

SOUTH CENTRAL HUMAN RESOURCE AGENCY

Financial Statements with Supplementary Information

Year Ended June 30, 2012

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Financial Statements with Supplementary Information  
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## Independent Auditors' Report

Governing Board  
South Central Human Resource Agency  
Fayetteville, Tennessee

We have audited the accompanying financial statements of the governmental activities and each major fund of South Central Human Resource Agency (the "Agency"), as of and for the year ended June 30, 2012, 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that 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 each major fund of the Agency as of June 30, 2012, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2012, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements as a whole. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of federal and state awards is the responsibility of management and was derived from and relates directly to the underlying accounting records and other records used to prepare the financial statements. The schedule of expenditures of federal and state awards has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal and state awards is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Roderick Maso & Co, PLLC*

Nashville, Tennessee  
December 28, 2012

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Management's Discussion and Analysis  
June 30, 2012

This discussion is intended to present a broad view of South Central Human Resource Agency's financial position and activities for the fiscal year ended June 30, 2012. This information is provided to comply with GASB No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The discussion and analysis included in this document contain information regarding social services provided by South Central Human Resource Agency.

**Mission Statement**

The mission of the South Central Human Resource Agency is to assist eligible people of all ages within the Agency's service area obtain a variety of services and resources.

**Agency Overview**

The South Central Human Resource Agency ("SCHRA" or the "Agency") was created July 11, 1973 and chartered as a public non-profit corporation February 19, 1975. The Agency's goal is to promote the development of human resources in South Central Tennessee through effective and efficient delivery of human services. From the Agency's central office at 1437 Winchester Highway in Fayetteville, Tennessee, it strives to effectively deliver human service programs and oversee the coordination efforts through its Neighborhood Service Centers located in the thirteen counties served by the Agency: Bedford, Coffee, Franklin, Giles, Hickman, Lawrence, Lewis, Lincoln, Marshall, Maury, Moore, Perry, and Wayne. The counties served by SCHRA contain over 6,500 square miles of vastly rural country and supports a population of approximately 423,000 individuals. Across this region in fiscal year 2012, SCHRA had in place 14 Neighborhood Service Centers, 21 Head Start Centers and 1 Home-based operation, 23 Pre-K classroom collaborations in 3 counties, 3 Early Head Start Centers, and 21 congregate meal sites served by 2 commercial kitchens. In addition, in 2010, the Senior Community Employment Program was expanded to serve clients in four additional counties: Bledsoe, Grundy, Marion, and Sequatchie. During fiscal year 2012, SCHRA delivered over 19 million dollars of services through grant/contract programs and employed approximately 400 people.

**Governing Bodies**

The corporate powers of SCHRA are vested in its Governing Board, which is responsible for fulfilling Agency objectives and establishing policy guidelines and direction. The SCHRA Governing Board has delegated authority to the Executive Committee of the South Central Tennessee Development District (SCTDD) to act for it, and has authorized the Policy Council to administer Agency activities within the framework of established policies and in conformance with Federal/State program guidelines.

The SCHRA Governing Board is composed of representatives from each of the thirteen counties that the Agency serves. Membership consists of the county executive/mayor of each county, the mayor of each municipality, thirteen human resource representatives appointed by the county mayor/executive, and one state senator and one state representative whose districts lie within the Development District. Similarly, the Executive Committee of the SCTDD is comprised of thirteen county/metro executives, three minority representatives, one state senator, one state representative, and seven city mayors; and, as authorized, acts for the Governing Board.

The membership of the Policy Council is comprised of one-third elected public officials currently holding office, one-third are persons chosen in accordance with democratic selection procedures to assure that they are representatives for the poor in the area they serve, and the remainder are officials or members of business, industry, religious, welfare, educational, and other major groups with interest in the community. This is known as a tri-part board to insure compliance with the Community Services Block Grant Act.

Additionally, serving on the Policy Council in a non-voting status is a Head Start Policy Council Representative, a Licensed Attorney, a Financial Management Representative, and an Early Childhood Representative to meet the requirements of the Head Start Act.

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Management's Discussion and Analysis (Continued)

The Policy Council meets four times a year; the Executive Committee of the SCTDD acting for the SCHRA Governing Board, meets in concert with and ratifies Policy Council actions including program budgets, proposals, and contracts approved by the Policy Council. The SCHRA Governing Board meets annually.

The members of these bodies play a critical role in overseeing programs, ratifying policies and helping to plan the future of the Agency. Without a strategy based on knowledge and placed in the hands of competent and concerned individuals, the Agency would have only random ideas without a guiding purpose or direction.

**American Recovery and Reinvestment Act**

The *American Recovery and Reinvestment Act of 2009* (Public Law 111-5) ("ARRA") was enacted on February 17, 2009. ARRA was designed to boost the economy through a \$787 billion package of spending and tax measures. ARRA provides significant resources to help struggling states, communities, and families. The Agency through its grantor organizations received additional funding to address these needs in fiscal years 2010, 2011 and 2012. Agency programs receiving ARRA funding were Weatherization Assistance, Community Services Block Grant, Head Start, Nutrition, Senior Community Service Employment, Emergency Food & Shelter, and Emergency Food Assistance. As of June 30, 2012, \$10,279,712 of ARRA funding had been expended by these programs in service to Agency clients as follows: Weatherization Assistance - \$6,260,493, Community Services Block Grant - \$1,365,263, Head Start - \$1,784,440, Nutrition - \$146,070, Senior Community Service Employment - \$634,299, Emergency Food & Shelter - \$47,405, and Emergency Food Assistance - \$41,742.

**Central Office Building in Fayetteville, TN**

On March 20, 2002, the Agency acquired a 40,000 square foot, single story, brick commercial building situated on 5.1 acres, located at 1437 Winchester Highway. This facility includes a commercial kitchen, office and program facilities, and a storage area for commodities held for distribution. The Agency moved into this building as its base of operations in April 2005 and continues to operate from this location.

**Program Highlights**

The Agency operates a variety of programs to meet the needs of clients in its service areas. Program highlights for the Agency's most significant programs from fiscal year 2012 follow:

*Head Start Program*

The objective of the Head Start Program (which includes the Early Head Start Program), funded by the U.S. Dept. of Health and Human Services - Administration for Children and Families, is to provide comprehensive quality services to educate children and empower families. The program serves primarily low income children from birth to 5 years of age, including pregnant women and children with special needs and their families. The program is composed of early childhood development and health services, family and community partnerships, and program design and management. Inclusive in these services are education, medical and dental services, mental health, nutrition, parent involvement, family services, special needs services and family literacy. Head Start served a total of 1,160 three and four year olds during the program year and 95 children birth to three and pregnant women. Of that number, 11.89% and 9.1% respectively were diagnosed with a disability. 100% of Head Start and 80.5% of Early Head Start children were up-to-date on physical and dental examinations.

In fiscal year 2012, the Agency continued to expend funds under two ARRA - Head Start grants awarded in 2010. Funds expended under the ARRA - Head Start grants totaled \$397,157 for fiscal year 2012.

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Management's Discussion and Analysis (Continued)

*Low Income Home Energy Assistance Program*

The Low Income Home Energy Assistance Program ("LIHEAP") provides assistance to elderly, handicapped, and low-income persons with energy used to heat their homes through financial assistance to offset a portion of the cost. The Agency received funding for fiscal year 2012 for operation of LIHEAP from funds passed through to the Agency by the State of Tennessee Department of Human Services ("DHS"). Priority for assistance is given to lowest of income. Priority points are used to determine the amount of assistance which ranges from \$300 to \$600. Energy and crisis assistance is provided to eligible households through direct payment to a utility or propane company. During fiscal year 2012, a total of 8,552 clients received assistance totaling \$3,399,015.

*Nutrition Services for the Elderly Program*

The Nutrition Services for the Elderly ("Nutrition") Program, funded by the South Central TN Development District/TN Commission on Aging and Disabilities through the Older Americans Act, strives to help the frail and elderly individuals aged 60 or over to eat adequately by providing a noon-time meal in a congregate or home delivered setting. The development of skill and/or knowledge to help the elderly select and prepare nourishing and well-balanced meals is also a primary concern. Meals are provided to those who have limited mobility which may impair their capacity to shop and cook for themselves. The program is committed to insuring the dignity of every person and underlining their importance through continued social contact and activities which minimize the need for institutionalism in nursing homes or comparable facilities. During fiscal year 2012, a total of 110,203 congregate meals and 68,023 home delivered meals were served to 884 clients. Additionally, funding through State of Tennessee Home and Community Based Program (Options), the Family Caregiver Program and the Statewide Long Term Care Choices Program provides similar meals to the frail and disabled aged 18 years or older. For this period Options provided 17,973 meals to 99 clients, Family Caregiver provided 2,774 meals to 28 clients, and Long Term Care Choices provided 46,573 meals to 310 clients.

*Community Representative Payee Program*

The Community Representative Payee Program, funded by client fees established by the Social Security Administration, offers money management services to assist persons who are incapable of budgeting, paying routine bills, and keeping track of financial matters. Those served must receive Social Security or some type of disability benefit and be certified by a physician or judge to be incapable of money management. During fiscal year 2012, 195 clients were assisted in twenty Tennessee counties and four other states. Funds distributed to/on behalf, of clients for the year totaled \$ 1,451,832.

*Food Service Program*

Through the operation of two commercial kitchens SCHRA provides hot nutritious meals to programs and individuals for a fee without limited qualifications. This service acts as a vendor to numerous Agency programs as well as the general public. A staff of 15 employees, utilizing 12 vans, delivers centrally prepared food to all thirteen counties in the Agency's service area. Additionally these kitchens offer professional catering services to provide income to purchase major food service equipment and to help sustain the Agency's congregate meal service for a full five day week. Without these additional dollars, the Nutrition Congregate Program would be in operation only four days per week. This would mean that 1,850 to 2,000 meals per month would be cut and a higher number of seniors would not be served in communities served by the Agency. During fiscal year 2012, these kitchens supplied 251,351 meals for the Agency's Nutrition Program and 40,369 meals for its Head Start Program. Other catering engagements both internal and public produced additional revenues of \$41,903. Because of this innovative approach to provide additional resources for capital equipment and additional senior meals, the program was awarded the 2012 Gordon Acuff Award of Excellence by the Tennessee Human Resource Association.



SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Management's Discussion and Analysis (Continued)

*Weatherization Assistance Program*

The Weatherization Assistance Program ("WAP") strives to improve energy efficiency and reduce energy costs of low-income households through the application of weatherization materials to each dwelling unit. The Agency received funding for fiscal year 2012 for operation of WAP from funds passed through to the Agency by DHS. These funds were provided by the *American Recovery and Reinvestment Act of 2009* ("ARRA") and the regular Weatherization Assistance Program funding. Eligibility guidelines for this funding allowed households of up to 200% of Federal Poverty Level to benefit. Up to \$7,100, including weatherization and health and safety measures, may be spent on approved dwelling units. During fiscal year 2012, weatherization improvements totaling \$907,689 were made on 225 dwelling units. ARRA funds expended under WAP during fiscal year 2012 totaled \$589,009.

*Community Services Block Grant Program*

The Community Services Block Grant ("CSBG") Program provides a wide range of services and activities which will have a measurable and potentially major impact on poverty in the community. The Agency received funding for fiscal year 2012 for operation of its CSBG Program from funds passed through to the Agency by DHS. The CSBG Program insures access to programs and services by elderly, handicapped, and low-income persons through the Neighborhood Service Centers in each of the 13 counties served by the Agency, where experienced personnel assist in meeting the needs of the low-income population. During fiscal year 2012, the CSBG Program served 12,173 unduplicated households.

*Senior Community Service Employment Program*

The Senior Community Service Employment ("Title V") Program, funded by Senior Service America, Inc. ("SSAI"), is designed to assist economically disadvantaged people age 55 and over by providing immediate supplemental income, work experience and training at an approved training site, with an immediate goal of more permanent, unsubsidized employment. The Title V Program is also dedicated to strengthening families, communities, and the nation by providing older and disadvantaged individuals with opportunities to learn, work, and serve others. Title V clients who cannot immediately be placed into an unsubsidized job receive assistance on finding a job and/or are assigned to eligible non-profit and government agencies for approximately 20 hours of work per week. In these assignments, clients receive valuable work experience and skill training while assisting their host agency in delivering essential community services. During fiscal year 2012, the Title V Program served a twelve (12) county area with an allocated slot level of 96 clients. The Title V Program also served four (4) additional counties (Bledsoe, Grundy, Marion, and Sequatchie) which are outside of SCHRA's service area. During fiscal year 2012 a total of 209 clients were served.

*Community Corrections Program*

The Community Corrections Program, funded by the State of Tennessee Board of Probation & Parole, is designed to help alleviate the overcrowding of prisons and jails by offering constructive sentencing options for non-violent offenders in the Circuit Courts of the 14th Judicial District - Coffee County, the 17th Judicial District - Bedford, Lincoln, Marshall, and Moore Counties, and the 22nd Judicial District - Giles, Lawrence, Maury, and Wayne Counties. The Program provides intensive monitoring of offenders, and includes necessary services to enhance a successful reintegration into society. During fiscal year 2012, the Program served 425 clients who paid \$19,867 in victim restitution, \$5,872 in child support, and worked 7,324 hours of community service.

*Homemaker Services for the Elderly Program*

The Homemaker Services for the Elderly ("Homemaker") Program, funded by the South Central TN Development District/TN Commission on Aging and Disabilities through the Older Americans Act ("SCTDD/AAAD"), provides homemaker, respite, and/or personal care services to individuals age 60 and over or adults age 18 or older who are disabled or incapacitated who wish to remain in their own homes. These services may comprise basic housekeeping tasks, assistance with bathing and more as determined by the SCTDD/AAAD. During fiscal year 2012, a total of 4,132 units of service were provided by the Homemaker Program. Additionally, funding through the State of Tennessee Home and Community Based Program (Options), the Family Caregiver Program and the Statewide Long Term Care Choices Program provides for homemaker and personal care assistance and respite sitter service to the frail elderly and adults with disabilities. During fiscal year 2012, Options provided 5,902 units of service, Family Caregiver provided 2,755 units of service, and Long Term Care Choices provided 11,898 units of service. These services were delivered to 196 clients.



SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Management's Discussion and Analysis (Continued)

*Foster Grandparent Program*

The Foster Grandparent Program, funded by the Corporation for National Service, provides stipend volunteer opportunities for limited income persons age 55 and older to give supportive services to children with "special needs" in the community. Foster Grandparents assist children and adolescents with learning disabilities, those who have been abused and/or neglected, and drug addicted abandoned babies. Foster Grandparents also help teen parents and their children. Foster Grandparents serve an average of 20 hours a week in volunteer stations such as Head Start, public schools, day care centers, shelters for abused women and children, and after school programs. For fiscal year 2012, services were provided for 287 "at risk" children by 98 Foster Grandparents.

*Social Services Block Grant ("SSBG")/Protective Service Homemaker Program*

The SSBG/Protective Service Homemaker Program, funded by State of Tennessee Department of Human Services, provides supportive services to adults (Adult Protective Services (APS) cases) who have been threatened with abuse, neglect, or exploitation and require assistance to prevent this from occurring. Services focus on activities which the client can no longer do for themselves and which are necessary for the person to remain at home, including emotional support and encouragement during periods of loneliness and depression. Services are directed at teaching homemaking and daily living skills to these individuals. During fiscal year 2012, a total of 8,976 hours of service were provided to 104 clients.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction of the Agency's basic financial statements. The Agency's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements**

The Government-wide Financial Statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in 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 Agency'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 only result in cash flows in future fiscal periods (e.g. earned but unused compensated absences).

**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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Agency are considered to be governmental funds.

**Governmental Funds**

Government funds are 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, governmental fund financial statements focus on near-term inflows and outflow of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Agency's near-term financing requirements.

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Management's Discussion and Analysis (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds 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 governmental funds and governmental activities.

**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 fund financial statements.

**Requests for Information**

This financial report is designed to provide a general overview of the Agency's finances. Requests for additional information should be addressed to South Central Human Resource Agency, P.O. Box 638, Fayetteville, Tennessee 37334.

**Financial Analysis**

**Net Assets**

Table 1 below provides a summary of SCHRA's net assets for the years ended June 30, 2012 and 2011.

Table 1  
Condensed Statement of Net Assets

	<u>2012</u>	<u>2011</u>
Current assets	\$ 1,930,902	\$ 2,046,538
Restricted assets	749,935	630,006
Capital assets	<u>1,917,639</u>	<u>1,680,774</u>
Total assets	<u>\$ 4,598,476</u>	<u>\$ 4,357,318</u>
Current liabilities	\$ 1,359,404	\$ 1,399,350
Long-term liabilities	<u>37,500</u>	<u>82,500</u>
Total liabilities	<u>\$ 1,396,904</u>	<u>\$ 1,481,850</u>
Investment in capital assets, net of related debt	\$ 1,835,139	\$ 1,553,274
Restricted	459,000	\$ 459,000
Unrestricted	<u>907,433</u>	<u>863,194</u>
Total net assets	<u>\$ 3,201,572</u>	<u>\$ 2,875,468</u>

Total assets increased by approximately \$241,000 primarily due to increases in capital assets. Total liabilities decreased by approximately \$85,000 primarily due to decreases in accrued payroll and payments on long-term debt. The change in net assets is an increase of approximately \$326,000.

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Management's Discussion and Analysis (Continued)

**Change in Net Assets**

Table 2 summarizes the change in net assets for the years ended June 30, 2012 and 2011.

Table 2  
Change in Net Assets

	<u>2012</u>		<u>2011</u>	
	<u>Amount</u>	<u>Percentage of Funding</u>	<u>Amount</u>	<u>Percentage of Funding</u>
Revenues:				
Operating grants and contributions	\$ 16,665,682	78.29%	\$ 20,489,672	83.96%
Charges for services	<u>4,621,581</u>	<u>21.71%</u>	<u>3,913,397</u>	<u>16.04%</u>
Total revenues	<u>21,287,263</u>	<u>100.00%</u>	<u>24,403,069</u>	<u>100.00%</u>
Expenses:				
Head Start	7,942,975	37.31%	7,655,504	31.37%
Low Income Home Energy Assistance	3,932,698	18.47%	5,605,896	22.97%
Nutrition Services for the Elderly	1,752,705	8.23%	1,531,219	6.27%
Community Representative Payee Program	1,516,568	7.12%	1,243,713	5.10%
Food Service	1,241,909	5.83%	1,139,667	4.67%
Weatherization Assistance	1,122,167	5.27%	2,771,968	11.36%
Community Services Block Grant	816,661	3.84%	1,014,999	4.16%
Senior Community Service Employment	746,924	3.51%	1,334,629	5.47%
Community Corrections	484,566	2.28%	445,024	1.82%
Homemaker Services for the Elderly	447,979	2.10%	424,112	1.74%
Foster Grandparent	288,885	1.36%	315,989	1.29%
Social Services Block Grant	266,139	1.25%	261,312	1.07%
State Appropriations, Agency & Other	<u>400,983</u>	<u>1.88%</u>	<u>713,103</u>	<u>2.92%</u>
Total expenses	<u>20,961,159</u>	<u>98.47%</u>	<u>24,457,135</u>	<u>100.22%</u>
Change in net assets	326,104	<u>1.53%</u>	(54,066)	<u>-0.22%</u>
Net assets at beginning of year	<u>2,875,468</u>		<u>2,929,534</u>	
Net assets at end of year	<u>\$ 3,201,572</u>		<u>\$ 2,875,468</u>	

As shown, operating grants and contributions provided approximately 78% and 84% of the funds for governmental activities for the fiscal years 2012 and 2011, respectively, which are expended primarily for child education, energy assistance, and nutrition and other services for the elderly.

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Management's Discussion and Analysis (Continued)

**Net Cost of Governmental Activities**

Table 3 reports the cost of the Agency's governmental activities. The table also shows each activity's net cost (total cost less revenues provided for specific programs). Net cost of services for Head Start was used to acquire grant funded equipment and property which has been capitalized in the statement of net assets.

Table 3  
Net Cost of Governmental Activities

<u>Program</u>	<u>2012</u>		<u>2011</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Head Start	\$ 7,942,975	\$ 208,562	\$ 7,655,504	\$ 36,909
Low Income Home Energy Assistance	3,932,698	-	5,605,896	(425)
Nutrition Services for the Elderly	1,752,705	(57,198)	1,531,219	(28,456)
Community Representative Payee	1,516,568	1,871	1,243,713	(15,846)
Food Service	1,241,909	153,635	1,139,667	110,815
Weatherization Assistance	1,122,167	(31,241)	2,771,968	(14,322)
Community Services Block Grant	816,661	959	1,014,999	(12,275)
Senior Community Service Employment	746,924	-	1,334,629	2
Community Corrections	484,566	784	445,024	(5,253)
Homemaker Services for the Elderly	447,979	56,341	424,112	18,805
Foster Grandparent	288,885	(1,087)	315,989	(4,837)
Social Services Block Grant	266,139	(26,490)	261,312	(25,524)
State Appropriations, Agency & Other	<u>400,983</u>	<u>19,968</u>	<u>713,103</u>	<u>(113,659)</u>
Totals	<u>\$ 20,961,159</u>	<u>\$ 326,104</u>	<u>\$ 24,457,135</u>	<u>\$ (54,066)</u>

**Capital Assets**

As of June 30, 2012, SCHRA had invested a cumulative total of \$3,334,549 in capital assets compared to a cumulative total of \$3,080,268 as of June 30, 2011. Accumulated depreciation totaled \$1,416,910 and \$1,399,494 as of June 30, 2012 and 2011, respectively. SCHRA recognized depreciation expense of \$116,157 and \$117,827 for fiscal years 2012 and 2011, respectively. Additional information about capital assets can be found in Note 4 of the financial statements.

**Long-Term Debt**

The Agency has a non-interest bearing note payable to the Fayetteville Board of Public Utilities. The note is payable in monthly installments of \$3,750 and is secured by a \$450,000 irrevocable letter of credit. The outstanding balance on the note is \$82,500 as of June 30, 2012 (\$127,500 as of June 30, 2011). Payments on the note are made by the General Fund. Additional information about this note can be found in Note 5 to the financial statements.

**Factors Bearing on SCHRA's Future**

The Agency is dependent on federal and state funding in order to carry out its various programs. The Agency expects to receive less funding for 2013 due to the exhaustion of ARRA funding and current uncertainties with the Federal budget. In addition, the Agency's Head Start program is up for renewal.

SOUTH CENTRAL HUMAN RESOURCE AGENCY

Statement of Net Assets

June 30, 2012

ASSETS		
Cash		\$ 920,092
Receivables		976,306
Prepaid expenses		34,504
Restricted assets		
Cash		290,935
Certificate of deposit		459,000
Capital assets		
Buildings and improvements	\$ 2,022,685	
Vehicles	846,182	
Equipment	440,682	
Land	<u>25,000</u>	
	3,334,549	
Less accumulated depreciation	<u>1,416,910</u>	
Capital assets, net		<u>1,917,639</u>
Total assets		<u>4,598,476</u>
LIABILITIES		
Accounts payable	374,147	
Accrued payroll	167,088	
Accrued payroll taxes and employee benefits	102,766	
Due to funding source	338,304	
Accrued leave	292,599	
Accrued audit fee	39,500	
Long-term debt		
Due within one year	45,000	
Due in more than one year	<u>37,500</u>	
Total liabilities		<u>1,396,904</u>
NET ASSETS		
Investment in capital assets, net of related debt		1,835,139
Restricted		459,000
Unrestricted		<u>907,433</u>
Total net assets		<u>\$ 3,201,572</u>

SOUTH CENTRAL HUMAN RESOURCE AGENCY

Statement of Activities  
Year Ended June 30, 2012

Function/Programs	Expenses	Program Revenues		Net Revenue (Expense)
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Head Start	\$ 7,942,975	\$ 2,303	\$ 8,149,234	\$ 208,562
Low Income Home Energy Assistance	3,932,698	-	3,932,698	-
Nutrition Services for the Elderly	1,752,705	1,150,296	545,211	(57,198)
Community Representative Payee	1,516,568	1,518,439	-	1,871
Food Service	1,241,909	1,395,544	-	153,635
Weatherization Assistance	1,122,167	-	1,090,926	(31,241)
Community Services Block Grant	816,661	1,170	816,450	959
Senior Community Service Employment	746,924	-	746,924	-
Community Corrections	484,566	25,894	459,456	784
Homemaker Services for the Elderly	447,979	503,810	510	56,341
Foster Grandparent	288,885	614	287,184	(1,087)
Social Services Block Grant	266,139	-	239,649	(26,490)
State Appropriations, Agency & Other	400,983	23,511	397,440	19,968
Total	<u>\$ 20,961,159</u>	<u>\$ 4,621,581</u>	<u>\$ 16,665,682</u>	326,104
Net Assets, beginning				<u>2,875,468</u>
Net Assets, ending				<u>\$ 3,201,572</u>

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Balance Sheet - Governmental Funds  
June 30, 2012

	General	Special Revenue	Total Governmental Funds
<b>ASSETS</b>			
Cash			
Cash - unrestricted	\$ 889,659	\$ 30,433	\$ 920,092
Cash - restricted	3,593	287,342	290,935
Total cash	893,252	317,775	1,211,027
Receivables			
Accounts receivables	7,045	969,261	976,306
Due from special revenue fund	271,176	-	271,176
Total receivables	278,221	969,261	1,247,482
Prepaid expenses	34,504	-	34,504
Certificate of deposit - restricted	459,000	-	459,000
Total assets	\$ 1,664,977	\$ 1,287,036	\$ 2,952,013
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 119,676	\$ 254,471	\$ 374,147
Accrued payroll	36,210	130,878	167,088
Accrued payroll taxes and employee benefits	22,271	80,495	102,766
Due to funding source	-	338,304	338,304
Due to general fund	-	271,176	271,176
Accrued leave	80,887	211,712	292,599
Accrued audit fee	39,500	-	39,500
Total liabilities	298,544	1,287,036	1,585,580
Fund Balances			
Nonspendable	34,504	-	34,504
Restricted	459,000	-	459,000
Unassigned	872,929	-	872,929
Total fund balances	1,366,433	-	1,366,433
Total liabilities and fund balances	\$ 1,664,977	\$ 1,287,036	\$ 2,952,013



SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Reconciliation of the Balance Sheet of Governmental  
Funds to the Statement of Net Assets  
June 30, 2012

Fund Balances - Total Governmental Funds	\$ 1,366,433
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets of \$3,334,549, net of accumulated depreciation of (\$1,416,910), are not financial resources and, therefore, are not reported in the funds	1,917,639
Long-term debt is not reported in the funds	<u>(82,500)</u>
Net Assets	<u>\$ 3,201,572</u>

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Governmental Funds  
Year Ended June 30, 2012

	General	Special Revenue	Total Governmental Funds
<b>Revenues</b>			
Grantor contributions	\$ -	\$ 16,382,710	\$ 16,382,710
Program income	1,404,379	183,907	1,588,286
Performance based income	-	1,473,755	1,473,755
State and local contributions	200,839	82,135	282,974
Interest income	3,204	10	3,214
Other income	82,158	1,474,166	1,556,324
	<u>1,690,580</u>	<u>19,596,683</u>	<u>21,287,263</u>
<b>Total revenues</b>			
<b>Expenditures</b>			
Salaries	256,865	5,269,577	5,526,442
Fringe benefits	121,720	2,459,864	2,581,584
Participant costs	467	5,357,492	5,357,959
Food	650,787	1,758,168	2,408,955
Indirect costs	109,497	883,443	992,940
Contract services	27,500	485,464	512,964
Debt repayment	45,000	-	45,000
Insurance and bonding	4,727	43,190	47,917
Maintenance and repairs	14,489	105,019	119,508
Nonexpendable supplies	1,278	24,521	25,799
Office supplies	1,957	31,337	33,294
Other	143,078	1,502,033	1,645,111
Postage	4,951	14,730	19,681
Printing and duplication	1,548	9,419	10,967
Professional services	14,553	155,831	170,384
Program supplies	48,450	214,458	262,908
Renovations	-	285,702	285,702
Rent and leases	33,846	379,216	413,062
Telephone	2,132	123,699	125,831
Transportation	29,290	74,508	103,798
Travel - in area	630	142,316	142,946
Travel - out of area	1,808	75,355	77,163
Utilities	27,967	164,912	192,879
Vehicles and equipment	48,193	92,037	140,230
	<u>1,590,733</u>	<u>19,652,291</u>	<u>21,243,024</u>
<b>Total expenditures</b>			
<b>Other Financing Sources (Uses)</b>			
Transfers in (out)	<u>(400,946)</u>	<u>400,946</u>	<u>-</u>
Net change in fund balances	(301,099)	345,338	44,239
Fund balances, beginning of year	<u>1,667,532</u>	<u>(345,338)</u>	<u>1,322,194</u>
Fund balances, end of year	<u>\$ 1,366,433</u>	<u>\$ -</u>	<u>\$ 1,366,433</u>

See accompanying notes to financial statements.

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Reconciliation of the Statement of Revenues, Expenditures, and  
Changes in Fund Balances to the Statement of Activities  
Year Ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds \$ 44,239

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and recorded as depreciation expense. This is the amount by which capital outlays of \$353,022 exceeded depreciation expense of (\$116,157) in the current period. 236,865

Governmental funds report debt payments as expenditures. However, in the statement of activities, the payment reduces the corresponding liability. This is the amount of note payments in the current period. 45,000

Net Revenue (Expense) - Total Governmental Activities \$ 326,104

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Notes to Financial Statements  
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Operations** - South Central Human Resource Agency (the Agency) was formed on July 11, 1973 in accordance with the *Human Resource Agency Act of 1973*. This legislation established four metropolitan and up to nine rural human resource agencies to deliver human resource programs across the State of Tennessee. The Agency was chartered as a public non-profit corporation on February 19, 1975. The Agency delivers a variety of programs to economically disadvantaged, elderly, and disabled individuals in 13 counties of south central Tennessee: Bedford, Coffee, Franklin, Giles, Hickman, Lawrence, Lewis, Lincoln, Marshall, Maury, Moore, Perry, and Wayne. The Agency is governed by a 64-member Governing Board. The Governing Board consists of the county mayor of each county, the mayor of each municipality, thirteen community representatives, and one state senator and one state representative whose district lies within the area served by the Agency.

**Reporting Requirements** - As a human resource agency, the Agency is required to prepare its financial statements in conformity with generally accepted accounting principles (GAAP) as applied to government entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**Basic Financial Statements** - The Agency's basic financial statements include both government-wide (reporting the Agency as a whole) and fund financial statements (reporting the Agency's major funds). All of the Agency's activities are governmental; it has no business type activities.

**Government-Wide Statements** - The government-wide financial statements include the statement of net assets and the statement of activities. In the statement of net assets, the governmental funds are presented on a consolidated basis, and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Agency's net assets are reported in two parts: investment in capital assets, net of related debt and unrestricted net assets. The statement of activities presents a comparison between direct expenses and program revenues for each major function/program of the Agency. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function/program. Program revenue includes (a) charges for services offered by the programs and (b) operating grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

**Fund Financial Statements** - The fund statements provide information about Agency's funds. The Agency has two major governmental funds. It has no nonmajor governmental funds.

**General Fund** - This is the Agency's primary operating fund. It accounts for all financial activity that is not required to be accounted for in the special revenue fund.

**Special Revenue Fund** - This fund is used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

**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. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which Agency gives or receives value without directly receiving or giving equal value in exchange, include grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The effects of interfund activity have been eliminated from the government-wide financial statements. Effective June 30, 2012, \$400,946 was transferred from the General Fund to the Special Revenue Fund to eliminate the Special Revenue Fund's deficit fund balance.

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue is recognized when measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds.

Grant funds received in advance are reported on the balance sheet when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Grant funds received in advance also arises when resources are received by the Agency before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods when both revenue recognition criteria are met, or when the Agency has a legal claim to the resources, the liability on the balance sheet is removed and revenue is recognized.

**Fund Balances**

*Nonspendable* fund balance includes amounts that cannot be spent due to form (e.g. prepaid expenses) or are legally or contractually required to be maintained intact (e.g. corpus or principal of a permanent fund). Nonspendable fund balance also includes any long-term loans and notes receivable and property held for resale unless the proceeds are restricted, committed or assigned.

*Restricted* fund balance includes amounts constrained for a specific purpose by external parties, constitutional provision or enabling legislation.

*Committed* fund balance includes amounts constrained for a specific purpose by the Agency’s governing board. Removal or change of the constraints on the committed amounts requires action by the governing board.

*Assigned* fund balance for the special revenue fund is the remaining positive amounts not classified as nonspendable, restricted, or committed. Assigned fund balance for the general fund includes amounts constrained for the intent to be used for a specific purpose by the governing board.

*Unassigned* fund balance is any residual fund balance remaining after all of the other categories of fund balance have been determined.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Capital Assets** - Capital assets (over a \$5,000 threshold) are recorded at actual cost. Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements. The cost of capital assets is depreciated using the straight-line method over the estimated useful lives (5 - 40 years).

**Federal, State, and Local Agency Grant Funds** - Program funds authorized under federal, state, and local agency grants are requisitioned from such agencies primarily for reimbursement of allowable costs incurred up to amounts contracted for under each grant. These funds are accounted for at the time allowable costs are incurred. The grant periods for individual grants do not necessarily coincide with the fiscal year of the Agency. Since the Agency receives funds either on an advance basis or on a cost-reimbursement basis, either a receivable or a liability (due to grantor) may exist at the Agency’s balance sheet date. The Agency’s policy is to expend federal, state, and local agency grant funds which are restricted as to purpose before using unrestricted funds to pay for program expenses.

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Annual Leave** - Eligible full time employees who have been employed by the Agency for up to five years accrue 1 day of vacation per month. Eligible full time employees with more than five years of service with the Agency accrue 1 1/2 days of vacation per month. These employees may carry over up to 225 hours (30 days) of accrued vacation leave from the preceding fiscal year. Any vacation leave accrued in excess of 225 hours may be transferred to sick leave to the extent that sick leave is not maximized. The liability for accrued leave recognized in the financial statements represents accrued vacation leave for all eligible employees as of June 30, 2012. Grant funds reimburse the special revenue fund as the leave is earned.

Sick leave is expensed when paid. The Agency's sick leave policy permits the accumulation of 12 sick days per year up to a maximum of 180 days. Employees are not paid for unused sick days upon termination of employment. Accordingly, sick pay is charged to expenditures when taken and no liability for unused sick leave has been recognized in the financial statements.

**Income Taxes** - As a governmental entity, the Agency is exempt from federal and state income. The Agency is also a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Agency was notified by the IRS in 2012 that it must begin filing Form 990, *Return of Organization Exempt from Income Tax*, on an annual basis effective for the year ended June 30, 2011. Forms 990s for the years ending June 30, 2011 and 2012 are subject to examination by the IRS, generally for three years after they were filed.

**Budgetary Accounting** - The Agency receives funds under various grants and contracts which end on various budget cycles. Accordingly, there is not an annual appropriated budget for the Agency and no budgetary comparison has been included in the financial statements.

**Indirect Cost Allocation** - The Agency accumulates administrative costs in an indirect cost pool and allocates these costs to programs based on each program's total direct expenditures. Administrative costs are those costs incurred for the common benefit of all agency programs that cannot be readily identified with a final cost objective. This plan has been approved by the United States Department of Health and Human Services.

**Concentrations of Credit Risk** - Financial instruments, which potentially subject the Agency to concentrations of credit risk, consist primarily of cash and receivables. Cash deposits are held in federally insured banks. The Agency's receivables are primarily due from federal and state governmental entities. Accordingly, Management does not believe significant credit risk exists at June 30, 2012.

**Subsequent Events** - The Agency has evaluated events and transactions through December 28, 2012, the date of these financial statements were issued for items that should potentially be recognized or disclosed.

NOTE 2 - RECEIVABLES

Receivables from grantor agencies and others as of June 30, 2012 consisted of the following:

Federal	\$ 353,008
State	374,941
Other	<u>248,357</u>
	<u>\$ 976,306</u>

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Notes to Financial Statements (Continued)

NOTE 3 - DEPOSITS AND CERTIFICATE OF DEPOSIT

Custodial risk is the risk that, in the event of a bank failing, the Agency's deposits (including the certificate of deposit) may not be returned. The Agency minimizes this risk by requiring full collateralization on all demand deposit accounts in excess of federally insured limits except when the institution belongs to the State of Tennessee Bank Collateral Pool (the "Pool"). Banks participating in the Pool determine the aggregate balance of their public fund accounts for the Agency. The amount of collateral required to secure these public deposits must be equal to 105% of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the Pool. 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. Consequently, public fund accounts covered by the Pool are considered to be fully insured for purposes of credit risk disclosure.

At June 30, 2012, the carrying amount of the Agency's deposits, including the certificate of deposit, was \$1,670,027, and the bank balances were \$1,922,828. Of the bank balances, \$1,860,731 was fully insured or collateralized and \$62,097 was uncollateralized. Uncollateralized deposits have been subsequently collateralized (see Note 11).

NOTE 4 - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2012 consisted of the following:

Governmental activities:	Beginning Balance	Increases	Transfers/ Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Capital assets being depreciated:				
Building and improvements	1,736,983	285,702	-	2,022,685
Vehicles	862,714	67,320	(83,852)	846,182
Equipment	455,571	-	(14,889)	440,682
Total capital assets being depreciated	<u>3,055,268</u>	<u>353,022</u>	<u>(98,741)</u>	<u>3,309,549</u>
Less accumulated depreciation for:				
Building and improvements	270,858	45,653	-	316,511
Vehicles	715,728	64,378	(83,852)	696,254
Equipment	412,908	6,126	(14,889)	404,145
Total accumulated depreciation	<u>1,399,494</u>	<u>116,157</u>	<u>(98,741)</u>	<u>1,416,910</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>1,655,774</u>	<u>236,865</u>	<u>-</u>	<u>1,892,639</u>
Governmental activities capital assets, net of accumulated depreciation	<u>\$ 1,680,774</u>	<u>\$ 236,865</u>	<u>\$ -</u>	<u>\$ 1,917,639</u>

Depreciation expense for the year ended June 30, 2012 was \$116,157.



SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Notes to Financial Statements (Continued)

NOTE 5 - LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2012 consisted of:

Note payable, non-interest bearing to Fayetteville Board of Public Utilities, due in monthly installments of \$3,750, secured by \$450,000 irrevocable letter of credit	\$ 82,500
Less installments due within one year	<u>(45,000)</u>
	<u>\$ 37,500</u>

The Agency's certificate of deposit secures the irrevocable letter of credit which expires May 13, 2014. Future principal payments on long-term debt are: 2013 - \$45,000 and 2014 - \$37,500.

Long-term liability activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Transfers/ Decreases	Ending Balance
Note payable - Fayetteville Board of Public Utilities	<u>\$ 127,500</u>	<u>\$ -</u>	<u>\$ (45,000)</u>	<u>\$ 82,500</u>

Payments on the note are made by the General Fund.

NOTE 6 - OPERATING LEASES AGREEMENTS

The Agency leases real estate, vehicles, and equipment for operation of its programs. Rent paid for real estate for the year ended June 30, 2012 totaled \$413,062 including allocated building costs totaling \$162,458. All of the Agency's leases are cancelable with thirty days notice in the event that the Agency loses federal or state funding for any program which utilizes leased property.

NOTE 7 - RETIREMENT PLANS

The Agency sponsors a Tax Deferred Annuity Plan (the "Annuity Plan") for employees of the Agency. Employees are eligible to participate in the Plan on the first day of employment. Employees may make pre-tax contributions to the Plan subject to limits set by the Internal Revenue Code. Contributions to the Annuity Plan are fully vested. Employee contributions for the year ended June 30, 2012 to the Annuity Plan totaled \$165,464.

The Agency also sponsors the South Central Human Resource Agency Pension Plan (the "Pension Plan"), a defined contribution money purchase pension plan. Employees are eligible to participate in the Pension Plan after six months of employment. The Agency contributes 5% of the employee's base salary each month, if the employee contributes 2% of his/her base salary to the Annuity Plan. Effective June 1, 2012, the Agency's contribution was increased to 8% for eligible employees with fifteen or more years of service. The Agency's contributions for each eligible employee (and earnings allocated thereon) are fully vested after one year of continuous service. Agency contributions for, and earnings forfeited by, employees who leave employment before one year of service are used to reduce the Agency's current period contribution requirement. Employer contributions for the year ended June 30, 2012 to the Pension Plan totaled \$160,981.

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Notes to Financial Statements (Continued)

NOTE 8 - RISK MANAGEMENT

The Agency participates in the Tennessee Municipal League (TML) Risk Management Pool for the following risks of loss: commercial general liability; personal injury liability; theft of, damage to, or destruction of real and personal property; public officers' liability; automobile insurance; and workers' compensation and employers' liability. The Agency's agreement with the TML Risk Management Pool provides for payment of annual premiums. The agreement also provides for refunds to members and additional member assessments. Additional member assessments are made based on the experience of the pool. Additional member assessments have not been imposed in any of the past three fiscal years. Additionally, the Agency carries excess liability insurance through the State's Self Insurers Risk Retention Group, Inc., by TML.

The Agency also carries the following types of commercial insurance: special accident insurance for the Head Start programs; accident insurance for the Foster Grandparent and Retired Senior Volunteer programs and for volunteers of the Community Correction Program and for volunteers of the Agency; personal liability for the Foster Grandparent and Retired Senior Volunteer programs and for volunteers of the Agency; fire insurance for the Lawrenceburg Head Start center; employee crime coverage; contractor's pollution liability; and excess automobile liability insurance for the Foster Grandparent and Retired Senior Volunteer programs and for volunteers of the Agency. The Agency also carries additional employee dishonesty coverage specific to the deferred contribution pension plan. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

The State of Tennessee has set aside assets for claim settlement in the Employee Group Insurance Fund. This is an internal service fund that provides a program of health insurance coverage for the employees of the State with the risk retained by the State. The Agency participates in the Employee Group Insurance Fund. The Fund allocates the cost of providing claims servicing and claims payment by charging a premium to the Agency. The cost allocation is based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The Agency's obligation under the plan is limited to 80 percent of the total premium for its employees.

NOTE 9 - CONCENTRATIONS

Approximately 77% of the Agency's revenues for 2012 came from direct and pass-through federal grants. Approximately 57% of the Agency's program revenues for 2012 were from two programs. The Agency is economically dependent on federal and state funding in order to carry out its various programs.

NOTE 10 - IN-KIND CONTRIBUTIONS

The Agency is required to obtain local support in the form of in-kind contributions to match federal and state funding on various grants. These contributions are in the form of rent-free use of space; volunteer labor, supervision and services; and other non-cash contributions provided by individuals, private organizations, and local governments. The amount of in-kind revenue is also recognized as expense so the effect on the Agency's operations is zero. In-kind revenues and expenses are not included in the basic financial statements and totaled \$2,549,538 for the year ended June 30, 2012.

NOTE 11 - SUBSEQUENT EVENT

On November 1, 2012, the Agency entered into an agreement with the Bank of Lincoln County (the "Bank") in which the Bank agreed to pledge \$100,000 to cover excess deposits in the Agency's accounts at the Bank. This agreement was amended on December 3, 2012 to increase the amount pledged to \$200,000.

SUPPLEMENTARY INFORMATION

SOUTH CENTRAL HUMAN RESOURCE AGENCY

Schedule of Indirect Costs

Year Ended June 30, 2012

Salaries	\$ 537,262
Fringe benefits	236,935
Contract services	39,830
Insurance and bonding	18,776
Maintenance and repairs	4,313
Office supplies	10,537
Other	3,266
Participant costs	99
Postage	2,487
Printing and duplication	3,935
Professional services	14,713
Program supplies	3,686
Rent and leases	67,854
Telephone	4,429
Transportation	4,458
Travel - in area	1,261
Travel - out of area	36,563
Vehicles and equipment	<u>2,536</u>
	<u>\$ 992,940</u>

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Schedule of Insurance Coverage  
Year Ended June 30, 2012

	<u>Amount</u>
A. General Liability	
Policy No. TML-0282-12	
Policy Period: 7/01/09-7/01/12	
Bodily injury or personal injury (per person)	\$ 300,000
Bodily injury or personal injury (per occurrence)	700,000
Property damage (per occurrence)	100,000
Other loss (per occurrence)	1,000,000
Deductible	None
B. Property and Crime	
Policy No. TMP-0538-12	
Policy Period: 7/01/09-7/01/12	
Building and personal property	5,297,781
EDP equipment	368,020
Employee dishonesty	100,000
Forgery or alteration	100,000
Theft, disappearance or destruction	100,000
Computer fraud	100,000
C. Errors or Omissions Liability	
Policy No. TML-0538-09	
Policy Period: 7/01/09-7/01/12	
Limit for errors and omissions	1,000,000
Deductible (per occurrence)	None
D. Automobile Liability	
Policy No. TML-0282-12	
Policy Period: 7/01/09-7/01/12	
Bodily injury (per person)	300,000
Bodily injury (per occurrence)	700,000
Property damage (per occurrence)	100,000
Other loss (per occurrence)	1,000,000
Comprehensive deductible	100
Collision deductible	250
E. Workers Compensation	
Policy No. TWC-0211-13	
Policy Period: 7/01/10-7/01/13	
Bodily injury (per accident)	300,000
Bodily injury by disease (policy limit)	700,000
Bodily injury by disease (per employee)	300,000
Deductible	None

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Schedule of Insurance Coverage (Continued)

	<u>Amount</u>
F. Personal Liability Insurance for South Central Human Resource Agency Volunteers Policy No. TNFAYE1 Policy Period: 7/01/11-6/30/12	
Personal injury or property damage (per occurrence)	100,000
Annual aggregate (for both combined)	3,000,000
Deductible	None
G. Accident Insurance for South Central Human Resource Agency Volunteers Policy No. SPS900303 Policy Period: 7/01/11-6/30/12	
Principal sum	2,500
Capital sum	2,500
Medical indemnity (per occurrence)	50,000
Deductible	None
H. Excess Automobile Liability Insurance for South Central Human Resource Agency Volunteers Policy No. TNFAYE1 Policy Period: 7/01/11-6/30/12	
Per accident or loss	500,000
Deductible	None
I. Special Accident for Head Start Program Policy No. 83 SR 193351 Policy Period: 9/22/11-9/22/12	
Accidental dismemberment	10,000
Medical expenses (per occurrence)	10,000
Death benefit (per occurrence)	5,000
Accident medical expense (per occurrence)	25,000
Dental limit	1,000
J. Special Accident for Early Head Start Centers (Children) Policy No. 50202928907345001 Policy Period: 8/23/11-8/23/12	
Accidental death (per occurrence)	
Accidental dismemberment (per occurrence)	15,000
Accident medical expense (per occurrence)	25,000
K. Special Accident Insurance for Early Head Start Centers (Mothers) Policy No. 50202928807345001 Policy Period: 8/23/11-8/23/12	
Accidental death	
Accidental dismemberment	10,000
Accidental medical expense	10,000

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Schedule of Insurance Coverage (Continued)

	<u>Amount</u>
L. Accident Insurance for Retired Senior Program Volunteers	
Policy No. TNFAYE	
Policy Period: 7/01/11-6/30/12	
Principal sum	2,500
Capital sum	2,500
Medical indemnity (per insured)	50,000
Deductible	None
M. Personal Liability Insurance for Retired Senior Volunteer Program	
Certificate No. TNFAYE	
Policy Period: 7/01/11-6/30/12	
Personal injury or property damage (per occurrence)	1,000,000
Annual aggregate for both combined	3,000,000
Deductible	None
N. Excess Automobile Liability Insurance for Retired Senior Volunteer Program	
Certificate No. TNFAYE	
Policy Period: 7/01/11-6/30/12	
Maximum payment per accident or loss	500,000
Deductible	None
O. Personal Liability Insurance for Foster Grandparent Program Volunteers	
Certificate No. TNFAYE3	
Policy Period: 7/01/11-6/30/12	
Personal injury or property damage (per occurrence)	1,000,000
Annual aggregate for both combined	3,000,000
Deductible	None
P. Excess Automobile Liability Insurance for Foster Grandparent Volunteers	
Certificate No. TNFAYE3	
Policy Period: 7/01/11-6/30/12	
Maximum payment per accident or loss	500,000
Deductible	None
Q. Accident Insurance for Foster Grandparent Program	
Policy No. SPS900302	
Policy Period: 7/01/11-6/30/12	
Principal sum	2,500
Capital sum	2,500
Medical indemnity (per insured)	50,000



SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Schedule of Insurance Coverage (Continued)

	<u>Amount</u>
R. Accident Insurance for Community Correction Program Volunteers	
Policy No. SPS900304	
Policy Period: 7/01/11-6/30/12	
Principal sum	2,500
Capital sum	2,500
Medical indemnity (per occurrence)	50,000
Deductible	None
S. Employee Dishonesty Coverage for Agency Pension Plan	
Policy No. CBP 5 255 703	
Policy Period: 7/9/09 - 7/09/12	
Limit of insurance	500,000

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
 Schedule of Agency Officials  
 June 30, 2012

**POLICY COUNCIL**

<b>COUNTY</b>	<b>PROVIDER MEMBER COUNTY EXECUTIVE</b>	<b>CONSUMER MEMBER</b>
<b>BEDFORD</b>	Co. Mayor Eugene Ray 101 Bedford County Courthouse Shelbyville, TN 37160	Mr. Will P. Martin 110 Scotland Heights Shelbyville, TN 37160
<b>COFFEE</b>	Co. Mayor David Pennington 1329 McArthur St. #1 Manchester, TN 37355	Mr. Wayne Limbaugh City of Tullahoma, P. O. Box 807 Tullahoma, TN 37388
<b>FRANKLIN</b>	Co. Mayor Richard Stewart Franklin County Courthouse Winchester, TN 37398	Ms. Melanie Smith 826 Marshall Rd. Belvidere, TN 37306
<b>GILES</b>	*Co. Mayor Janet Vanzant P. O. Box 678 Pulaski, TN 38478	Ms. Sandra Minatra 415 Old Highway 64 Frankenwing, TN 38459
<b>HICKMAN</b>	Co. Mayor Steve Gregory 114 N. Central Ave., Suite 204 Centerville, TN 37033	Mickey Bunn 238 Columbia Ave. Centerville, TN 37033
<b>LAWRENCE</b>	Co. Exec. J. Mack Chandler 200 West Gaines, Suite 201 Lawrenceburg, TN 38464	Ms. Sandy Calvert 220 Centennial Boulevard Lawrenceburg, TN 38464
<b>LEWIS</b>	Co. Mayor Van Ward Lewis County Courthouse 110 Park Avenue N., Room 108 Hohenwald, TN 38462	Sue Turnbow 536 N. Park St. Hohenwald, TN 38462
<b>LINCOLN</b>	*Co. Mayor Peggy Bevels 112 Main Avenue South, Rm 101 Fayetteville, TN 37334	Mr. Willie Lee Leslie 28 Providence Rd. Fayetteville, TN 37334
<b>MARSHALL</b>	Co. Mayor Joe Boyd Liggett 1108 Courthouse Annex Lewisburg, TN 37091	Ms. Barbara Boyett 443 Joyce Avenue Lewisburg, TN 37091
<b>MAURY</b>	Co. Mayor James Lee Bailey 101 Maury County Courthouse Columbia, TN 38401	Mr. Eugene Richardson 2127 Polk Dr. Columbia, TN 38401
<b>MOORE</b>	Co. Mayor Sloan Stewart P. O. Box 206 Lynchburg, TN 37352	Mr. Dolan Eady 804 Main St., Apt. B103 Lynchburg, TN 37352

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Schedule of Agency Officials  
June 30, 2012

**POLICY COUNCIL (Continued)**

<b>COUNTY</b>	<b>PROVIDER MEMBER COUNTY EXECUTIVE</b>	<b>CONSUMER MEMBER</b>
<b>PERRY</b>	County Mayor John Carroll P. O. Box 16 Linden, TN 37096	*Ms. Joanne Lord 3081 Cedar Creek Rd. Linden, TN 37096
<b>WAYNE</b>	Co. Mayor Jason Rich P. O. Box 848 Waynesboro, TN 38485	Mr. Warren Miller P. O. Box E Clifton, TN 38425

\* Officers – Chairperson - Mayor Janet Vanzant; Vice Chairperson - Mayor Peggy Bevels; Secretary - Joanne Lord

**Executive Director:** Mr. James (Coy) Anderson

**Director of Fiscal Operations:** Mr. James Reynolds

**Human Resource Manager:** Ms. Scarlet Patterson

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Schedule of Expenditures of Federal and State Awards  
Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number	Beginning Accrued (Deferred)	Cash Receipts	Expenditures	Ending Accrued (Deferred)
<u>Direct Programs</u>						
<u>U.S. Department of Health and Human Services</u>						
Head Start						
Head Start	93.600	04CH0464/45	\$ (213,633)	\$ 213,633	\$ -	\$ -
Head Start	93.600	04CH0464/46	-	<u>6,944,970</u>	<u>7,293,982</u>	<u>(349,012)</u>
	Total 93.600		<u>(213,633)</u>	<u>7,158,603</u>	<u>7,293,982</u>	<u>(349,012)</u>
ARRA - Head Start						
Head Start Expansion (Bedford County)	93.708	04SH0464/02	(14,787)	356,711	342,352	(428)
ARRA Early Learning Mentor Coaches	93.708	90ST0103/01	-	<u>54,805</u>	<u>54,805</u>	<u>-</u>
	Total 93.708		<u>(14,787)</u>	<u>411,516</u>	<u>397,157</u>	<u>(428)</u>
	Total Head Start Cluster		<u>(228,420)</u>	<u>7,570,119</u>	<u>7,691,139</u>	<u>(349,440)</u>
<u>Corporation for National and Community Service</u>						
Retired Senior Volunteer Program	94.002	10SRSTN007	<u>(2,699)</u>	<u>35,612</u>	<u>32,878</u>	<u>35</u>
Foster Grandparent Program	94.011	09SFSTN003	<u>(15,697)</u>	<u>299,313</u>	<u>287,184</u>	<u>(3,568)</u>
<u>Pass Through Programs</u>						
<u>U.S. Department of Labor passed through from Senior Service America, Inc.</u>						
Senior Community Service Employment Program	17.235	AD-20017-10-60-A-24	(44,266)	115,962	71,696	-
Senior Community Service Employment Program	17.235	AD-21862-11-55-A-24	-	<u>644,249</u>	<u>675,228</u>	<u>(30,979)</u>
	Total 17.235		<u>(44,266)</u>	<u>760,211</u>	<u>746,924</u>	<u>(30,979)</u>

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Schedule of Expenditures of Federal and State Awards (Continued)

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number	Beginning Accrued (Deferred)	Cash Receipts	Expenditures	Ending Accrued (Deferred)
<u>Pass Through Programs (Continued)</u>						
<u>U.S. Department of Homeland Security, passed through from United Way of America</u>						
Emergency Food and Shelter National Board Program	97.024	29-7740-00	-	18,764	18,764	-
<u>U.S. Department of the Treasury, passed through from United Way of Metropolitan Nashville</u>						
Volunteer Income Tax Assistance	21.003	V110041	(2,351)	2,351	-	-
Volunteer Income Tax Assistance	21.003	V12126	-	32,000	38,397	(6,397)
	Total 21.003		(2,351)	34,351	38,397	(6,397)
<u>U. S. Department of Agriculture, passed through from State of Tennessee Department of Agriculture</u>						
Child and Adult Care Food Program	10.558	03-47-56026-00-1	-	458,095	458,095	-
<u>U. S. Department of Agriculture, passed through from State of Tennessee Department of Agriculture</u>						
Emergency Food Assistance Program (Administrative Costs)	10.568	18009	(7,307)	45,157	37,850	-
Emergency Food Assistance Program (Administrative Costs)	10.568	21295	-	27,720	34,440	(6,720)
	Total - 10.568		(7,307)	72,877	72,290	(6,720)
<u>U.S. Department of Health and Human Services, passed through from South Central Tennessee Development District</u>						
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	Congregate Nutrition	-	461,256	461,256	-
Nutrition Services Incentive Program	93.053	Services	-	63,400	63,400	-
	Total Aging Cluster		-	524,656	524,656	-
<u>U.S. Department of Energy, passed through from State of Tennessee Department of Human Services</u>						
Weatherization Assistance for Low-Income Persons	81.042	Z-12-000414	8,188	449,202	501,917	(44,527)
ARRA - Weatherization Assistance for Low-Income Persons	81.042	Z-11-000432	(257,708)	846,717	589,009	-
	Total 81.042		(249,520)	1,295,919	1,090,926	(44,527)

Continued

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Schedule of Expenditures of Federal and State Awards (Continued)

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number	Beginning Accrued (Deferred)	Cash Receipts	Expenditures	Ending Accrued (Deferred)
<u>Pass Through Programs (Continued)</u>						
<u>U.S. Department of Health and Human Services, passed through from State of Tennessee Department of Human Services</u>						
Low-Income Home Energy Assistance	93.568	Z-11-000215	8,865	(8,865)	-	-
Low-Income Home Energy Assistance	93.568	GG-11-34417	(346,732)	346,732	-	-
Low-Income Home Energy Assistance	93.568	Z-12-000265	-	549,311	549,311	-
Low-Income Home Energy Assistance	93.568	Z-12-000215	-	3,314,786	3,383,387	(68,601)
Total 93.568			(337,867)	4,201,964	3,932,698	(68,601)
Community Services Block Grant	93.569	Advance	34,317	-	-	34,317
Community Services Block Grant	93.569	Z-10-000116	(135,956)	135,956	-	-
Community Services Block Grant	93.569	Z-12-000166	-	132,579	132,579	-
Community Services Block Grant	93.569	Z-12-000116	-	551,182	683,813	(132,631)
Total - 93.569			(101,639)	819,717	816,392	(98,314)
Social Services Block Grant	93.667	GG-10-28507	(30,011)	30,011	-	-
Social Services Block Grant	93.667	GG-12-35667	-	60,858	60,858	-
Social Services Block Grant	93.667	GG-12-37050	-	126,942	152,053	(25,111)
Total 93.667			(30,011)	217,811	212,911	(25,111)
Temporary Assistance for Needy Families	93.558	Z-11-000063	(10,236)	10,236	-	-
Total 93.558			(10,236)	10,236	-	-
Total - Federal Programs			(1,030,013)	16,319,645	15,923,254	(633,622)
<u>State Programs</u>						
State of Tennessee Board of Probation and Parole	N/A	77065	(89,863)	454,599	459,456	(94,720)
Total - State Programs			(89,863)	454,599	459,456	(94,720)
Total - All Programs			\$ (1,119,876)	\$ 16,774,244	\$ 16,382,710	\$ (728,342)

See independent auditors' report.

See accompanying note to schedule of expenditures of federal and state awards.



SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Note to Schedule of Expenditures of Federal and State Awards  
Year Ended June 30, 2012

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of South Central Human Resource Agency and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2012

**Summary of Auditor's Results**

1. The auditor's report expresses an unqualified opinion on the financial statements of South Central Human Resource Agency.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. One instance of noncompliance material to the financial statements of South Central Human Resource Agency is reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit.
5. The auditor's report on compliance for the major federal award programs for South Central Human Resource Agency expresses an unqualified opinion on all major federal programs.
6. No audit findings were noted that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs were:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
81.042	Weatherization Assistance for Low-Income Persons
81.042	ARRA - Weatherization Assistance for Low-Income Persons
93.568	Low-Income Home Energy Assistance Program

8. The threshold for distinguishing between Type A and Type B programs was \$477,698.
9. South Central Human Resource Agency was determined to be a low-risk auditee.

**Findings - Financial Statements Audit**

Significant Deficiency

2012-1            Cash Deposits

Condition: Cash deposits in excess of deposit insurance at the Bank of Lincoln County were not collateralized by the Bank of Lincoln County.

Criteria: Cash deposits in excess of deposit insurance are to be collateralized by the depository institution.

Cause: South Central Human Resource Agency did not have a collateral agreement with the Bank of Lincoln County.

Effect: Cash deposits in excess of deposit insurance were not collateralized.

SOUTH CENTRAL HUMAN RESOURCE AGENCY  
Schedule of Findings and Questioned Costs (Continued)

**Findings - Financial Statements Audit**

Significant Deficiency

2012-1            Cash Deposits (Continued)

Recommendation: A collateral agreement should be executed between the South Central Human Resource Agency and the Bank of Lincoln County.

Views of Responsible Officials and Planned Corrective Actions: Management has since obtained a collateral agreement with the Bank of Lincoln County that increases accordingly to cover excess deposits at the bank.

**Findings and Questioned Costs - Major Federal Award Programs Audit**

None

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

Governing Board  
South Central Human Resource Agency  
Fayetteville, Tennessee

We have audited the financial statements of the governmental activities and each major fund of South Central Human Resource Agency (the “Agency”), as of and for the year ended June 30, 2012, which collectively comprise the Agency’s basic financial statements and have issued our report thereon dated December 28, 2012. 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.

Internal Control Over Financial Reporting

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency’s internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Agency’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2012-1.

The Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Governing Board, others within the Agency, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Roderick Moso & Co, PLLC*

Nashville, Tennessee  
December 28, 2012

Independent Auditor's Report on Compliance with Requirements that could  
have a Direct and Material Effect on each Major Program and on Internal  
Control Over Compliance in Accordance with OMB Circular A-133

Governing Board  
South Central Human Resource Agency  
Fayetteville, Tennessee

Compliance

We have audited South Central Human Resource Agency's (the "Agency") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2012. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Governing Board, others within the Agency, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Roderick Maso & Co, PLLC*

Nashville, Tennessee  
December 28, 2012