable after one year. This restatement at June 30, 2002, resulted in a decrease of \$19,213.71 for the portion due or payable within one year and an increase of \$19,213.71 for the portion due or payable after one year. This restatement is necessary to present comparable amounts for each fiscal year reported.

NOTE 13. 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*

South Central Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

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 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.

NOTE 14. PRIOR YEAR RECLASSIFICATION

Certain amounts presented for the preceding year have been reclassified for comparative purposes. Expenditures reported as Children and Family Services, Family Support Services, Flexible Funding, and Emergency Residential for the year ended June 30, 2002, were reclassified and reported as Child and Family Case Management and Child and Family Services for the year ended June 30, 2003.

**South Central 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	\$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 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
 South Central Community Services Agency
 Budgetary Comparison Schedules
 General Fund
 For the Years Ended June 30, 2003, and June 30, 2002

	For the Year Ended June 30, 2003				For the Year Ended June 30, 2002			
	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)
	Original	Final			Original	Final		
Sources of Financial Resources:								
Fund Balance - July 1								
Amount approved for expenditure	\$ 144,279.00	\$ 102,694.00	\$ 102,694.00		\$ 105,186.00	\$ -	\$ -	
Amount not approved for expenditure	304,874.05	346,459.05	346,459.05		215,615.85	390,801.85	390,801.85	
Revenues								
Department of Children's Services	3,379,402.00	3,186,904.00	2,836,614.73	\$ (350,289.27)	3,265,402.00	3,265,402.00	2,589,234.27	\$ (676,167.73)
TennCare Managed Care Organizations/ Behavioral Health Organizations	236,877.00	236,869.00	258,922.44	22,053.44	227,057.00	236,877.00	275,476.90	38,599.90
Department of Health	135,600.00	134,800.00	89,936.82	(44,863.18)	128,800.00	173,800.00	135,251.77	(38,548.23)
Current Services	12,200.00	13,000.00	13,547.00	547.00	-	13,000.00	10,126.57	(2,873.43)
Tennessee Commission on National and Community Service	21,600.00	27,000.00	18,900.00	(8,100.00)	-	21,600.00	10,800.00	(10,800.00)
Community Services	-	-	-	-	-	144,626.00	-	(144,626.00)
Interest revenue	-	-	4,918.70	4,918.70	-	-	13,155.76	13,155.76
Total revenues	<u>3,785,679.00</u>	<u>3,598,573.00</u>	<u>3,222,839.69</u>	<u>(375,733.31)</u>	<u>3,621,259.00</u>	<u>3,855,305.00</u>	<u>3,034,045.27</u>	<u>(821,259.73)</u>
Total sources of financial resources	<u>4,234,832.05</u>	<u>4,047,726.05</u>	<u>3,671,992.74</u>	<u>(375,733.31)</u>	<u>3,942,060.85</u>	<u>4,246,106.85</u>	<u>3,424,847.12</u>	<u>(821,259.73)</u>
Expenditures								
Administration	296,226.00	355,100.00	305,041.57	(50,058.43)	288,835.00	288,835.00	249,876.36	(38,958.64)
Child and Family Case Management	2,072,390.00	1,413,104.00	1,399,615.80	(13,488.20)	2,073,965.00	2,073,965.00	1,629,342.81	(444,622.19)
Child and Family Services	1,077,702.00	1,432,300.00	1,145,873.20	(286,426.80)	971,602.00	971,602.00	754,500.03	(217,101.97)
TennCare Transportation	226,669.00	226,669.00	160,138.59	(66,530.41)	216,849.00	226,669.00	178,713.33	(47,955.67)
Children's Special Services	84,681.00	87,200.00	42,167.79	(45,032.21)	121,944.00	121,944.00	84,637.44	(37,306.56)
Middle Tennessee Teen Institute	57,200.00	57,200.00	57,203.38	3.38	-	57,200.00	46,700.12	(10,499.88)
AmeriCorp Promise Fellows	61,840.00	76,444.00	46,683.38	(29,760.62)	-	61,840.00	24,657.38	(37,182.62)
Community Services	53,250.00	53,250.00	41,161.30	(12,088.70)	53,250.00	53,250.00	7,266.60	(45,983.40)
Total expenditures	<u>3,929,958.00</u>	<u>3,701,267.00</u>	<u>3,197,885.01</u>	<u>(503,381.99)</u>	<u>3,726,445.00</u>	<u>3,855,305.00</u>	<u>2,975,694.07</u>	<u>(879,610.93)</u>
Fund Balance - June 30	<u>\$ 304,874.05</u>	<u>\$ 346,459.05</u>	<u>\$ 474,107.73</u>	<u>\$ 127,648.68</u>	<u>\$ 215,615.85</u>	<u>\$ 390,801.85</u>	<u>\$ 449,153.05</u>	<u>\$ 58,351.20</u>

Note: The budgeted and actual expenditures reported as Children and Family Services, Family Support Services, Flexible Funding, and Emergency Residential for the year ended June 30, 2002, were reclassified and reported as Child and Family Case Management and Child and Family Services for the year ended June 30, 2003.

APPENDIX

SOUTH CENTRAL COMMUNITY SERVICES AGENCY AS OF JUNE 30, 2003

Mr. Kenny P. Graves, Executive Director

BOARD OF DIRECTORS

Executive Committee Members

Ms. Molly P. Shepard, Chair
Mr. Edward Craig, Vice-Chair
Ms. Sumika Looney, Treasurer
Ms. Sarah Black, Secretary
Ms. Wanda Johnston, At-large

Other Members of the Board of Directors

Ms. Brenda Helentjaris
Mr. Jack Keny
Ms. Marcia Vanattia
Ms. Vivian Lovvron